

Senate votes to postpone service tax

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By **CHARLES CRUMM** of The Oakland Press

The Michigan Senate has voted to delay the start date of a controversial tax on services, which may be the first step toward its repeal.

The Thursday vote coincided with the launch of a petition drive to ask voters to repeal the expansion of the state's sales tax to some services.

However, the Senate vote effectively buys time for the Legislature to repeal the tax without a popular vote and to replace the lost revenue with something else.

The legislation, approved 22-14, would change the start date of the new tax from Dec. 1 to Dec. 20. It is linked to a bill that would repeal the service tax, and that measure could be voted on as early as next week.

Oakland County Executive L. Brooks Patterson, who is spearheading the ballot campaign, said the petition drive would continue regardless of legislative efforts to repeal the tax. A legislative repeal would take less time than a petition drive and ballot question.

"I think the Legislature is going to beat us to the punch," Patterson said.

He said Gov. Jennifer Granholm is advocating a dollar-for-dollar replacement of the services tax and that it be a permanent tax. For that reason, the petition drive should continue regardless of whether the Legislature acts, he said.

"They call it revenue neutrality. I call it greed," Patterson said. "We should just repeal the tax, period."

Patterson said Granholm's approach to the replacement - demanding revenue neutrality - sounds "rather arrogant" to him.

"The governor is not in a position to dictate," he said. "She's not entitled to revenue neutrality. Spending is going up. They don't need that much money here."

Granholm, a Democrat, has said she could support repealing the service tax only if ways are found to raise money so aid for schools and other state programs isn't affected.

There has been mounting pressure from a livid business community to repeal the tax ever since it was enacted on Oct. 1. They say the tax is confusing, unfair and uncompetitive - in part because it taxes some services but not others, and because of the burden it would place on small businesses.

A tax on services was part of Granholm's solution to balance last year's and this year's budget, but it wasn't approved by lawmakers until the state was facing a possible shutdown at the end of September.

"Several have realized they've made a mistake," said state Rep. Marty Knollenberg, R-Troy, who voted against the services tax. "We can fix it."

Matt Friedman, a co-owner of Farmington Hills-based communications company Tanner & Friedman, which opened in January, said a first magical goal of small businesses is to reach the \$1 million mark in revenue. In that light, the new 6 percent sales tax on services would cost \$60,000. "We could be hiring someone," he said.

Mike Lesich, president of a management consulting firm in Oak Park, said he finally asked for a 4 percent increase on one of his consulting contracts after seven years.

"With this new tax, I'm already 2 percent behind," Lesich said.

However, some business groups told lawmakers earlier Thursday they would be willing to make up for the lost revenue by paying higher business taxes.

"We are willing to stand up and take this hit," said Chuck Hadden of the Michigan Manufacturers Association.

The 6 percent sales tax on some services - such as consulting, marketing and landscaping, to name a few - would generate \$750 million a year for state government.

Hadden told the House Tax Police Committee that manufacturers favor adding a surcharge to the new Michigan Business Tax - which takes effect Jan. 1 - because there isn't enough support from the Legislature or Gov. Jennifer Granholm for alternatives such as cutting spending or raising the state income tax. Increasing the sales tax on goods would require a constitutional amendment approved by voters, and that couldn't be done in time, he said.

He said the MBT surcharge should be temporary and end in 2011. The service tax isn't temporary, though an income tax increase approved Oct. 1 will be phased out by 2015.

The Detroit Regional Chamber also supports paying the MBT surcharge, said lobbyist Sarah Hubbard, to avoid the "gigantic" cost of complying with the service tax.

But the Michigan Chamber of Commerce and some Republicans see no need to replace revenue if the service tax is repealed and argue that spending could be cut.

The Legislature's top Republican said Thursday the only realistic way to quickly and successfully repeal the tax is replacing the lost revenue.

"I don't think you can avoid that," said Senate Majority Leader Mike Bishop, R-Rochester. "The governor has been very clear about that, and we live in that reality."

Bishop made those comments during an appearance on public television's "Off the Record" show.

The Associated Press contributed to this report.