

## Here we went again...

In the last Capitol Report, I spent several pages attempting to explain the intricacies of how the sales tax on services came into being. This time, I'm pleased to report, I will be explaining how it died.

The public reaction to this hated tax was immediate and strong. It's amazing to think that this tax passed both chambers of the legislature and received the governor's signature in light of the distance your elected officials took from it. It was as if a skunk was set free in a crowded Capitol. As the business community, led by the MAR-backed "Ax the Tax Coalition", began the call for repeal, those running from the room began finger-pointing, with only one Senator admitting that he thought the skunk would be a nice addition to the party.

No longer was the Governor on the radio and holding press conferences about how Michigan was now on sound economic footing. The House blamed the Senate for coming up with the concept of a service tax and vice versa. To clarify from my last Capitol Report, the service tax vote in the House was part of an overall budget deal. (One Representative, in particular, took offense to my last report as he interpreted it to mean that House Democrats originated and pushed for the service tax as a preferred means for revenue. That is not what I tried to write. I was only trying to explain how they came to vote for it.) Obviously, the Governor had been calling for a sales tax on services for some time, but the fertile ground for the legislation lay with the Republican Senator (some would argue Senators) that signaled a willingness to cross party lines on the final tax vote. Late in the night of the Government shutdown, other members (of even that same Senate majority) offered to push the income tax higher in order to avoid this whole situation with only one tough vote. But, by then, it was too late to shift gears. The House had already voted for service taxes as part of the deal. The Senate votes followed as they had been negotiated. The Governor signed her name; and it became law.

In any case, it was only a matter of days before this association, along with several other key associations in Lansing, coalesced to form the "Ax the Tax" coalition. (Perhaps you have seen or signed some of the petitions that would have forced the legislature to reconsider.) The pressure from that coalition instantly put the Legislature on the defensive and gave the necessary impetus to House Democrats and Sen-

ate Republicans to act. Somewhat boldly, the Senate first surprised everyone with an all-out repeal of the services tax. Since the Speaker of the House had been one of the first to call for its repeal, we could safely assume the votes were ready in that chamber, as well. Even the Governor, after consultation with the biggest wheels in Michigan's biggest businesses, now wanted the service tax dead. We could pretty much write the obituary right then and there.

### Here Comes the Hitch...

Sadly, now comes the part of a story about how one bad tax has been replaced by another.

The Governor announced that she would be happy to see the service tax repealed as long as repealing legislation was "revenue neutral" and "bipartisan." Of course, calling for bipartisanship in Lansing these days is a fairly tall order. Nonetheless, it meant that the House's repeal would necessarily be tied to more tax money. The House was able to achieve that in a plan developed with help from the Big Three auto companies and several other major manufacturers. As with the Michigan Business Tax (the first time around) this meant an opening gambit more slanted to suit the interests of the manufacturing sector rather than those in ours, to say nothing of other small businesses. Their proposal called for a 33% surcharge on the Michigan Business Tax (MBT) but capped any additional liability from this surcharge at \$2 million. That cap meant a much smaller percentage of tax burden on the big players than on the rest of us. This struck some, including the MAR Public Policy Committee leadership, as unfair. As a consequence, our marching orders were to complete a mission of comparative fairness. If business was expected to bleed, we should all bleed proportionally. This was clearly not the case as originally written.

Nonetheless, the replacement revenue had to start somewhere, and that was the first plan voted out of the House. The Senate's only real choice was to begin the work of modifying the bills to more equitably disburse the additional tax liability. Unfortunately the hour, as it always seems in Lansing, became late rather quickly. This was mid-November and the Legislature had to repeal the tax by December 1st.

As an answer to our urging and that of many other business interests, the Senate made an effort to equalize the tax liability by raising the \$2 million cap to \$6 million and using "one-time" revenue from the SBT/MBT transition year,

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thereby reducing the surcharge on business from 33% to 22% (well, 21.99%, but you get the idea). Additionally, in order to reduce that overall multiplier, the cap on “compensation credit” was reduced from 65% to 52.5% for the first two years. That’s bad news for some of our bigger brokers, but at least the credit cap goes back up to 65% thereafter. Anyway, the Senate was able to more broadly distribute the tax across all business interests and reduce the amount of private sector money that the State will take in. Unfortunately, as with the MBT, it’s hard to get very excited about the end result: another tax on business.

The debate on the MBT surcharge was unsettling, as it largely took place in an informational void. Only the biggest manufacturers have the kind of accounting staff that could repeatedly run theoretical numbers on innumerable legislative proposals for this tax. No business has paid it, so no one can be sure of its consequences. We do know that the MBT will be a tax hike on some businesses and a tax cut for others, even among competitors in the same industry. Ours is no exception.

As a consequence, policymakers stuck rais-

ing your MBT liability by another 22% might temporarily feel like they are floating in the air, but it’s probably more reasonable to assume that we are all plunging toward the ground. The MBT’s full effects will only be felt upon impact.

Undoubtedly, this will cause more tax fighting on another day, and into years to come. But it is important to note that we did not miss the most important opportunity to protect ourselves and Michigan’s entire business climate from an irreversible strategic error. Had the service tax stood, it would have certainly meant a future tax on us and every other service business at some point in time. One by one, the service sector would have been picked off by the inclusion of merely another “NAICS Code” to raise more government money. In 2007, we were presented with the last opportunity for Michigan’s businesses to fight service taxes in a unified cause. Not only is the sales tax on services repealed, we will never see it reconsidered in our political lifetime. Whatever the future holds, we won the fight we only had one chance to win. Look for more on the MBT in 2008. **MAR**



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