

# Michigan Movers Association

Advocacy Briefing: 2007

## Governor Granholm Announces Executive Budget and 2% Tax on Services

Governor Jennifer Granholm announced her 2007-2008 budget and tax proposal, which includes a 2 percent tax on services to solve Michigan's budget deficit, and will raise \$1 billion in net revenues for 2008. The Governor issued an Executive Order cutting spending across all departments by \$92 million, using the change in funding calculations for retirement systems to save \$69 million, and delaying a portion of the payment to colleges and universities for a month.

To solve the total general fund problem of \$605 million for 2007 are a mix of solutions including spending reductions of \$109 million; including administrative reductions for state agencies, changes in policy for cash assistance and day care recipients in the Department of Human Services, cancellation of a new worker training academy for corrections officers, reductions in various grants, and cuts to the transportation economic development program.

Some other major spending provisions include \$200 million for expanded early childhood education, \$40 million for child welfare, \$45 million for nursing programs, \$10 million more over three years for tourism promotion, \$57 million for alternative energy research and installation of biofuel pumps, \$27.2 million to local governments which share services and \$10 million to schools which share services.

### **Highlighted details of the proposal are as follows:**

- 2 percent tax on services
- 5 cents per pack increase in cigarette tax
- 5 percent increase in liquor markup
- Reinstate inheritance tax on estates above \$2 million (Decoupling from federal estate tax)
- Michigan Business Tax to replace the Single Business Tax with levy on gross receipts, profits and assets
- Tax credit for companies headquartered in Michigan
- \$100 million tax increase on out-of-state companies
- Closing tax loopholes for businesses
- Allow trade-in deduction for sales tax on car purchases

## Modified Michigan Business Tax

The two principal features of the Governor's investment proposal are a revised version of her previous Michigan Business Tax (MBT) and a 2 percent tax on services other than education services and health care. In addition to the 2 percent sales tax on services bringing in \$1.47 billion and the restructured Michigan Business Tax saving companies \$480 million, the budget includes new revenue from several other sources: \$119 million with an estate tax; \$84 million by closing so-called loopholes; \$21 million from a cigarette tax increase; \$36 million from taxes on other tobacco products; and \$29 million in higher liquor taxes.

The Michigan Business Tax follows the principles below:

- Create a business tax with the broadest base and the lowest tax rate possible
- Provide substantial personal property tax relief to industrial and commercial taxpayers
- Eliminate the tax on payroll, benefits and health care
- Preserve economic development tools to help attract new jobs and investment
- Spread the tax fairly to all types of business while maximizing the number of businesses receiving a tax cut
- The MBT with revisions represents a \$480 million tax cut from revenue neutral SBT

The Governor's proposal levies an excise tax on most services at a 2 percent tax rate. The tax would be imposed on services consumed or used by consumers and businesses in Michigan. Examples of activities subject to the new tax would include most entertainment activities, repair and maintenance services, construction services, legal and accounting services, landscaping and lawn care, and personal care services. State Treasurer Robert Kleine stated that there will be no tax on casual transactions that occur between unregistered businesses with the state, such as the neighbor student who mows lawns. There has been no mention of business – to – business tax exemption.

The modified MBT plan will eliminate corporate tax loopholes including: food sold through vending machines; international and certain interstate communications; single business enterprise (affiliate nexus); interstate trucks and trailers; purchases made by Department of Corrections inmates; tax treatment for commercial rental property; insurance company out-of-state purchases; oil and gas income double deductions; and penalties for certain delinquent taxpayers.