

October 2, 2006

SBT – WHAT’S AHEAD?

In little more than 15 months, the Single Business Tax will be no more. In little more than three months, many of the remaining legislators who worked on the last significant state tax change will be turned out of office due to term limits. And in the last week two major proposals on how to replace the tax have come out. So where does that leave SBT replacement now?

Likely, it means that whatever the Legislature and Governor agree to, it won't come until 2007.

Likely, it means some sort of overall business tax cut, but by how much is an open question.

Likely, also it means a tax that will be simpler for businesses to compute than the SBT has proved to be in its 30 years.

It does mean there will be a business tax. Top officials, which include business executives, have agreed that it is fit for businesses to pay some type of tax since businesses benefit from state services. The issue has become for many people creating a tax that pays whatever will be accepted as the cost of the services businesses use and helps promote business growth. Hence, the committee assigned to make a proposal on a replacement by December 1 is called the Joint Select Committee on Economic Growth, and the rhetoric from both Republicans and business executives is that a replacement tax has to be both fair and act as an incentive.

House Tax Policy Committee Chair Representative Fulton Sheen (R-Plainwell) said he can count six proposals now on the table to fill in the \$1.9 billion budget hole left by the eventual elimination of the state's Single Business Tax (SBT) and he would not be surprised to see even more. However, that does not mean the issue is coming to a head. In fact he predicts nothing will be done before the election, which comes as no surprise, but he also wipes out the possibility of a lame duck vote after lawmakers are safely back in office.

The Michigan Chamber of Commerce, Detroit and Grand Rapids Chambers, and Dr. Gary Wolfram have submitted ideas. Representative Sheen, for his part, is sticking with the Fair Tax, which would abolish business taxes and the personal income tax and replace them with a broader sales tax.

Add to the SBT debate changes to the personal property tax, and the debate gets more complicated. While all the attention has been focused on the SBT, in the last several years it has become clear the tax all businesses really hate is the personal property tax. Revenues from that tax go to Michigan's local units of government, and attempts to cut that tax too greatly will draw fire from local governments. Any cuts to that tax will inevitably require a political solution for local governments.

An Ernst & Young economist told the Michigan Chamber of Commerce's Future Forum recently that many states are reforming their business-tax structure and that "origin-based taxes" such as property taxes are being scaled back in favor of "destination taxes" that go after sales into a state. Robert Cline said Ohio, Texas, Kentucky and Connecticut, among others are looking at ways to make their business tax climate more competitive as policymakers look to make their states more attractive to business. Gone are the days when a business needed bricks and mortar in a location to make money there. That means states are creating "gross receipts" taxes or "gross margins" taxes to tax money that is coming into the state, Cline said.

The economists' statements would seem to add some validity to a proposal that combines a gross receipts tax with a business income tax. A problem with a gross receipts tax, Cline warned, is a phenomenon called "pyramiding," where a particular item is taxed several times as it goes from a small piece of a larger product to the finished item. Cline said a state could limit this type of cascading tax by allowing companies to make untaxed purchases among affiliates. The idea of a gross receipts tax is less onerous and more accepting than a sales tax on the service industry while allowing a government to collect from services that are under taxed.

If the replacement tax waits until 2007, then expect a very busy first half of the year, because all officials acknowledge that whatever is enacted the state will need time to prepare for it to take effect in 2008, and as much time as state officials get, the better.

EARNED INCOME TAX CREDIT/WAGE BILL SIGNED

In legislation signed last week by the Governor, low income residents will receive up to \$880 in income tax benefits next year. The earned income tax credit provision essentially mirrors the federal program. Also included in the package is the fix-up language amending the minimum wage law to keep the federal exemptions to minimum wage and overtime in state law. This was inadvertently omitted when the minimum wage bill was passed earlier this year. A third item in the package sets wage provisions for kids under age 18.

EMINENT DOMAIN

The Governor recently signed a package of bills designed to prevent public entities from taking private property that would ultimately go to benefit private companies. The legislation sets new restrictions on eminent domain (government's ability to take private property). The bills also require the government to pay displaced property owners at least 125 percent of fair-market value of their property. It also increases how much displaced property owners receive from a government entity in moving expenses, renting costs and legal fees.

GUBERNATORIAL DEBATE SCHEDULE

The two major party candidates for Governor have announced they will participate in the following three televised debates:

Monday, October 2 at 8:00 p.m. at WKAR-TV in East Lansing (available on Fox television stations).

Tuesday, October 10 at 8:00 p.m. at WOOD-TV in Grand Rapids (broadcast on WDIV-TV in Detroit and available to all NBC stations plus WOTV-TV in Battle Creek).

Monday, October 16 at 8:00 p.m. at WXYZ-TV in Southfield (available to ABC and CBS stations statewide).

The debates will differ in format, with a studio audience allowed to ask prescreened questions during the second half of the final debate.