

September 7, 2007

THE BUDGET BATTLE GOES ON

Despite the consensus of many at the Capitol that a proposed formula was close to agreement giving the public the opportunity to select the avenue for an increase in taxes, the Legislature adjourned late Thursday evening without action. The House will reconvene today at 3:00 p.m. while the Senate has set next Tuesday as their next session.

The Republican Senate leadership has stood by its proposal that to fix the estimated \$1.8 billion shortfall in the 2007-08 budget, the Legislature should streamline government with major cuts and reforms. The House Democratic leadership has countered that even with some belt-tightening, new revenues will be needed to maintain essential services. Responding to this position, the Senate leadership has maintained that legislation for a tax increase must originate from the House. Last week, Senate Majority Leader Mike Bishop for the first time declared that a tax hike is now inevitable. Now that there is agreement from both sides concerning the need for a tax increase, the barrier to resolution of the issue is which House initiates the tax increase measure.

The revenue proposal that was seemingly gaining favor would require passage now of an income tax hike from 3.9 percent to 4.4 (or 4.6) percent with a provision in the November 6 election allowing the voters to replace the income tax increase with an increase in the sales tax from 6 to 7 percent. Today (Friday) is the deadline for putting the sales tax proposal on the November ballot because 60 days advance notice is required by state law. This option, given the adjournment of the Senate until next Tuesday, means there will be no action today. The proposal is not dead, however, in that language could be inserted giving voters the opportunity to vote on an income tax increase in the January 15 presidential primary.

Both Houses have passed legislation setting budgets for the various departments. However, yesterday the House followed the Senate and struck all the specific appropriation amounts. This is a move to force both the Senate and House bills into conference committee which will, with bi-partisan agreement, set the dollar amounts.

MBT AMENDMENT

The Senate has passed a change to the new Michigan Business Tax that proponents say is the most significant issue raised to date on the levy that will go into effect January 1. It has also received approval by a House committee. Essentially the legislation is aimed at clearing up what some believe to be a disparity caused between the shift from the Single Business Tax to the MBT in January 2008.

The bill permits companies to take deductions against the MBT of 10 percent of the difference in changes in deferred tax liabilities that occurred with the enactment of the new tax July 12. That deduction could be taken over 10 years beginning with the 2013 tax year. That means a business could immediately claim an asset of a deferred tax that would offset the deferred tax liability under the income tax nature of the new MBT, and thus avoid posting a decrease in its book value.