

## The November Election Results Are In - What Do they Mean for Michigan and its Initiative to Replace the Single Business Tax?

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Last week's election resulted in the re-election of Democratic Governor Jennifer Granholm, and brought change to Michigan's legislature that is indicative of the change experienced by many state governments around the country, as well as the U.S. House of Representatives. The Michigan House of Representatives will soon be shifting from a Republican to Democratic leadership, with the Michigan Senate majority remaining (by a thin margin) with the Republicans. The effect of the change of power in the House will influence the legislature's ability to replace Michigan's Single Business Tax ("SBT") by the time it is set to sunset the end of 2007. The replacement tax is considered the key issue for the next legislative session.

With Governor Granholm remaining in office, there is some speculation that the Governor will revisit some aspects of her 2005 SBT reform proposal, which would reallocate some of the business tax burden from manufacturing to financial services companies, including insurers. This reallocation, which faced significant opposition in the Republican-controlled House, may generate support from a Democrat-controlled House. In addition, the business community is looking for overall tax relief, and wants the replacement tax to bring in less revenue than under the current tax system. With the campaign promises of investment in education and increased health care coverage, it will be difficult to make due with less tax revenue than currently generated under the SBT and locally collect real and personal property taxes, which is another area in which businesses support relief.

The replacement of the SBT is one of the most important issues yet to be considered by the legislature, with the recommendation by the bipartisan Joint Committee due during the "lame duck" session. However, with various interest groups espousing a variety of proposals for the replacement of the SBT, the legislature will most likely require more time to consider the issue than the time remaining in the "lame duck" session.

The shift in power in the House offers a fresh start for Michigan's legislature to attempt to unite and move forward on the issue of what is going to replace the SBT as well as the overall tax system in Michigan. With the change in power comes change in committees, and it remains to be seen if the new legislature is up to the task of replacing the SBT before it sunsets on December 31, 2007.

For more information contact our State and Local Tax Group.