

Budget Crisis and Downturn in State Revenues will Affect Replacement of Single Business Tax

January 19, 2007

The drama is building as we await Governor Granholm's State of the State address, scheduled for Tuesday, February 6. The Governor hinted in her Inaugural speech on January 1, 2007, that the State's budget deficit was likely to be worse than previously expected, a fact confirmed yesterday by the Revenue Estimating Conference. The shortfall for the upcoming year is pegged at \$722 million - \$900 million. Add that to the revenue needed to replace the Single Business Tax, and Michigan is faced with the possibility of having to raise almost \$3 billion in revenue. While her budget proposals are due in early February, the Governor will likely use her State of the State address to call upon Michigan citizens to support the costs of transforming Michigan's economy.

On January 10, 2007, the Governor called together a bipartisan Emergency Financial Panel to review the state's current financial crisis and propose some recommendations to resolve the revenue gap. The panel is co-chaired by former Governors Milliken and Blanchard, and includes former legislative leaders, university presidents, as well as Doug Roberts, former State Treasurer.

It is likely that the panel will simply rubberstamp and confirm that the revenue crisis exists, and that taxes need to be raised. It is known that Robert Kleine, State Treasurer, supports the broadening of the sales tax base to services, and favors elements of the Governor's previously proposed replacement tax that provide a steady stream of revenue to the State. Sen. Ron Jelinek (R-Three Oaks), new chair of the Senate Appropriations Committee also supports a broadened sales tax on services combined with a lower sales tax rate (the current Michigan rate is 6%).

However, a sales tax on services will require approval of voters, due to a state constitutional requirement, and would likely not affect the current 2006-07 fiscal year. Meanwhile, state revenues continue to fall.

Lt. Governor John Cherry has told reporters that the Governor will propose a "revenue and cut package" with structural changes throughout government as well as "some very structural changes on the revenue side."

It will not be possible to make up all the revenue, some spending cuts will be needed, right at a time that the state is already faced with escalating prison and Medicaid costs.

For more information contact our State and Local Tax Group.