

## Michigan Governor Granholm Introduces Service Tax Proposal

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On Thursday, February 11, 2010, Michigan Governor Jennifer Granholm introduced a proposal to adopt a broad based sales tax on services and implement cuts to the Michigan Business Tax (MBT) as a component of her 2010-2011 budget message.

The proposal would implement a 5.5 % sales tax on consumer services effective in 2011. It would exempt business to business services, non profits, industrial processing, health care, social assistance, education, construction, remodeling, real estate, and insurance commissions. The proposal also calls for a reduction in the sales tax on goods to 5.5%.

The MBT surcharge would be eliminated over two years beginning in 2011, and the modified gross receipts tax rate would be reduced from 0.8% to 0.6% over three years.

The proposal is estimated to raise \$555m in new revenue in 2011 and \$330 in 2012, and to be revenue neutral by 2014.

The Governor's proposal shares many components with a proposal issued in January by the group Business Leaders for Michigan, formerly known as Detroit Renaissance, which consists of the top executives of Michigan's largest businesses and universities. That proposal called for essentially the same tax rate and exemptions, but would dedicate 100% of the revenue generated to reducing the MBT.

Numerous technical details remain to be addressed regarding the scope of the tax and its exemptions. This proposal follows on the heels of a tax on services passed in late 2007 but repealed amidst enormous criticism before it could be enacted. Much of the criticism came from the business community since that tax would have been imposed on a large number of business to business transactions. The current proposal exempts all business to business transactions.

This proposal and the similar Business Leaders for Michigan proposal will clearly be on the table during the 2010-2011 budget negotiations which will take place over the next several months, in advance of November elections at which the Governor and a large number of legislators from term-limited seats will be selected.

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