

FY '08-The Day After: Business Groups 'Livid' Over Service Tax, Hopeful For More Reforms

Business groups on Monday railed against the Legislature's passage of a service tax, using words such as "furious, disappointed and livid," to describe their reaction to what they called a long, complicated list of services that they said could net higher than anticipated revenues for the state. The tax changes, they said, could be "the Department of Treasury's dream."

Tricia Kinley with the Michigan Chamber of Commerce said the sales tax expansion to services in **HB 5198** was part of lawmakers' misguided approach in solving the budget with tax increases on families and businesses.

Todd Anderson, Small Business Association vice president of government relations, said his members are "furious that lawmakers approved one of the biggest tax hikes in state history but enacted few significant spending reforms.

"Our elected officials gave lip service to how much they value small businesses, but at crunch time they couldn't walk the walk and support us," Mr. Anderson said. "Small business owners, struggling to survive and create jobs in the nation's most depressed economy, now have to dig deep into their own pockets to find a way to absorb the impact of a sales tax on services and higher state income tax."

Ms. Kinley argued that not only is a service tax a major expansion of the sales tax, but that it is also easier to talk about than for the state to actually implement it.

She said the streamlined sales tax project - to deal with Internet and catalog sales affecting all the states - didn't go after services for just that reason of complexity and that the accuracy of the whole undertaking is questionable. Ms. Kinley also said the chamber fears that having a service tax will only lead to more services being added onto the list at the detriment to business and that the state will actually collect more revenue than anticipated.

Charlie Owens with NFIB-Michigan said he was "extremely disappointed" with the service tax passage, adding that he's getting e-mails from some of his members that use multiple services saying they will incur tax costs three times over on business-to-business transactions.

Even for those businesses that don't pay the tax directly, the cost of collecting and remitting the tax will get passed onto the customer, making it harder for small businesses to compete, said Jared Rodriguez, vice president of public policy and government affairs for the Grand Rapids Area Chamber of Commerce.

Of course, how much people will end up paying depends on which services are taxed on business-to-business transactions and how Treasury deciphers an "included service," which is all very complicated and will

probably take at least the coming week to sort out, said Chuck Hadden, vice president for government affairs for the Michigan Manufacturers Association.

"(Lawmakers) weren't purposeful at all about which services they included," he said, adding that the eight-page list of consulting services alone gives "gives too much leeway to Treasury."

At this point, it seems that the tax on consulting will be the most troubling to his members, who use these services the most extensively, therefore could end up with a lot of additional tax costs.

Other services manufacturers use, such as landscaping, aren't causing as big of a concern thus far because of their relatively lower cost to businesses, Mr. Hadden said.

Bart Carrigan, president of Association General Contractors of America, said the fact that construction will not be taxed under the expansion is a result of "hard work" on behalf of the association's members. Originally, construction could have been considered an included service under the administration's proposal, he said.

"Hard work this summer resulted in fair treatment for contractors on the Michigan Business Tax and again, now, on the 2008 State Budget deliberations," he said in a member memo distributed on Monday.

Still, some services, such as interior design and landscaping, will affect construction businesses, the full impact of which the group plans to sort out for its members in the coming weeks, he said.

Peter Psarouthakis, spokesman for the Michigan Council of Private Investigators, said the tax on his type of business was a complete surprise and that it will spur some of the 500 active companies to leave the state. About an equal number are licensed, but they do not perform work, he said.

He said the tax will disadvantage Michigan firms compared to those in other states without the tax, particularly when a company is looking for an investigation for companies complying with the USA Patriot Act requirements to perform due diligence on potential business partners in other states or nations. Mr. Psarouthakis also said the revenue estimates for taxes on his industry of \$33 million a year "are not close to reality."

Mr. Psarouthakis, noting that the federal Homeland Security Agency has listed private investigators as a component in ferreting out terrorism, said it was insulting for the industry as well as security guards to be lumped in with "with a group of people like escort services. We prevent insurance fraud by millions of dollars. We help corporations with fraud issues, with theft issues, and deal

with death threats. We're protecting assets."

Mr. Owens, said he too thinks lawmakers who argued that the service tax will mostly affect discretionary services were being "disingenuous."

He said he suspects that services such as escorting and palm reading were "put in the bill to take attention away from all of the necessary services that were included."

Mr. Owens, along with most other business leaders who talked with Gongwer on Monday, said they were surprised the Legislature made the move toward a service tax even after they had been warned about the unpopularity of the tax.

"I really thought we had made a solid case to both caucuses and both parties that a service tax was a bad idea," he said. "My members are livid but (lawmakers were warned about that. There's going to be some serious backlash from the services tax."

Perhaps even legislators who intended on voting against the service tax changed their minds only because they were left with little choice, said the Grand Rapids Chamber's Mr. Rodriquez.

"They had to sell out or we would have been in a shutdown," he said.

Ms. Kinley said the one "beacon of good light" was having the Legislature sign off on **HB 5104**, which deals with the FAS 109 deferred liabilities issue.

As for recent changes to that bill and what effect they would have on businesses, Mr. Hadden said he hasn't looked over the passed version of the bill, so he's not sure how the changes will affect his members.

Ms. Kinley applauded Senate Majority Leader Mike Bishop (R-Rochester) for sticking up for further reforms and cuts to the budget. She said she's now asking her members to get in touch with the governor and urge her to veto the sales tax bill.

Mr. Rodriquez said, the claim of some that government spending is already at "bare bones" isn't accurate. Although some reforms, such as MESSA reform under **SB 418** were passed along with the tax increase, Mr. Rodriquez said he wouldn't call the compromise reached "fair."

"We got some reforms in exchange for the service tax, but we need to go farther," he said, adding that two cost savings measures that the Chamber is heavily focused on are consolidating school districts and local units of government and Medicaid reform.

As for changes to MESSA, not everyone was referring to the bill as reform this week, with the Michigan Education Association saying "political leaders have made a devastating mistake in balancing the budget on the backs of school employees."

"The health insurance pools that will be set up under SB 418 will be cherry-picked to death because of the politically motivated claims data reporting requirements," said MEA President Iris Salters. "On top of the health insurance instability those families will feel because of SB 418, the Legislature has made public school employee retirement even more uncertain. Taking more out of employees' pockets for fewer benefits will not provide us with a generation of educators committed to preparing our students for 21st century jobs. Higher salaries in other careers will pull the cream of the crop away from the education profession, hurting our students and our economy."

Not all reactions were negative to the Legislature's actions. The Michigan League for Human Services praised lawmakers for not adopting a cuts-only approach to the budget. But it did worry about the budget cuts that would have to be made and their potential impact on low income individuals.

The League also said the income tax will cause some pain for low-income workers, but it was critical for the state to take some actions to fix its long-term structural deficit.

Dave Maluchnik of the Michigan Catholic Conference said his organization would watch how budget cuts are enacted to ensure that services helping the poor are not dramatically affected.

Jack McHugh, legislative analyst for the Mackinac Center for Public Policy, expressed disappointment in the small steps taken toward reform of a government he characterizes as too big for a state that is increasingly poorer.

"The reforms are not transformational reforms," he said. "They are correcting things that were out of whack, such as double-dipping (collecting pensions and salaries for rehired employees)." The school insurance funding change "is a big deal politically," he said, but is not real change in the sense that switching to a defined contribution system for teacher retirement, from defined benefit, would accomplish.

Mr. McHugh said the tax increases that are part of the budget plan will not be good for the economy, and questions where the budget cuts will occur. "Everything the government was doing last week will be done this week," he said. "They have watered the soup a little but they have not altered anything." He noted the Mackinac Center did support the changes Ms. Granholm recommended in prison policies to enable a reduction in the number of prisoners.