

Talks falter as tax looms

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LANSING -- A use tax on services that Michigan business dreads moves closer to taking effect Saturday after lawmakers failed to reach agreement on a replacement.

In a move Senate Republicans denounced, House Democrats on Wednesday night jammed through a service tax repeal and promptly adjourned until Tuesday.

The ball is in its court, the Senate 30 minutes later rejected the latest House plan and urged Democrats back to the negotiating table today. Unless the House comes back in and both sides agree to a deal, the 6 percent use tax on a range of business and consumer services will take effect Saturday.

State Rep. Andy Coulouris, a Saginaw Democrat, said he hates to say that this was his party's "last best offer," but that's what it is. Coulouris has a vested interest in the repeal of the service tax because he introduced the legislation.

"For the second time now, we've sent it over to the Senate, and we (begrudgingly) made the changes they asked to see, which were higher taxes for larger corporations and for medium-sized corporations to pay less."

"Those were the core changes they wanted to see."

State Sen. Roger N. Kahn, Saginaw Township Republican disagreed. He said the changes were "minute" and the bill unclear.

"They left negotiations without talking to the press or without returning the phone call of the Senate majority leader," Kahn said.

"To just walk out and leave" is irresponsible on the part of the Democrats, he said.

Kahn has said the service tax could hit an array of services, including carpet installers, couriers, taxi cabs, travel agencies, security systems and self-storage warehouses. Skiers will pay the 6-percent tax, as well, while golfers and boaters are off the hook.

Wedding chapels, environmental consulting services and even coin-operated blood pressure machines also face the taxation.

The Saginaw News could not immediately reach state Rep. Kenneth B. Horn, a Frankenmuth Republican.

"We want to see (the service tax) gone," Coulouris said, "but the reality of it is I can't account for this stalemate."

"They need to take a realistic look because we gave ground and were willing to do it."

"Such bickering is exactly what is holding Michigan back," said Michael D. LaFaive, director of the Mackinac

Center's Morey Fiscal Policy Initiative, in his address to more than 100 people during the Tri-County Economics Club's monthly meeting earlier this week at Saginaw Valley State University.

He said the state is viewed as unfriendly tax-wise to business, which is why Michigan consistently loses investments to southern states where laws and regulations are more lax.

In the hallway between the two chambers, dozens of business lobbyists who for weeks pressed for a bipartisan solution could only hope for a quick truce in this latest battle in the 2007 partisan war over taxes and spending.

The House measure approved Wednesday replaces \$750 million in annual estimated service tax revenue with a permanent 26 percent surcharge on the new Michigan Business Tax that takes effect Jan. 1. That surcharge could get Michigan Business Tax credits on employment, investment, and research and development. No business would pay more than \$4.75 million in additional tax.

House Speaker Andy Dillon, a Redford Township Democrat, complained that Republicans want to renegotiate last month's budget agreement and "blow a hole" in the state budget by insisting on a replacement tax that was neither revenue neutral nor permanent. Those are two conditions set down by Gov. Jennifer M. Granholm.

During a day of negotiations that ended abruptly when the House began voting, Senate Republicans proposed a 19 percent surcharge, a limit on Michigan Business Tax credits applied against it and a repeal of the surcharge in 2012.

The Michigan Chamber of Commerce endorsed that approach. The business group wants a temporary tax increase only, and a range of medium-sized companies endorsed that approach.

Senate Majority Leader Michael Bishop, a Rochester Republican, said the Democrats' "disgraceful" action would "replace a bad tax with another bad tax." Bishop said the Senate would meet through Saturday if necessary to hammer out a solution. He said House gamesmanship sends a terrible signal to state employers.

Dillon contends the House plan has the support of Michigan's largest employers.

"My experience in working with the Senate is that nothing happens until the 11th hour, and I just don't think that's fair to the business community for us to do that again," Dillon said in justifying Wednesday's party-line vote.

Richard Studley, a lobbyist for the Michigan Chamber, is telling chamber members to press lawmakers to act, prepare to pay the tax and pass petitions in a drive being organized to force the use tax on the November 2008 ballot.