

MICHIGAN LEGISLATURE

Lansing bogs down over the pending 6% service tax

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BY DAWSON BELL

FREE PRESS STAFF WRITER

LANSING -- The state Capitol was a beehive of inaction Thursday as top lawmakers, business interests and Gov. Jennifer Granholm worked to find a replacement for Michigan's widely despised new service tax before it is to take effect at midnight tonight.

Negotiations between Republicans and Democrats in the Legislature and with administration officials continued off and on throughout the day. But the various sides remained hung up on how much of the \$700 million a year expected from the service tax would be replaced and whether the replacement tax -- a surcharge on the new Michigan Business Tax -- would be permanent or temporary.

Business owners from industries touched by the service tax swarmed the Capitol in a last ditch attempt to have the tax repealed. Opponents of the new tax held a midday news conference to denounce the service tax and state government's failure to repeal it as unthinkable and catastrophic for the state's business climate.

The owners of landscaping, warehousing and consulting firms said the new tax is a nightmare of complexity and confusion that would inflict huge compliance costs in addition to the tax itself. Sarah Hubbard of the Detroit Regional Chamber said Michigan business would spend nearly a billion dollars interpreting and adapting to the new tax, and many still won't know whether they are following the law.

John Evans -- president of Evans Distribution, which runs warehouses in Melvindale, Detroit and Howell -- said the situation is desperate.

"We've got a shift starting in 36 hours that we've got to charge 6% more on ... and I don't know how to do it," Evans said.

Treasury Department spokesman Terry Stanton said implementing any tax increase has pitfalls, and that is especially true for Michigan's first major foray into taxation of the service sector. But state workers have done much to prepare for the change and posted as much information as possible on the Treasury's site, www.michigan.gov/treasury, Stanton said.

No need to panic, he said. Although the tax goes into effect at midnight, the earliest payments won't be due at the Treasury until January.

But at the Capitol, the mood was, if not panic, a sort of manic frustration. After failing to reach an agreement on a repeal Wednesday night, neither the state House nor Senate met Thursday. Today, the Senate is to meet, but the House did not have a scheduled session for today as of Thursday evening.

Democrats, who control the House, blamed Senate Republicans for the logjam, and vice versa.

Granholm views repeal as "a real priority," said her spokeswoman, Liz Boyd, adding that there is a "willingness on the part of everyone" to get rid of the new tax. But the governor will not agree to get rid of the service tax without a permanent replacement that raises the same amount of money, Boyd said.

"We're all going to have to live with it if the Legislature doesn't act."

But perhaps not. A petition drive launched as a backup to the legislative repeal is under way and would be ramped up sharply if nothing happens at the Capitol.

Contact **DAWSON BELL** at 313-222-6604 or dbell@freepress.com.