



Capitol Report

Friday, November 30, 2007

1:30 P.M.

Just when you thought it couldn't get any more crazy . . .

The Michigan House Wednesday night sent to the Senate a take-it-or-leave-it repeal of the (deservedly) much-maligned state Service Tax and then promptly adjourned and went home for the weekend. Net result? An end to negotiations between the chambers on the outstanding issues surrounding repeal and almost certain imposition of the new tax at **midnight tonight**.

Not that the Senate is blameless. They earlier sent a repeal bill to the House loaded up with onerous provisions GOP Senators knew House Democrats would not buy. Still, the response from House Dems essentially cutting off talks on compromise left many Capitol observers thunderstruck, especially since the two sides didn't seem all that far apart. Both chambers wanted (or **said** they wanted) the new tax killed and replaced with a surcharge on the newly-enacted Michigan Business Tax (which January 1st replaces the old SBT). The **points of difference**, however, between the two chambers, in their respective repeal bills, are:

(1) whether to sunset the new tax in 2011 or 2012, (2) whether the surcharge will be as high as 32.9% or as low as 19%, (3) whether the surcharge will completely replace the repealed service tax in dollars raised or whether some replacement will come from the state's rainy day fund (which, yes, has a balance in it), and, finally, (4) whether the surcharge imposed on any one taxpayer would be capped at \$7.5 million, \$2 million, or some number in between.

You will notice that we emphasized that legislators **said** they wanted the service tax killed. Many Capitol observers believe that, in truth, some Capitol players do **not** want the tax killed. Some believe in the concept of a service tax (and are apparently willing to swallow the arbitrariness of the current version of it). Some see the tax as a solution to the state's money shortfall and would rather keep the new levy than go to as yet unadopted alternatives. And still

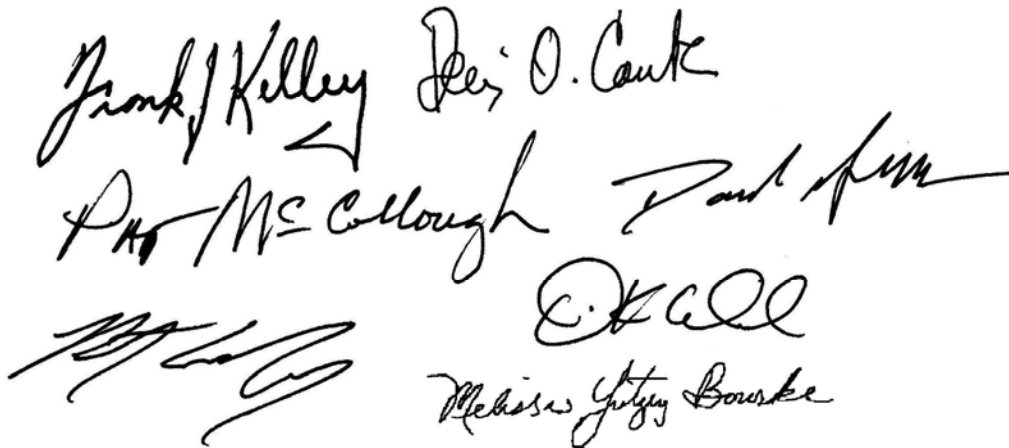
others, correctly sensing how wildly unpopular the new levy is, would just as soon keep it around as a political issue with which to club the opposition at the next election.

So **what's going to happen next?** We think it likely that a repeal will yet pass the Legislature, perhaps as early as Saturday (yes, a Saturday session is a possibility). In the meantime, however, the tax will have officially kicked in, causing huge headaches for businesses left to struggle with how and if to collect it. If not called back on Saturday, the Legislature could still act next Tuesday, and that is the more likely scenario. Either way, says the *Detroit News*, "taxpayers have front row seats to again watch their government crash into a crisis born of its own inaction."

And what if there is **no legislative repeal?** If that happens, expect a monumental citizens push to put repeal on the ballot, and for that push to succeed. The irony is that if legislators and the Governor resolve their differences now, their package includes a revenue replacement in whole or large part. A ballot initiative, however, will only be about repeal. That will inevitably cause a whole new, stand-alone legislative battle over a replacement tax, with shades of a governmental shut-down all over again if agreement can't be reached on a replacement tax.

We at **Kelley Cawthorne** will keep you posted on significant new developments in Michigan's on-going soap opera.

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Frank/Kelley Deir O. Cantk
Pat McCullough Paul Finn
C. K. Cawthorne
Melissa Gately Bourke

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Kelley Cawthorne
Attorneys and Governmental Affairs Counselors
101 S. Washington Square - 9th Floor
Lansing, Michigan 48933
Phone (517) 371-1400 Fax (517) 371-3207
E-mail: kc@Kelley-Cawthorne.com

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