

GOVERNOR SEEKS QUICK ACTION ON 2% SERVICES TAX PLAN

Governor Jennifer Granholm will seek quick action Thursday on her tax proposals, including a 2 percent tax on services, to erase deficits this year and next by raising \$1 billion in net revenues and cutting spending by \$400 million. The governor wants the new sales tax to be effective June 1 so the state can forestall a cut in school aid and otherwise help address an \$800 million current-year deficit.

Tax/Budget By the Numbers

Sales tax:

li
\$1.47 billion in new revenue from 2 percent tax on services

li
\$1.028 billion on business services

li
\$450 million on individuals

li
\$180 million cut by providing tax on difference between vehicle trade-in and new car price

Michigan Business Tax:

\$450 million net cut in business taxes compared to Single Business Tax (\$250 million of that for small businesses)

\$550 million net cut for Michigan-based businesses.

\$100 million increase for out of state businesses.

Other taxes:

Cigarette tax increase of 5 cents per pack to \$2.05 and increase in other tobacco taxes.

Liquor tax increase.

Estate tax when value exceeds \$250 million.

Variety of "loophole" closings

The current year cuts include \$160 million in Executive Order cuts that the administration will outline in more detail on Thursday.

State officials confirmed the sales tax proposal first disclosed Tuesday by Gongwer News Service (See Gongwer Michigan Report, February 6, 2007), and provided additional details of what will be included in the tax and budget plan.

The officials, who provided background information to reporters, called it a "two-penny plan" to allow the state to invest in education, health care and other priorities laid out by Ms. Granholm in her State of the State address.

The officials said the entire package is designed to fill a \$3 billion hole in the budget, including \$1.9 billion that will be lost December 31 when the Single Business Tax is killed, and will raise additional revenues as well. They said it would once and for all fix a broken tax system.

The 2 percent sales tax on services would exclude government purchases, health care and educational services as well as advertising and college sports events, though professional sports would be taxed. Much of the detail will not be released until Thursday, but officials said things such as day care would be considered exempt health care, as would a number of transactions related to business like agriculture production and mineral extraction.

The Michigan Business Tax, worth about \$1.4 billion, would replace the \$1.9 billion Single Business Tax and would be identical in basic points to what was proposed in December with the same rate and same base, but including a new tax credit for large companies headquartered in the state. It would retain as well the cut in personal property taxes.

The administration calculates that a family of four earning \$57,300 annually would pay \$67 a year more on the tax on services, which would embrace things like hair cuts, lawn mowing services, legal and accounting services and professional entertainment.

<p><u>Budget impact:</u></p> <p>\$576 million in higher revenue in fiscal year 2007.</p> <p>\$1.1 billion in higher revenue in fiscal year 2008.</p> <p>\$400 million cuts combined in fiscal year 2007 and 2008.</p>	<p>The revenue from the new tax on services would not be subject to the Constitution's provisions dividing up the revenue from the 6 percent tax on goods - such as the 75 percent going to the school aid fund - but officials said the law would have its own earmarking provisions.</p> <p>The officials are calling for the Legislature to complete work on the tax plan by March 31, the date members begin a two-week spring break, largely to make sure schools will not suffer a \$224 per pupil cut in the current fiscal year. They also said an increase will be included in the 2007-08 budget recommendations.</p>
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The general fund is facing a \$605 million deficit in this fiscal year, along with current year spending pressures of \$158 million for increased caseloads for services within the Department of Human Services and a rise in prison population.

The state will also not be able to carry over an expected \$110 million from 2006, mainly due to unanticipated spending pressures within DHS, Corrections and State Police over the last year.

Administration officials expect opposition to the plan, but said this represents leadership by the governor on the chronic fiscal issues faced by the state.

Granholt press secretary Liz Boyd said, "The Governor's tax plan is simple and fair. We believe it is worth two pennies to invest in Michigan's future by protecting health care, education, and public safety."

The proposal did, in fact, draw immediate barbs from Republicans and some businesses, but many others said they crave more detail before they could provide a better assessment.