

## **MIRS Capitol Capsule**

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### **Senate Subcommittee: Phase Out MBT Surcharge**

A Senate subcommittee has laid out a laundry list of problems with the Michigan Business Tax (MBT) and surcharge, which would cost the state up to \$1.7 billion in annual revenue to fix.

In a perfect world with a perfect budget, the MBT Impact Assessment Subcommittee would dump the MBT surcharge. But since "fiscal constraints make that difficult," the panel recommends phasing out the despised surcharge, which replaced the even-more-reviled service tax.

The panel's report was released today, the work of Chair Mark [JANSEN](#) (R-Cutlerville), Sen. Jud [GILBERT](#) (R-Algonac) and Sen. Mike [PRUSI](#) (D-Ishpeming). Key findings were announced at the Mackinac Policy Conference (See "[News Flash: Biz Hates MBT Surcharge](#)," 5/29/08).

Jansen said they would be presenting the report to the full Finance Committee on Thursday. The Senate has already passed a slew of changes to the MBT to help businesses that haven't gone anywhere in the House, as Democrats say the state simply can't afford them.

The surcharge, about which the subcommittee took testimony across the state, is estimated to generate \$687 million in Fiscal Year (FY) 2009, \$744 million in FY 2013 and \$805 million by FY 2017.

The subcommittee found the surcharge is "having a dramatic negative impact" on mid-sized and large firms that don't have access to credits or qualify for the small business credit. Many business owners testified they couldn't afford to hire new workers or give raises. The report argues this puts Michigan at an economic disadvantage.

Real estate developers, in particular, testified that they were hit a lot harder under the MBT than the old Single Business Tax.

Phasing out the surcharge over three years would sap \$129 million from the state in FY 2009, \$364 million in FY 2010, \$609 million in FY 2011 and \$726 million in FY 2012. Spreading it out over five years would be a loss of \$77 million in FY 2009, ramping up to \$518 million in FY 2012 and \$756 million in FY 2014.

Over nine years, eliminating the surcharge would cost the state \$43 million in FY 2009, \$288 million in FY 2012, \$562 million in FY 2015 and \$763 million in FY 2017.

"If they can offer a plan that eliminates the surcharge without slashing education and public safety or shifting the cost onto struggling consumers, we're willing to listen," said Senate Democratic Spokesman Tom [LENARD](#).

Other problems identified by the panel would cost the state about another \$1 billion annually in revenue to repair:

- Eliminating taxes from gross receipts (\$75 million)
- Eliminating cascading of taxes (\$350 to \$400 million)
- Removing "bad debts" from the gross receipts base (\$23 million)
- Increasing compensation limit for small business credit to \$250,000 (\$120 million in FY 2008 and \$188 million in FY 2009)
- Increasing compensation limit for small business tax credit to \$250,000 and applying income tax of 5 percent to offset cost (\$96 million in FY 2008 and \$151 million in FY 2009)

The report also criticizes the Department of Treasury, claiming it isn't providing adequate information to taxpayers and the state's Web site calculator is generating erroneous results. Senate Republicans made similar charges at Mackinac and a Treasury spokesman said the department is trying to aid taxpayers and get information online for the new tax.

Business owners also indicated to the subcommittee that they didn't know they qualified for tax credits, like the property tax exemption and small business tax credit.

A bipartisan, bicameral deal was struck last year on the MBT and MBT surcharge. House Democratic Spokesman Greg [BIRD](#) said the Senate's changes would go back on that agreement. He called the reforms "purely political in nature." He said House Speaker Andy [DILLON](#) (D-Redford Twp.) is open to amending the MBT, but not in a way that would "blow a huge hole in the budget."

"Solutions like this are pretty irrelevant without saying how you'll pay for it," Bird said.