



CAPITOL REPORT

October 1, 2007

BRIEF SHUTDOWN ENDS: MAJOR NEW TAXES OK'd; SERVICE TAX CONTROVERSIAL

State government's much ballyhooed **shutdown** lasted less than 4-½ hours this (Monday) morning, ending with legislative passage of a **\$1.48** billion tax increase for Michigan individuals and businesses.

On a near party-line vote, lawmakers late Sunday night voted to increase the state income tax from 3.9% to 4.35% (to be rolled back to 3.95% four years hence). Lt. Governor John Cherry was forced to cast the tie breaking vote for Senate passage.

Lawmakers then resurrected **with little advance notice** a proposal to extend the state sales tax to a long list of services, effective December 1, and raising an estimated \$735 million (with \$202 million earmarked for School Aid Fund) over a full fiscal year. Again, the vote was on near party-lines, with Cherry forced to cast the tie breaking vote in the Senate. A complete **list** of covered services follows, but we know that what constitutes "consulting services" may possibly leave a lot of room for interpretation and maneuvering. Affected groups rightfully complain that they – and the public – had virtually no advance opportunity to object and/or mount a fight. Governor Granholm had proposed last January an even longer list of covered services, but it gained no traction at that time.

Finally, lawmakers passed a number of "cost cutting" reforms wanted by Republicans, the most notable of which affect teacher health care costs and pensions. Loser in the battle was the MEA and its insurance affiliate, MESSA. Proponents of the health care change say requiring health insurance administrators to provide school administrators health claims data for employee pools of 100 employees or more will allow districts and local governments to better shop for premium rates at a savings of at least 12 percent.

Also, future public school teachers will be required to pay more for their retirement benefits. A teacher who starts his or her service after July 1, 2008 would have to pay into the system through a graded premium schedule. It also tightens how future teachers could buy years of service.

Another school-related reform (SB 0549) would make school districts within common intermediate school districts operate under a common calendar.

Legislators also say they will find an additional \$200 million in cuts from as yet unnamed sources.

We believe that the new sales tax on services has the potential to stir a major **hornet's nest** once affected service providers and recipients understand its implications. Legislators may well end up wishing they had instead passed a higher income tax increase, as opposed to incurring the enmity of those targeted. Look for recall talk to focus as much on the new services tax as the income tax hike.

Finally, legislators passed – and the Governor signed – a continuation budget which essentially gives lawmakers additional time to write details of the 2007-08 state spending plan. The rest of October will be action-packed with efforts to complete that very important task.

In all, the whole revenue debate was, to say the least, an untidy, contentious, and sometimes secretive affair that most participants would like to put behind them, but probably can't.

Here is the list of services that would be subject to the new 6% sales tax:

- Business Service Centers (\$9.5 million)
- Carpet/Upholstery (\$5.2 million)
- Couriers and Messengers (\$3.1 million)
- Document Prep Services (\$4.8 million)
- Investigation Guard/Armored Car (\$27.0 million)
- Janitorial (\$43.8 million)
- Investment Advice (\$16.8 million)
- Landscaping (\$40.5 million)
- Mini-warehouse and self-storage (\$3.9 million)
- Transit and Ground Passenger, limo and cab (\$10.5 million)
- Office Administration (\$79.2 million)
- Other Personal Services (\$48.2 million)
- Other Travel and Reservation (\$6.7 million)
- Personal care, no haircuts (\$14.1 million)
- Scenic Transportation (\$14.2 million)
- Security System Services (\$14.2 million)
- Service Contracts (\$23.5 million)
- Skiing (\$2.2 million)
- Interior Design (\$27.8 million)
- Tour operators (\$2.6 million)
- Consulting (\$188.2 million)
- Packaging and labeling services (\$20.8 million)
- Warehousing and storage (\$21.0 million)

Frank J. Kelley
Dei O. Cantk
Pro McCallough Paul
M. G. C. C. C.
Melissa G. G. G. G.

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