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**Editorial**

## State's new business tax too tough on contractors

### The Detroit News

Michigan's business tax reform plan is supposed to be revenue neutral and spread the burden over industries more evenly. But a deeper look paints a different picture, particularly for general contractors and builders.

"It's a nightmare," says John Rakolta Jr., chief executive of Walbridge Aldinger Co., the state's second largest general contractor. "If it stays the way it is, all of our current jobs are at risk."

That's because the proposal would levy the 0.8 percent gross receipts tax at every stage of the construction process, instead of on the project as a whole. On most projects, a general contractor subcontracts work out to numerous other companies. Each time work is subcontracted, the 0.8 percent tax would be applied.

Rakolta estimates that for a typical \$100 million project his company builds, the total tax would be \$1.8 million, instead of \$800,000 if it were levied once on the total value. Most other states levy the tax on the entire project instead of on its various pieces.

In addition, general contractors won't be eligible for the same deductions that the proposed law grants to the manufacturing industry.

"You can conservatively estimate that the tax will be about \$3 for every \$1 that you have today," says Cliff Brewis, a senior director with McGraw-Hill Construction, which tracks building trade information across the country. Brewis says the tax will cost builders in the state an additional \$240 million a year, slowing capital investment and raising costs for consumers ranging from school districts to home buyers.

Others say the added burden on contractors will range from 35 percent to 300 percent, depending on the number of subcontractors employed on the project.

It's a lot more new revenue than initial estimates indicated would come from that industry, and it raises questions about whether the new tax will indeed be revenue neutral or a major windfall for the state at the expense of business.

As proposed, all revenue generated that's above a 5 percent increase in the first year goes half toward the state's rainy day fund and half back to businesses. After three years, all extra revenue goes to the general fund. That's misguided tax policy and needs to be corrected before the final draft of the bill is done. A more business-friendly approach would trigger rollbacks when tax revenues hit the current \$1.9 billion, plus the rate of inflation.

Rakolta says his company would pay roughly \$2 million in additional taxes under the proposal, or five times what it paid last year.

School construction will cost more, as will road building, bridge repair and other infrastructure needs. Large-scale industrial, commercial or residential projects also may become prohibitively expensive for many.

"It all depends on the definitions, and we're trying hard not to blow up just yet," Dawn Crandall, political affairs coordinator for the Michigan Association of Home Builders, says, adding that the industry is already suffering.

This cascading tax on the construction industry should be deleted from the tax proposal before it becomes law.

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