



LEGISLATIVE BULLETIN

A CHAPTER OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

November 9, 2007

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House Repeals Service Tax – Substitutes MBT Surcharge - Senate Considering Options

On November 8, The Michigan House of Representatives voted 58-48 to repeal the services tax and replace it with a surcharge on the new Michigan Business Tax. [HB 5408](#) adds a 32.9% surcharge to the MBT through 2008, and then 23.7% annually thereafter. The bill also sets a \$2,000,000 cap on the amount any Michigan business will pay on the surcharge. Senate Republicans are opposed to making the surcharge a permanent tax increase and are considering other alternatives. Not much time remains for the House and Senate to agree on a solution that the Governor may then sign. The services tax was scheduled to take effect on December 1.

Like other Michigan business interests, our options at this point (and late date), are limited. Either the service tax goes into effect as written on December 1, 2007 or some form of alternative tax like the MBT surcharge takes its place. The construction industry fared well under the MBT in comparison to the SBT. The definition of gross receipts allows us to subtract our subcontracts, and that definition will remain. Will a surcharge change that equation? And while the service tax did not include construction, we are only one budget crisis away from being added to the mix. AGC contractors should support a state tax policy that improves our state's business climate so that it can support a healthy construction industry.

The unstated battle over this issue is between Michigan's manufacturing concerns and small businesses. The overall business community in Michigan is clearly divided over how to move forward. However, Democrats feel like they have enough political cover from business to move forward with the MBT surcharge. Senate Republicans are also committed to eliminating the Service Tax. The Senate will work on the issue next week and the Tuesday before Thanksgiving. Again, there is not much room for compromise and legislators are not being presented with many options.

AGC is working with legislative leaders in both parties and will continue to provide updates as information warrants.

We have included a copy of [HB 5408](#). Please use the language to

estimate your increased tax liability and let AGC staff know how your company's tax liability under this proposal compares to your SBT liability and your viability. You can use percentages in order to keep your information confidential.

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