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## **MIRS Capitol Capsule, Tuesday, June 19, 2007**

### **Main Business Tax Moves Amid Grumblings**

Legislation representing the basic framework of the Michigan Business Tax (MBT) moved out of the Senate today 20-18, amid rumblings from contractors, partnerships and other business segments destined to get pinched by the new tax.

The Legislature wants SB 0094 sent to Gov. Jennifer GRANHOLM before the July 4 break and in order to do that, the bill was changed in such a way that it will go into a joint House-Senate conference committee.

Because the actual content of this bill was something Democrats objected to, all but Sen. Buzz THOMAS (D-Detroit), who helped negotiate the compromise on SB 0094, joined Sen. Bruce PATTERSON (R-Canton) and Sen. Alan SANBORN (R-Richmond) in voting against it.

From a strategic standpoint, changing SB 0094 in conference committee to represent the deal struck last Wednesday by the administration and legislative leadership shields the bill from the likely numerous amendments particular industries would try tacking on to the legislation.

A conference committee report vote in the full House and Senate is an up-or-down vote.

In other news, a small ground swell of various business groups likely to get socked by the new tax is starting to form. High on the list is the construction industry and general contractors, who fear the large number of business-to-business transactions that take place while completing a construction project will seriously impact their industry.

An Associated General Contractors, Michigan (AGC) memo details how this potential "pyramiding" effect could increase the costs of construction in Michigan.

Here's the AGC's scenario: A project owner awards a \$1 million construction contract to a prime contractor. The prime contractor awards a \$600,000 subcontract to another contractor. The gross receipts portion of the MBT would have the prime contractor pay on the \$1 million and the subcontractor paying on the \$600,000, meaning tax would be paid on \$1.6 million, even though the price of the project is still only \$1 million.

"Construction as an industry is typically hit first and hardest by recession," the AGC memo states. "Michigan can ill-afford to have the cost of construction unnecessarily increased through collection at all tiers of gross receipts taxes on construction projects."

Among other groups getting a whack by the MBT are LLCs and partnerships, where the same type of pyramiding concept could be applied.

As of now, MIRS has not heard of serious efforts by either the House or Senate to change any aspect of the business tax agreement announced Wednesday. The MBT workgroup is still meeting to iron out the details of the agreements as the formal bill is drafted.