

## **McGraw-Hill Construction: Analysis of Michigan Business Tax Replacement**

The impact of the Gross Receipt tax will be negative for both the construction industry and those organizations contemplating a capital investment in Michigan. Without question the tax is inflationary, and of particular concern is the way it will cascade down from the general contractor to subcontractors. Taxing all parties in construction on gross receipts will add multiple layers of taxes and will lead to increases in construction costs at surprisingly high levels. Construction in Michigan is about \$15 billion per year. Taxing on gross receipts would tax construction at approximately \$45 billion. Contractors would assume an added tax burden of approximately \$240 million, which they would pass on. Larger, more complex projects will be particularly impacted by the changes being considered. Given the construction industry is already facing increasing risk due to dramatic increases in material prices over the last few years, without question, contractors will pass through an additional 2 to 3% in costs related to new taxes.

Michigan will be less competitive in attracting capital investment. Private developers will look to alternative markets where construction costs will be less expensive. Consequently, it will be more difficult to diversify the Michigan economy.

Further, construction is a labor intensive business and a “quick” source of employment. Reducing construction demand will only contribute to unemployment levels.

Cliff Brewis  
Senior Director Editorial  
McGraw-Hill Construction

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