

Start over and get it right

BY BRUCE W. HAFFEY

It is becoming evident that the new Michigan Business Tax (MBT) is a debacle that needs to be fixed as soon as possible.

Daily news stories report businesses with tax burdens double, triple and quadruple those experienced under the Michigan Single Business Tax (SBT), and considering the possibility of relocating to another state.

A recent poll by the Detroit Regional Chamber of Commerce found it to be the top state tax concern among those polled.

How did we get into this mess? Some may prefer not to revisit recent history, to move forward rather than look back, but as the philosopher George Santayana admonished, "Those who do not learn from history are doomed to repeat it."

The MBT is an unfortunate example of politics over policy. The MBT represents a poorly executed attempt to repeal and replace what was thought to be a bad tax, the SBT.

In recent years, the SBT came under attack, primarily that it was too complex and too burdensome, and was driving business to locate outside of Michigan.

This despite statistical evidence that indicated the total tax burden of Michigan businesses was comparable to that of other Great Lakes states.

Legislation enacted in the late 1990s already provided for the gradual phase-out of the SBT.

Notwithstanding the phase-out, with Michigan's suffering economy in recent years, political pressure grew during 2006 to repeal the SBT immediately.

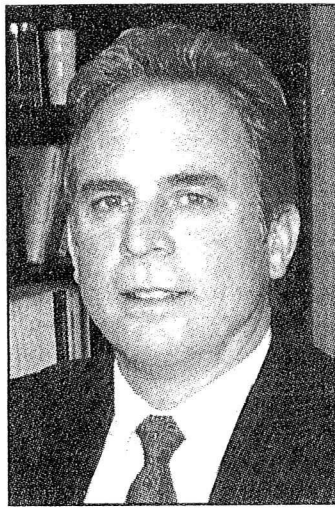
Legislative debate initially made little progress due to concern over the loss of revenue and the impact on the state budget.

However, a ballot initiative to repeal the SBT gained momentum during the summer of 2006, prompting the state legislature to repeal the tax, effective as of December 31, 2007.

A state government budget crisis was thereby created.

There was roughly one year to enact a replacement tax before the revenue loss from the repeal of the SBT would impact the state budget.

The SBT accounted for revenue of close to \$2 billion and would require replacement to avoid severe cuts to state programs.



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These circumstances were ideal for political gamesmanship and abysmal for sound tax policy.

Sound tax policy would suggest the enactment of a tax with a broad base, to allow a low tax rate, with similarly situated taxpayers treated equally, with a simple formula to promote ease of understanding and planning, with low costs of compliance and collection, and ease of administration.

The tax should be aligned with other government policies and programs.

The legislative process should be a bipartisan effort, draw upon the expertise of tax professionals, and allow adequate time for consideration and analysis, for taxpayers to plan for compliance, and for administrators to develop forms and procedures for collection and enforcement.

Instead, predictably, given the circumstances, what happened was a victory of politics over policy.

Many proposals were offered for a replacement tax, including a temporary increase in the income tax, a graduated income tax, an increase in the sales tax on goods, and a sales tax on services, or selected services.

Proposals were also made to balance the budget without a replacement tax, by severely cutting programs.

Never did any of these ideas develop bipartisan backing, and notably absent was the involvement of tax lawyers, tax accountants and academia, whose professional lives were devoted to these issues.

The MBT was instead the product of term-limited legislators with little expertise in tax policy.

Given the limited time during which to enact legislation, those whose primary agenda was to reduce taxes used this opportunity to play political brinkmanship, and worked to obstruct any efforts to enact a replacement tax.

What resulted was a complex combination of two taxes, one based upon gross revenue and the other based upon profit, using a unitary tax model that neither taxpayers, tax advisors nor tax administrators understand, that provides more favorable treatment for certain industries compared to others, and that conflicts with other policies and programs of the state government.

The effect of the MBT is only now beginning to be realized, as businesses compute their first quarter 2008 tax estimates.

Many businesses are crying foul as they see their tax burdens increase many times over what they were under the SBT.

News stories report companies considering the possibility of leaving Michigan due to their increased tax burdens, precisely the opposite effect of what was intended in repealing the SBT.

The poor underlying tax policy is also evident in its conflict with other policies of state government.

Most glaringly, the personal property tax credit for industrial property provides a substantial preference for heavy manufacturing, while other government initiatives promote the development of new, high tech industries.

Instead of being based on sound tax policy, the MBT is a product of pure partisan politics. The losers are evident in daily news stories.

It is becoming evident that an unpopular and allegedly bad tax has been replaced with a truly bad tax.

As the dramatic and unfair shifting of the tax burden becomes more evident, the legislature will have to fix the tax, or replace it once again.

Hopefully, that effort, unlike the previous one, will allow adequate time, will be a bipartisan effort motivated by sound tax policy, and will draw upon the expertise of tax professionals to enact a simple, fair, broad-based tax that will not drive business out of Michigan.

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