Gov. Granholm's 'Tax Loophole' Closures are Tax Increases in Disguise, Michigan Chamber of Commerce Analysis Reveals

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Upon conducting a thorough analysis of the 15 tax policy proposals recommended by Governor Granholm as part of her 2004 Executive Budget, the Michigan Chamber of Commerce has concluded that nearly all of the proposals are in fact significant tax increases on individuals and business.

(Photo: http://www.newscom.com/cgi-bin/prnh/20000320/DEM039)

"During the past decade, Michigan has made significant progress towards improving its tax climate and economic competitiveness," said Michigan Chamber President & CEO Jim Barrett. "Taken as a whole, these proposals would ultimately hurt Michigan's economic competitiveness by further increasing the tax burden on individuals and job providers."

Gov. Granholm's tax proposals were outlined in her 2004 Executive Budget under the heading of "Securing Additional Dollars." The Administration described these proposals as closing "loopholes."

"What the Granholm Administration's proposals are really about is generating more tax dollars," said Tricia Kinley, Director of Tax Policy & Economic Development for the Michigan Chamber. "Most of the Administration's proposed changes in tax policy would reverse court decisions, alter current statute, or rescind current Treasury Department positions on tax policy."

Kinley noted that the way in which Gov. Granholm's proposed changes in tax policy have been described is misleading. For example, saying job providers get a Single Business Tax (SBT) "advantage" due to the exclusion of inter- company transactions for tax purposes ignores basic economic reality, and changing this statute will increase SBT taxes for in-state companies.

"The Michigan Chamber continues to believe that the best way to solve the state government's spending problem is to cut spending, not raise taxes," Kinley concluded.

A summary of the Michigan Chamber's seven-page analysis is included with this release.

The Michigan Chamber of Commerce is a statewide business organization which represents approximately 6,500 employers, trade associations and local chambers of commerce. The Michigan Chamber was established in 1959 to be an advocate for Michigan's job providers in the legislative, political and legal process.

SUMMARY OF MICHIGAN CHAMBER OF COMMERCE ANALYSIS OF FISCAL YEAR 2004
EXECUTIVE BUDGET PROPOSAL FOR "SECURING ADDITIONAL DOLLARS"

March 24, 2003

Review Process

On March 6, 2003 Governor Granholm released her proposed 2004 Executive Budget. Under the heading "Securing Additional Dollars" the Governor recommended 15 changes in tax policy. Following the release of the Administration's proposed Budget Michigan Chamber Tax Committee members from around the state reviewed and analyzed the proposals. The Chamber's full Tax Committee then reviewed and approved the document. In addition, Chamber staff also met with State Treasurer Jay Rising to review and discuss the proposals.

The proposed changes in tax policy were outlined on page A-17, 18 and 19 in the Executive Budget under the heading of "Securing Additional Dollars." The Administration described these changes in tax policy as closing "loopholes" and offered the following definition of a "loophole":

"A loophole is defined as a situation where individuals and organizations have found a way to circumvent the intent of the original statute and are not paying their fair share of the tax burden."

It is important to note that the Administration's proposals don't fit their own definition. All the proposals are significant changes in tax policy. Many of the changes would reverse court decisions, alter current statute, or rescind Treasury Department positions contained in Revenue Administrative Bulletins. These changes will result in tax increases on individuals and job providers, ultimately hurting Michigan's competitiveness.

Conclusion

The Michigan Chamber has concluded that at least 11 of the Administration's proposals are tax increases on individuals and/or job providers. The Michigan Chamber is opposed to these tax increases and we urge the Legislature to reject them.

Economic Impact

During the past decade Michigan has made significant progress towards improving its tax climate and economic competitiveness. Taken as a whole, the Administration's proposed changes would:

* result in tax increases on individuals and job providers
* trigger costly litigation that the state would likely lose
* impose excessive penalties on individuals and job providers
* send a bad message to all taxpayers

* make Michigan less competitive through a higher tax structure and hostile tax environment

The Michigan Chamber continues to believe that the best way to solve state government's spending problem is to cut spending, not raise taxes. For further information or an update, please call Tricia Kinley or Rich Studley at (517) 371-2100.

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PRN Photo Desk, +1-888-776-6555 or +1-212-782-2840

SOURCE: Michigan Chamber of Commerce

CONTACT: Tricia Kinley, Director of Tax Policy & Economic Development of
Michigan Chamber of Commerce, +1-517-371-7669

Web site: http://www.michamber.com/

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