

Common ground:

Tax loophole closures supported by lawmakers and Governor (2005-2007)

- 1. Decouple state business depreciation from feds: \$70 million (H-2007)***
- 2. Bad debt exemption for retailers: \$64 million (H-2007)**
- 3. Air and water pollution equipment: \$44.2 million (H-2007)**
- 4. Periodicals: \$35 million (H-2007)**
- 5. Vending machines: \$25 million-\$25.2 million (H-2007, Executive Budget 2005)**
- 6. Railroad credit: \$20 million (Executive Budget 2005)**
- 7. Copyrighted Motion Pictures: \$20 million (Executive Budget 2005)**
- 8. Tobacco bad debt deduction: \$17.7 million (H-2007)**
- 9. Interstate trucks and trailers: \$16.4 million (Executive Budget 2005)**
- 10. Communications and telephone/international calls/wide area telecommunications: \$15.4 million-\$21.9 million -\$59.8 million (H.S.-2005, Executive Budget 2005, H-2007)**
- 11. Prohibit subsidiary out-of-state gains deduction: \$12.1 million (H.S.Gov-2005)**
- 12. Employee meals: \$8.4 million (H-2007)**
- 13. Aircraft parts: \$8 million (H-2007)**
- 14. Reduce small business credit: \$5.5 million (H.S. Gov-2005)**
- 15. Restrict credit/loss carry forward: \$5.5 million (H.S. Gov-2005)**
- 16. Oil and gas royalty: \$5 million (Executive Budget 2005)**
- 17. Eliminate insurance company exemption: \$3.3 million (H.S.Gov-2005)**
- 18. Marginal wells: \$2.2 million (Executive Budget 2005)**
- 19. Eliminate prison store exemption: \$0.7 -\$0.8 million (Executive Budget 2005, H.S.Gov-2005)**
- 20. Eliminate driver's education vehicle exemption: \$0.6 million (H.S.-2005)**
- 21. Reduce apprenticeship credit: \$0.6 million (H.S.Gov.-2005)**
- 22. Water softener and water cooler exemption: \$0.5 million (Executive Budget 2005)**

Total: \$380.1 million - \$424.8 million

Key:

- *Executive Budget 2005* – Part of Gov. Jennifer Granholm's executive budget recommendation for FY06
- *H-2007* – Passed House in 2007. Amount cited is from House Fiscal Agency analysis
- *H.S.-2005* – Passed the House and Senate in 2005. Amount cited is FY09 estimate from Senate Fiscal Agency analysis
- *H.S.Gov--2005* – passed both chambers in 2005 and signed by Granholm but was tie-barred to vetoed bill, HB 5107. Amount cited is FY09 estimate from Senate Fiscal Agency analysis

* Differs from bonus depreciation in federal stimulus package, which is estimated to reduce state revenues by a total of \$127 million in FY2008 and FY2009.

Tax Loopholes Description

2007 Total: \$332 million

In 2007, the House, led by Rep. Andy Meisner, D-Ferndale, adopted nine loophole closures as part of an effort to balance the budget. The votes were along party lines with Democrats in support.

HB 5253 Decouple state business depreciation from feds: \$70 million

Would increase state taxable income by decoupling state business depreciation rules from federal business depreciation rules.

HB 5254/HB 5255 Bad debts: \$64 million

Would end exemption for bad debts of retailers who collect retail sales taxes.

HB 5254 Communications and telephone: \$59.8 million

Would tax international calls and wide area telecommunication services or similar services the same as interstate telephone communications.

HB 5254/HB 5255/HB5256 Air and water pollution equipment: \$44.2 million

Would end sales and use tax exemption for personal property purchases for certain water and air pollution control facilities.

HB 5254/HB 5255 Periodicals: \$35 million

Would end business exemption for periodicals mailed second class

HB 5254/HB 5255 Vending machines: \$25 million

Would end sales tax exemption for snacks and pop sold from a vending machine

HB 5252 Tobacco bad debt deduction: \$17.7 million

Would end the bad debt deduction allowed to wholesalers who collect and remit the tobacco tax. Also eliminates withholding of 1.5 percent of tax to cover administrative costs of collecting the tax.

HB 5254/HB 5255 Employee meals: \$8.4 million

Would end sales tax exemptions for restaurants providing free or reduced-cost meals to restaurant workers.

HB 5254/HB 5255 Aircraft parts: \$8 million

Would end sales tax exemption for parts and materials used in repairs/refurbishment for some passenger and cargo aircraft

2005 Total: \$43.8 -- \$170 million

Bills were approved by both House and Senate and signed by Gov. Jennifer Granholm, except 5107, which was vetoed. None went into effect because they were tie-barred to the vetoed bill. Total approved in 2005 was \$91.1 million in Single Business Tax changes and \$78.8 million in elimination of sales and use tax exemptions between FY06 and FY11.

This list breaks out \$43.8 million in revenues that would be generated in FY09 if the eight loopholes were eliminated.

HB 5107 Eliminate international phone call exemption: \$15.4 million

Bill would have applied use tax to international calls, wide area telecommunication services and interstate private networks.

HB 5098 Prohibit Subsidiary out-of-state gains deduction: \$12.1 million

Bill would have prohibited deduction of gains from out-of-state subsidiaries.

HB 5108 Reduce small business credit: \$5.5 million

Bill would have increased the portion of health care benefits that were counted as compensation, among other changes.

HB 5098 Restrict credit/loss carry forward: \$5.5 million

Bill would have restricted certain business loss carry forwards.

HB 5098 Eliminate insurance company exemption: \$3.3 million

Bill would have eliminated exemption for use tax on items purchased outside of Michigan.

HB 4980 Eliminate prison store exemption: \$0.8 million

Bill would have ended sales tax exemptions for inmate purchases at prisoner stores.

HB 5098 Reduce apprenticeship credit: \$0.6 million

Bill would have eliminated business tax credit for costs associated with training apprentices.

HB 5106/HB 5107 Eliminate driver's education vehicle exemption: \$0.6 million

Bills would have eliminated sales tax exemptions for purchase or lease of vehicles used by public or parochial school driver's education classes.

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Governor's Plan Total: \$112 million

In February 2005, Gov. Jennifer Granholm called for loophole closings to balance the FY 06 budget. Her nine-loophole plan would have saved \$112 million. Those loopholes were not included in resolving the FY06 deficit.

Food sold through vending machines: \$25.2 million

Eliminate the sales tax exemption of certain foods sold in vending machines so that all foods sold in vending machines are treated as food for immediate consumption.

International and certain interstate communications: \$21.9 million

Eliminate use tax exemption for wide area telecommunication services, interstate private networks, and international calls.

Railroad credit: \$20 million

Eliminate two credits for improvement and maintaining rights-of-way for railroad cars that effectively exempt railroad companies from the state utility property tax.

Copyrighted Motion Pictures: \$20 million

Eliminate sales and use tax exemption for persons leasing or purchasing copyrighted motion pictures.

Interstate trucks and trailers: \$16.4 million

Eliminate exemption of sales and use tax for trucks and trailers if 10 percent of miles traveled are outside of state.

Oil and gas royalty: \$5 million

Eliminate deduction from the income tax of certain indirect costs (such as depreciation) from adjusted gross income – which Michigan Department of Treasury views as a double exemption.

Marginal Wells: \$2.2 million

Standardize the tax rate for all oil and gas wells by eliminating lower rate for marginal wells to increase Gas and Oil Severance Tax.

Purchases made by Department of Corrections inmates: \$0.7 million

Eliminate sales tax exemption for purchases at prison stores.

Water softener and water cooler exemption: \$0.5 million

Eliminate property tax exemption on rented or leased water softeners and water coolers.