

# CAPITOL NEWS UPDATE

WEEK OF JANUARY 1, 2018

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## **FEDERAL TAX CHANGES COULD HIT MICHIGAN RESIDENTS**

State Treasurer Nick Khouri told Michigan lawmakers that unless they make quick changes to the state's tax code, some Michigan residents will be paying more state income tax after the new federal tax cut legislation was signed into law in late December.

Khouri and Gov. Rick Snyder have both said that the federal repeal will affect income tax exemptions, leading to a potential \$1.4 billion tax increase in Michigan, according to some economic analysts.

The federal changes could affect 2018 taxes, which would be filed in 2019 if state changes are not made.

Spokespersons for both House Speaker Tom Leonard and Senate Majority Leader Arlan Meekhof said there will be discussion of the matter once the legislature returns to Lansing in January.

The House Fiscal Agency has agreed with the analysis by Snyder and Khouri. Former state budget official Patrick Anderson, of Anderson Economic Group, however disagreed and asked Khouri for clarification.

According to Khouri, the law clearly shows that state exemptions are determined by the number of federal exemptions permitted. Because the new law effectively eliminates any federal exemptions, the state will need to change its laws to allow for personal exemptions in state taxes.

Khouri also believes that addressing the issue in the legislature will ensure that there is not an "ambiguous tax situation open for interpretation by individual state officials or the courts."

## **SUPREME COURT ORDERS \$550 MILLION REFUND TO SCHOOL WORKERS**

In late December, the Michigan Supreme Court ruled in favor of teachers and other public school employees, ordering that they be refunded more than \$550 million. This decision upholds a state Court of Appeals ruling that said the 3 percent taken from school employee's paychecks from mid-2010 to the start of 2013 to help pay for future retirement health care benefits was unconstitutional.

In the case, *AFT v. Public School Employee Retirement System*, the court held that PA 75 of 2010 violated state and federal constitutional prohibitions to impair contracts. The court ruled 6-0 in favor of the teachers and school employees. Justice Beth Clement did not participate in the ruling because of her role in Gov. Rick Snyder's legal counsel before becoming a justice.

The original legislation was an attempt during former Michigan Gov. Jennifer Granholm's administration to deal with a struggling economy.

"It substantially impaired the plaintiffs' employment contracts by involuntarily reducing the plaintiffs' wages by 3%, and the state failed to demonstrate that this measure was reasonable and necessary to further a legitimate public purpose," the Supreme Court said.

## **YOUNG OUT OF U.S. SENATE RACE, JAMES AND PENSLER STILL IN THE MIX**

Former Michigan Supreme Court Justice Bob Young announced he was dropping out of the race to replace U.S. Sen. Debbie Stabenow at the beginning of the new year.

Young was the most well-known Republican in the race for this year's election. Announcing his decision on the Frank Beckmann Show on WJR-AM (760), Young said he did not have enough financial support to continue in the race.

"After assessing the campaign to determine if we had enough to move forward, I don't see in this contested primary enough financial support to get me where I need to be," he said.

He also cited the crowded primary, which will now be left to John James, an Iraq War veteran and business executive; and Sandy Pensler, also a business executive; and Bob Carr.

James has several congressional endorsements, and touts his business and combat experience.

Pensler has been promoting his business experience, and vowing to put millions of dollars in his own money into the race.

Both are behind Stabenow in their fundraising, who had \$6.9 million on hand and raised \$1.7 million in the third quarter.

The primary will be Aug. 7, 2018.

## **MM&A Briefs**

### **Former Rep. Lipton announces run for U.S. House**

Former state Rep. Ellen Lipton, of Huntington Woods, announced this week that she is joining the race to succeed U.S. Rep. Sander Levin, who is retiring.

Lipton served in the state House from 2009-14. She will be facing Sen. Steve Bieda (D-Warren) and Levin's son, Andy Levin for the Democratic nomination.

### **Supreme Court to hear case on former Sen. Virgil Smith's plea deal**

The State Supreme Court will be looking at former state Sen. Virgil Smith's (D-Detroit) plea bargain, including his eligibility to run for political office, next week. Smith resigned from the Senate in 2016 as part of a plea bargain from charges that he shot at his ex-wife's car in 2015. Another part of the plea bargain which stated he couldn't run for elective office for five years, however, was thrown out as unconstitutional.

Wayne County Prosecutor Kym Worthy appealed the ruling in an attempt to keep Smith off the ballot for Detroit City Council in 2017. The state Court of Appeals denied Worthy's motion, letting Smith go on to run and lose a bid for City Council.

Worthy decided to take the case to the Michigan Supreme Court in order to decide if it is a violation of the separation of powers for a judge to sign off on an agreement that prohibits a person from running for office.

Smith's case will be heard on Jan. 11.

### **Leutheuser, Kesto switch committee assignments**

Rep. Eric Leutheuser (R-Hillsdale) will move to the House Tax Policy committee from the Regulatory Reform Committee for the rest of the 2017-18 legislative term, while Rep. Klint Kesto (R-Commerce Twp.), will move to the Regulatory Reform Committee from Tax Policy.

House speaker Tom Leonard (R-Dewitt) commented that "Michigan is in the middle of an incredible economic recovery, but we still have more important work to do. We need bold leaders who have the judgment to spread this success to even more people around the state."

### **Calendar of Important Events**

- Jan. 8            11th U.S. House District Republican Debate by Michigan Conservative Coalition  
Location: 6:30 p.m., Emagine Theatre, 44425 West 12 Mile Road, Novi
- Jan. 23            **State of the State Address**  
Governor Rick Snyder's eighth and final State of the State address to a joint session of  
the legislature  
Location: 7 p.m., Capitol Building