



Michigan's Threatened
State Individual Income
Tax

Michigan's Threatened State Individual Income Tax

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Citizens Research Council

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Two Proposals to phase down state Individual Income Tax until rate is 0

HB 4001

SB 4

2017-18 Legislative Proposals

- HB 4001 – reduce state individual income tax rate
 - 3.5 percentage points in first year (3.9% in 2018)
 - 0.1 percentage point in each of next 39 years until rate is 0%
 - \$680M cut 2017-2018*
 - 0.1 percentage points = \$400M*
- SB 4 – reduce state individual income tax rate
 - 2.5 percentage points in first year (4.0% in 2018)
 - 1 percentage point in each of next 4 years until rate is 0%
 - \$530M cut 2017-2018
 - 1 percentage point = ~\$2B/year

* HFA estimate in bill analysis

Past Income Tax Rate Rollback Efforts

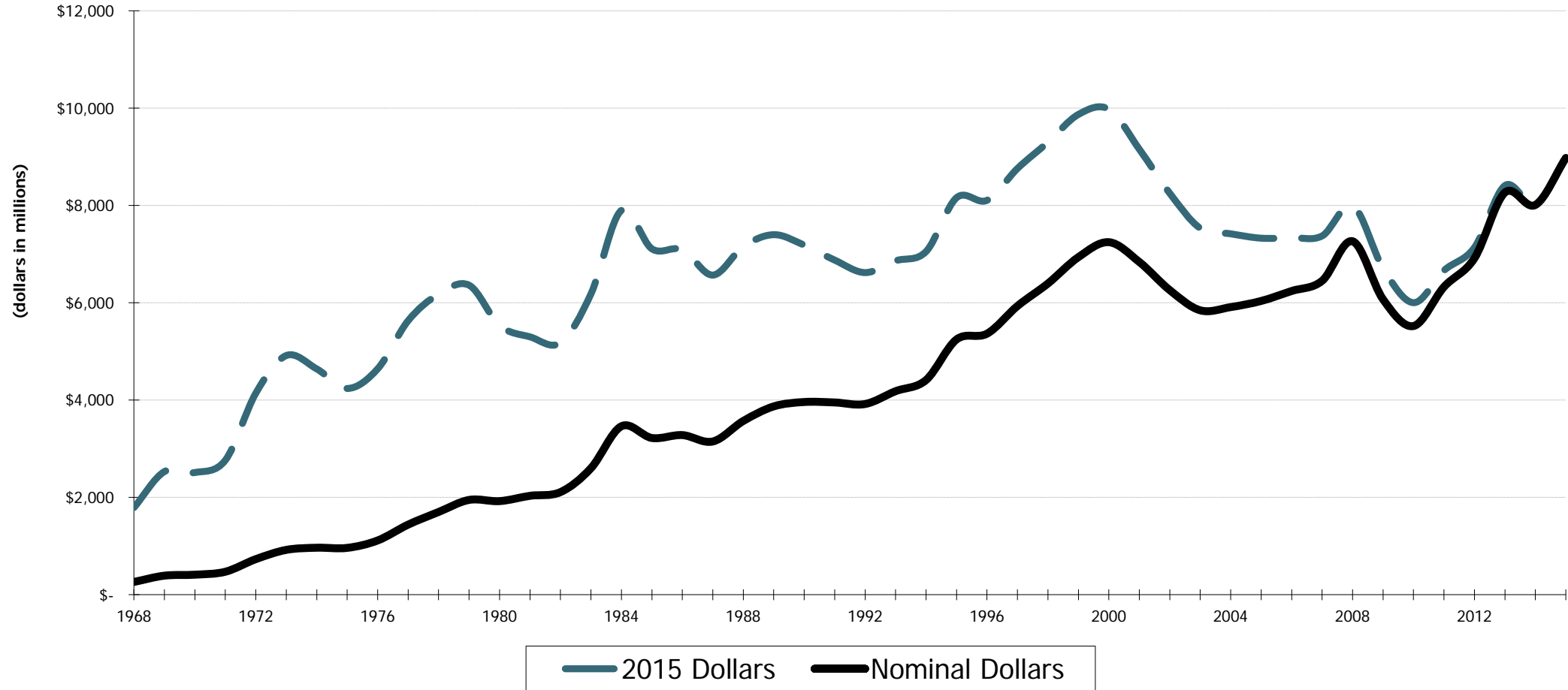
- State – 0.1 percentage point from 4.4% in 1999 to 3.9% in 2004
 - Contributed to structural budget deficit and worsened Michigan’s Single State Recession
- State – 2015 PA 180 after 2023 reduces rate by growth in excess of inflation if the increase from one year to the next in total General Fund/General Purpose revenue exceeded 1.425 times inflation for the same period
 - Reductions come out of GF/GP budget, Keeps SAF harmless
- Detroit – 1998 PA 500 reduced City Income Tax resident tax rate 0.1 percentage point/ 0.05 percentage points for nonresidents until new rates became 2% for residents/1% for nonresidents
 - Process halted if certain unfavorable financial conditions occur.
The conditions for suspending the rate reductions are any three of the following:
 1. two consecutive years of withdrawals from the city’s budget stabilization fund or exhaustion of the fund balance;
 2. a year-to-year decline in income tax revenue, after adjusting for inflation, of more than 5%;
 3. a city unemployment rate of 10% or higher; or
 4. a provision which compares the growth ratio of the city’s taxable value with the comparable statewide figure and computes a ratio which must fall below .80 (in order for the ratio to fall below 0.80 with the state taxable value holding constant, the city’s taxable value would have to decline 20%).

Three methods of measuring adequacy of overall tax structure and income tax specifically

1. Against itself over time
2. Against constitutional revenue limit
3. Against other states

Michigan Individual Income Tax Revenues, 1968-2015

(Nominal and Real)



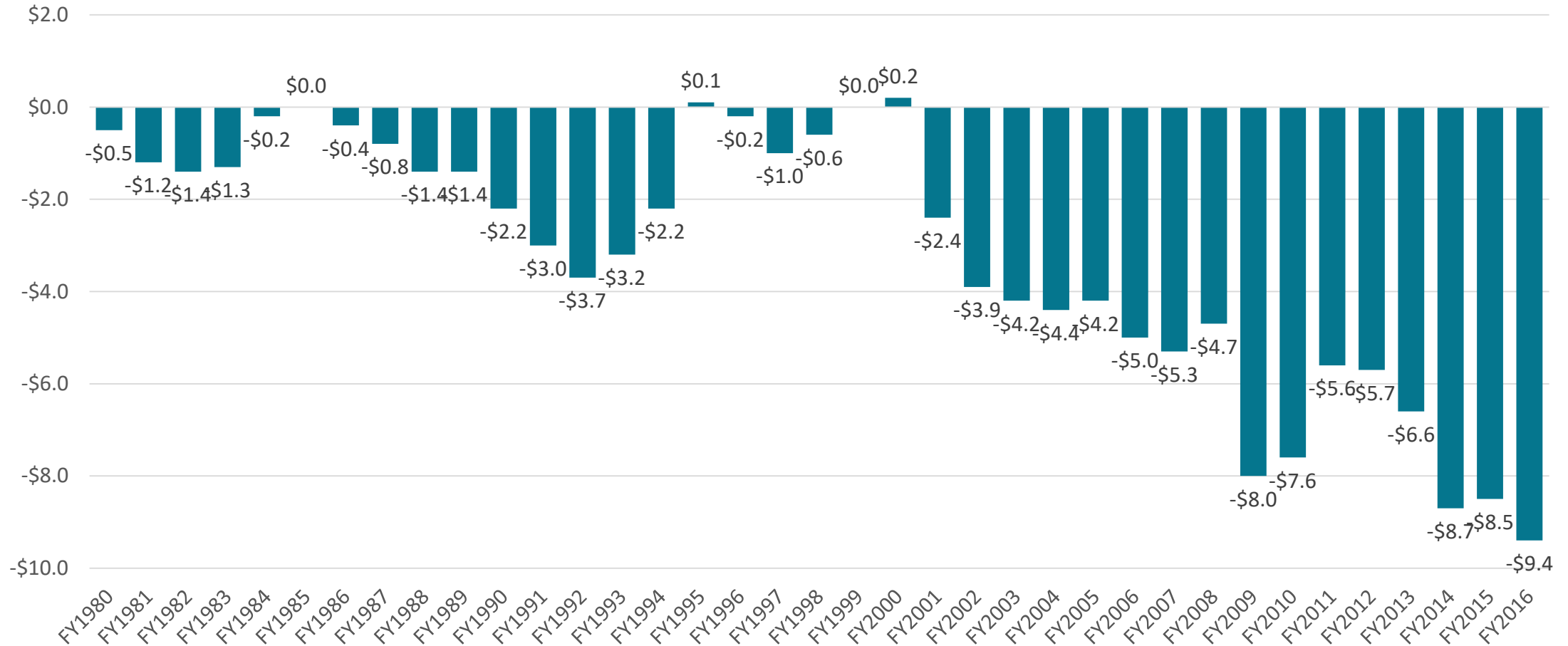
Michigan's Individual Income Tax Rate History



Source: Effective Tax Rate from *Michigan's Individual Income Tax 2013*, Office of Revenue and Tax Analysis in Michigan Department of Treasury, May 2016

Constitutional Revenue Limit

(Statutory implementation of Art. IX, Section 26 of Michigan Constitution (Headlee) limits state revenue to 9.49% of personal income)



Source: House Fiscal Agency, State Budget Overview, January 2015, www.house.mi.gov/hfa/archives/pdf/state_budget_overview_jan2015.pdf

Is Michigan a “High Tax” State?

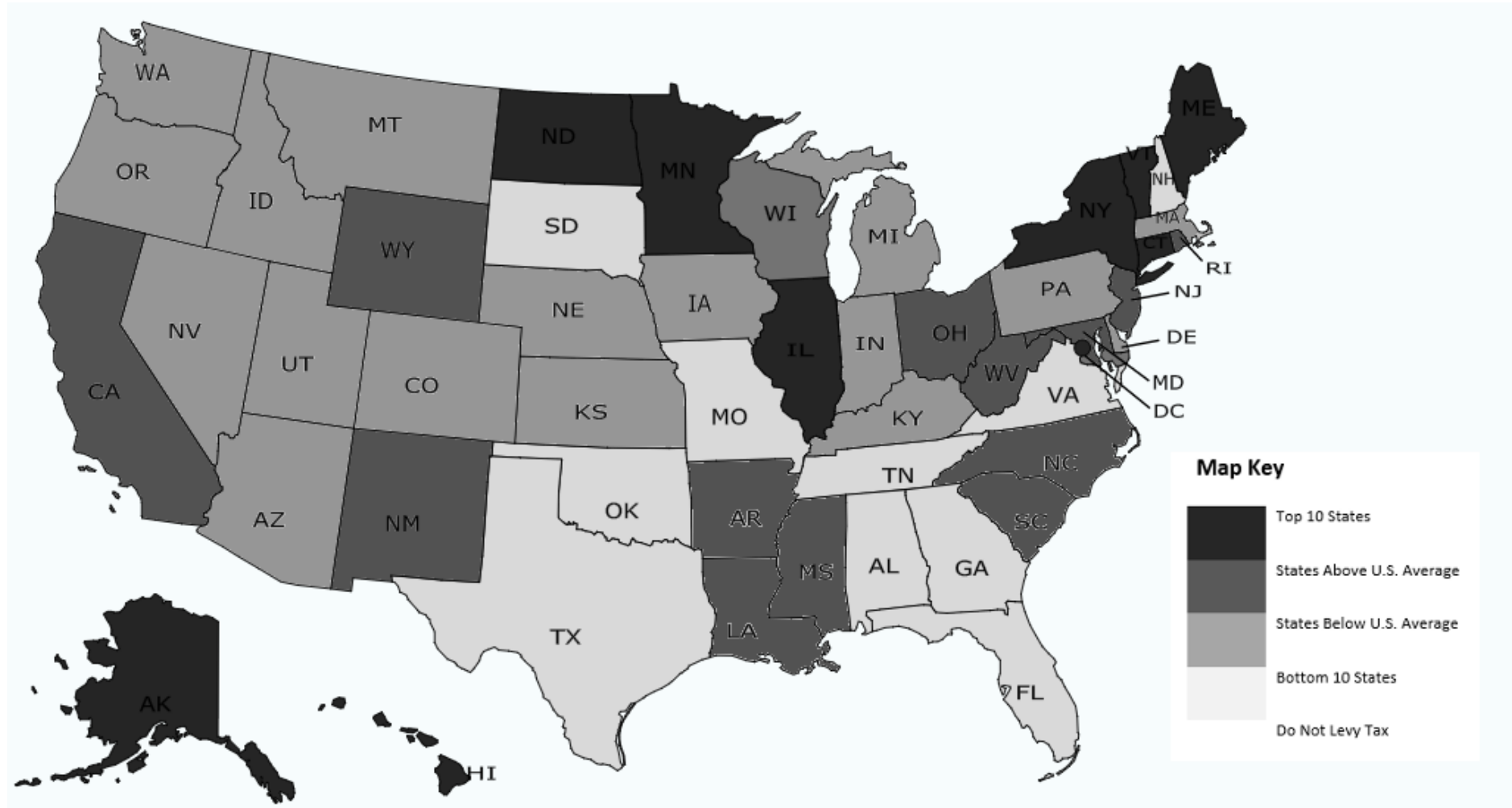
Total State and Local Tax Revenue

Year	<u>Per Capita</u>				<u>Per \$1,000 Personal Income</u>			
	<u>U.S. Amount</u>	<u>Michigan Amount</u>	<u>Michigan as Percent of U.S. Average</u>	<u>Michigan’s Rank</u>	<u>U.S. Amount</u>	<u>Michigan Amount</u>	<u>Michigan as Percent of U.S. Average</u>	<u>Michigan’s Rank</u>
1983	\$ 2,847	\$ 3,213	113%	12th	\$ 225	\$ 263	117.0%	9th
1993	\$ 3,686	\$ 3,785	103%	14th	\$ 170	\$ 179	105.6%	13th
2008	\$ 4,731	\$ 4,096	87%	30th	\$ 115	\$ 114	99.3%	19th
2012	\$ 4,483	\$ 3,719	83%	34th	\$ 101	\$ 96	95.0%	32th
2013	\$ 4,599	\$ 3,750	82%	35th	\$ 103	\$ 96	92.5%	34th

Sources: Population data are from intercensal estimates by the U.S. Census Bureau obtained from the U.S. Bureau of Economic Analysis. Personal income data are from the U.S. Bureau of Economic Analysis.

Per capita amounts have been adjusted to 2013 dollars using the calendar year U.S. CPI-U.

State and Local Government Tax Revenue per \$1,000 of Personal Income as Percentage of U.S. Average, 2013



Is Michigan a “High Income Tax” State?

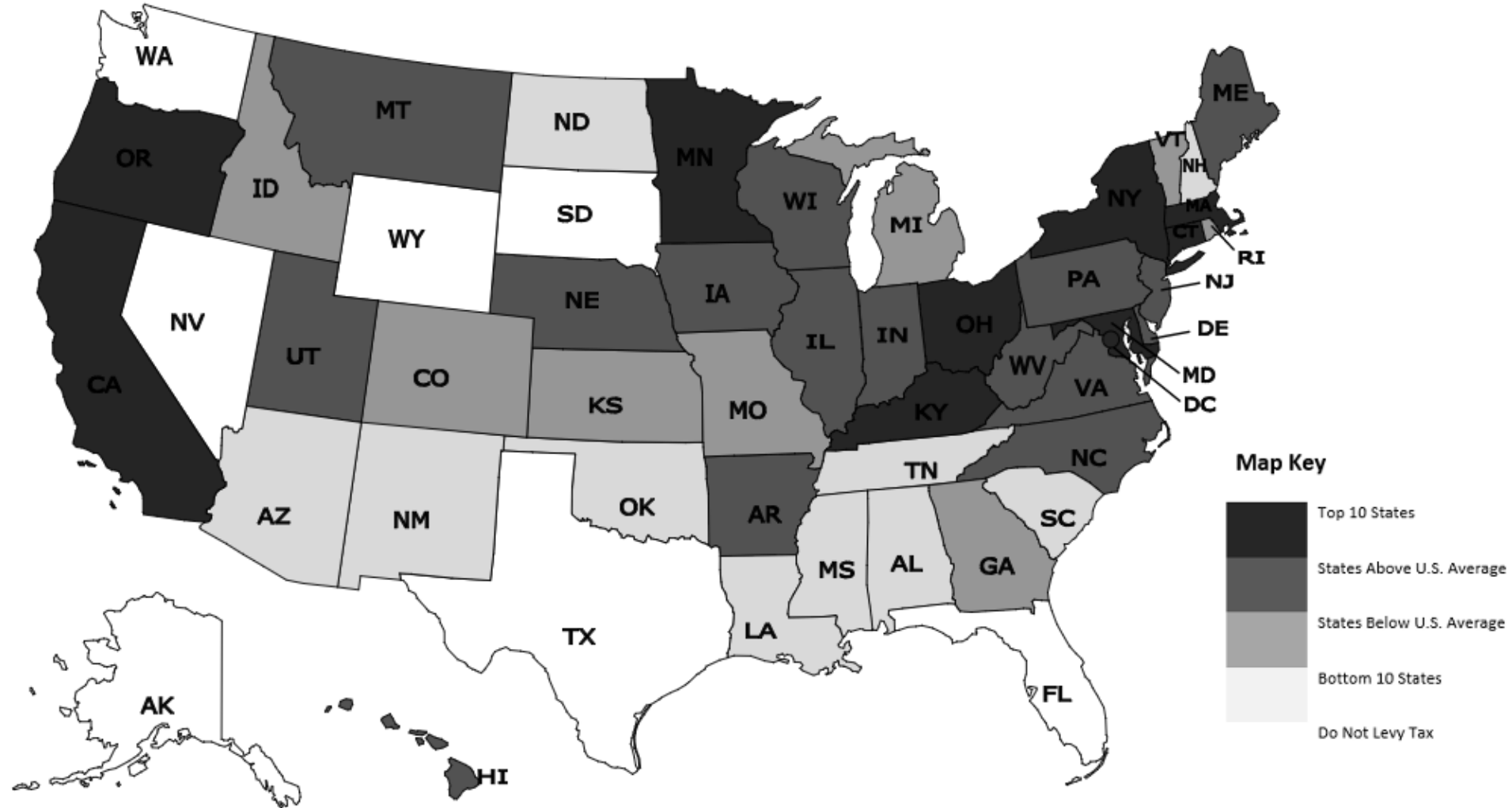
Individual Income Tax Revenues

Year	<u>U.S. Average</u>		<u>Michigan</u>					
	<u>Per Capita</u>	<u>Per \$1,000 Pers. Inc.</u>	<u>Per Capita</u>			<u>Per \$1,000 Personal Income</u>		
			<u>Amount</u>	<u>As % of U.S. Avg.</u>	<u>Rank</u>	<u>Amount</u>	<u>As % of U.S. Avg.</u>	<u>Rank</u>
1993	\$ 764	\$ 22	\$886	115.9	18 th	\$ 26	119.1	16 th
2004	\$ 906	\$ 21	\$780	86.1	32 nd	\$ 20	92.0	34 th
2008	\$ 1,085	\$ 24	\$831	76.6	34 th	\$ 21	87.9	34 th
2012	\$ 992	\$ 22	\$754	76.0	34 th	\$ 19	87.0	34 th
2013	\$ 1,069	\$ 24	\$866	81.0	34 th	\$ 22	91.8	34 th

N/A - The U.S. Census Bureau did not segregate individual income and corporate income tax revenues in 1983.

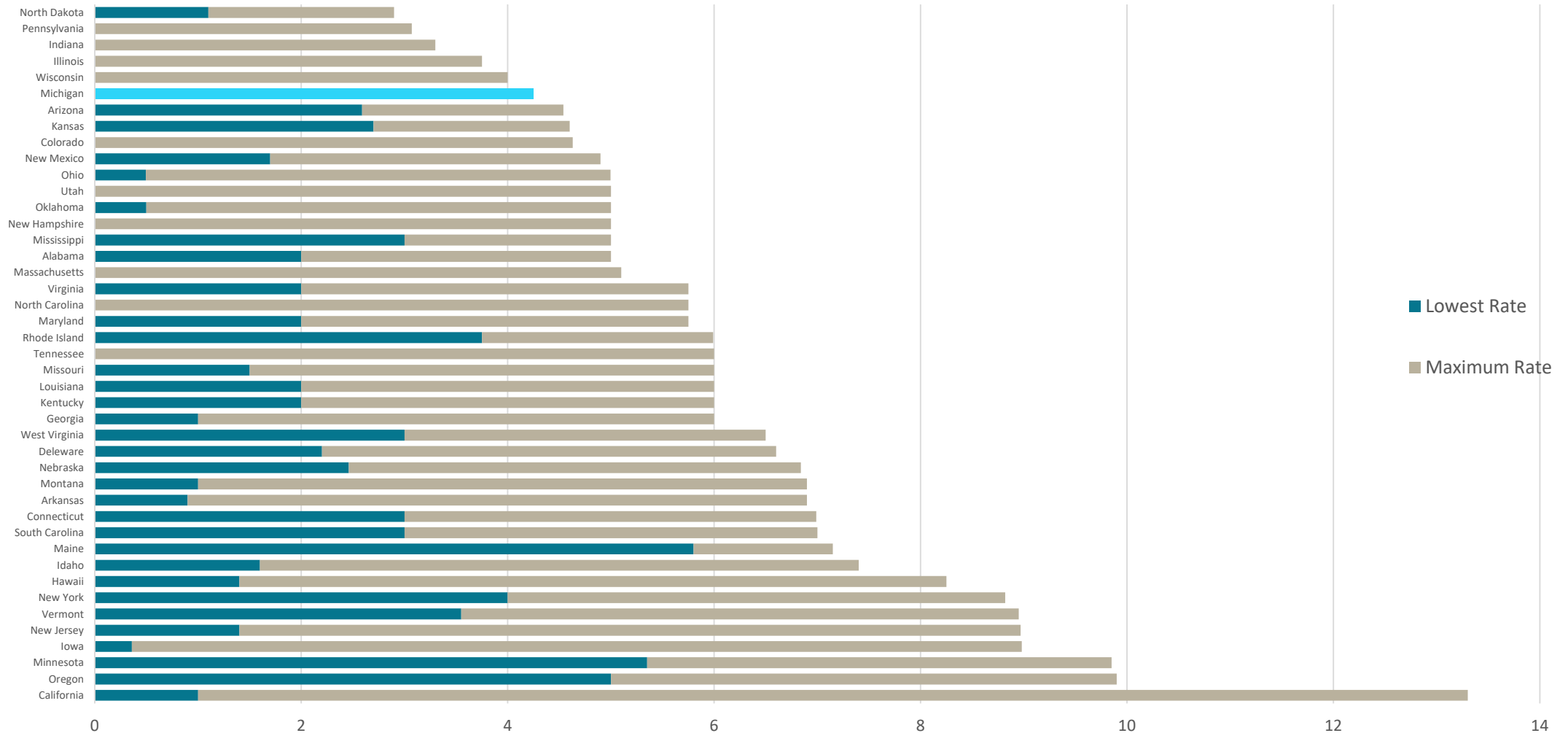
Source: U.S. Census Bureau, www.census.gov//govs/local/.

State and Local Government Individual Income Tax Revenue per \$1,000 of Personal Income as Percentage of U.S. Average, 2013



State Individual Income Tax Rates

(rate applied to bottom and top brackets)



Experience of other States

Model State/Local Tax System

Three Legged Stool

Not overly reliant on a single source of tax revenue

Three legs

1. Property Tax
2. Sales Tax
3. Income Tax



Distribution of Michigan State and Local Tax Revenues, Various Years

<u>Year</u>	<u>Property</u>	<u>Sales</u>	<u>Income</u>	<u>Other</u>
1993	41.29%	21.82%	31.63%	5.26%
2008	37.55%	32.38%	25.02%	5.05%
2012	36.65%	35.69%	22.50%	5.17%
2013	35.21%	33.87%	25.51%	5.41%
2013 U.S. Average	31.29%	34.11%	26.90%	7.70%

Source: U.S. Bureau of Economic Analysis and U.S. Census Bureau

States without an Individual Income Tax

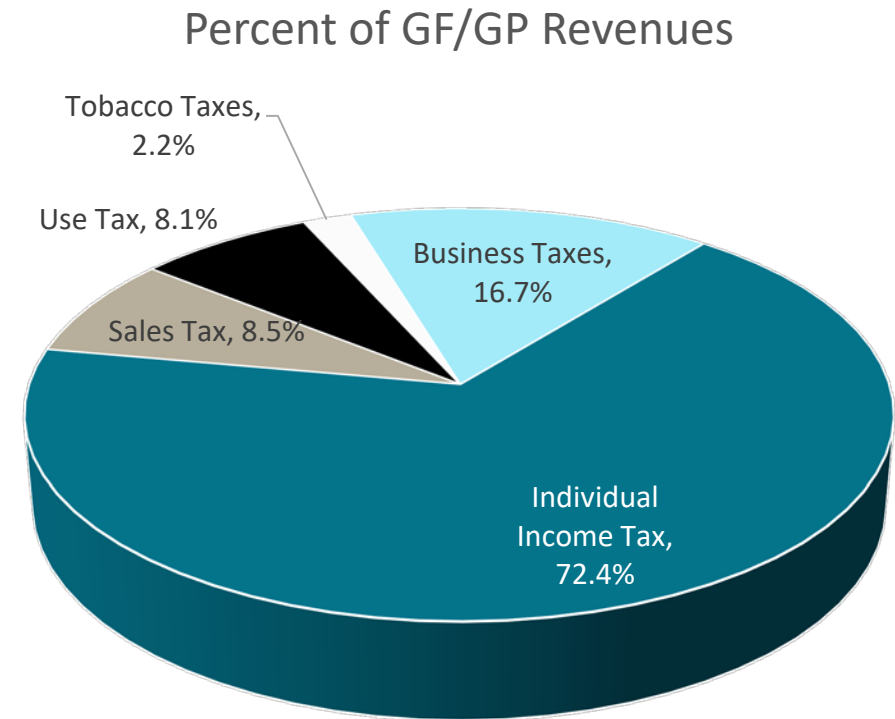
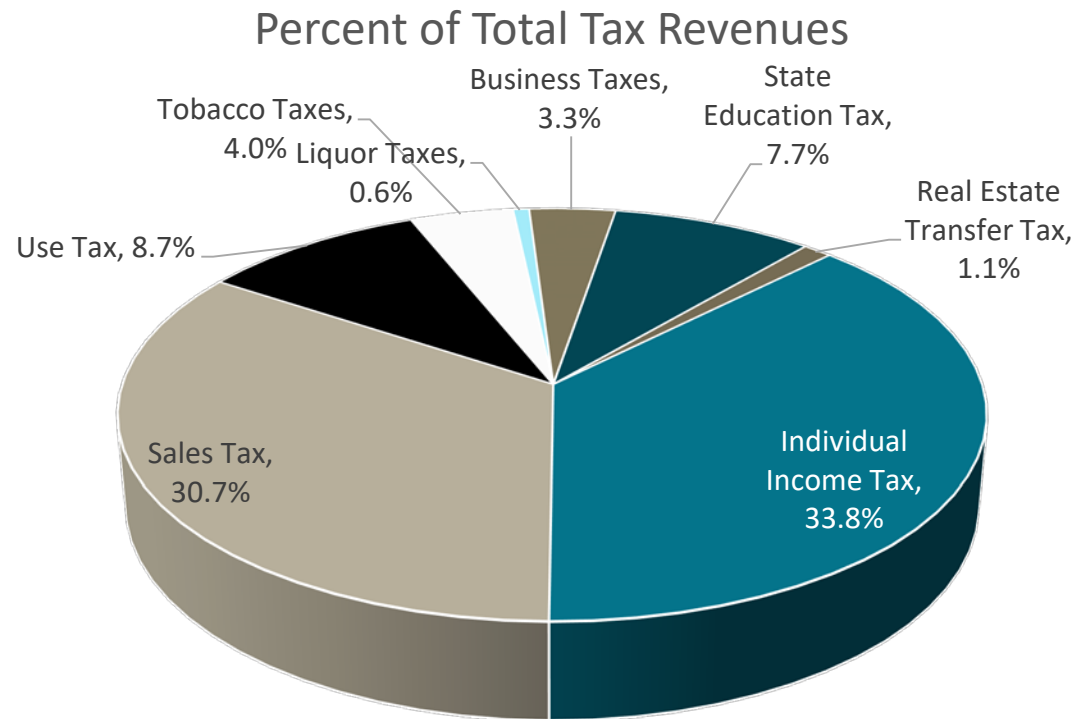
- Florida – tourism, 1/2 tax revenue from sales taxes
- Nevada – tourism, 3/5 tax revenue from sales taxes
- South Dakota – 1/2 tax revenue from sales taxes
- Texas – almost 1/2 tax revenue from sales taxes
- Washington – 3/5 tax revenue from sales taxes
- Alaska – Alaska Permanent Fund from oil extraction
- Wyoming – mineral extraction

Role of Individual Income Tax in Michigan

If the individual income tax goes away:

1. Can revenues from existing taxes grow at sufficient rates to make up for the loss?
2. Where will replacement revenue come from?
3. What will be cut because of insufficient funds?

Role Individual Income Tax Revenues Play in Funding Michigan Government

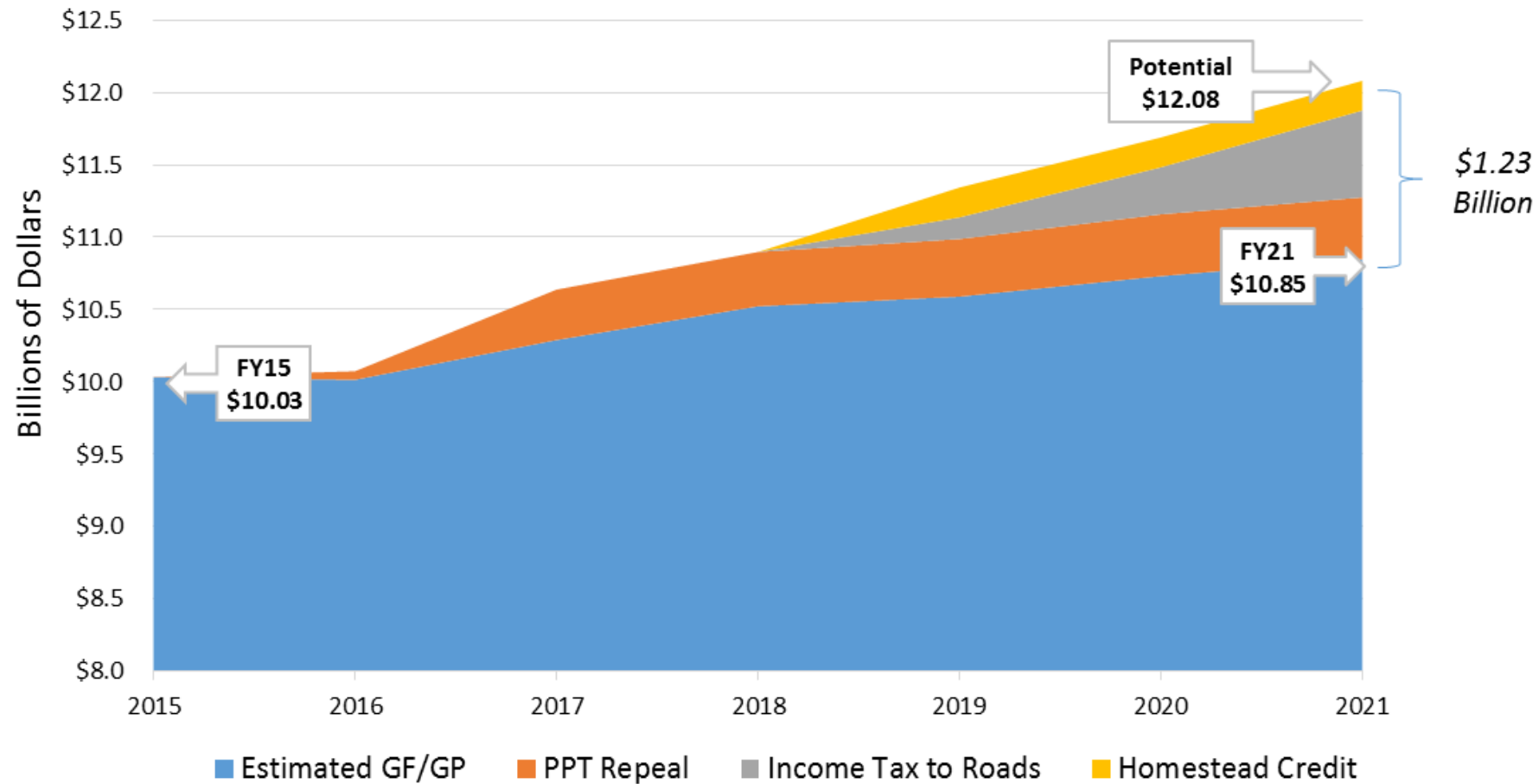


Source: 2014-15 Annual Report of the Michigan State Treasurer,

[www.michigan.gov/documents/treasury/State Treasurers Annual Report 2014-15 524479 7.pdf](http://www.michigan.gov/documents/treasury/State_Treasurers_Annual_Report_2014-15_524479_7.pdf)

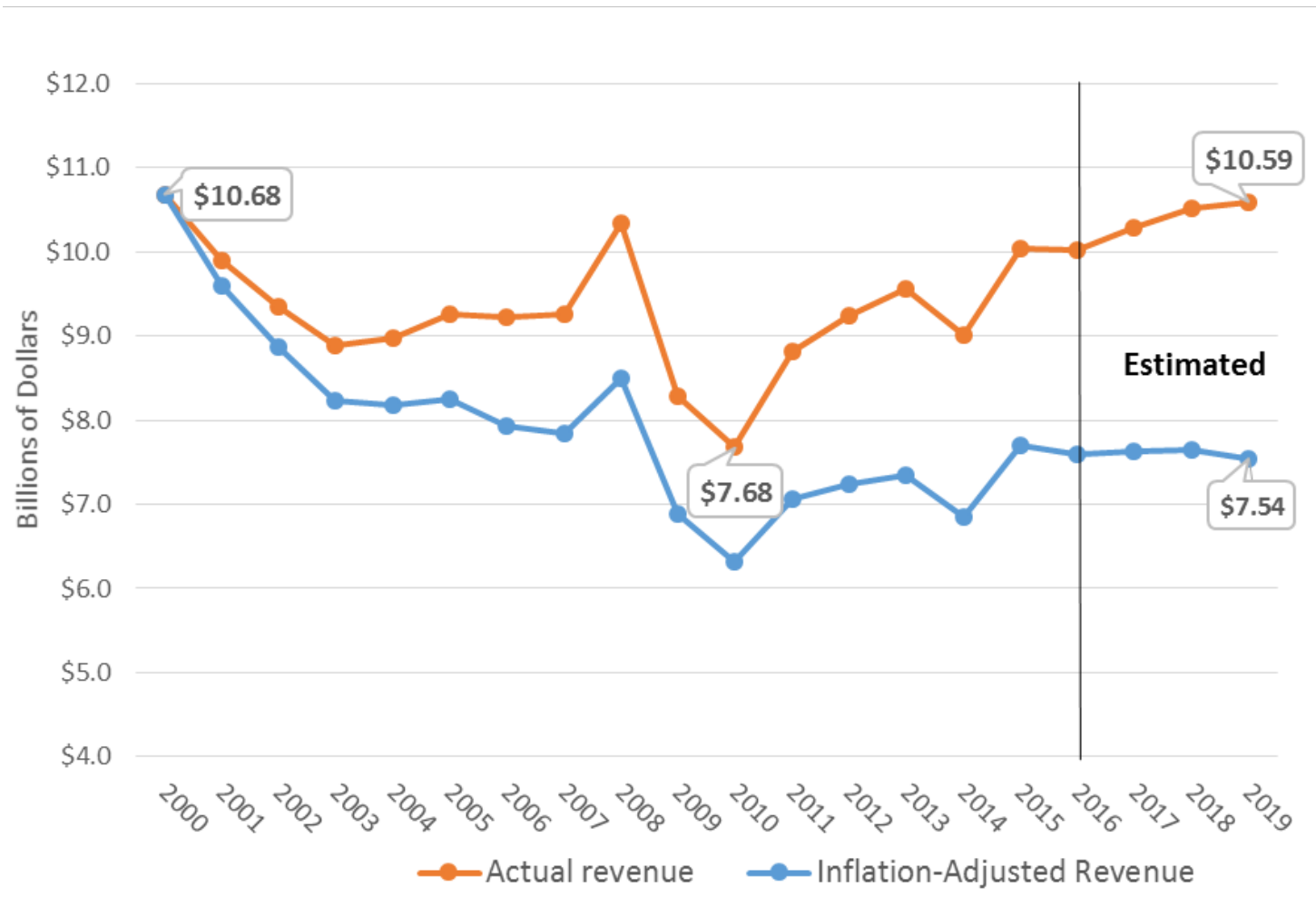
Recent Major Tax Changes Constrain Growth

Foregone GF/GP Revenue Exceeds \$1.2B



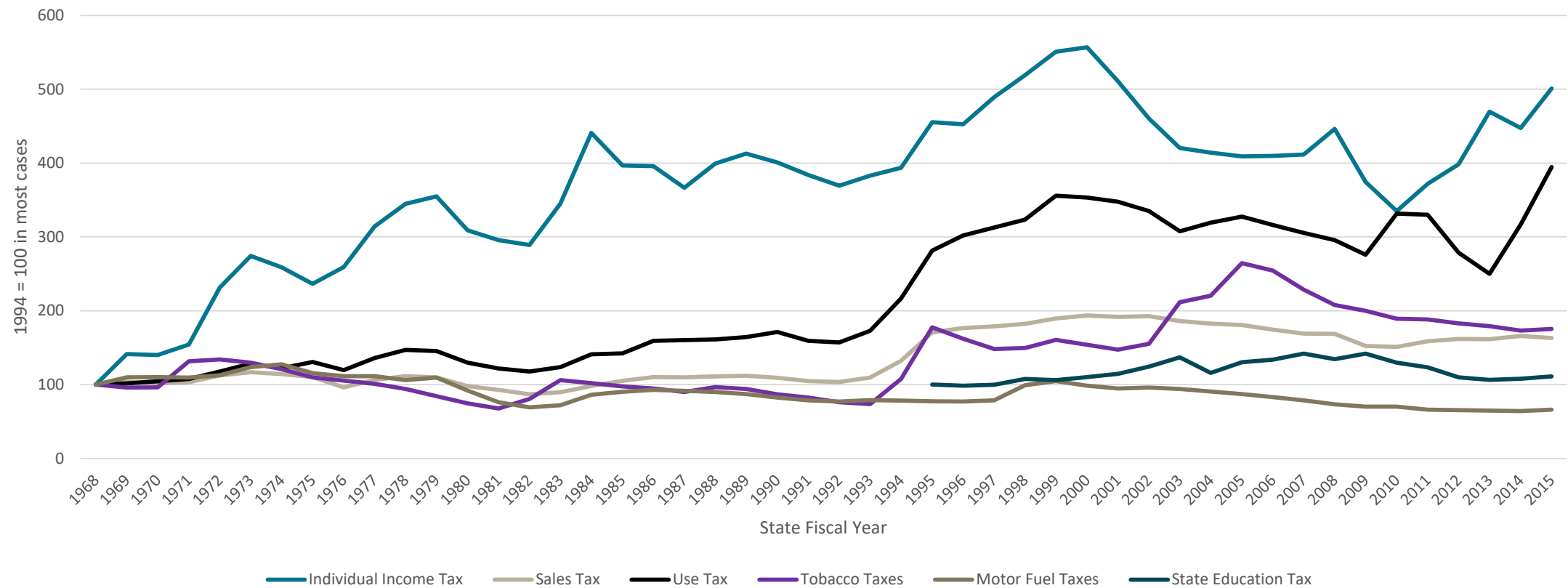
GF/GP Revenue Growth Since 2000

Improving, But Still Below 2000 Levels

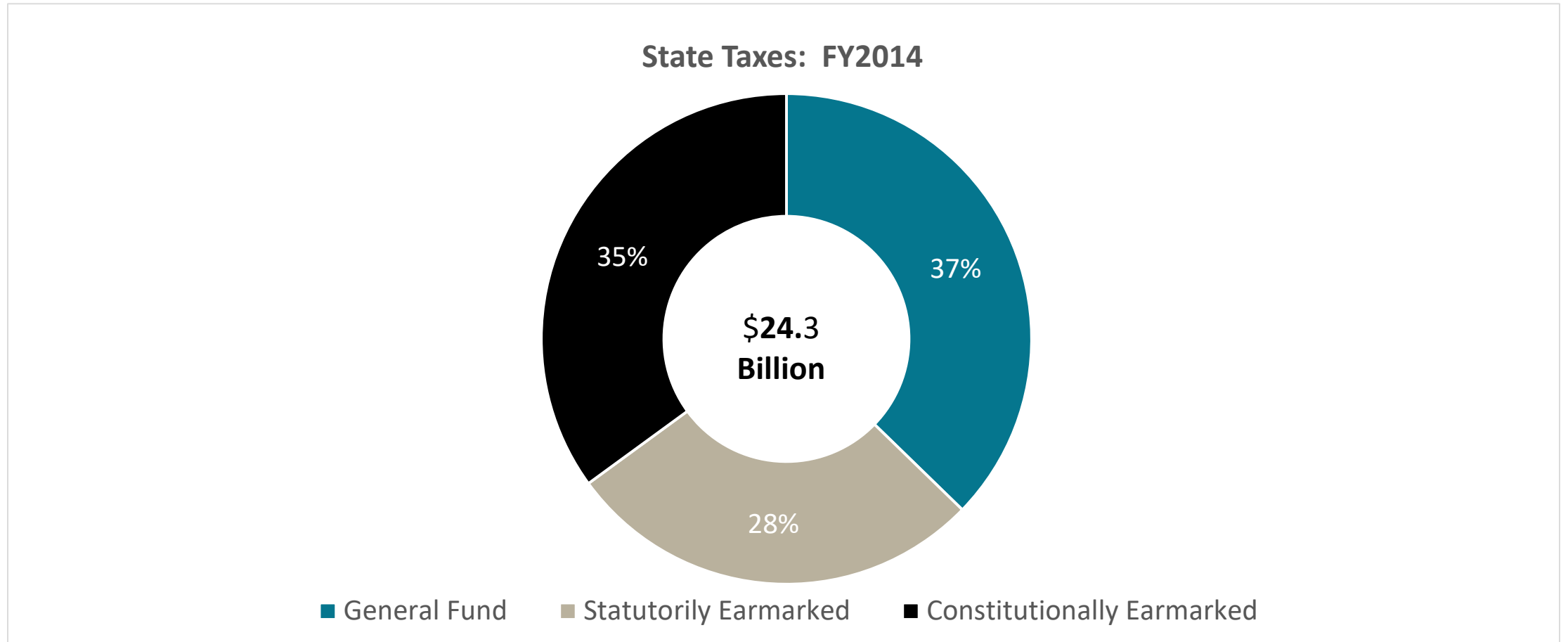


Growth Pattern of Major State Taxes Since 1994

Measuring the Growth of Select Major State Taxes

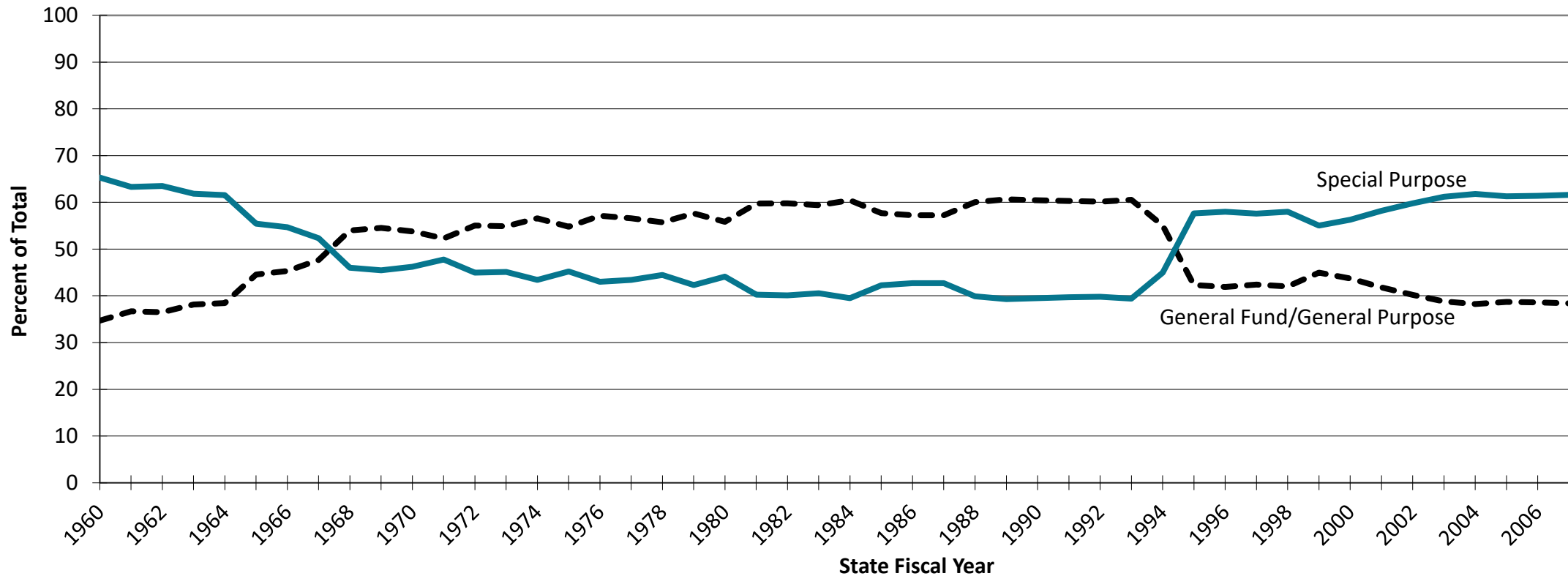


Nearly 2 of every 3 state tax dollar dedicated to a specific purpose



This has increase in recent years and is almost to 1960 levels that contributed to call for con-con

Earmarked State Tax Revenues as a Percent of All State Tax Revenues

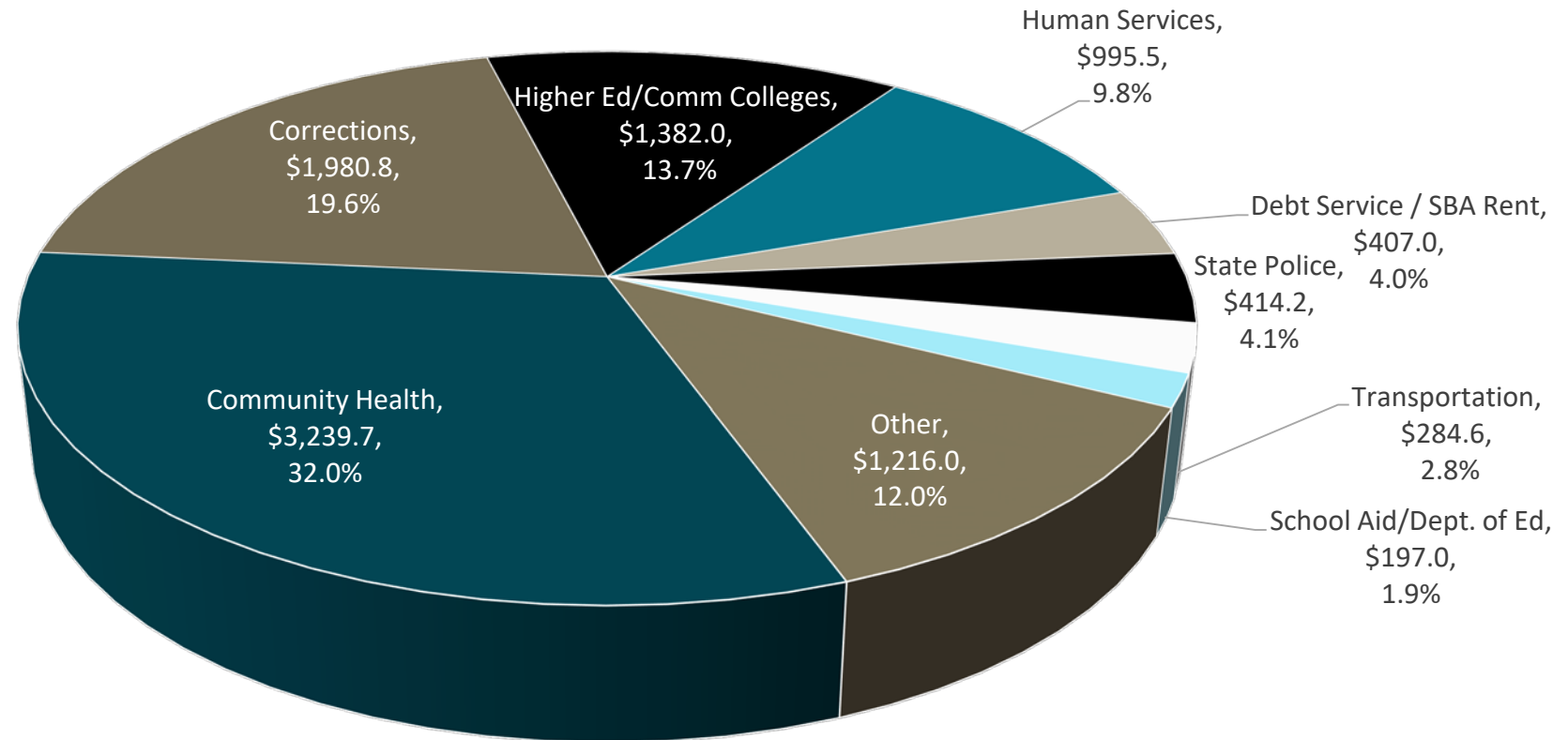


Where could replacement revenue come from?

- Sales Tax rate increase
 - Constitution limits rate to 6%
 - Constitution dedicates revenues to School Aid Fund and State Revenue Sharing
- Sales Tax base expansion
 - Possible without constitutional amendment
 - Still have issue of dedicated revenue
- State Property Tax
 - Statewide base has grown only 1.3% since worst of Great Recession

What is funded through the General Fund?

FY2014-15 GF/GP Appropriations
(millions of dollars)



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