



# **Tax Revenue and Expenditures: Historical and Comparative Perspectives**

**Presented to  
Michigan House of Representatives  
Tax Policy Committee  
Honorable Kate Ebli, Chair**

**Craig Thiel  
June 17, 2009**



# Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Non-partisan
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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
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## Michigan Taxes

- 52 taxes (34-state and 18-local), see CRC *Tax Outline* for descriptions, categorization, and history
- Discussion of taxation must be comprehensive and avoid myopic perspective
- State **AND** local taxes taken together
- All taxing authority, regardless of level of gov't, comes from State of Michigan
  - Constitutional
  - Statutory
- Lets not forget that taxes fund public services



## Previously Above the U.S. Ave, Not the Case Any Longer

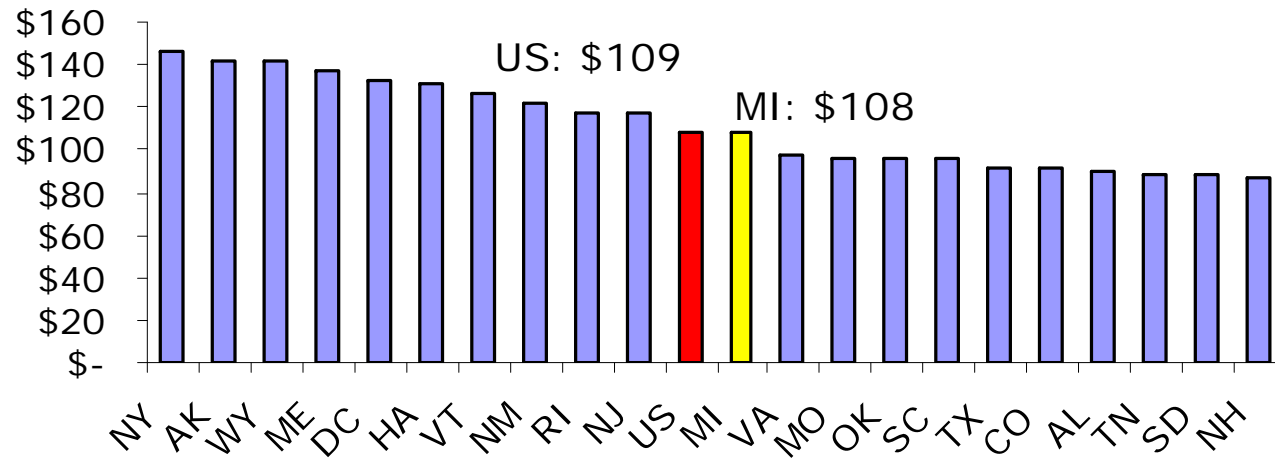
### Total Tax Collections Michigan as Percent of U.S. Average

	Per <u>Capita</u>	<u>Rank</u>	Per \$1,000 <u>Pers. Inc.</u>	<u>Rank</u>
1979	112.4	12	108.0	13
1989	105.1	14	106.1	13
1999	101.3	16	102.8	15
2006	89.2	31	99.5	26



## Mid Atlantic and New England at Top Southern and Western States at Bottom

State and Local Taxes Per \$1,000 Income  
Top and Bottom 10 States, MI, and US Ave.





## Déjà Vu – Rankings Similar to 1979

### Property Tax Revenues

Year	U.S. Average				Michigan			
	Per Capita	Per \$1,000 Pers. Inc.	Amount	Per Capita as % of U.S. Avg.	Rank	Per \$1,000 Personal Income as % of U.S. Avg.	Rank	
1979	310	\$ 31.72	\$ 376	121%	12	\$ 38.81	122%	17
1989	566	32.1	766	135%	9	42.57	133%	10
1999	881	32.52	893	101%	20	33.47	103%	23
2006	1,204	32.71	1,341	111%	15	40.66	124%	11

### General Sales Tax Revenues

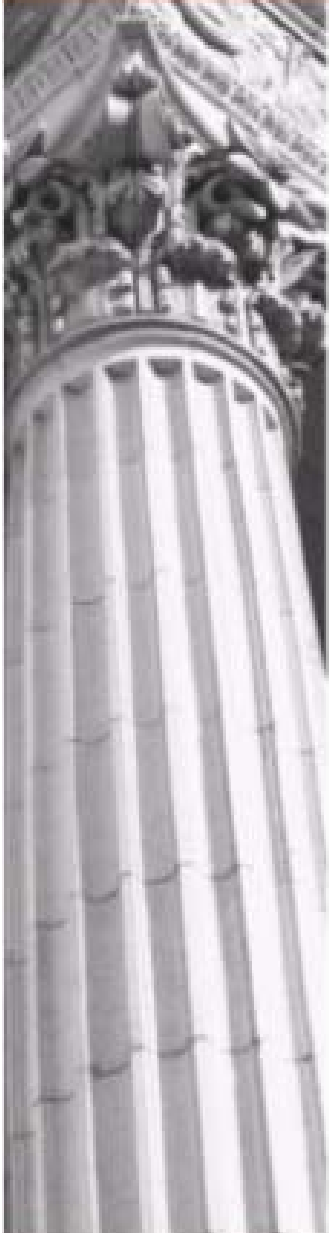
Year	U.S. Average				Michigan			
	Per Capita	Per \$1,000 Pers. Inc.	Amount	Per Capita as % of U.S. Avg.	Rank	Per \$1,000 Personal Income as % of U.S. Avg.	Rank	
1979	\$ 195	\$ 22.47	\$ 184	94%	25	\$ 19.09	85%	35
1989	415	24.59	388	93%	41	18.79	76%	41
1999	736	27.17	733	100%	22	27.47	101%	25
2006	946	25.7	801	85%	31	24.29	95%	30



## Tax Cuts and Poor Economy Affect Tax Receipts and Rankings

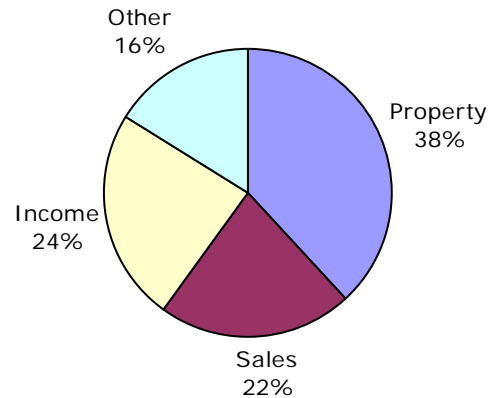
### Corporate and Individual Tax Revenues U.S. Average

Year	U.S. Average		Per Capita as % of U.S. Avg.		Rank	Michigan Per \$1,000 Personal Income as % of U.S. Avg.		Rank
	Per Capita	Per \$1,000 Pers. Inc.	Amount	U.S. Avg.		Amount	U.S. Avg.	
1979	\$ 208	\$ 22.96	\$ 341	164%	10	\$ 35.39	154%	10
1989	495	25.80	654	132%	11	36.36	141%	12
1999	819	30.23	1003	122%	11	37.57	124%	13
2006	1,078	29.29	851	79%	35	25.81	88%	35

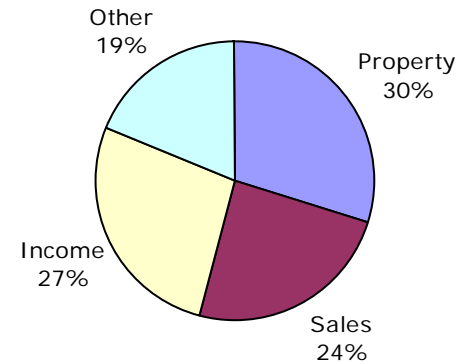


# Property Taxes Play a Larger Role – Then and Now

Michigan State and Local Taxes



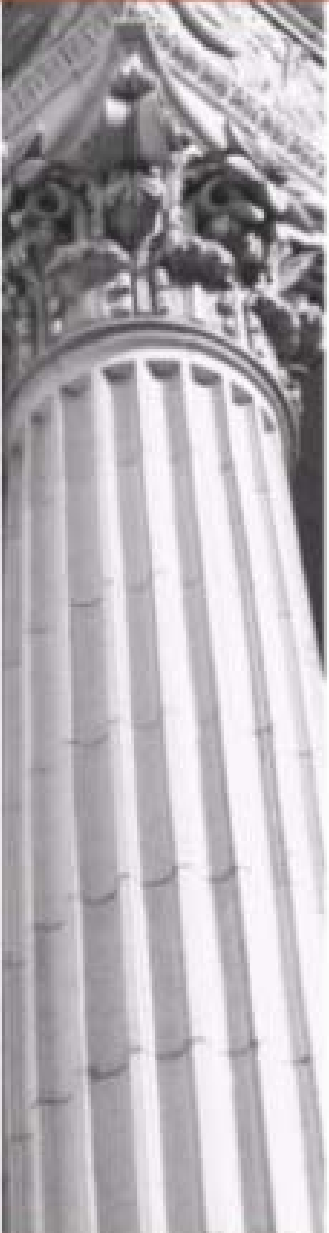
US Ave. State and Local Taxes



Percentage Shares of Total State and Local Tax Revenue

	Property	Sales	Income	Other
1979	35%	18%	33%	14%
1989	38%	17%	33%	12%
1999	29%	24%	34%	13%
2006	38%	22%	24%	16%





## Tax Revenue Recap

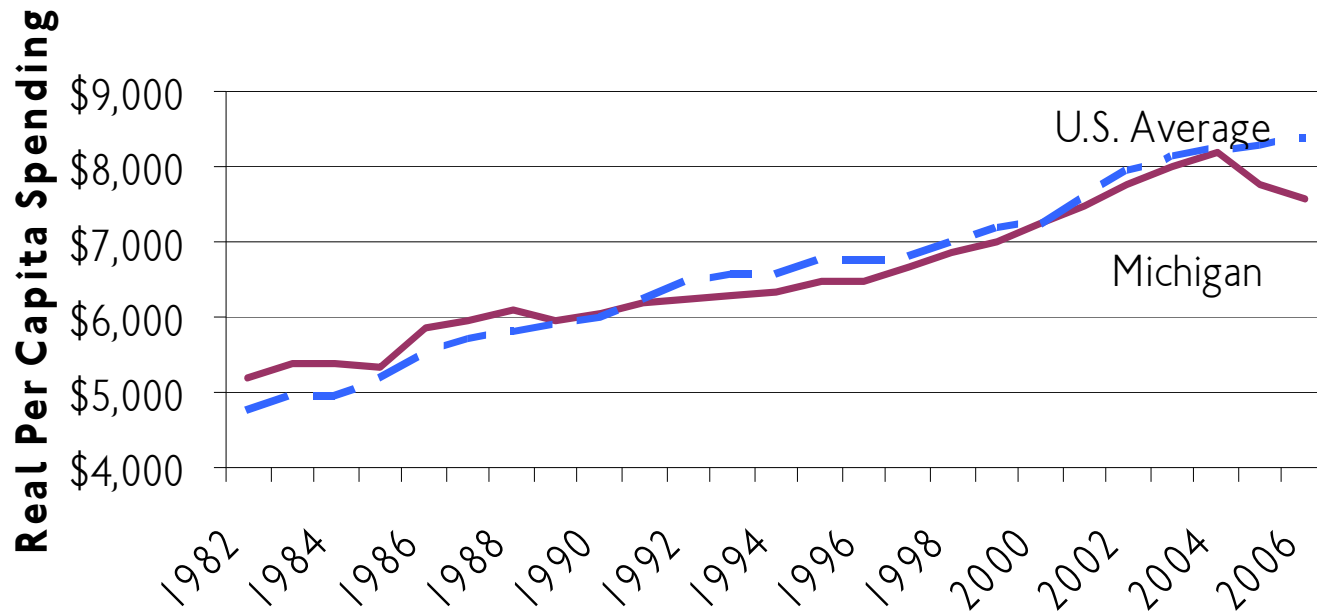
- Michigan was a high tax state relative to others, but NOT today
- Michigan's economic performance and tax policy since 2000 have affected rankings
- Michigan's mix of taxes has evolved, but continues to rely more on property taxes and less on income and sales taxes
- Does Michigan want to mirror U.S. average in terms of tax burden? Tax reliance?
- Balanced budget requirements have resulted in state and local government spending to decline



## Michigan Public Spending

*Below US Average Since Early 1990s*

**Total State and Local Government Spending**  
**Real (2006\$) Per Capita, 1982 - 2006**

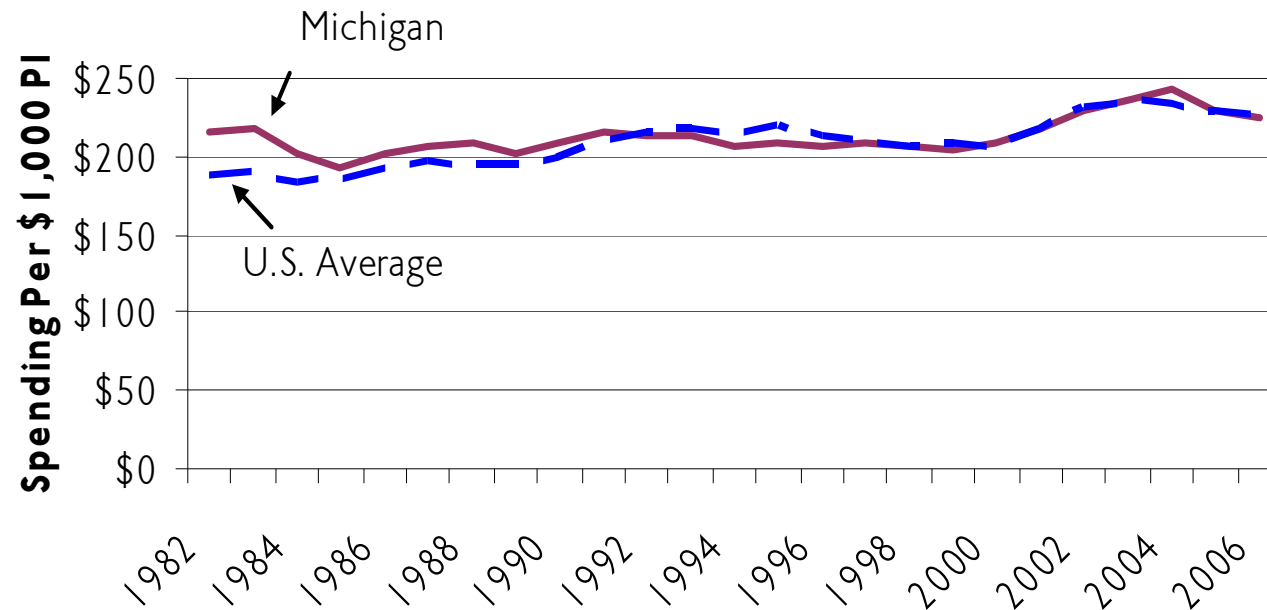




## Public Sector Share of Economy

*Fairly Constant Over 25 Yrs*

**Total State and Local Government Spending  
Per \$1,000 Personal Income, 1982 - 2006**





## Michigan's Fiscal Future

### *On-Going Structural Deficits Through 2017*

- Ten-year scenarios of the Michigan economy with varying assumptions about:
  - Auto industry
  - Office furniture
  - Chemicals
  - R & D
- W.E. Upjohn Institute staff used Regional Economic Models, Inc. (REMI) to prepare economic projections
- Economic projections translated to revenue projections based on current mix of taxes and projections of spending pressures based on current policy
- Not predictions but projections



## Projections Made Against a Much Different Backdrop

	Annual Rates	
	Current Estimates <u>2009 - 2010</u>	Fiscal Future Projections <u>2009 - 2017</u>
<b>Economic Projections</b>		
Employment	-6.5%	-0.1%
Personal Income	-3.5%	4.2%
Salaries and Wages	-5.1%	3.8%
<b>State Tax Revenue Projections</b>		
Income	-13%	3.25% (1.4% net)
Business	-3%	3%
Sales and Use	-5%	3%
Tobacco	-5%	-2.5%
State Education	-5.5%	4.25%
<b>Revenue By Fund</b>		
General	-13%	1.4%
School Aid	-4.25%	3.0%



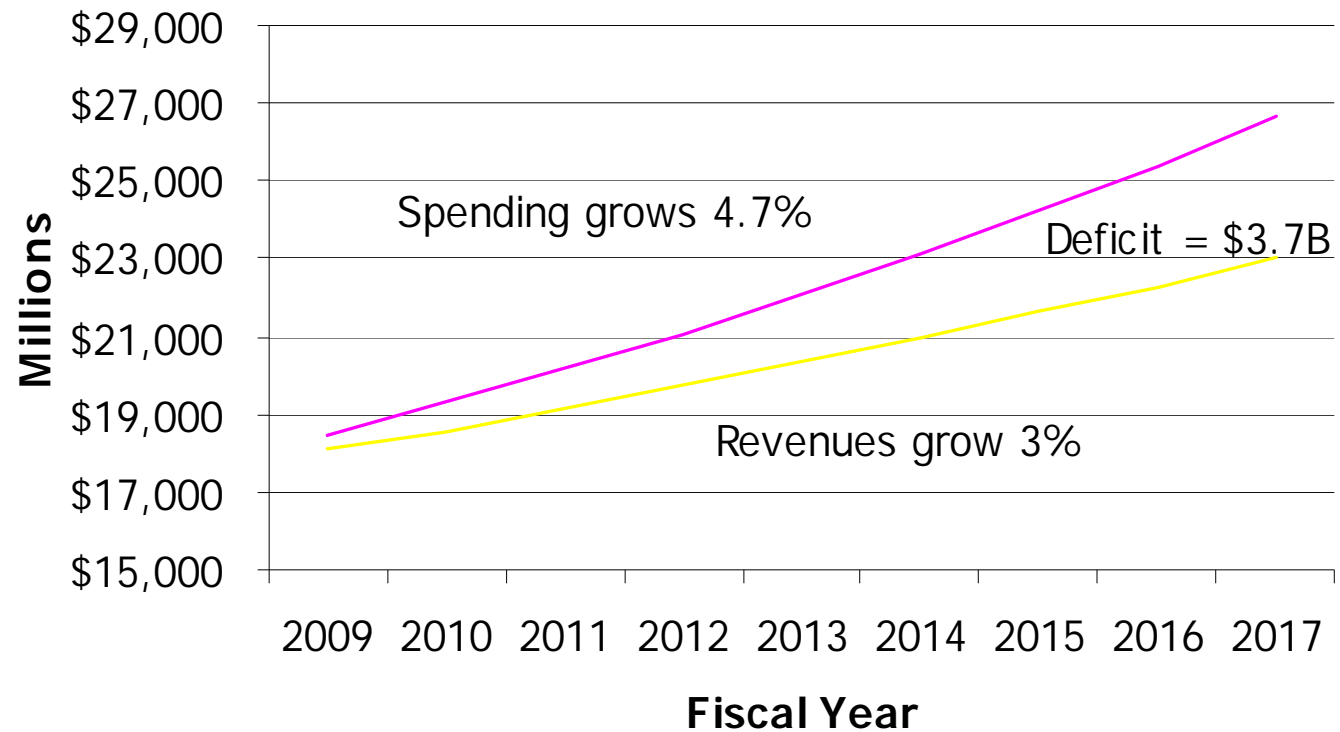
# School Aid Structural Deficit

*Spending Pressures Outpace Revenue Growth*

- Retirement Contributions—rapid growth
- Employee Health Insurance—rapid growth
- General Pay Raises
- Other—Fuel, Utilities, Supplies
- Revenues Grow Slowly
  - State revenues account for 2/3 of total K-12 resources
  - Local property taxes constrained by tax limitations (Headlee)



## School Aid Structural Deficit Projections FY09 – FY17

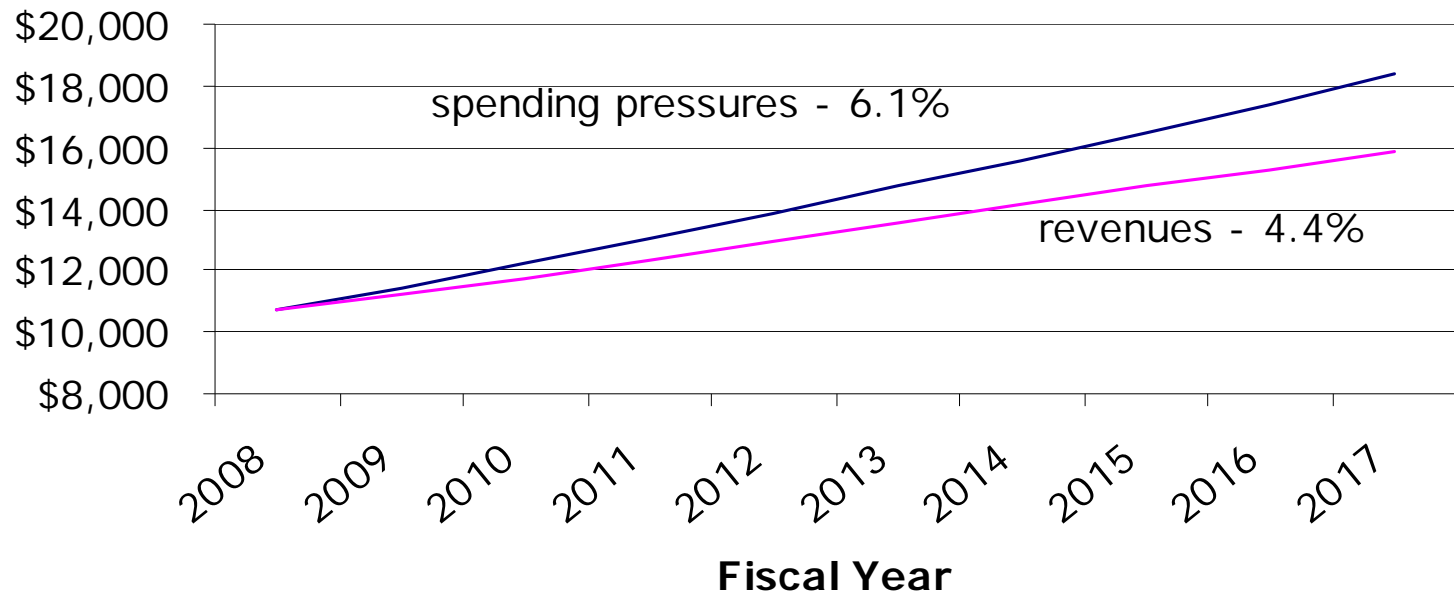




## Classroom Perspective

*What the Structural Deficit Means to Per Pupil Funding*

**Structural Deficit Projections - PER PUPIL**







# Policy Options

*Achieving Long-Term Structural Balance*

- Increase revenue growth
- Reduce rate of spending pressure growth
- Bend the two curves so they meet



## Revenue Scenario

### *Testing the Math - Increasing the Growth Rate*

- Expand Base of Sales and Use Taxes
  - Cast wide net – only exempt business-to-business
  - Service base grows 2 percentage points faster
  - Reduce tax rate to 3.6% (revenue-neutral)
  - Adds 0.8% to tax revenue growth rate
- Graduated Income Tax
  - No specific plan – combination of base and rate
  - Increase elasticity to 1.4 (from under 1)
  - Nearly doubles growth rate, from 3.3% to 5.9%
- Combined effects
  - Adds 0.8% to School Aid Fund growth – 3.8%
  - Account for about one-third of problem in 2017
  - Still work to do – spending solutions



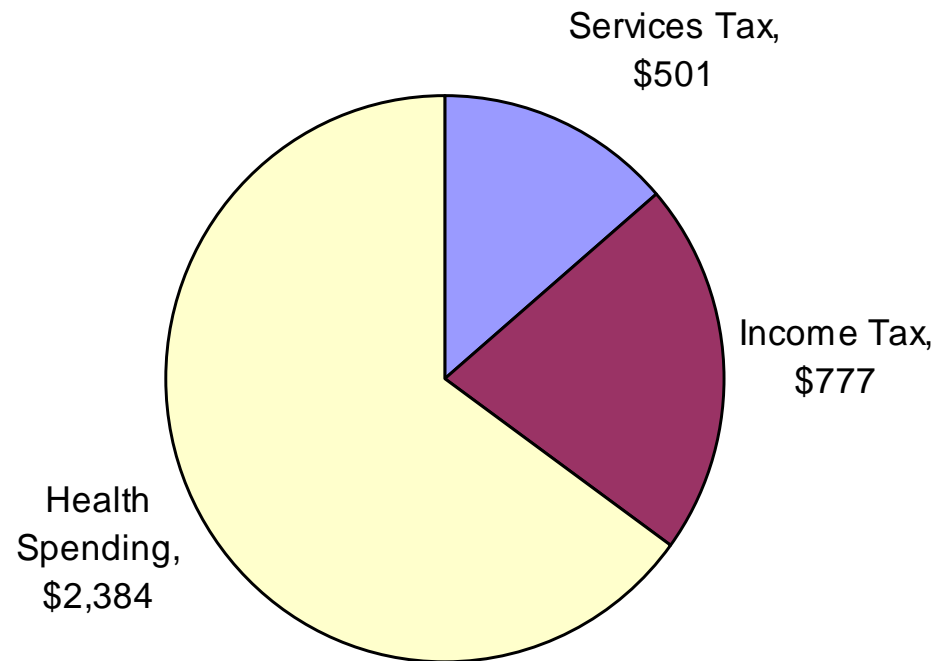
## Spending Scenario

*Testing the Math - Decreasing the Growth Rate*

- Spending concentrated in personnel costs = potential savings
- Focus on component growing fastest
- Health Care – current and retired employees
  - No specific recommendation
  - Hold health care cost increases to 5% per year
  - Reduces School Aid annual spending pressure growth by 1.1%
- Accounts for two-thirds of solution in 2017



## Effects of Alternative Policies to Close \$3.7 Billion of \$4.0 Billion School Aid FY17 Deficit (\$ in Millions)





## Questions?

CRC Publications available at  
[www.crcmich.org](http://www.crcmich.org)

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