



**Michigan's Business Tax:
What are the Results from Recent Tax
Changes and What Future Changes are on the
Horizon in Personal Property Tax?**

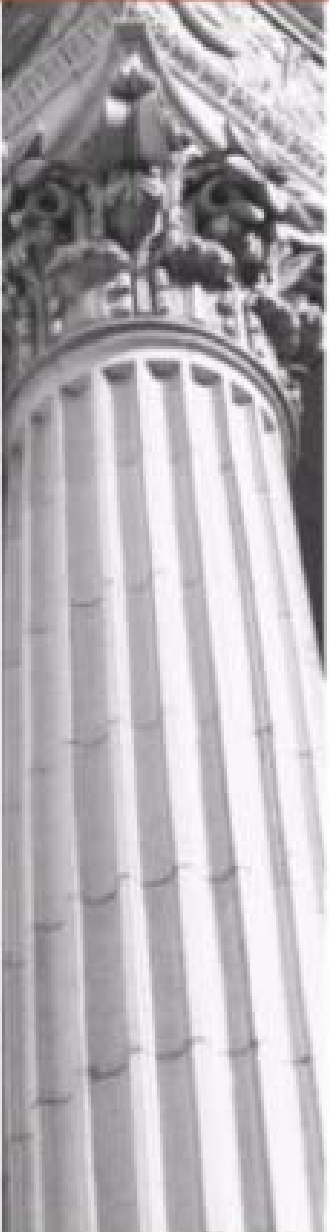
**MGFOA & MMTA Spring Seminar
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Citizens Research Council of Michigan

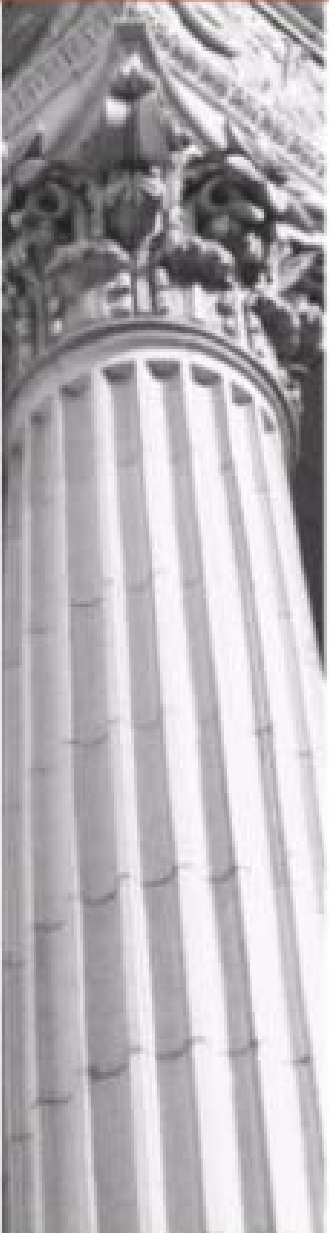
- Founded in 1916
- Statewide
- Nonpartisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals





Competitiveness

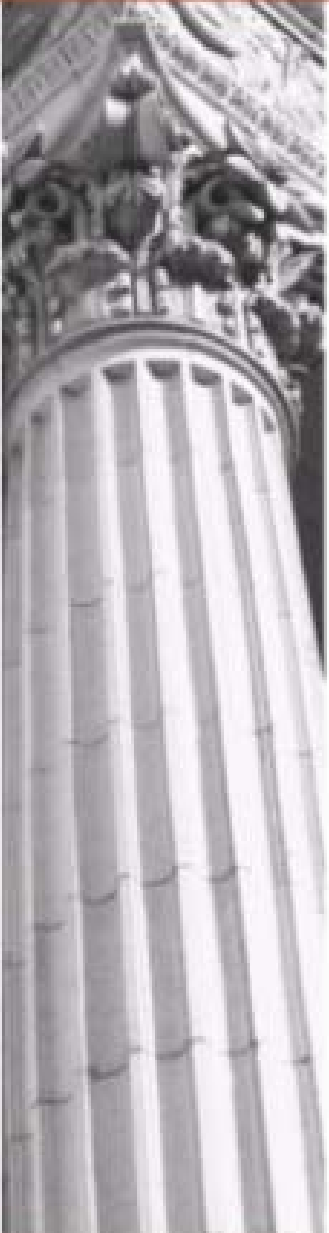
- Taxes
- Educated workforce
- Infrastructure
- Transportation network
- Incentives
- Economic certainty
- Proximity to consumers/suppliers





Why have business taxes?

- **“Businesses don’t pay taxes. Individuals do.”**
- **Businesses as consumers of governmental services**
 - Public safety
 - Educated workforce
 - Transportation network
 - Economic certainty
- **Ability to “export” tax burden**





2009 Tax Revenue Comparison: Michigan and the U.S. Average

www.crcmich.org/PUBLICAT/2010s/2012/memo1111.html



CRC MEMORANDUM



No. 1111

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2009 TAX REVENUE COMPARISON: MICHIGAN AND THE U.S. AVERAGE

Recently released data from the U.S. Census Bureau show that Michigan state and local governments relied more heavily on property tax revenues in 2009 as sales and income tax revenues declined with the Great Recession, and the income tax policy changes adopted in 2011 will not alter these relative proportions of Michigan state and local tax revenue in 2011. Changes to Michigan's direct business tax, however, will cause the state to have the lowest corporate income tax burden among states that levy the tax.

There are two of several important findings from the 2009 report of state and local government finances in the 50 states and the District of Columbia released by the Census Bureau.¹ This paper examines Michigan tax revenues in 2009 to estimate the effects of tax policy changes adopted in 2011 on Michigan's tax burden relative to the rest of the country and to help policymakers determine if additional tax policy changes may be prudent.

State and local government revenues combined provide the best comparisons of taxation across states, because of the varying assignments of service responsibilities and tax levies to support those services between state and local governments. A state's total tax burden can be measured in a number of ways, and each measure includes its own set of advantages and disadvantages; however, no single method of measuring tax burden can be considered perfect.² This paper uses two measures of tax burden: Michigan as a percent of personal income and the revenue per capita.

Tax revenue as a percent of personal income measures the proportion of a state's income paid in taxes. This contrasts with measures of the raw dollar amount paid in taxes per person, which can be obtained by the size of a state's wealth. For example, in 2009, people in Maryland, Massachusetts and Virginia paid more in raw tax dollars than people in Mississippi, New Mexico and West Virginia, but people in Mississippi, New Mexico and West Virginia paid a larger percentage of their income in taxes compared to people in Maryland, Massachusetts and Virginia. As such, the tax burden on people in Mississippi, New Mexico and West Virginia was higher even though they paid less in raw tax dollars. Tax revenue per capita is a good indicator of a state's wealth and ability to pay taxes. The per capita data in this paper have been adjusted to 2009 dollars using the calendar year U.S. CPI-U.³

The 2009 Census Bureau report also provides an opportunity to examine Michigan's comparative tax rankings following many important state tax changes immediately following the Great Recession:⁴ 15 years after the changes brought by Proposal A of 1994⁵ and two years after the (ultimately rejected) Michigan Statewide Tax (MST) replaced the Single Business Tax (SBT) as the primary direct business tax.

¹ The U.S. CPI-U can be found through the U.S. Bureau of Labor Statistics at <http://www.bls.gov/iif/wholerev/totrowemp/totrowemp.html>.

² The Great Recession began in December 2007 (U.S. National Bureau of Economic Research) and ended in July 2009. It brought about the largest collapse in state revenues on record (Emswiler, National, and 2009 and includes various state options to deal (Emswiler's Impact, Center on Budget and Policy Priorities, 2011).

³ Proposal A of 1994 was a school finance reform package that amended the Michigan Constitution by imposing a property assessment cap, raising sales and use tax rates to 6 percent, raising the tobacco products tax rate to 17 cents per pack, and creating a new state education tax and maintenance fund tax.

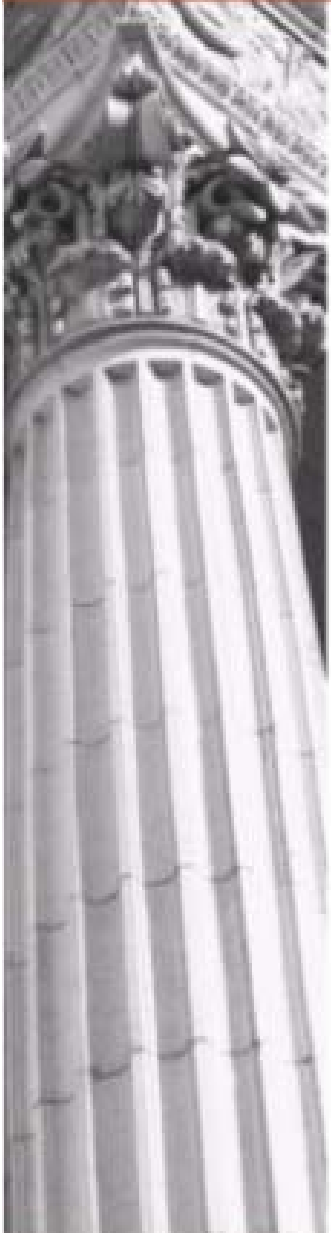
¹ U.S. Census Bureau report includes the most recent state and local government revenue data available. It was published on December 14, 2010 and is available at <http://www.census.gov/decennial/2010/>.

² Emswiler, Steven, *How Much Is Enough? Tax Burden, California's Temporary Apportionment*, www.crisiscenter.org/wordpress/wp-content/uploads/2010/03/How-Much-Is-Enough-Tax-Burden-California's-Temporary-Apportionment.pdf, March 2004.



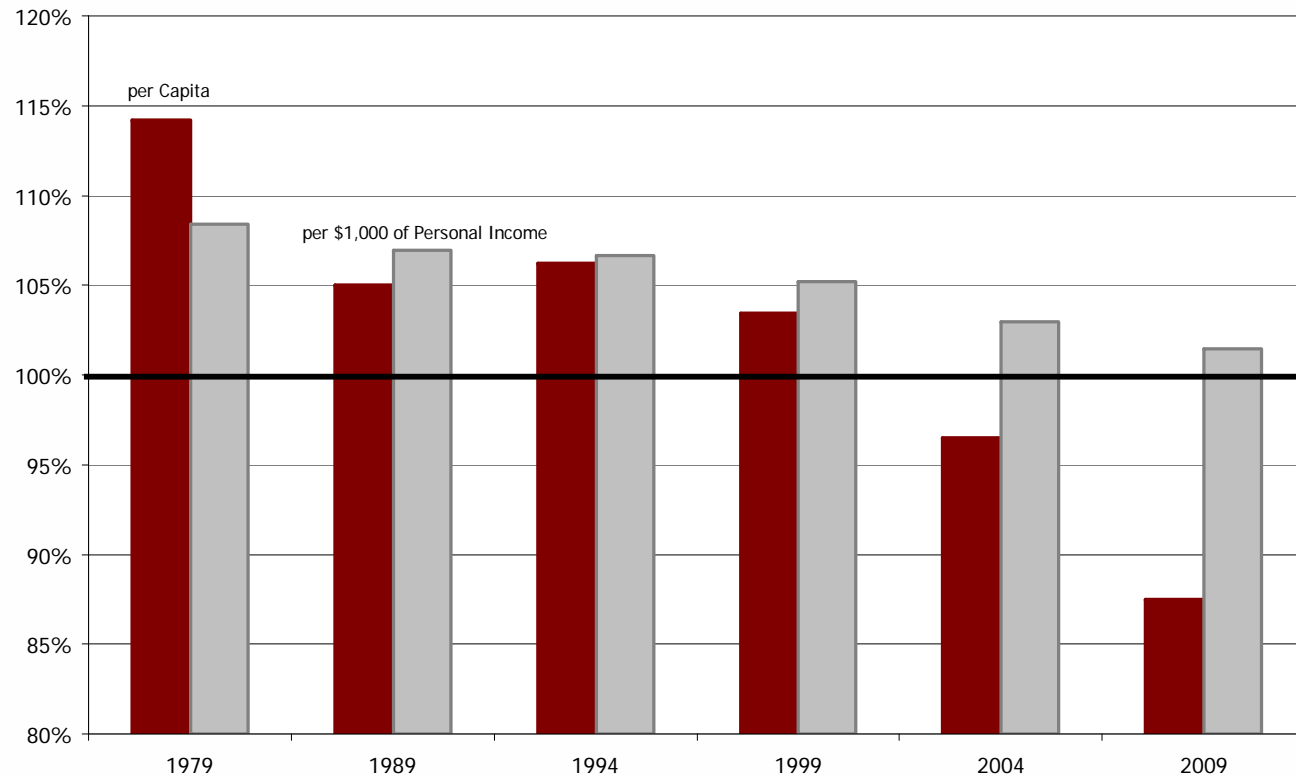
Per Capita or Per \$1,000 Personal Income

- State and local government revenues combined provide the best comparisons of taxation across states
 - varying assignments of service responsibilities among the states
 - and tax levies to support those services.
- Tax revenue as a percent of personal income adjusts for differences in per capita incomes from state to state.
- Tax revenue per capita reflects varying sizes of the different states.





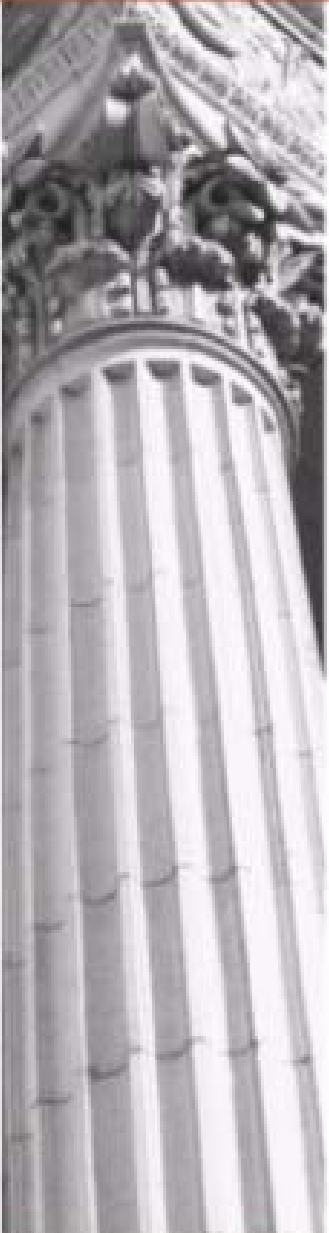
Michigan State and Local Tax Burden Relative to U.S. Average, 1979-2009





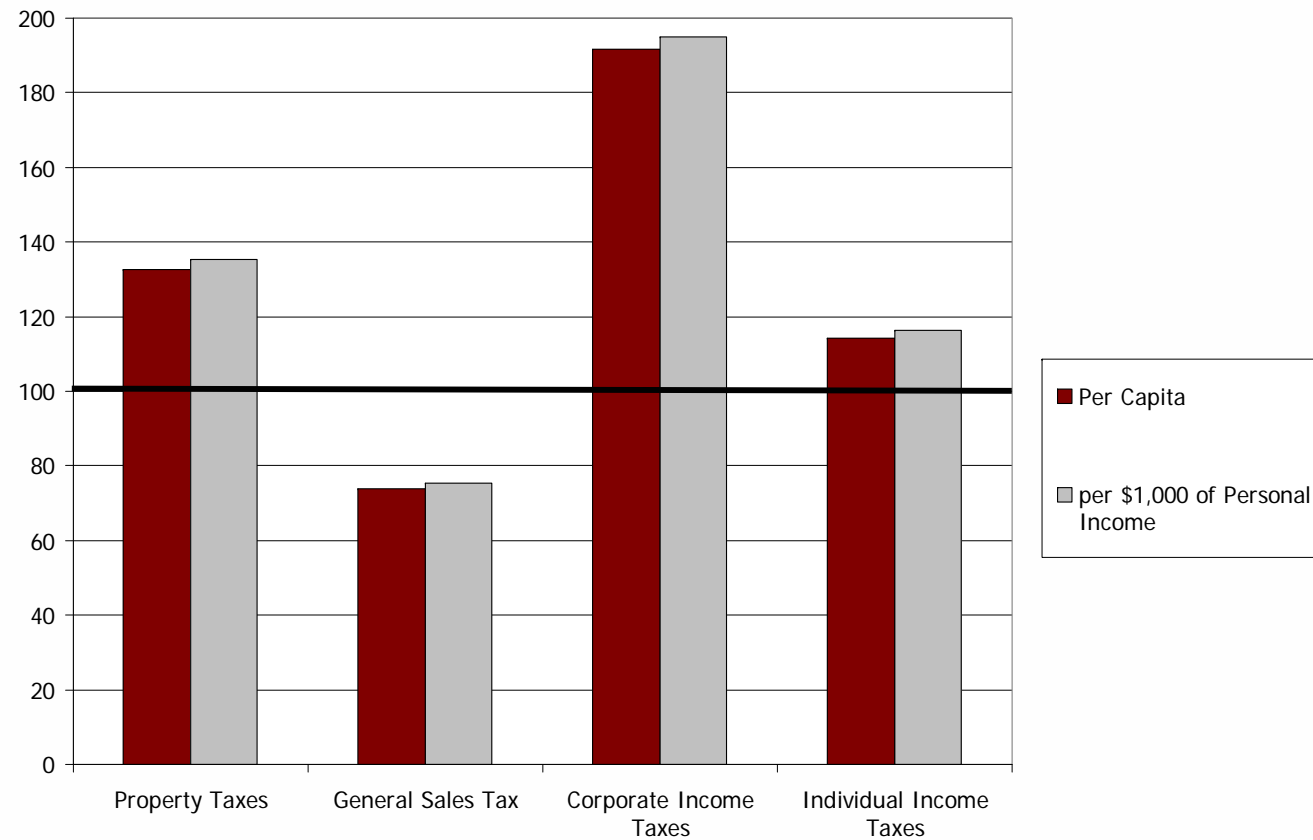
Why would Michigan have been above average?

- **Tax Capacity**
 - Michigan was rich state
 - Michigan capitalized on manufacturing to export tax burden
- **Tax Effort**
 - Michigan taxed areas where wealth was concentrated
 - Property taxed at high rates





Michigan State and Local Tax Burden Relative to U.S. Average by Tax Type, 1989





Three-Legged Stool

Property
Taxation →

↖
Sales
Taxation



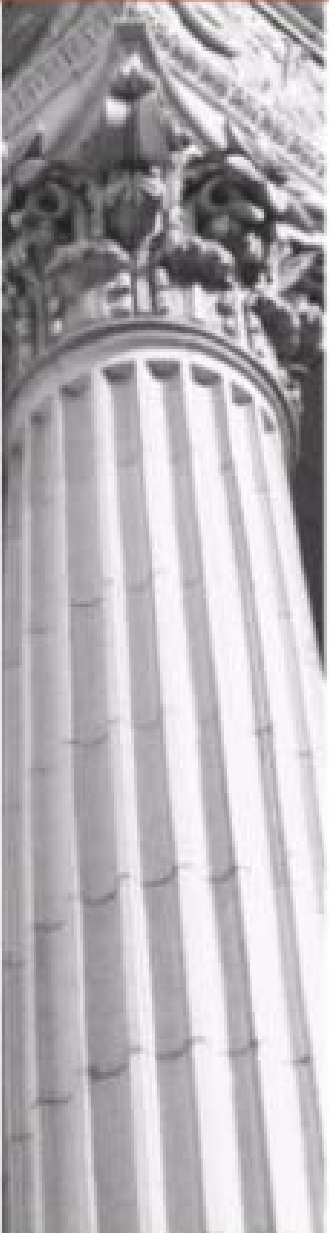
←
Income
Taxation





Why was MI an outlier on Property Tax Revenue?

- **Local Governments almost solely dependent on property taxes**
- **Primary source of revenue for**
 - **Counties**
 - **Cities**
 - **Villages**
 - **Townships**
 - **Schools**
 - **Community College Districts**
 - **Special Authorities**

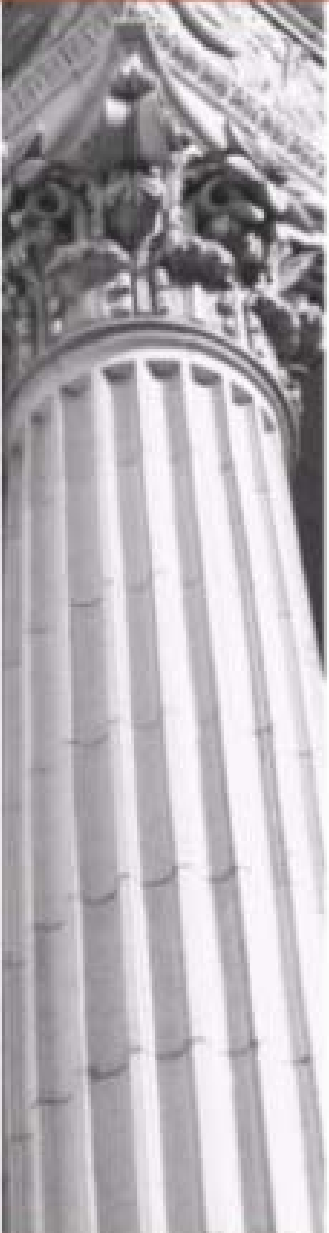




Why was MI an outlier on Corporate Income Tax Revenue?

Single Business Tax

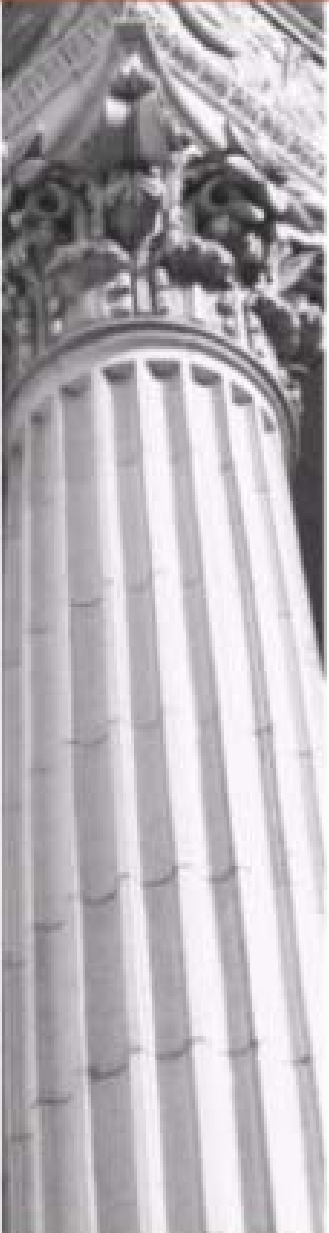
- **Consolidate 8 taxes into single value-added tax**
- **Included**
 - Corporate Income Tax
 - Financial institutions franchise fee
 - Annual corporation franchise fee
 - Business portion of the intangibles tax
 - Property tax on inventories
 - Various privilege taxes on savings and loans and domestic insurance companies

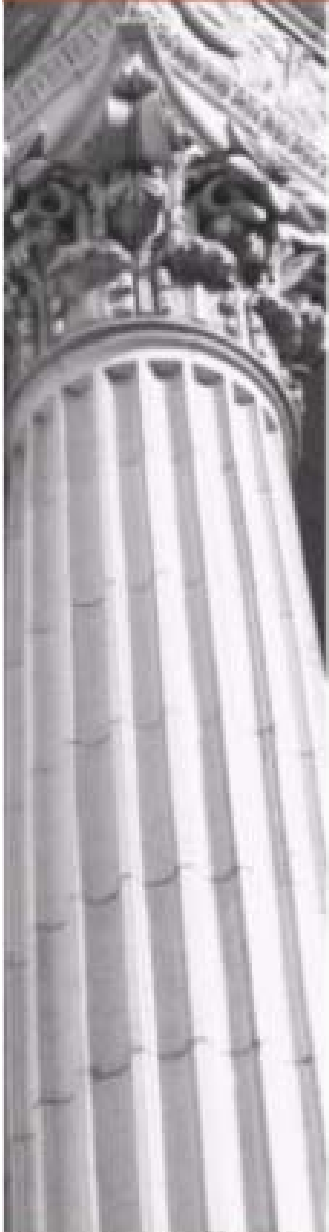




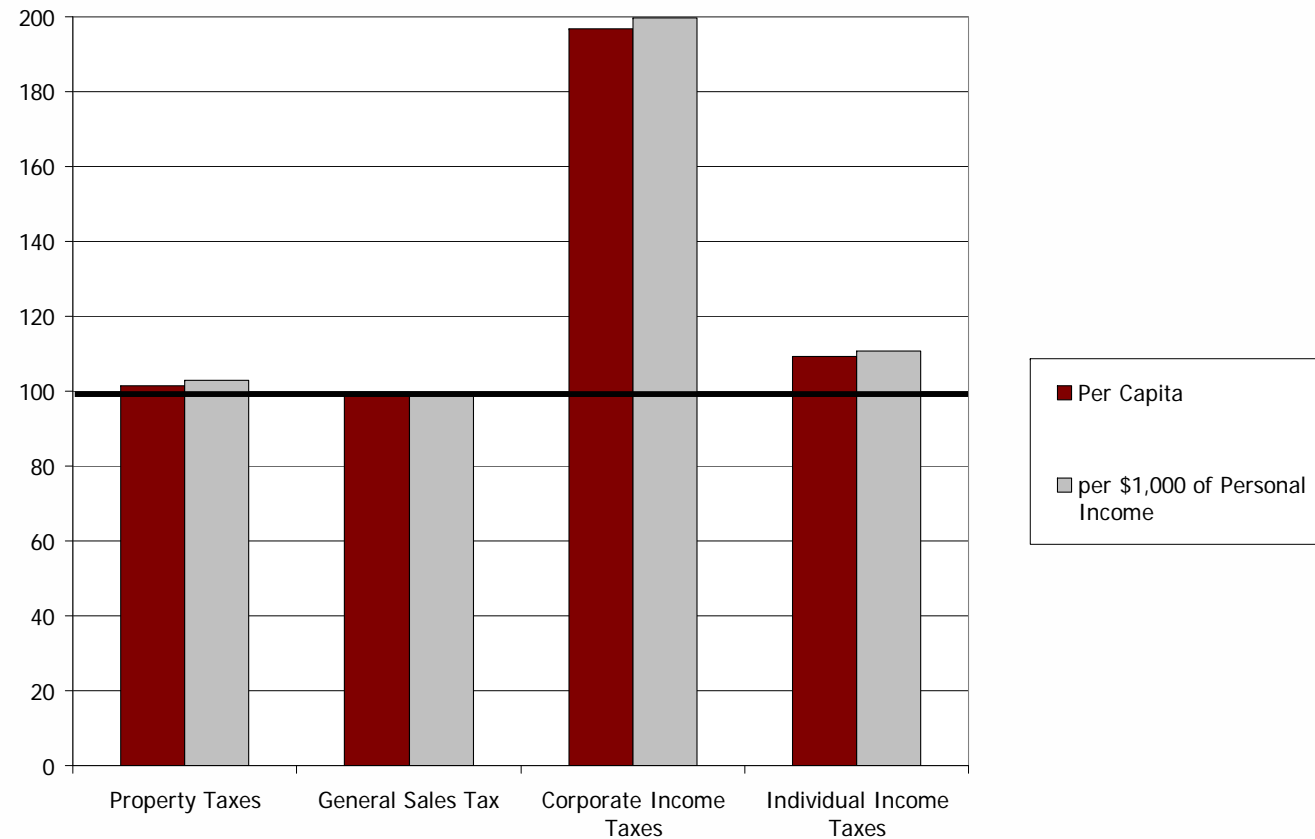
Proposal A of 1994

- Revenue neutral
- Property tax relief
- Increased reliance on sales tax





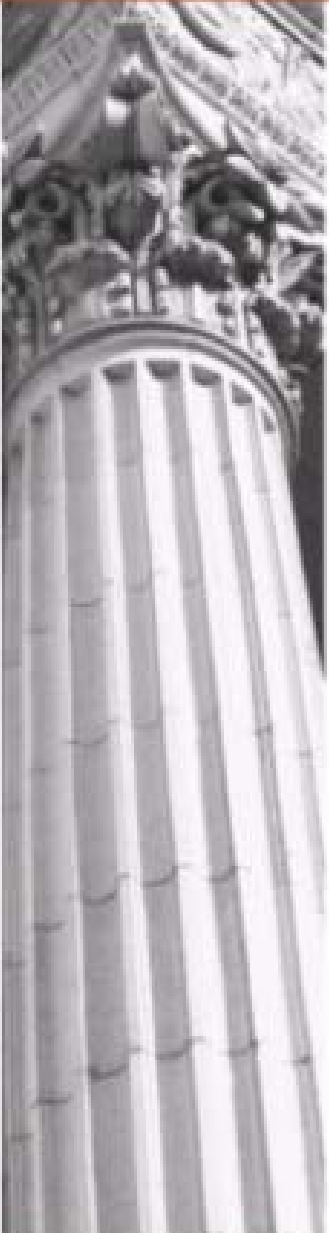
Michigan State and Local Tax Burden Relative to U.S. Average by Tax Type, 1999





The 2000s – A Forgettable Decade

- **Single state recession began in 2001**
- **Affected by the 2008 “Great Recession” more severely than most other states**
- **Massive declines in employment (mfg) and personal income**
- **Housing bubble burst and foreclosure crisis**





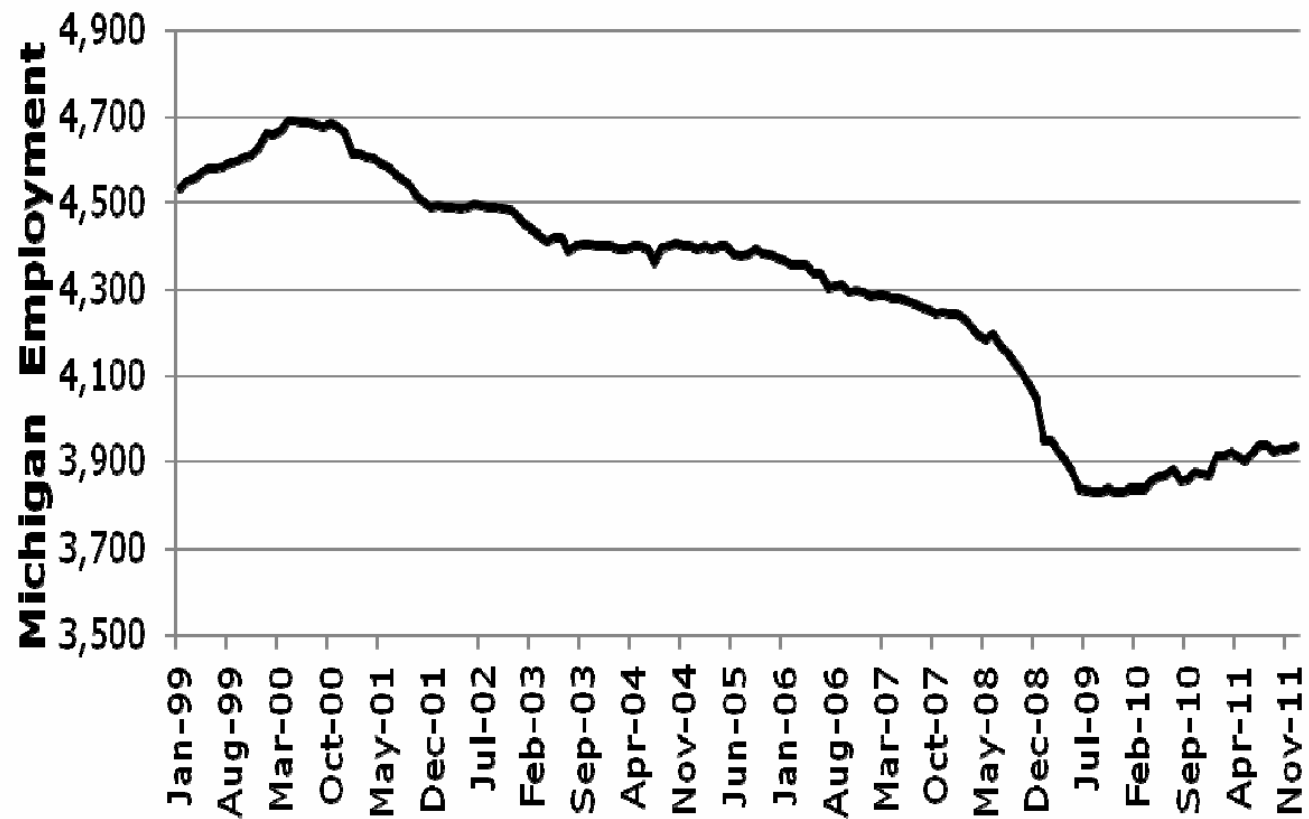
The Last Decade Was an Economic Disaster for Michigan

	Growth 2000 to 2010		Michigan Rank
	U.S.	Michigan	
Population	9.6%	-0.8%	51
Real Per Capita GDP*	6.5%	-6.4%	50
Employment	-0.3%	-17.4%	51
Real Per Capita Income	4.0%	-6.8%	51

*Georgia is the 51st ranked state at -7.0%.



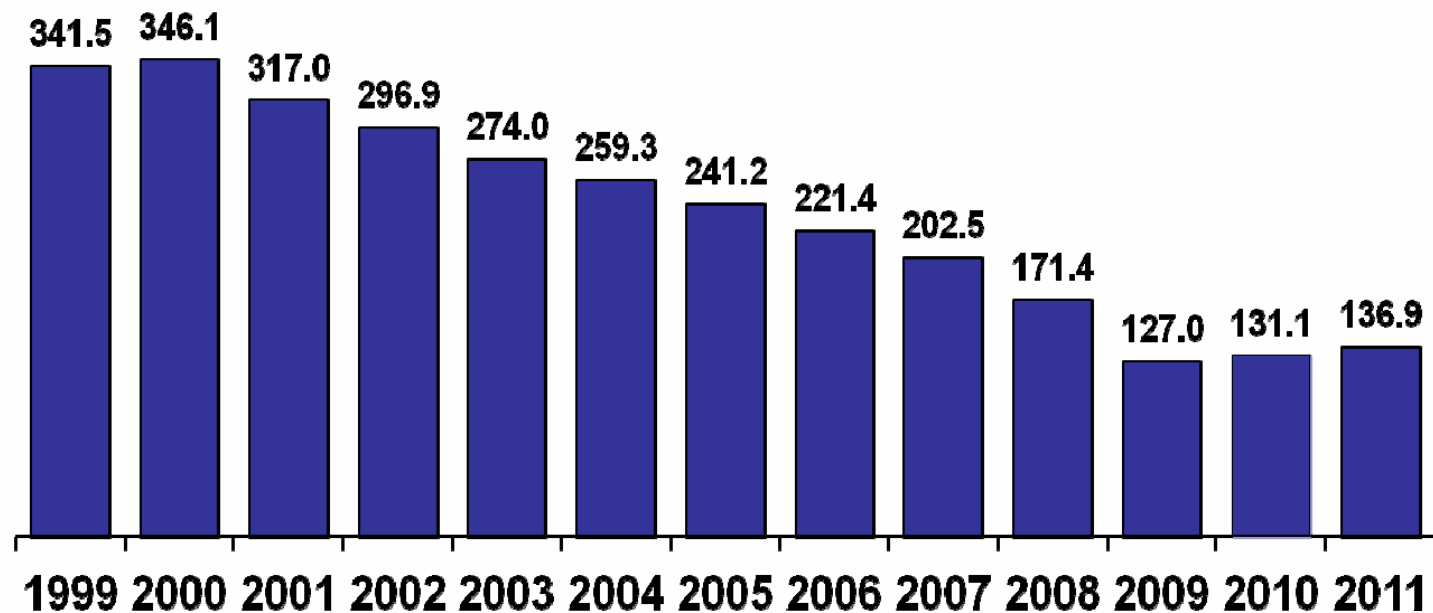
Michigan Employment Down 750,000 Jobs from Peak





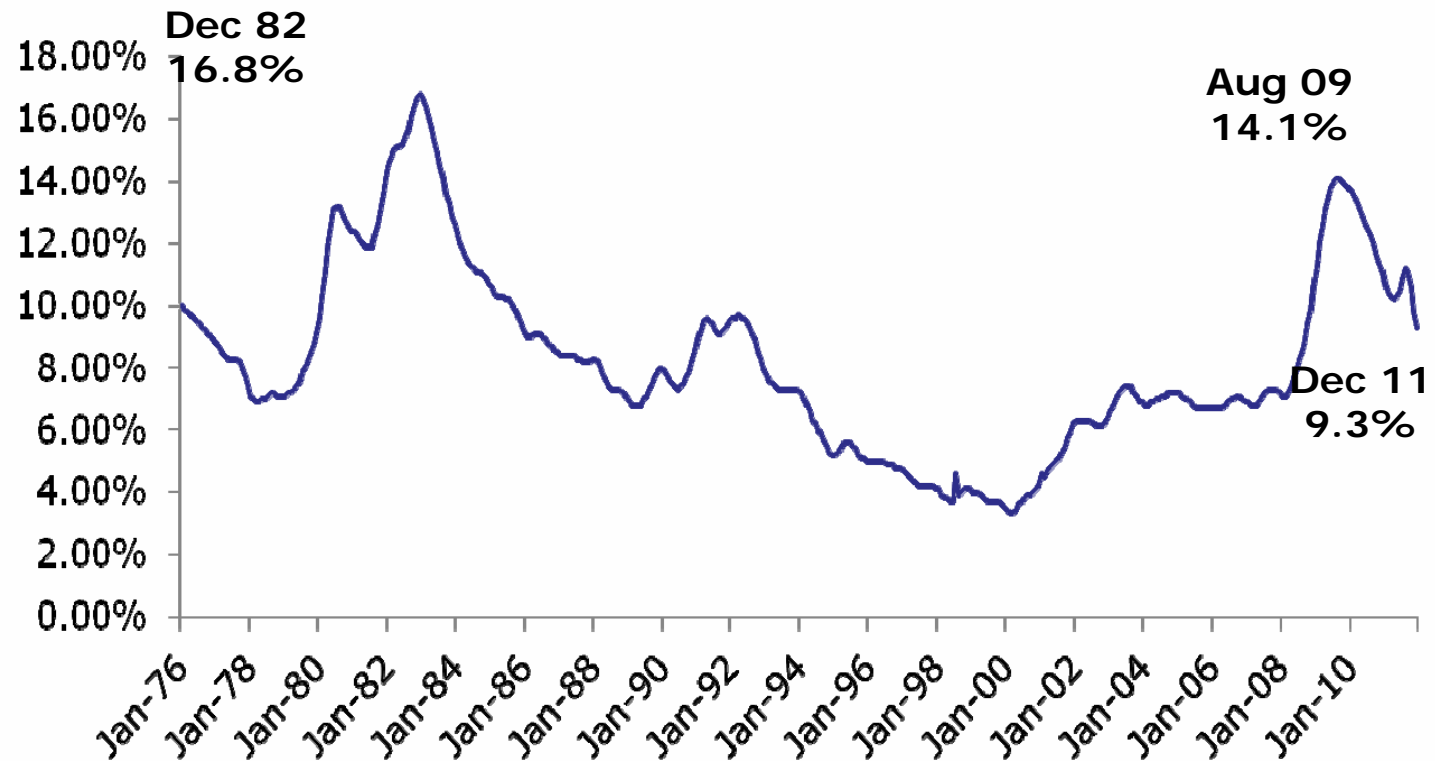
2 in 3 Auto Jobs Lost

Michigan Transportation Equipment Employment
(In Thousands)





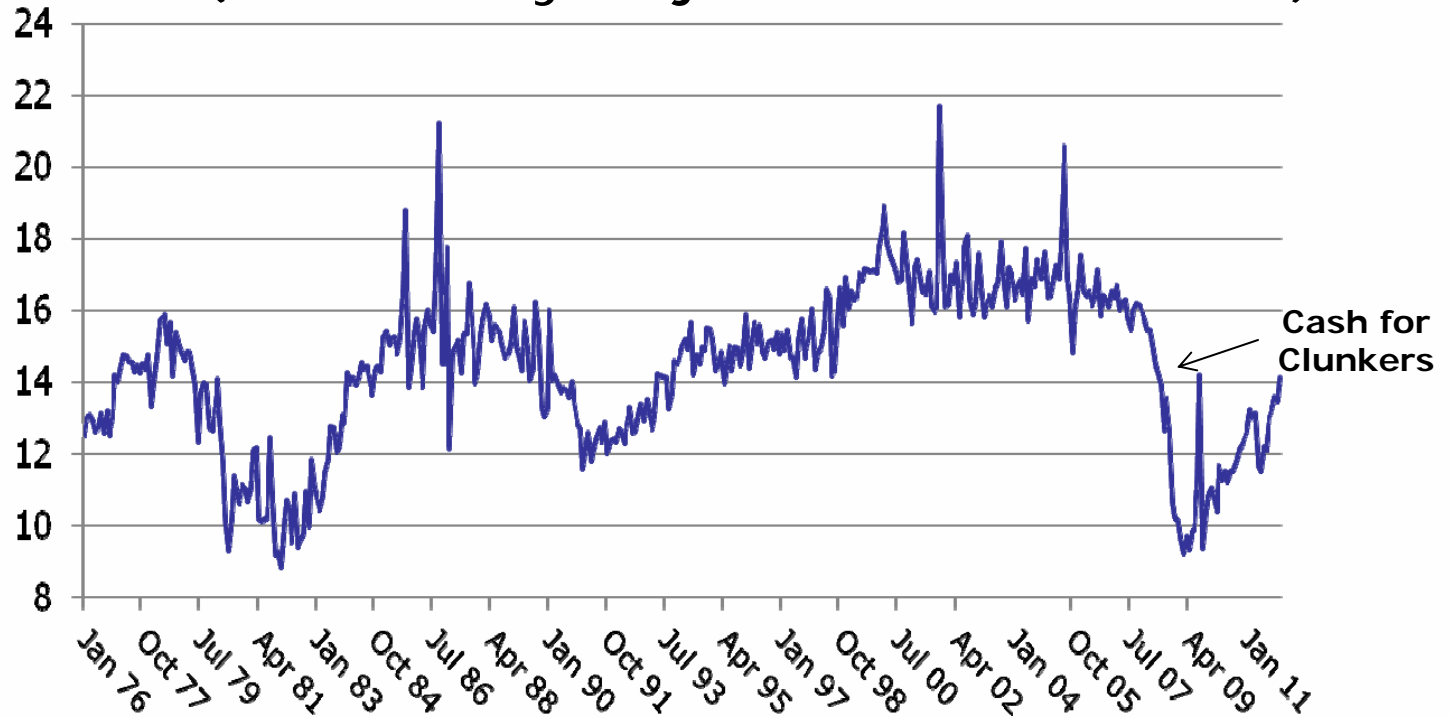
High Levels of Unemployment





Vehicle Sales Experienced Unprecedented Decline

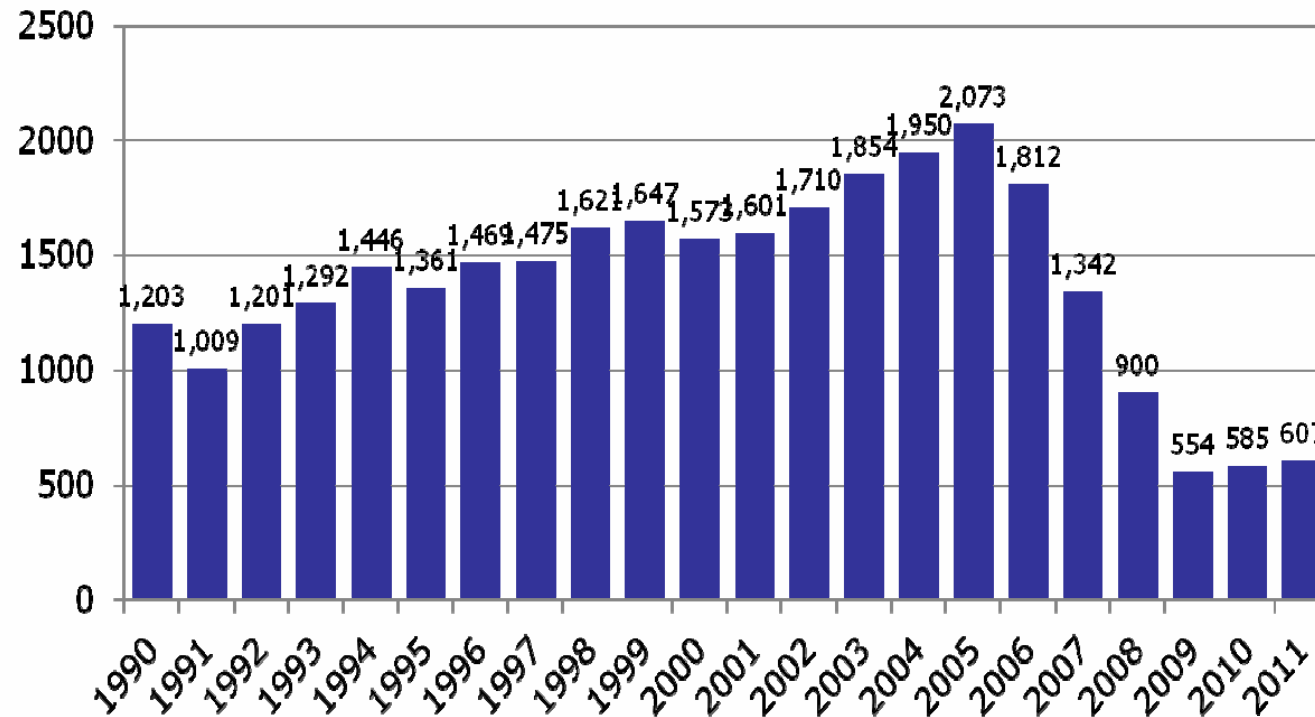
Monthly Light Vehicle Sales
(Seasonally Adjusted Annual Rate)





Housing Starts

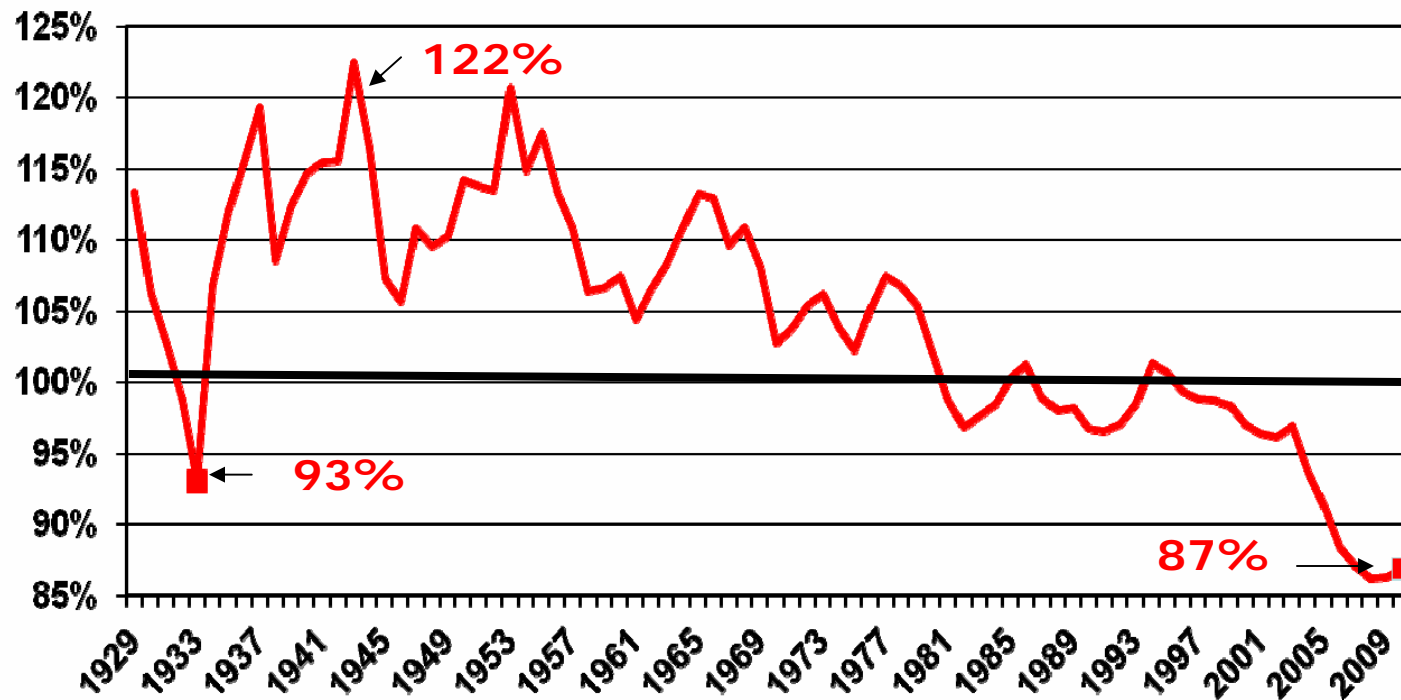
Never Below 1 Million Between 1959 and 2007





Michigan Has Become Poorer Relative to Other States

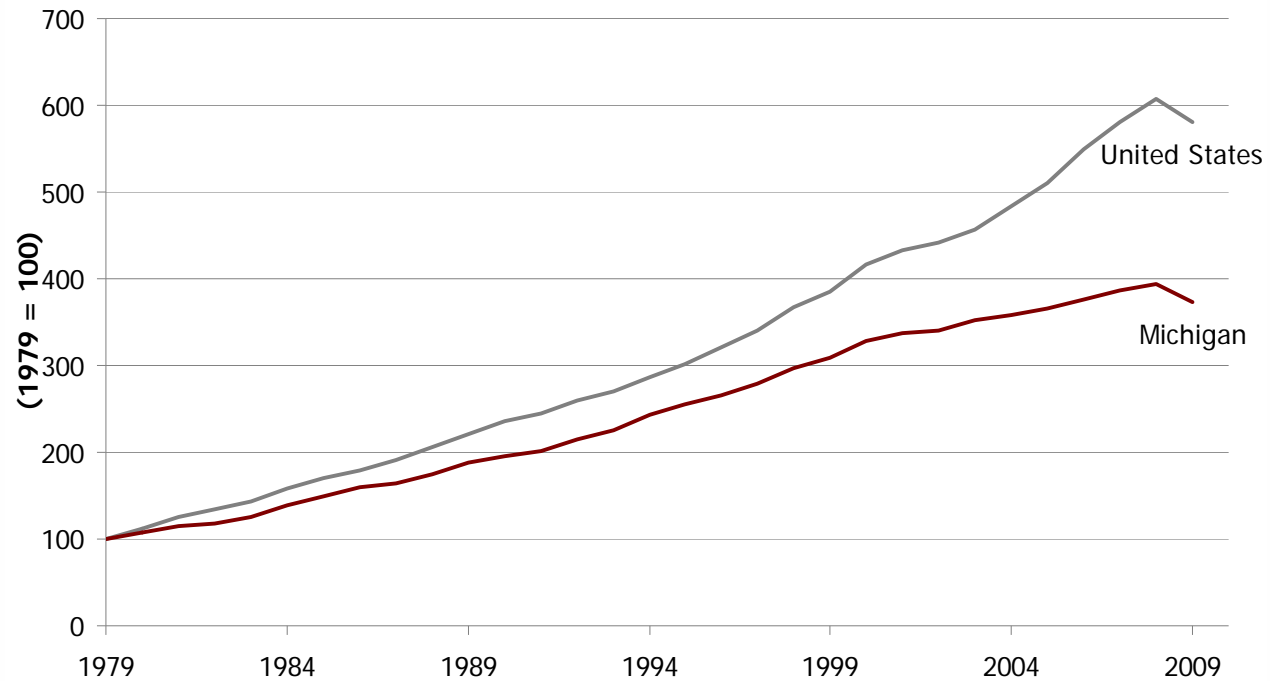
MI as a Percent of U.S. Per Capita Income Rank has fallen from 20th in 2001 to 40th in 2010



Source: CRC calculations from Bureau of Economic Analysis data. February 2012.

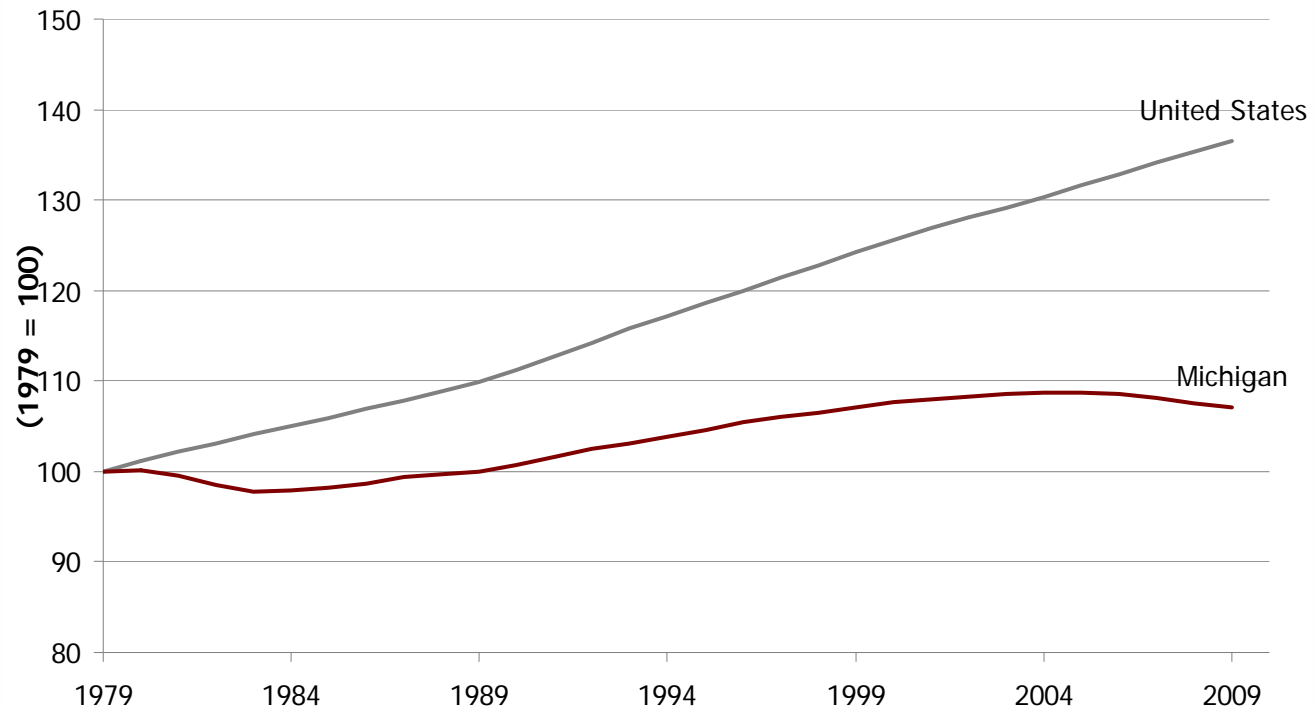


Michigan and U.S. Personal Income Growth, 1979 - 2009





Michigan and U.S. Total Population Change, 1979 - 2010





MBT Replaced SBT

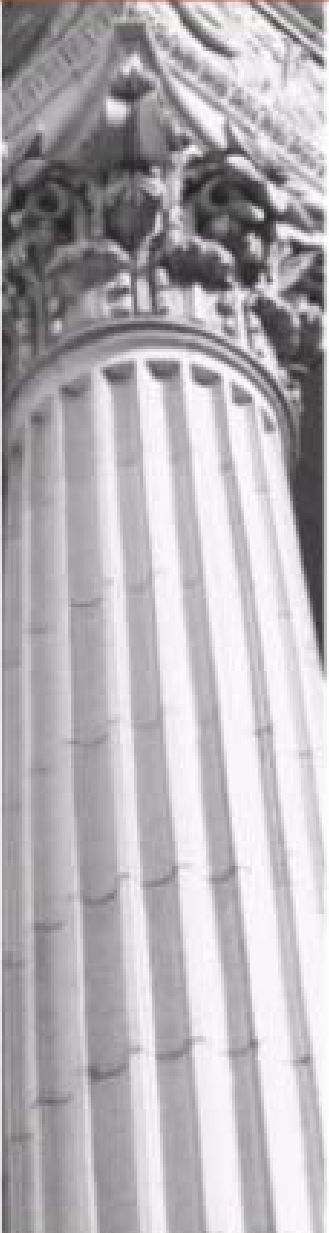
- **Income Tax and Gross Receipts Tax**
 - Both applied to all business activity in Michigan
 - Gross Receipts exceeding \$350,000 sourced to Michigan
 - Multi-state businesses allocation based on sales in Michigan
- **Very complicated tax**





MBT Replaced SBT

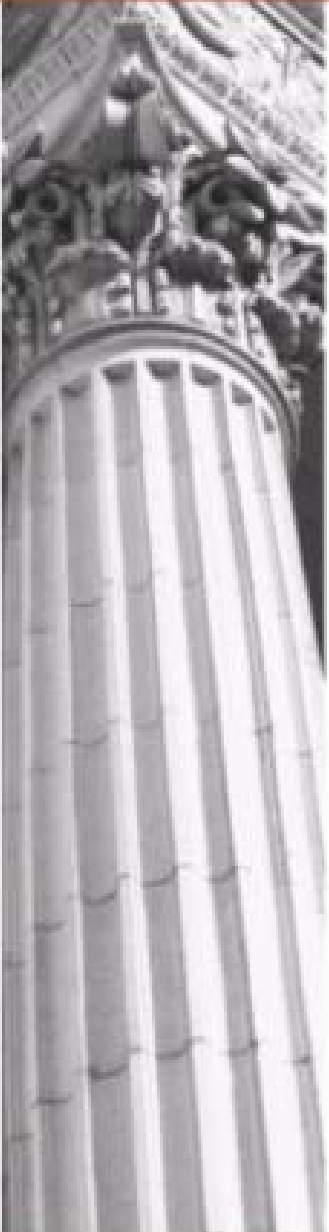
- **Helped interstate rankings because it was considered 30% corporate income tax and 70% general sales tax**
- **Never reflected in numbers to help attract business because it was abandoned before data could be collected**





Corporate Income Tax Replaces MBT

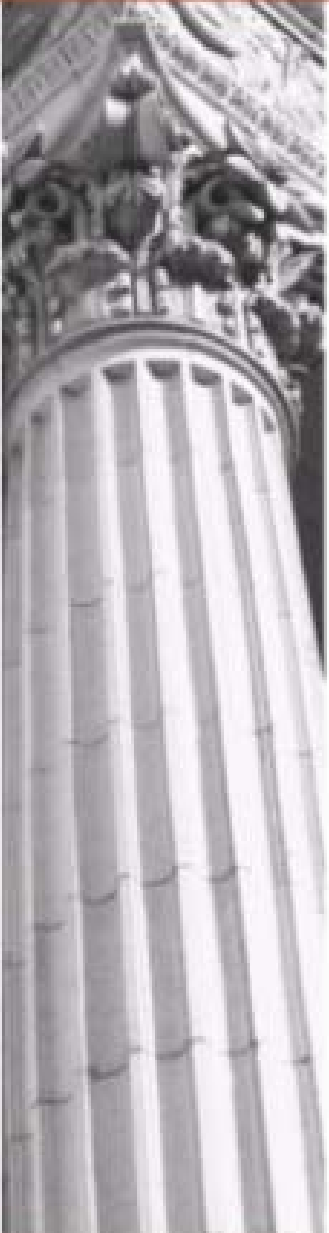
- MBT was a:
 - Very complicated
 - Income Tax
 - Gross receipts tax





Corporate Income Tax Replaces MBT

- MBT was a:
 - ~~Very complicated~~
 - Income Tax
 - ~~Gross receipts tax~~
- Corporate Income Tax
 - Eliminate credits
 - Eliminate gross receipts tax





Personal Income Tax Changes

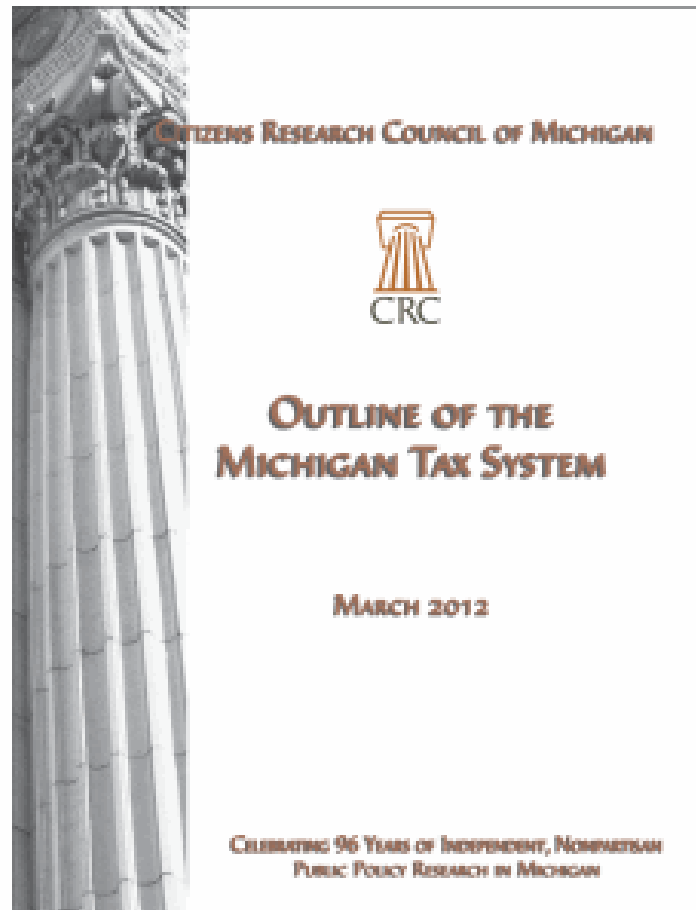
- **Modified, limited, eliminated certain tax exemptions**
 - Modified exemption for public and private pensions (3-tiered exemption based on age)
 - Phase-out of personal exemption for higher income taxpayers
- **Certain tax credits**
 - Reductions in Earned Income Tax Credit
 - Reductions in Homestead Property Tax Credit
- **Postponed 0.1 percentage point tax reduction 15 months**





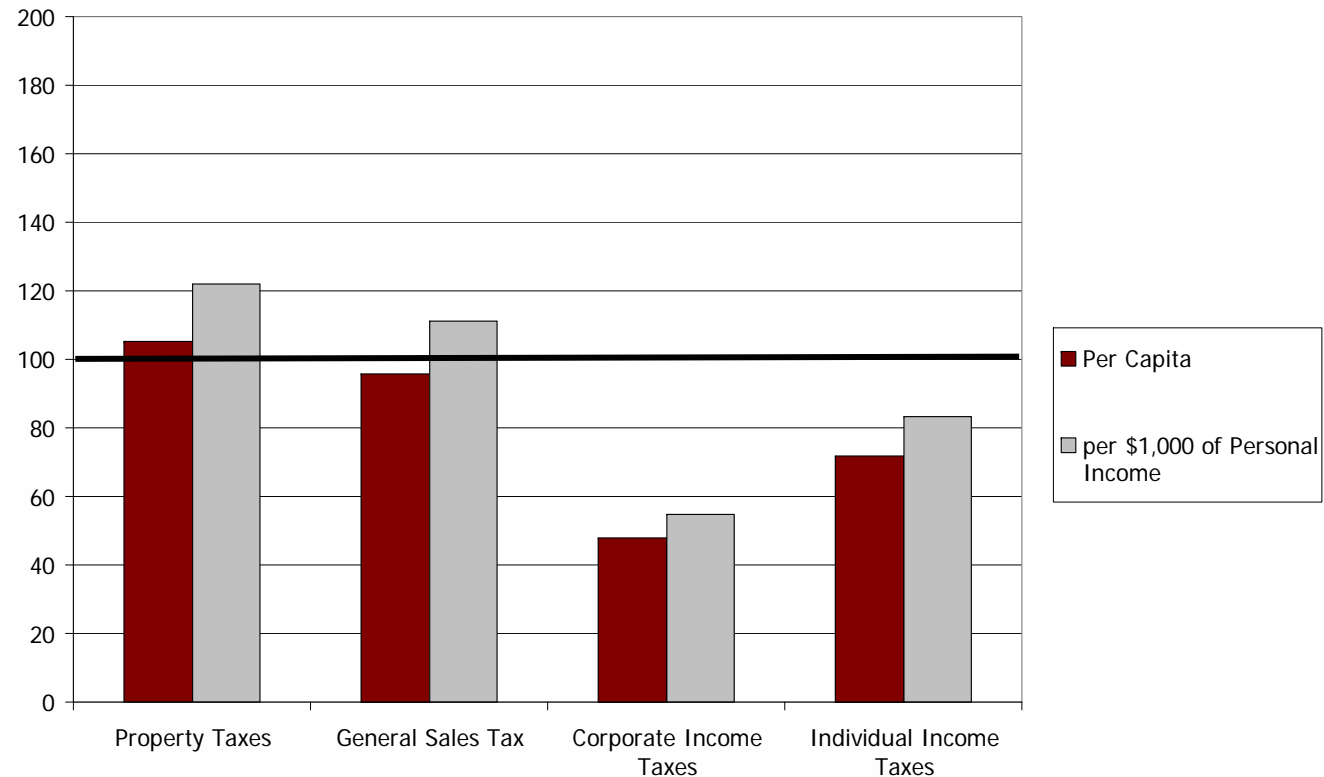
CITIZENS RESEARCH COUNCIL OF MICHIGAN

Outline of the Michigan Tax System www.crcmich.org/TaxOutline



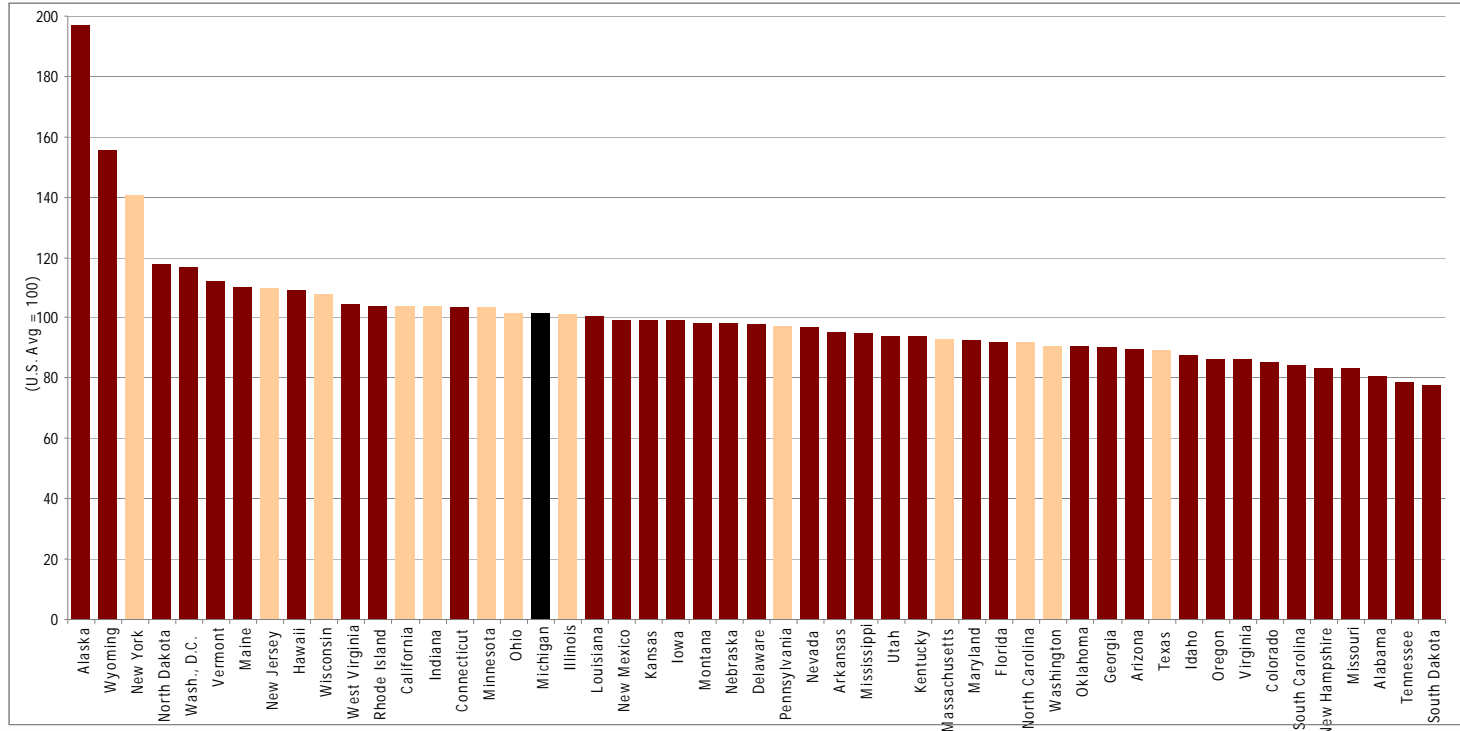


Michigan State and Local Tax Burden Relative to U.S. Average by Tax Type, 2009



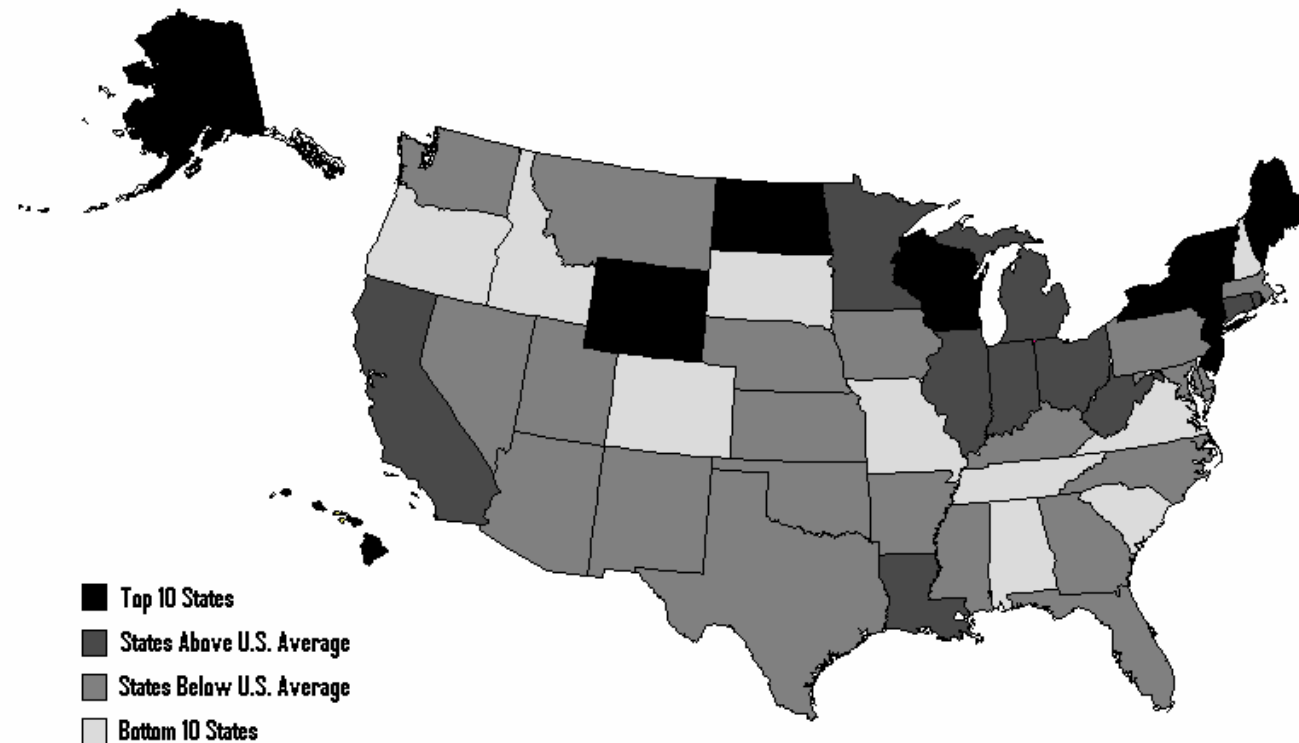


State and Local Total Tax Revenue per Capita as a Percentage of U.S. Average, 2009



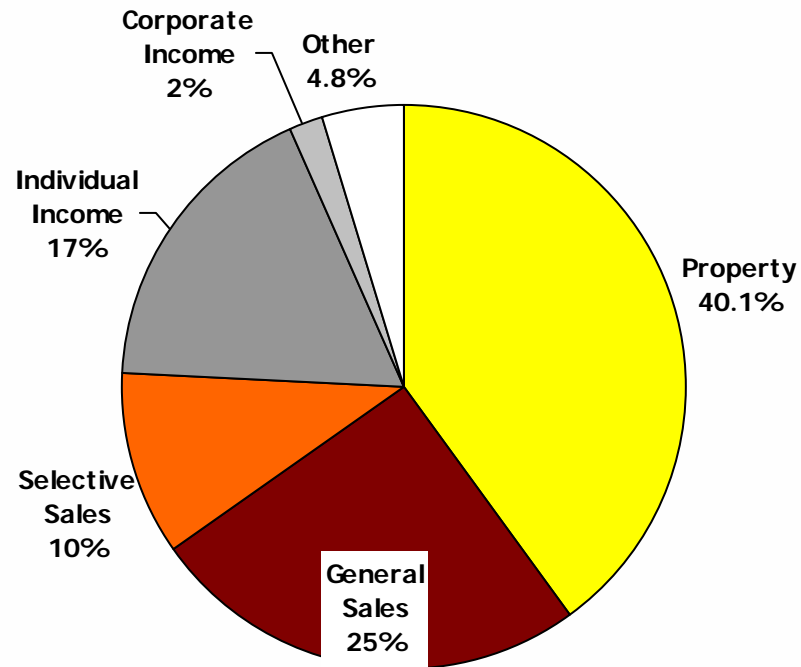


State and Local Total Tax Revenue per \$1,000 Personal Income as a Percentage of U.S. Average, 2009, by Ranking



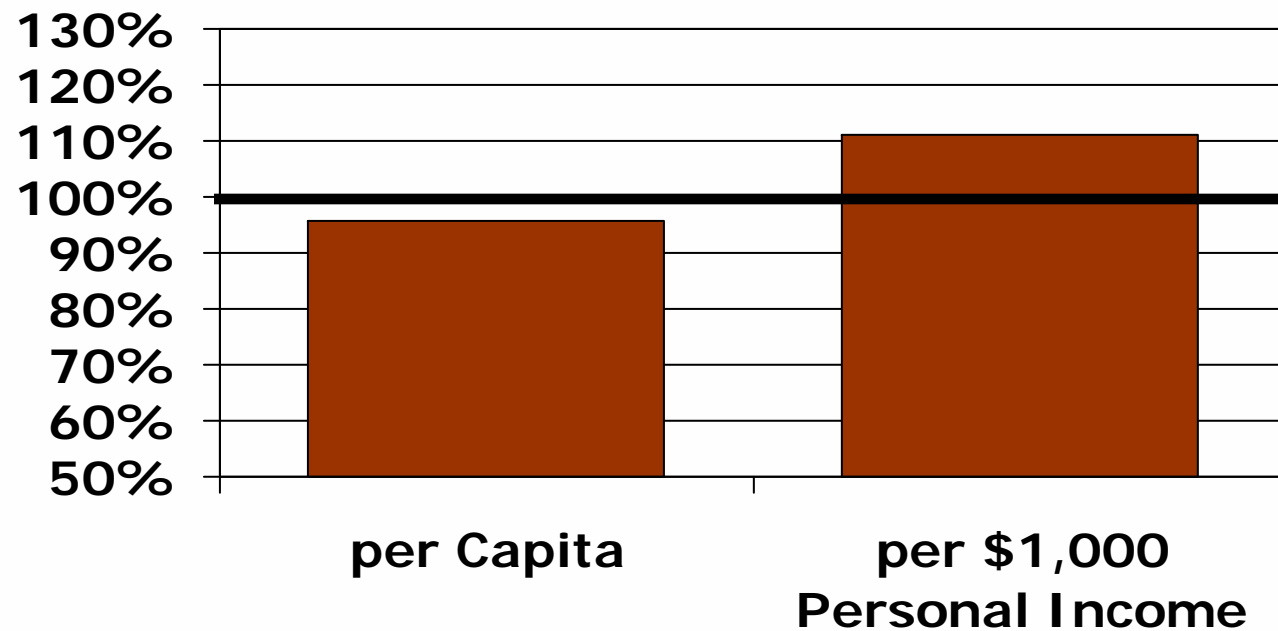


Composition of Michigan State and Local Government Tax Burden, 2009



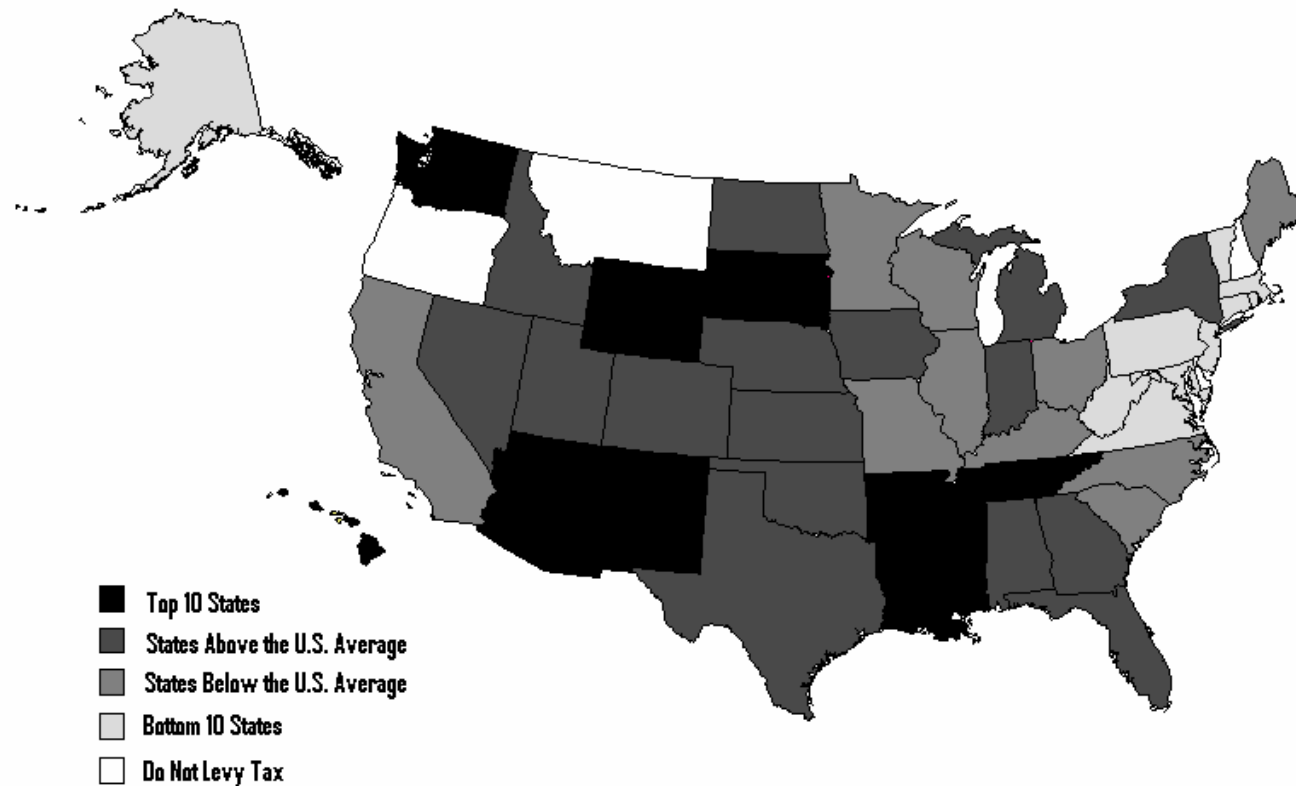


Michigan General Sales Tax Burden Relative to U.S. Average





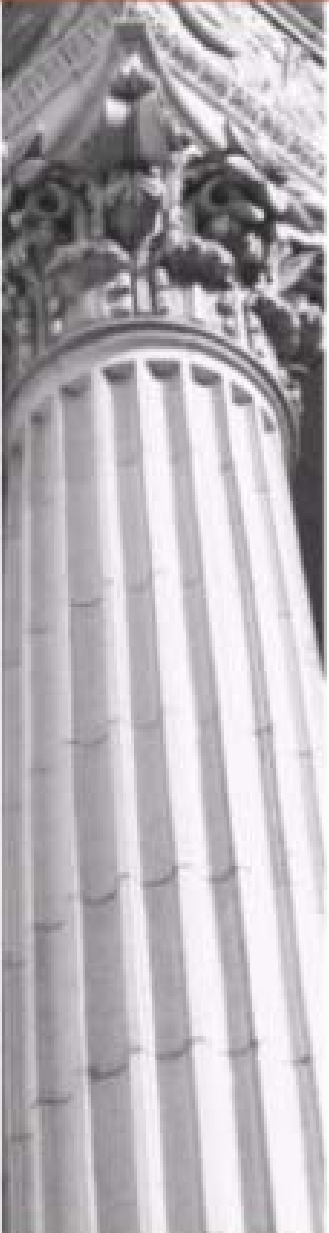
State and Local General Sales Tax Revenue per \$1,000 Personal Income as a Percentage of U.S. Average, 2009, by Ranking





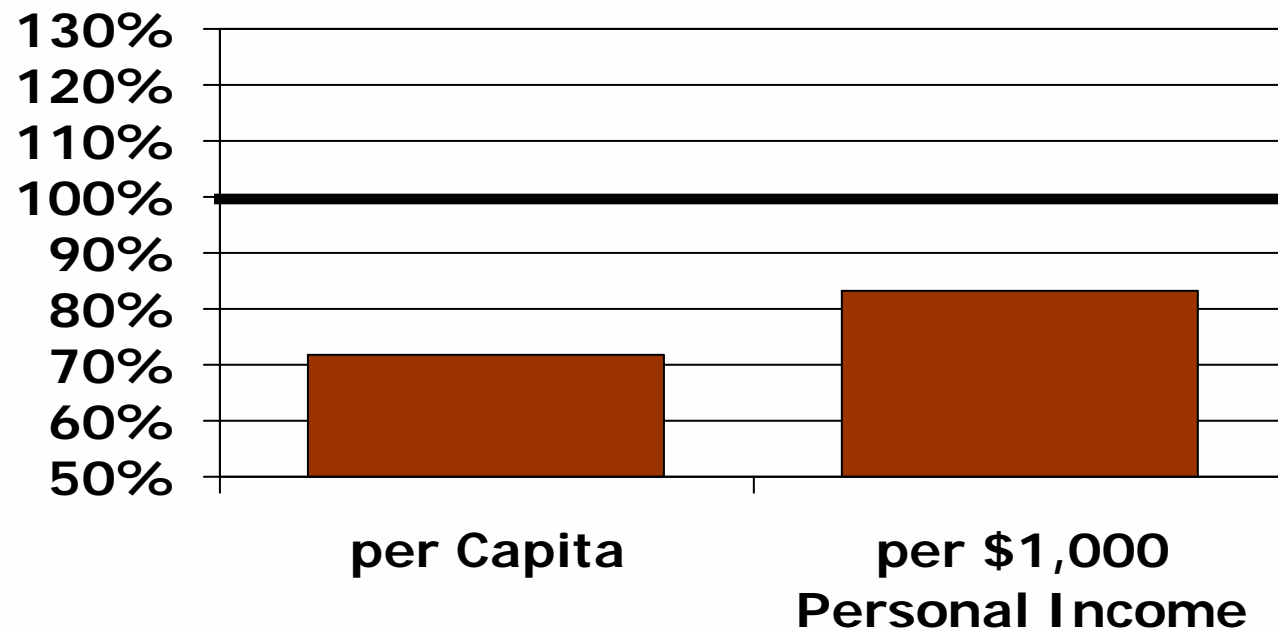
What will 2012 look like?

- Michigan State and Local General Sales Tax Revenues will recede below the U.S. Average again
 - Elimination of gross receipts aspect of Michigan Business Tax
 - Narrow tax base for sales and use taxes



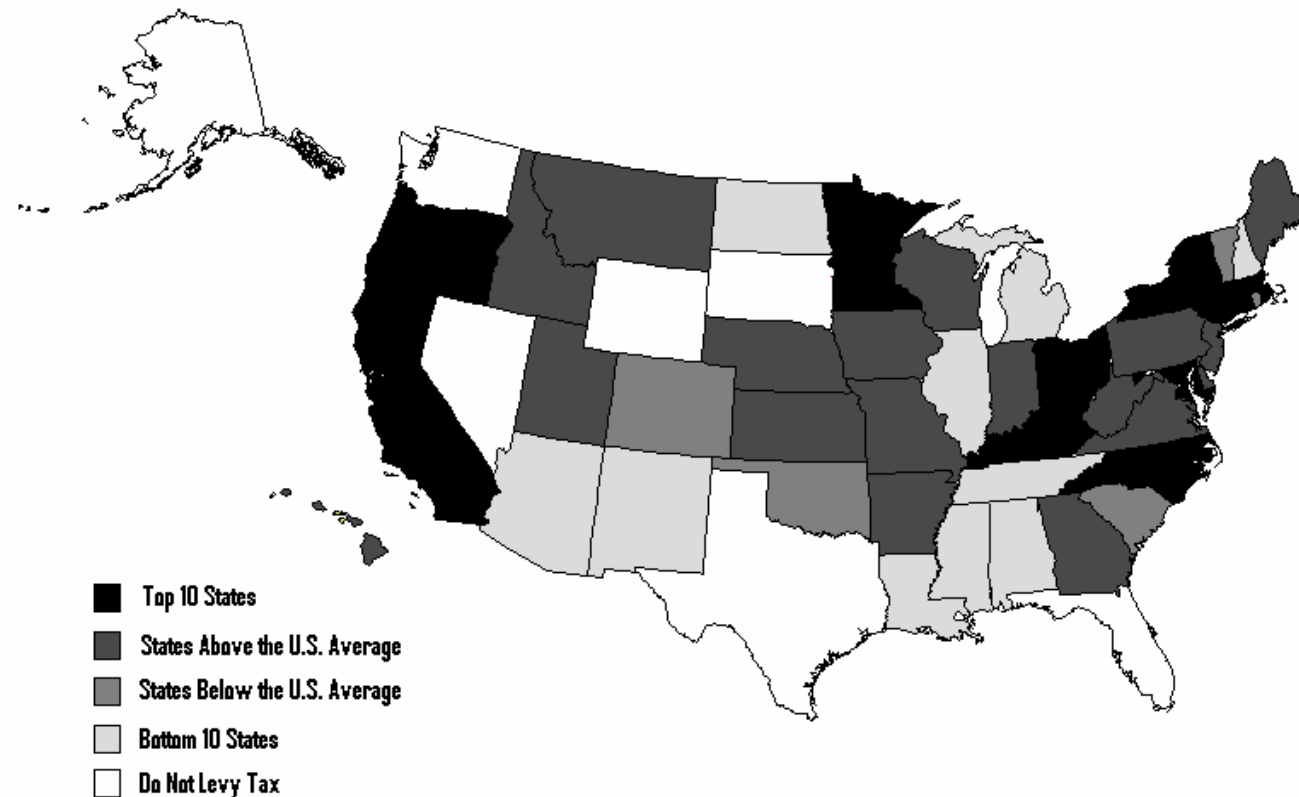


Michigan Individual Income Tax Burden Relative to U.S. Average





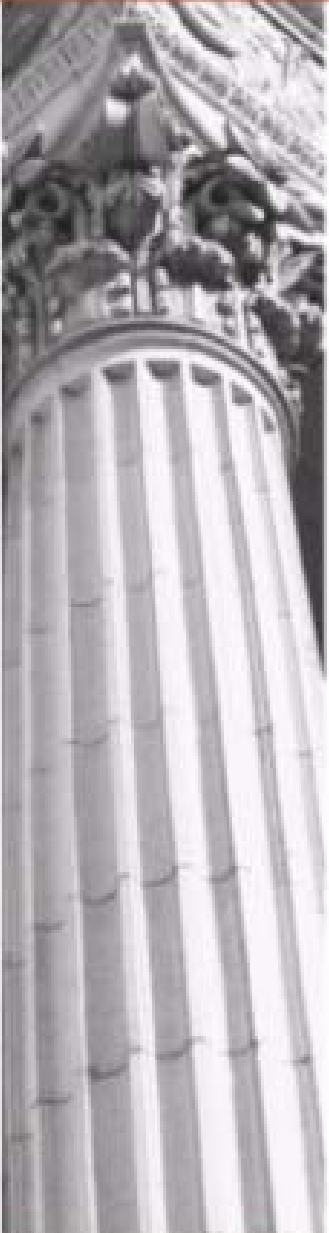
State and Local Individual Income Tax Revenue per \$1,000 Personal Income as a Percentage of U.S. Average, 2009, by Ranking





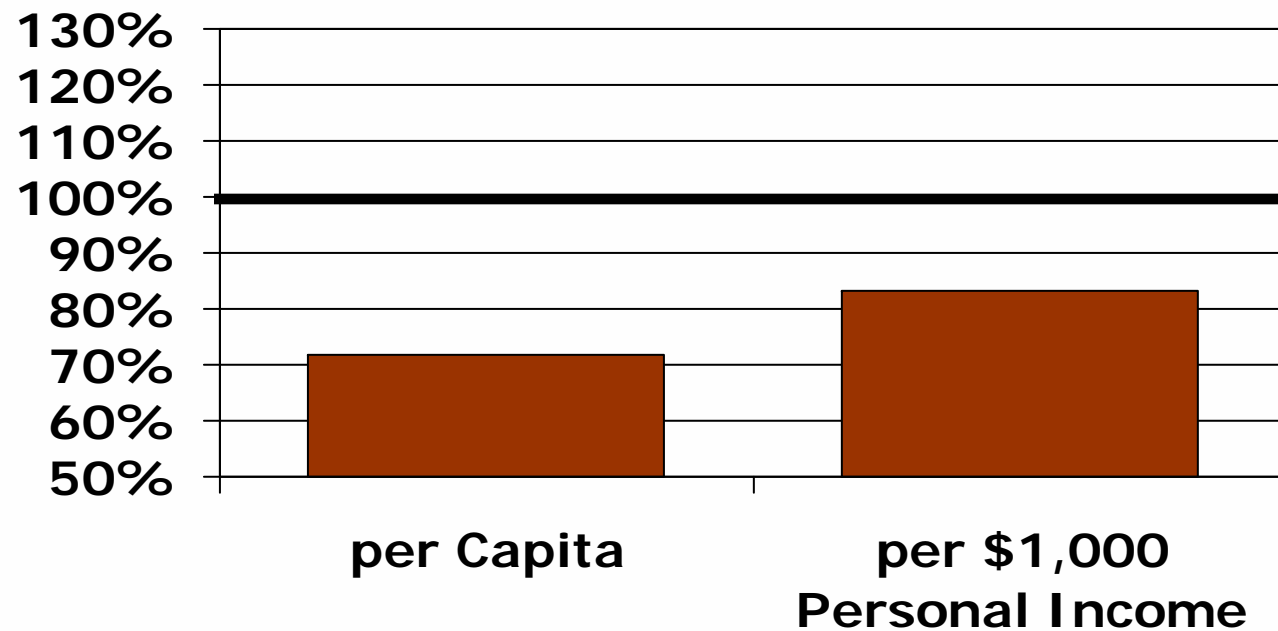
What will 2012 look like?

- Michigan State and Local Individual Income Tax Revenues will grow closer to the U.S. Average
 - Removal of exemptions and credits expands tax base to bring in more tax revenue
 - Contraction of tax rate reduces tax revenue



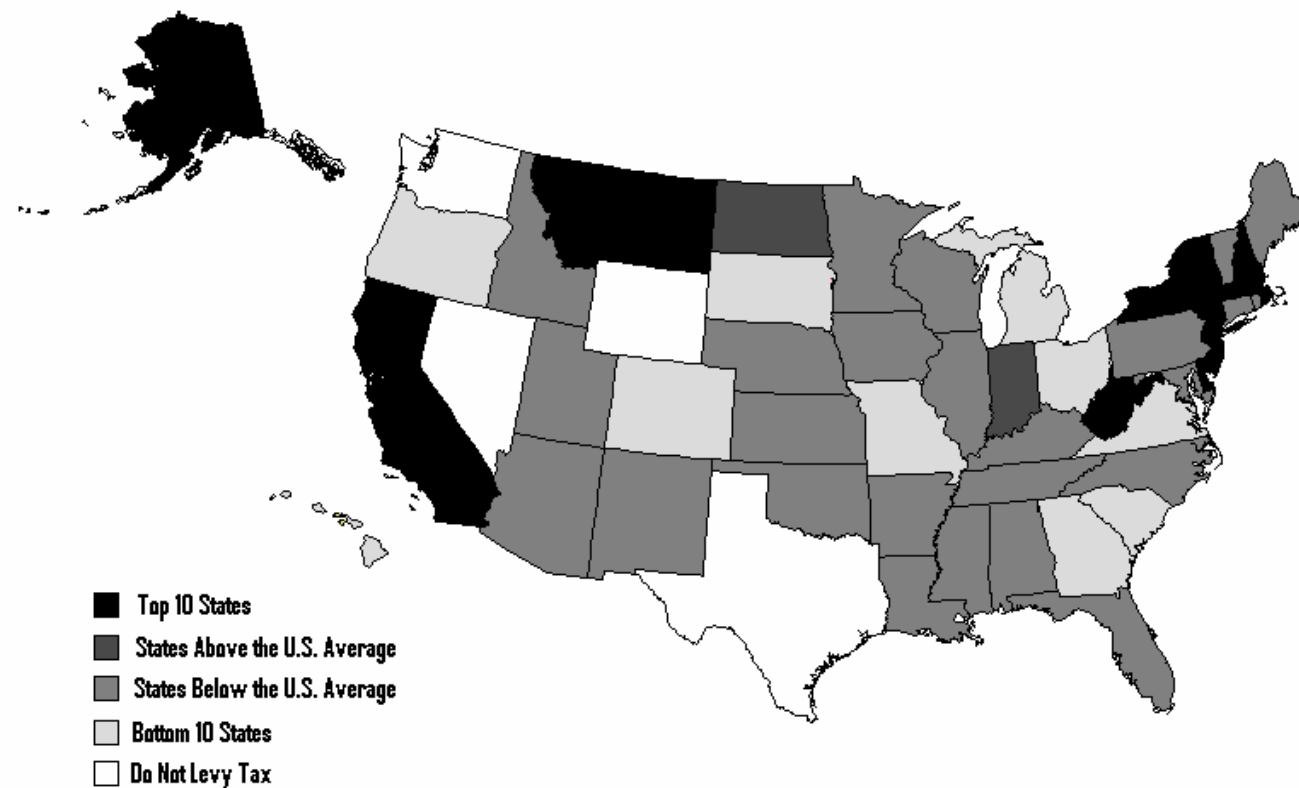


Michigan Corporate Income Tax Burden Relative to U.S. Average





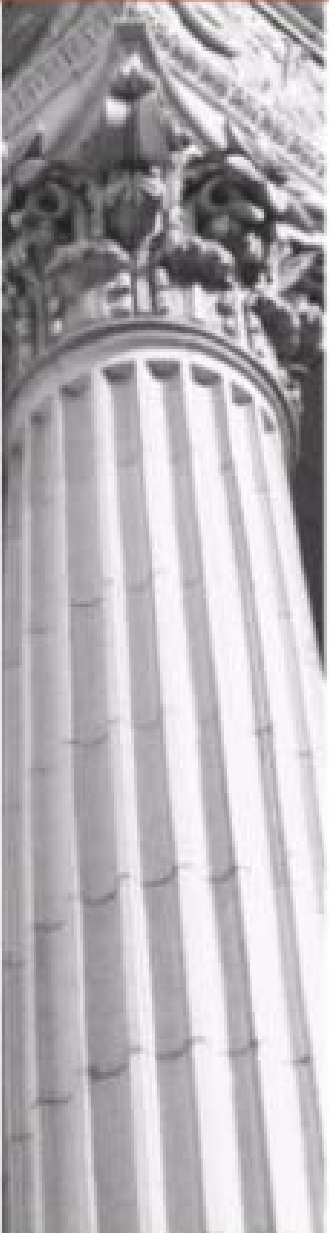
State and Local Corporate Income Tax Revenue per \$1,000 Personal Income as a Percentage of U.S. Average, 2009, by Ranking





What will 2012 look like?

- Michigan State and Local Corporate Income Tax Revenues will remain below the U.S. Average
 - 2009 report considered only income tax aspect of MBT
 - Elimination of credits will expand tax base to yield more tax revenue





Will the Changes Attract Business Development?

- Positives

- Increase rate of return on investment
- Lower tax burden
- Significantly simpler

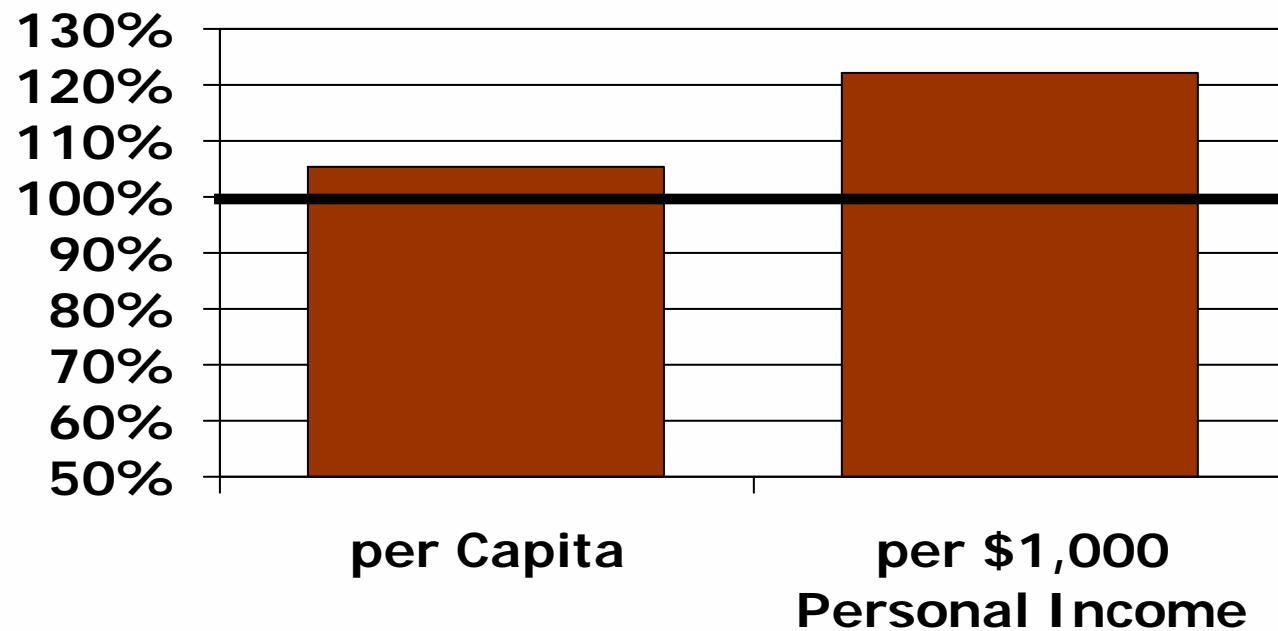
- Negatives

- Higher Income Tax collections results in reduced disposable income
- Reduced government spending results in lower income (government employees, vendors, student aid, etc.)
- Some businesses will pay more in CIT than MBT
- Some business tax relief to out-of-state firms



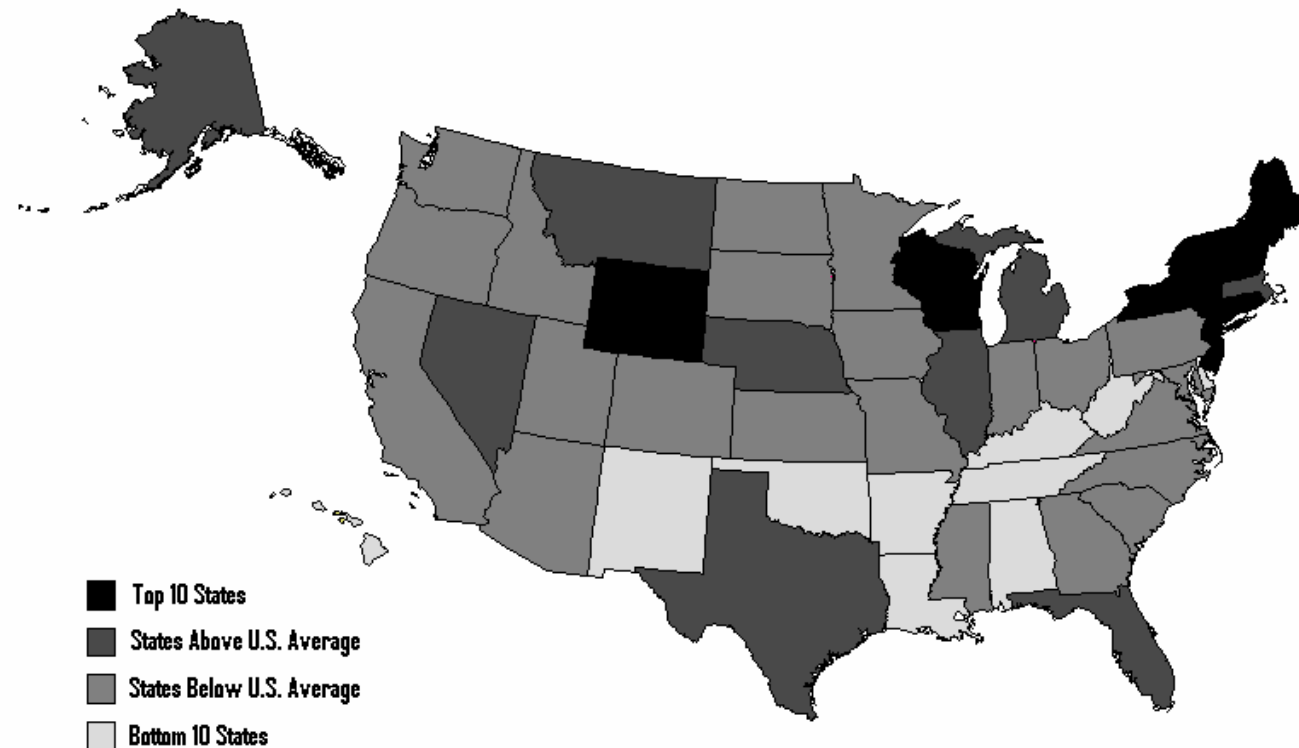


Michigan Property Tax Burden Relative to U.S. Average



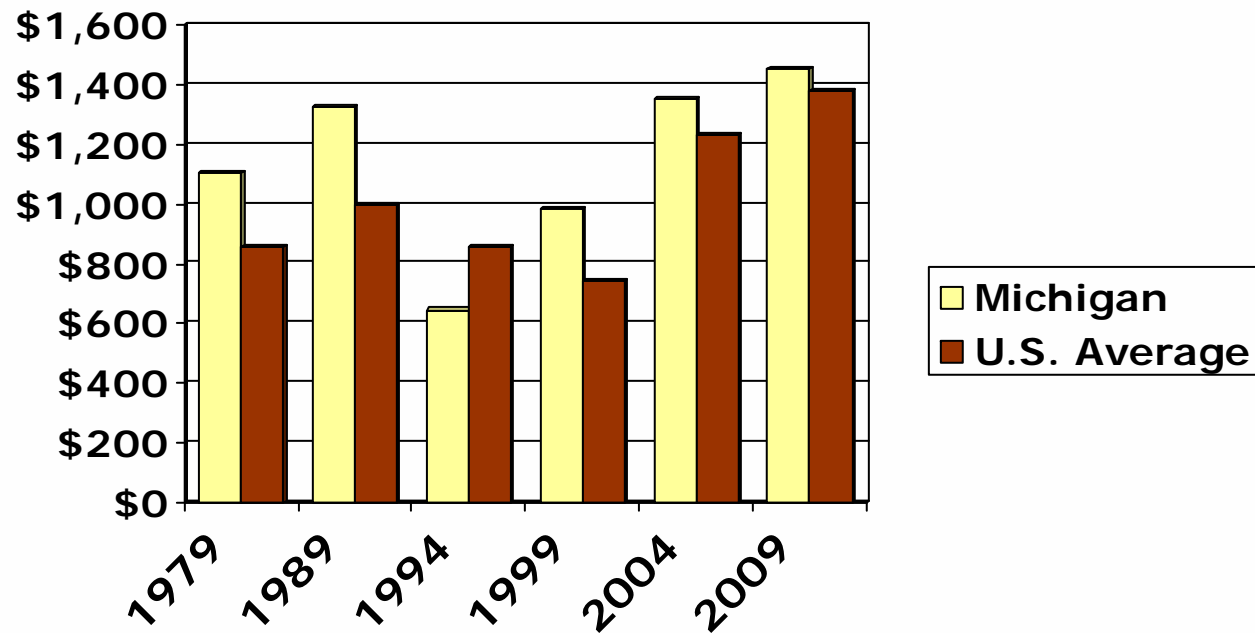


State and Local Property Tax Revenue per \$1,000 Personal Income as a Percentage of U.S. Average, 2009, by Ranking





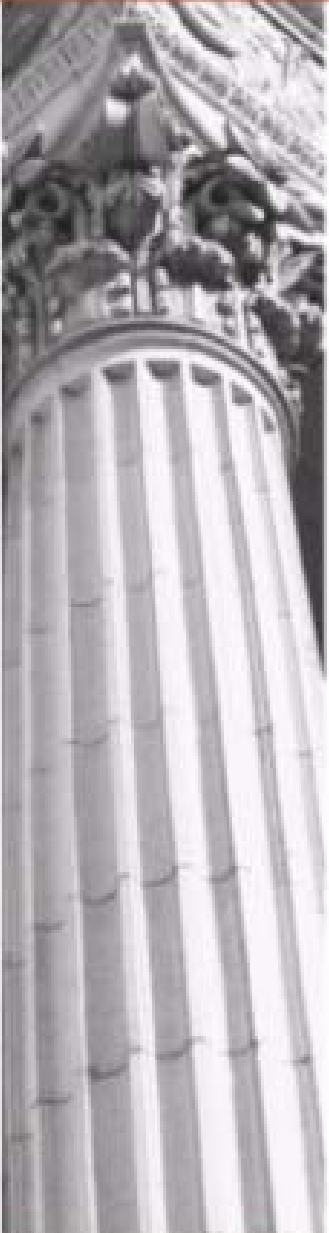
Michigan and U.S. Average Property Tax Revenues Per Capita, 1979 - 2009

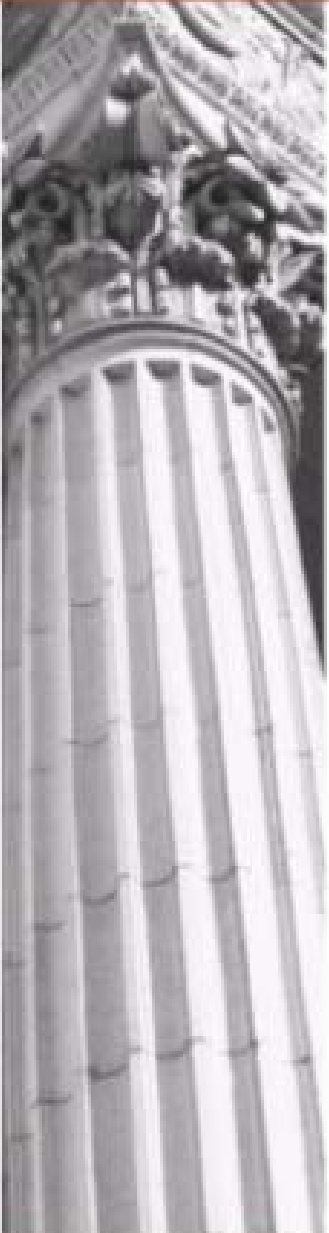




What will 2012 look like?

- Michigan State and Local Property Tax Revenues will remain above the U.S. Average
 - Local government tax increases more anecdote than trend
 - PPT changes neither implemented nor effective in time





PPT Comparisons

- 40 states + Washington, D.C. tax tangible personal property
 - MN, ND, WI exempt mfg equipment
 - IN provides tax abatements
 - TX local jurisdictions may elect to exempt personal property



PPT Comparisons

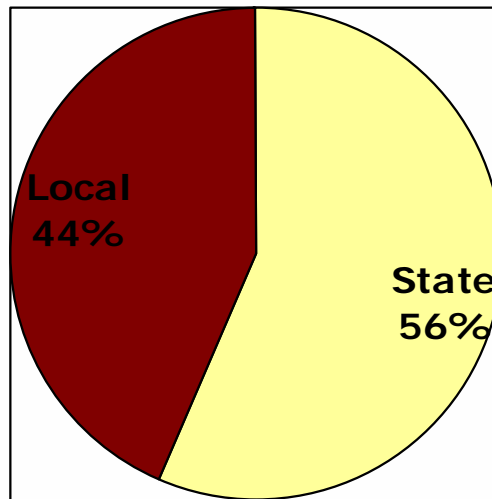
- **10 exempt personal property completely**
 - DE, HI, IL, IA, NH, NJ, NY, OH, PA, SD
 - NH & PA never taxed
 - HI abandoned PPT in 1947, DE in 1953, SD in 1978, IA in 1995, OH in 2006
- **Recent exemptions have been part of business tax restructuring**
- **7 of these 10 states fall in top half of property tax dependence for all 50 states**



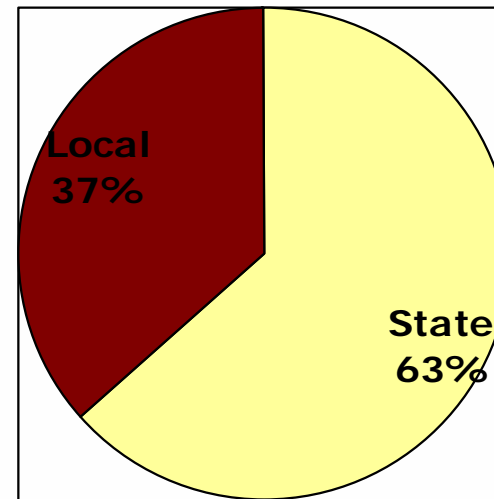


State and Local Composition of Tax Revenues, 2009

U.S. Average

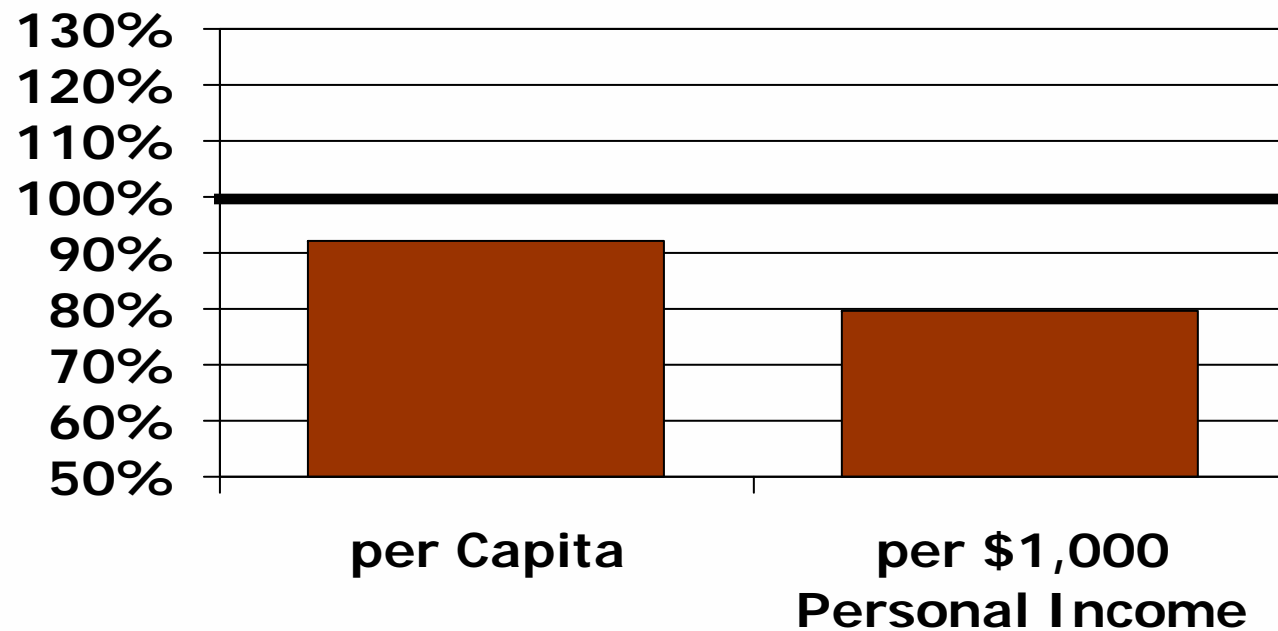


Michigan



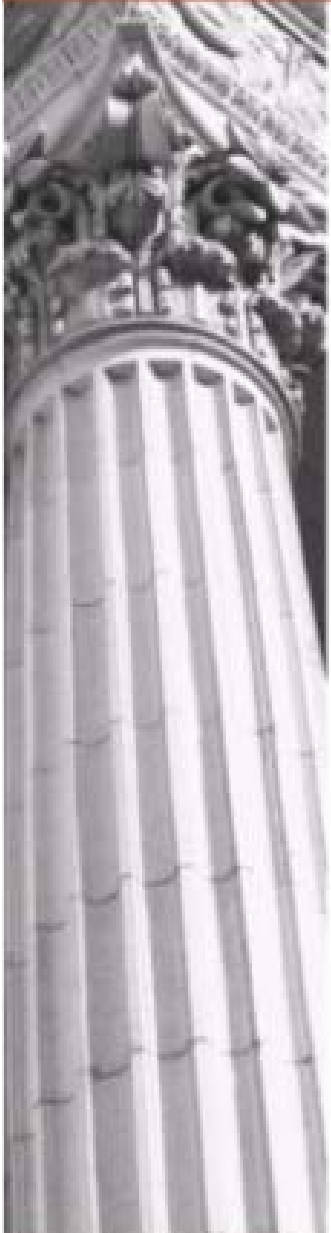
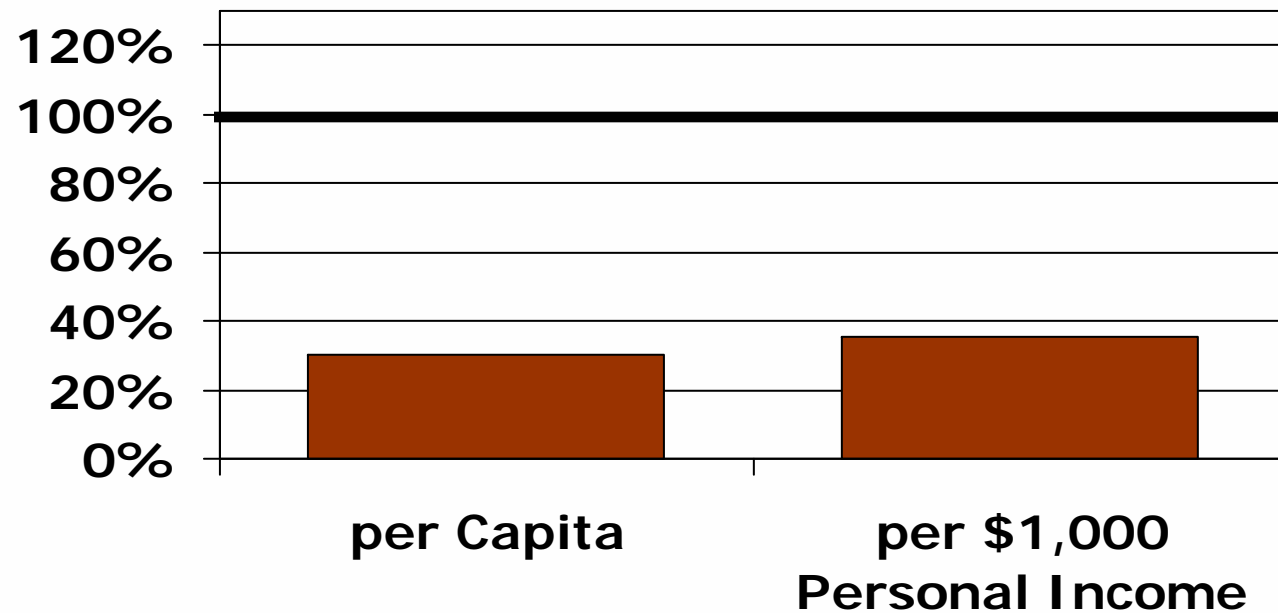


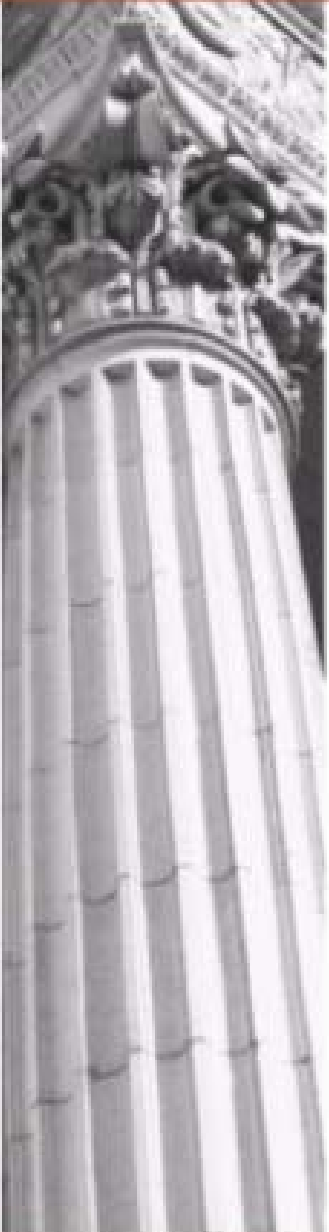
Michigan Motor Fuel Tax Burden Relative to U.S. Average





Michigan Highway Expenditures Relative to U.S. Average





Thank You for your attention

Questions?

www.crcmich.org

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