



Michigan's Threatened  
State Individual Income  
Tax

# Michigan's Threatened State Individual Income Tax

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SAAABA Seminar  
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- *[www.crcmich.org](http://www.crcmich.org)*

# Lessons of History

# Past Income Tax Rate Rollback Efforts

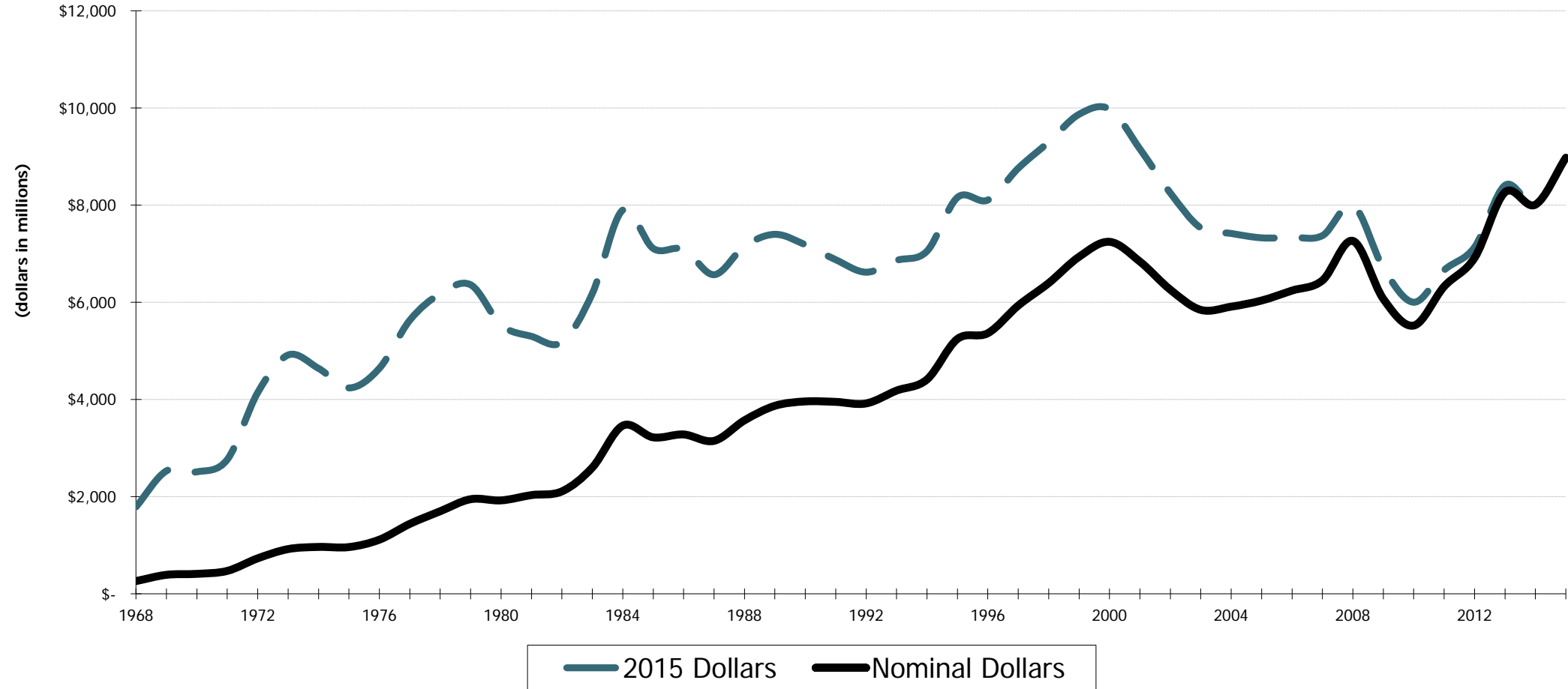
- State – 0.1 percentage point from 4.4% in 1999 to 3.9% in 2004
  - Contributed to structural budget deficit and worsened Michigan's Single State Recession
- State – 2015 PA 180 after 2023 reduces rate by growth in excess of inflation if the increase from one year to the next in total General Fund/General 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

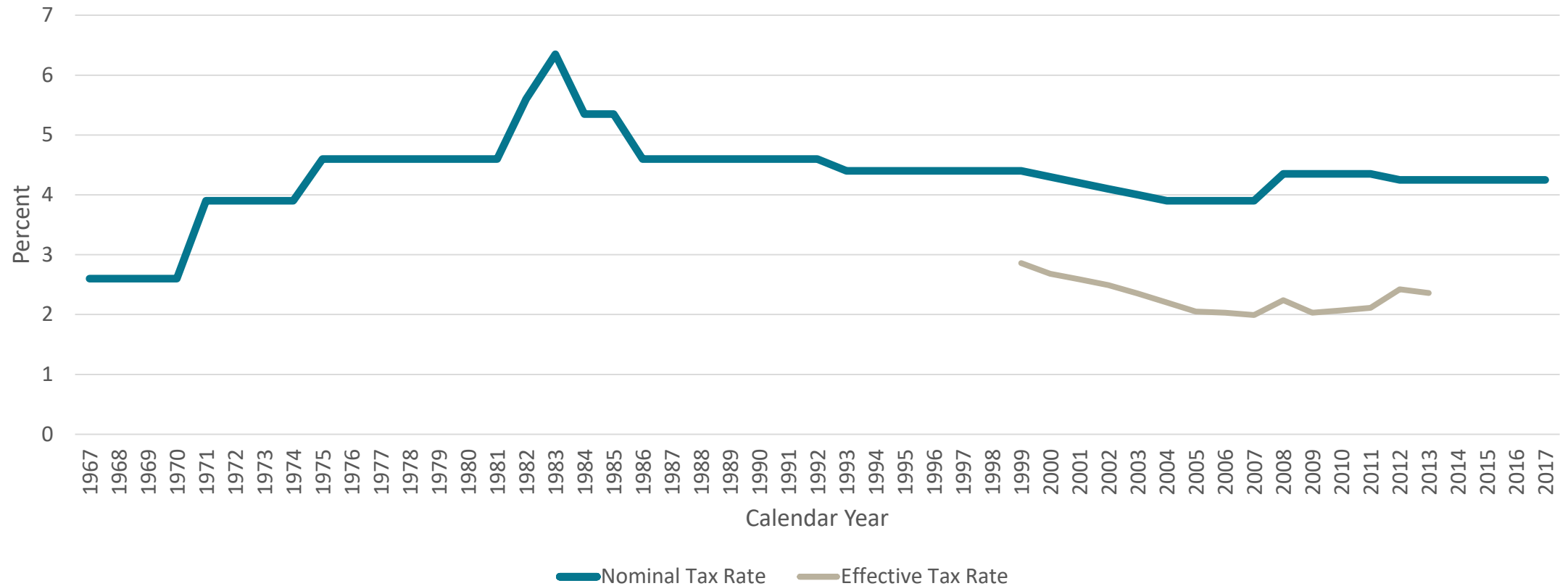
1. Against itself over time
2. Against constitutional revenue limit
3. Against other states

# Michigan Individual Income Tax Revenues, 1968-2015

(Nominal and Real)



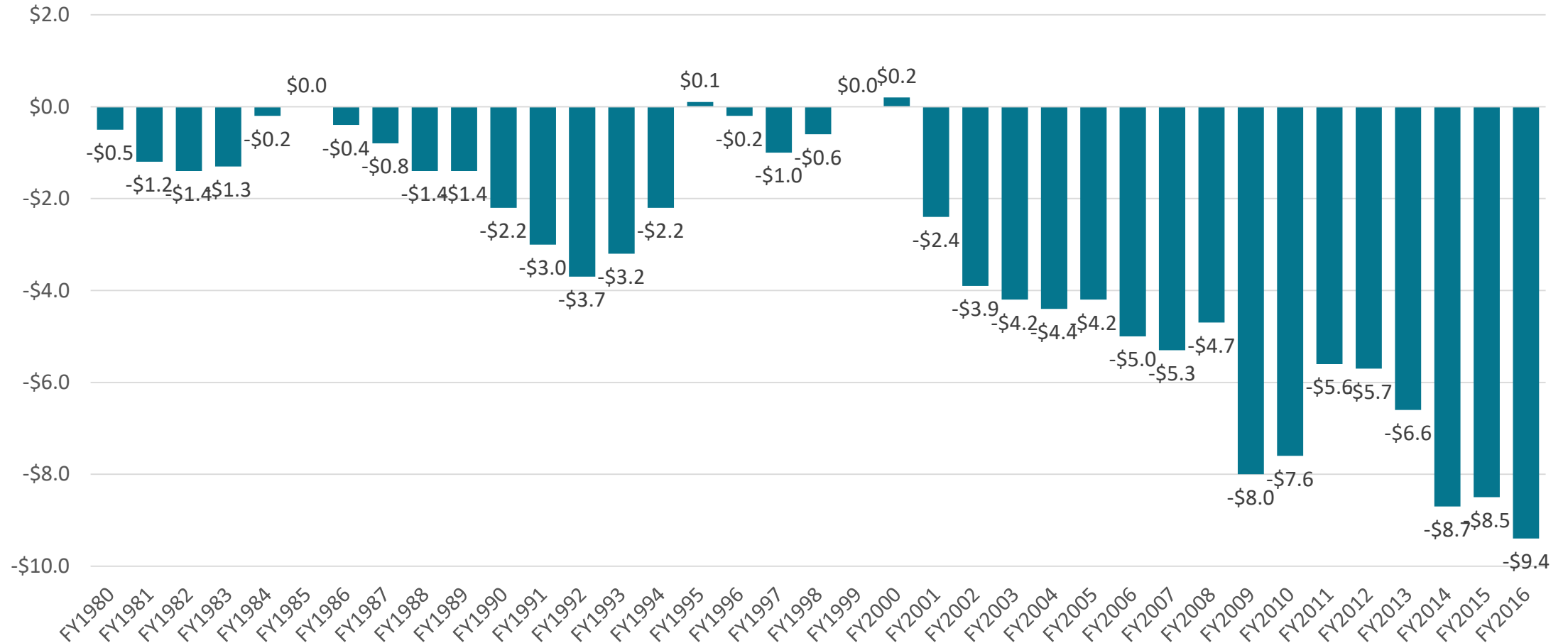
# Michigan's Individual Income Tax Rate History



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](http://www.house.mi.gov/hfa/archives/pdf/state_budget_overview_jan2015.pdf)

# Is Michigan a “High Tax” State?

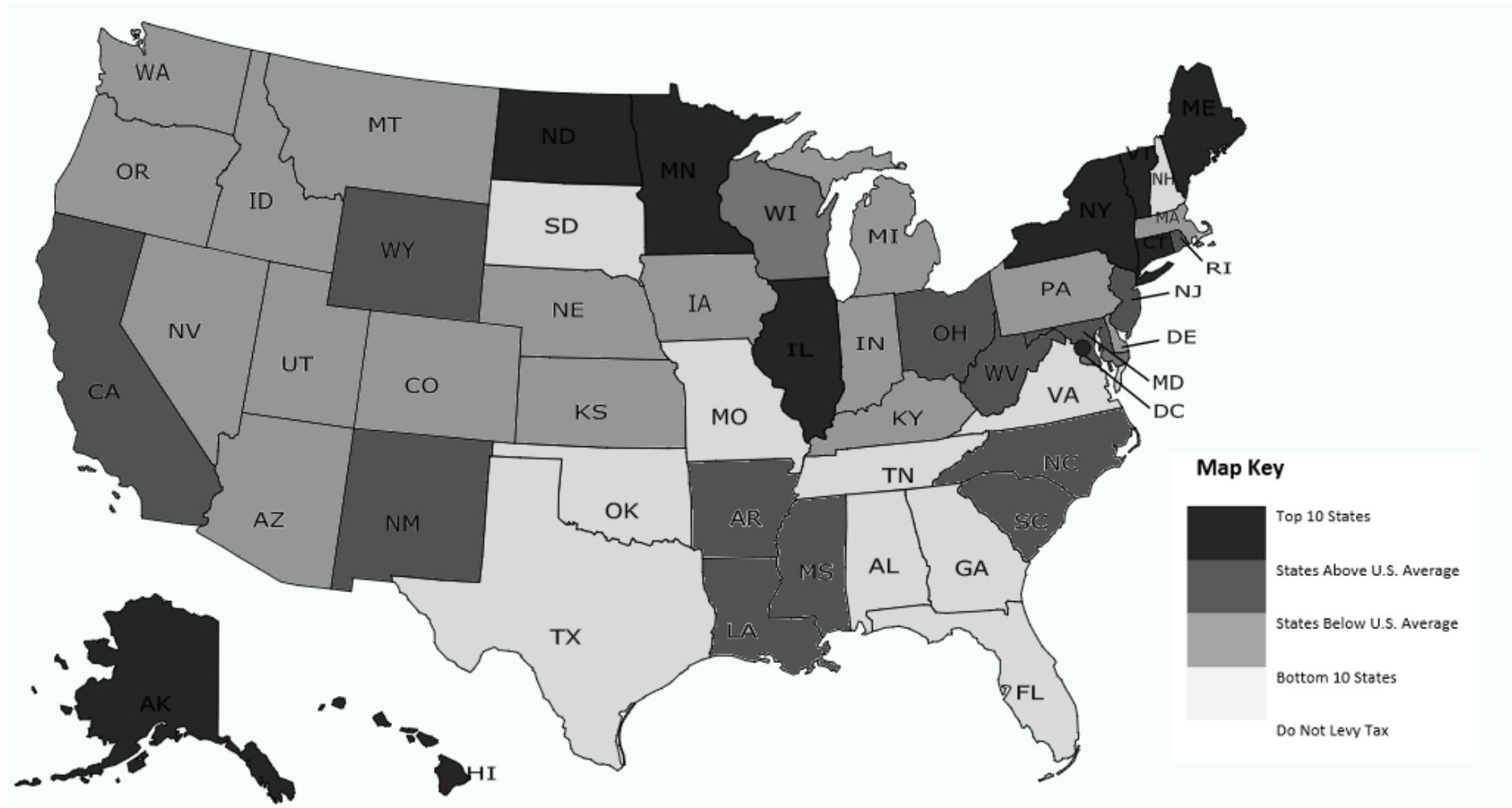
## Total State and Local Tax Revenue

<u>Per Capita</u>					<u>Per \$1,000 Personal Income</u>			
<u>Year</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

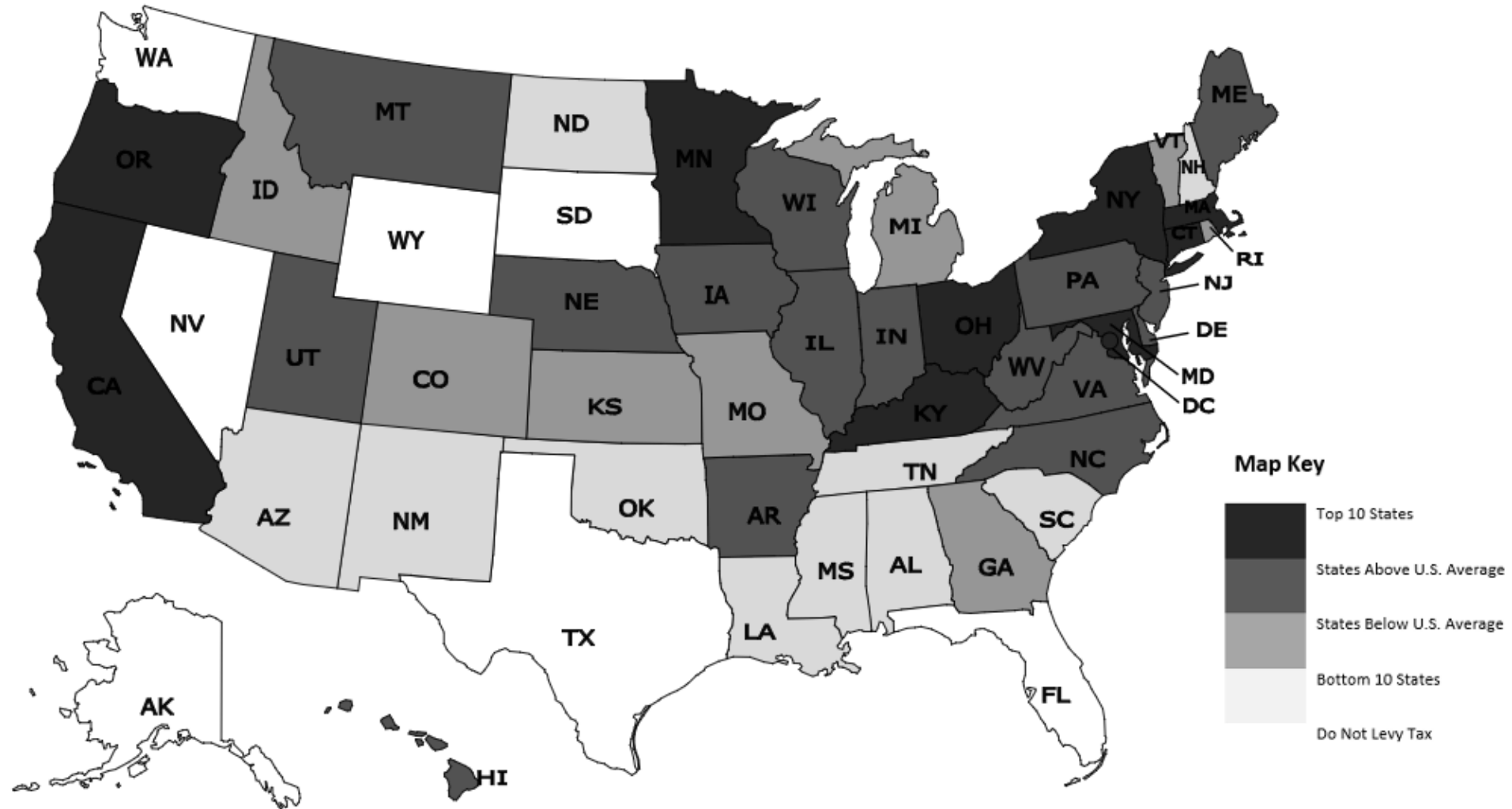


# Is Michigan a “High Income Tax” State?

## Individual Income Tax Revenues

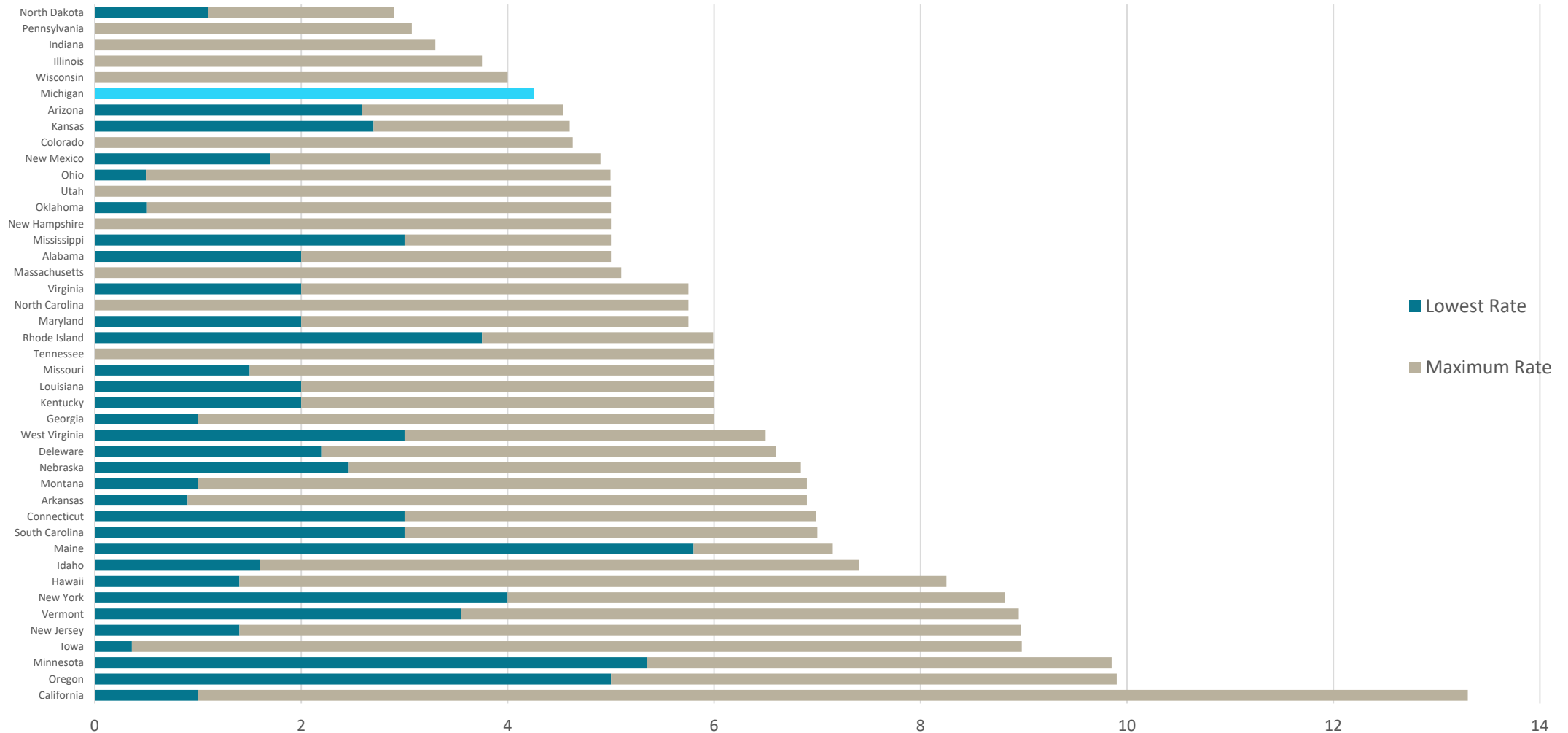
Year	U.S. Average			Michigan						
	Per Capita	Per \$1,000 Pers. Inc.		Per Capita			Per \$1,000 Personal Income			
				Amount	As % of U.S. Avg.	Rank	Amount	As % of U.S. Avg.	Rank	
1993	\$ 764	\$ 22		\$886	115.9	18 <sup>th</sup>		\$ 26	119.1	16 <sup>th</sup>
2004	\$ 906	\$ 21		\$780	86.1	32 <sup>nd</sup>		\$ 20	92.0	34 <sup>th</sup>
2008	\$ 1,085	\$ 24		\$831	76.6	34 <sup>th</sup>		\$ 21	87.9	34 <sup>th</sup>
2012	\$ 992	\$ 22		\$754	76.0	34 <sup>th</sup>		\$ 19	87.0	34 <sup>th</sup>
2013	\$ 1,069	\$ 24		\$866	81.0	34 <sup>th</sup>		\$ 22	91.8	34 <sup>th</sup>
N/A - The U.S. Census Bureau did not segregate individual income and corporate income tax revenues in 1983.										
Source: U.S. Census Bureau, <a href="http://www.census.gov//govs/local/">www.census.gov//govs/local/</a> .										

# 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

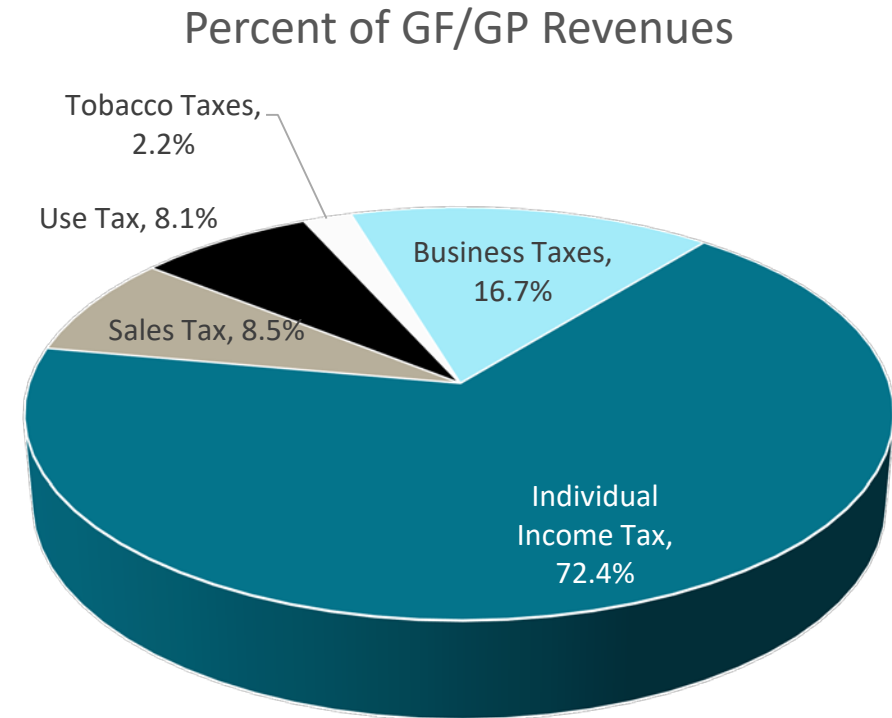
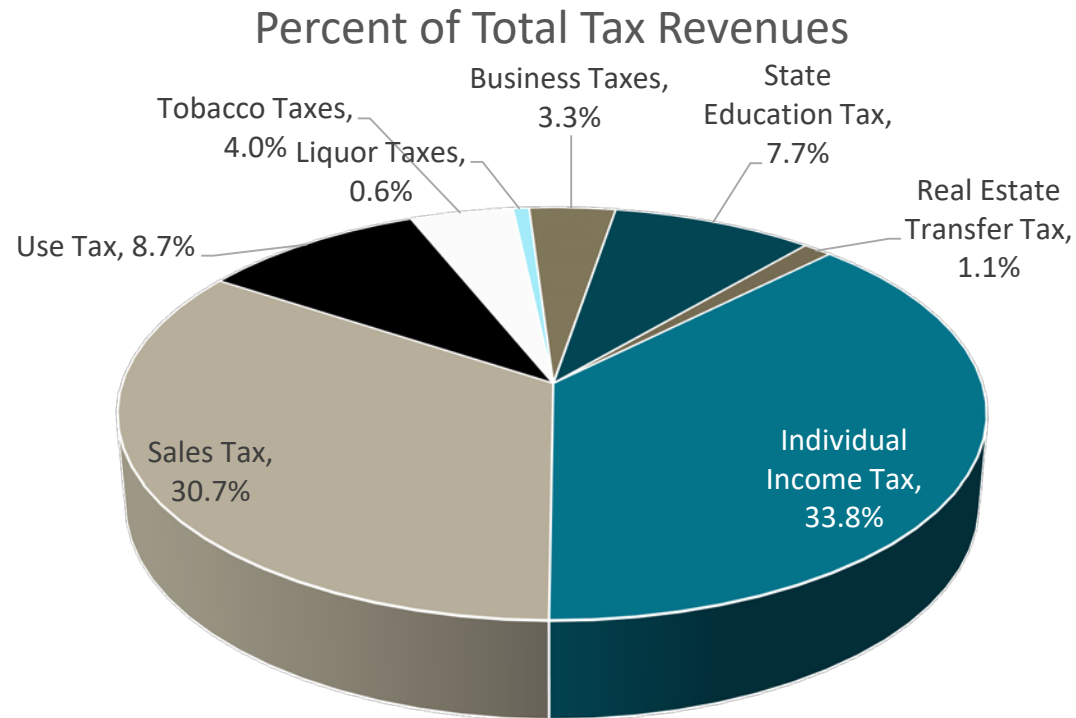
- Florida – tourism, 1/2 tax revenue from sales taxes
- Nevada – tourism, 3/5 tax revenue from sales taxes
- South Dakota – 1/2 tax revenue from sales taxes
- Texas – almost 1/2 tax revenue from sales taxes
- Washington – 3/5 tax revenue from sales taxes
- Alaska – Alaska Permanent Fund from oil extraction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

# Role of Individual Income Tax in Michigan

If the individual income tax goes away:

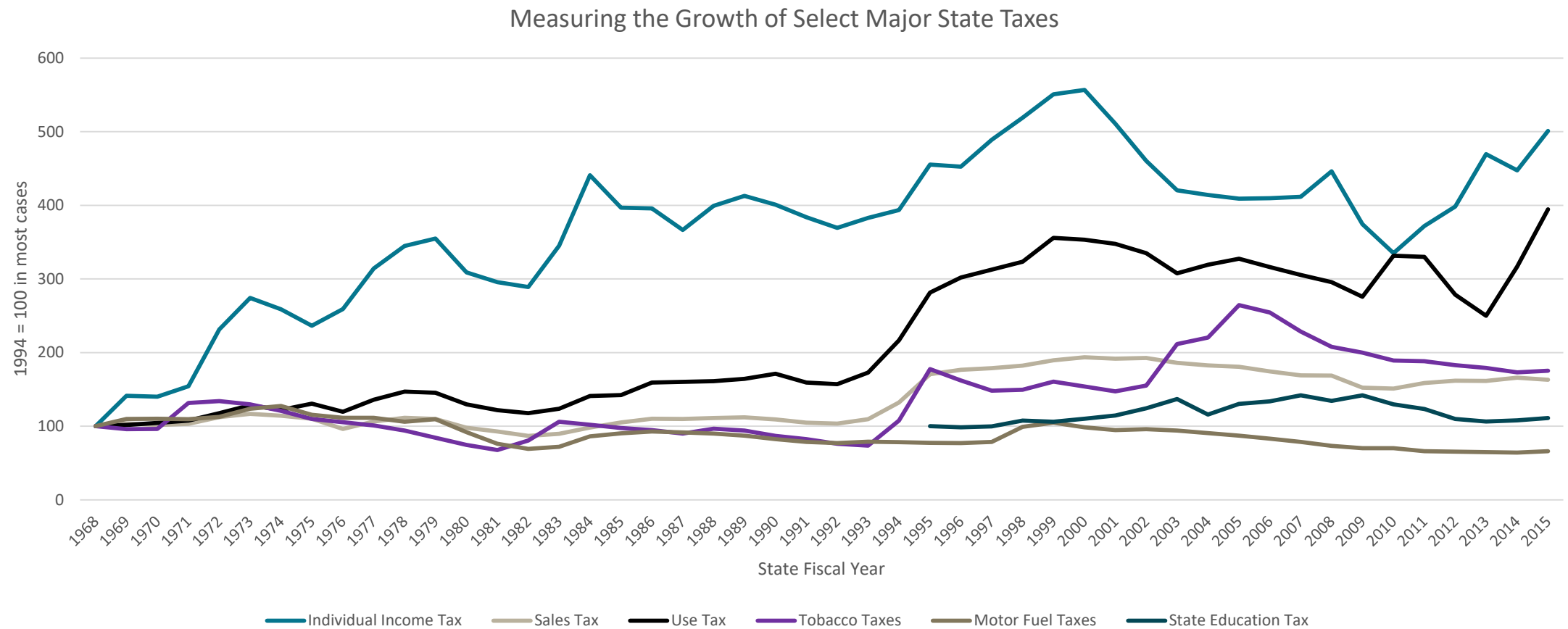
1. Can revenues from existing taxes grow at sufficient rates to make up for the loss?
2. Where will replacement revenue come from?
3. What will be cut because of insufficient funds?

# Role Individual Income Tax Revenues Play in Funding Michigan Government

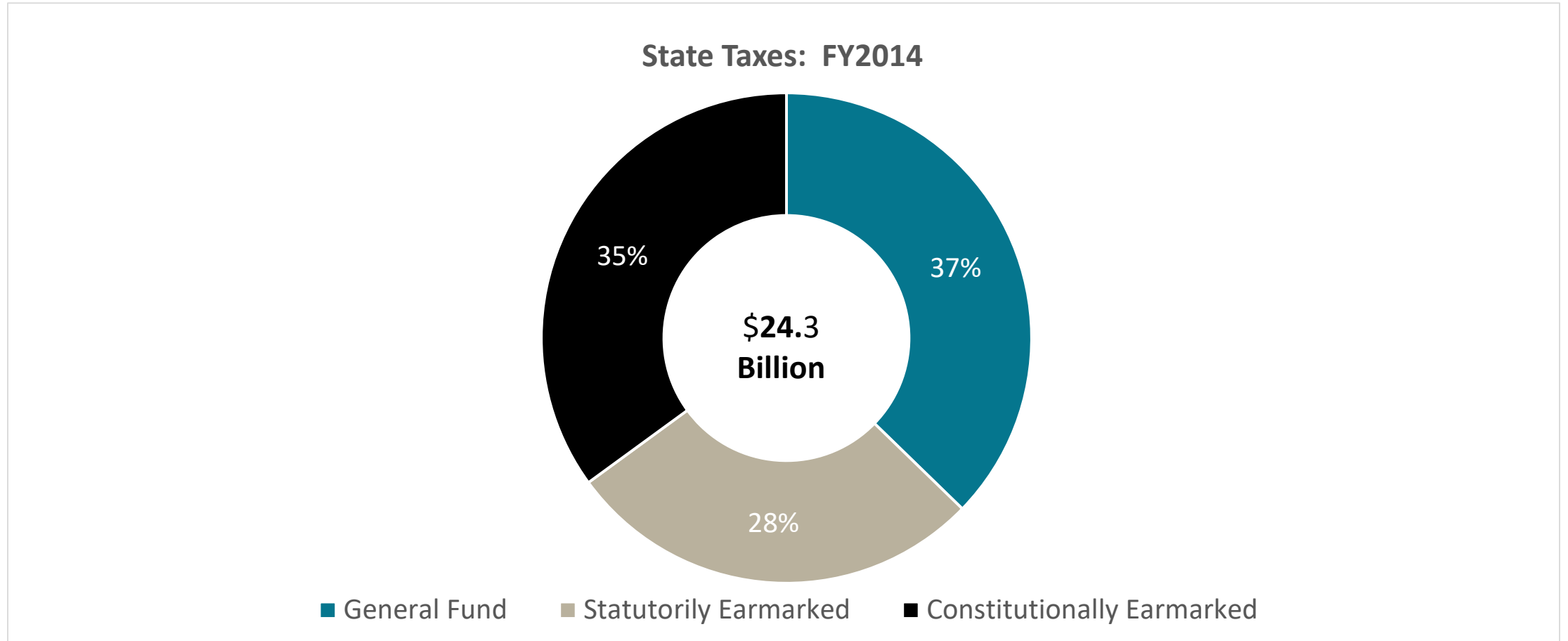


Source: 2014-15 Annual Report of the Michigan State Treasurer,  
[www.michigan.gov/documents/treasury/State Treasurers Annual Report 2014-15 524479 7.pdf](http://www.michigan.gov/documents/treasury/State_Treasurers_Annual_Report_2014-15_524479_7.pdf)

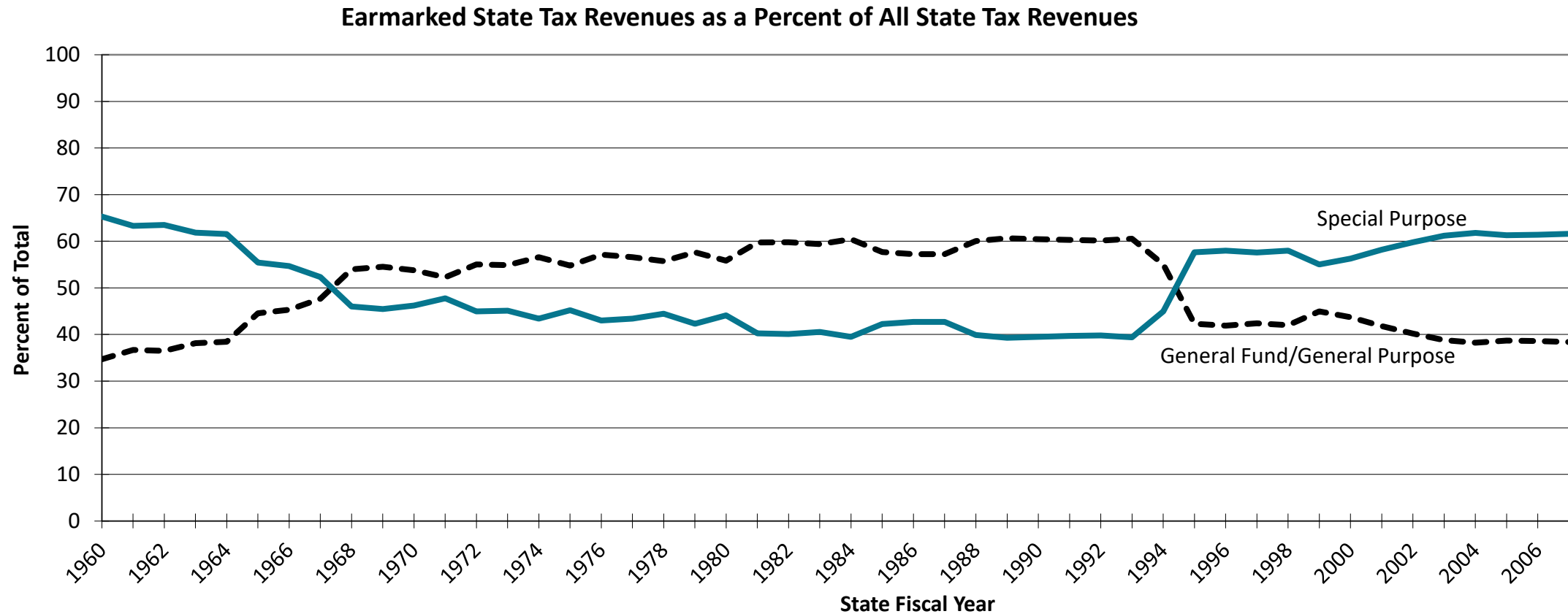
# Growth Pattern of Major State Taxes Since 1994



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



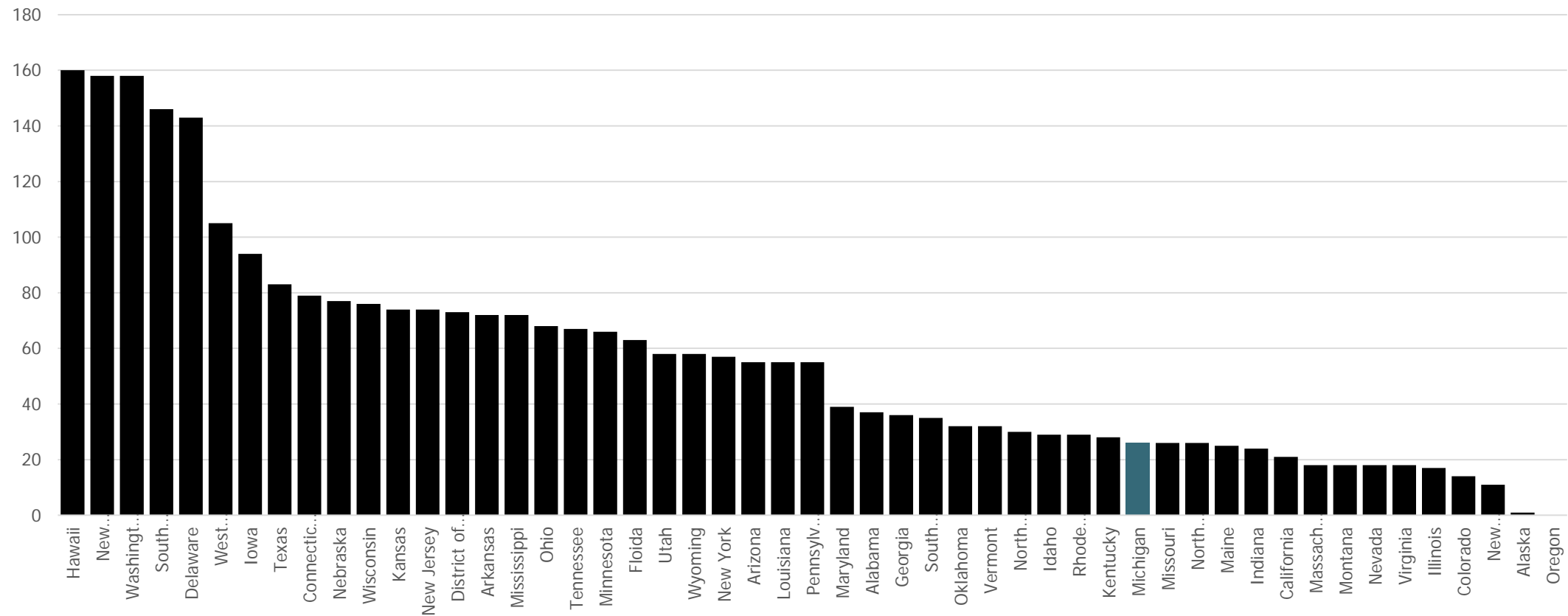
This has increase in recent years and is almost to 1960 levels that contributed to call for con-con



# 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
  - Most states tax more services than does Michigan
  - Expansion is 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

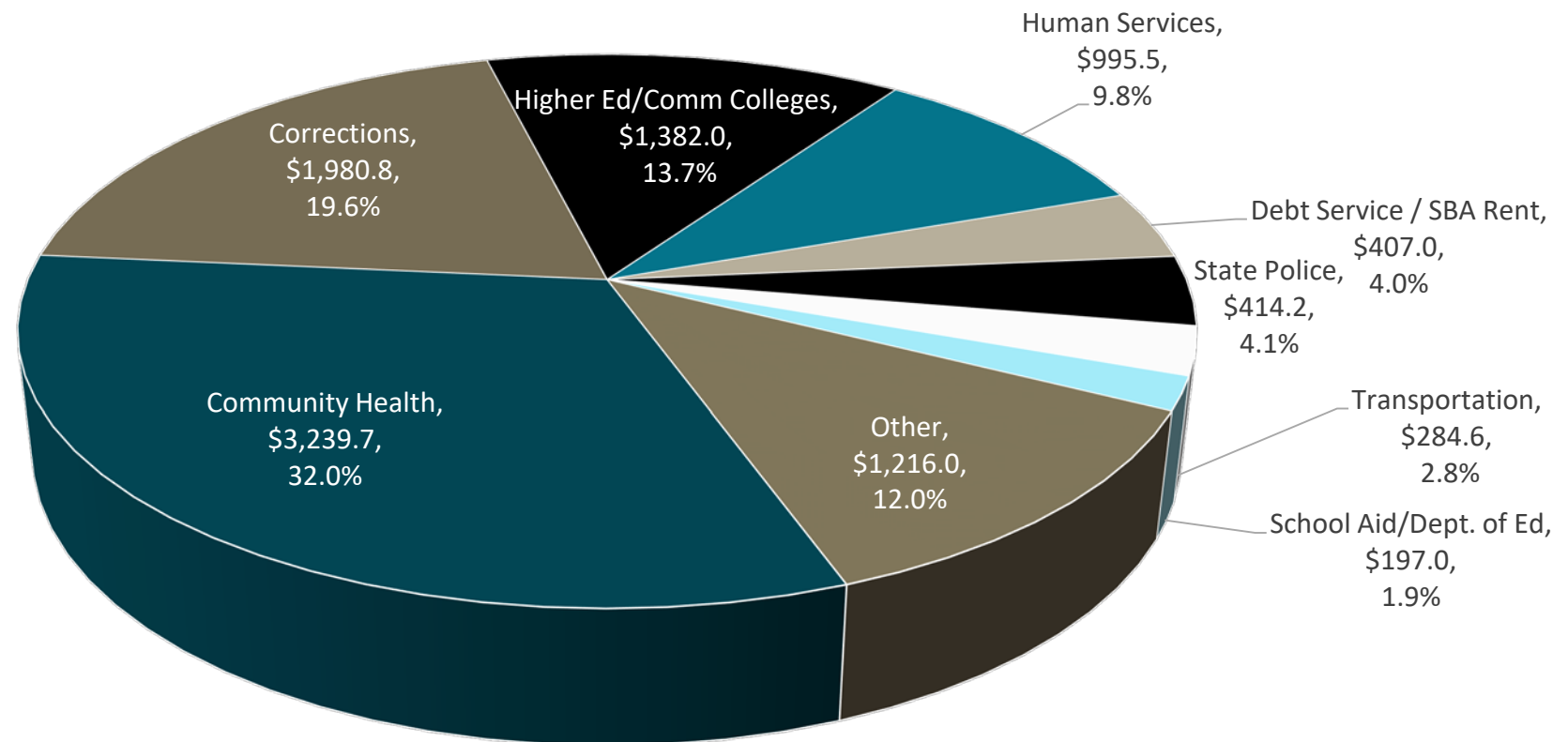
# Number of Services Subject to Sales Tax by State, 2007



Source: *Number of Services Taxed by Category and State - July 2007*, Federation of Tax Administrators, <https://www.taxadmin.org/number-of-services-taxed-by-category-and-state---july-2007>.

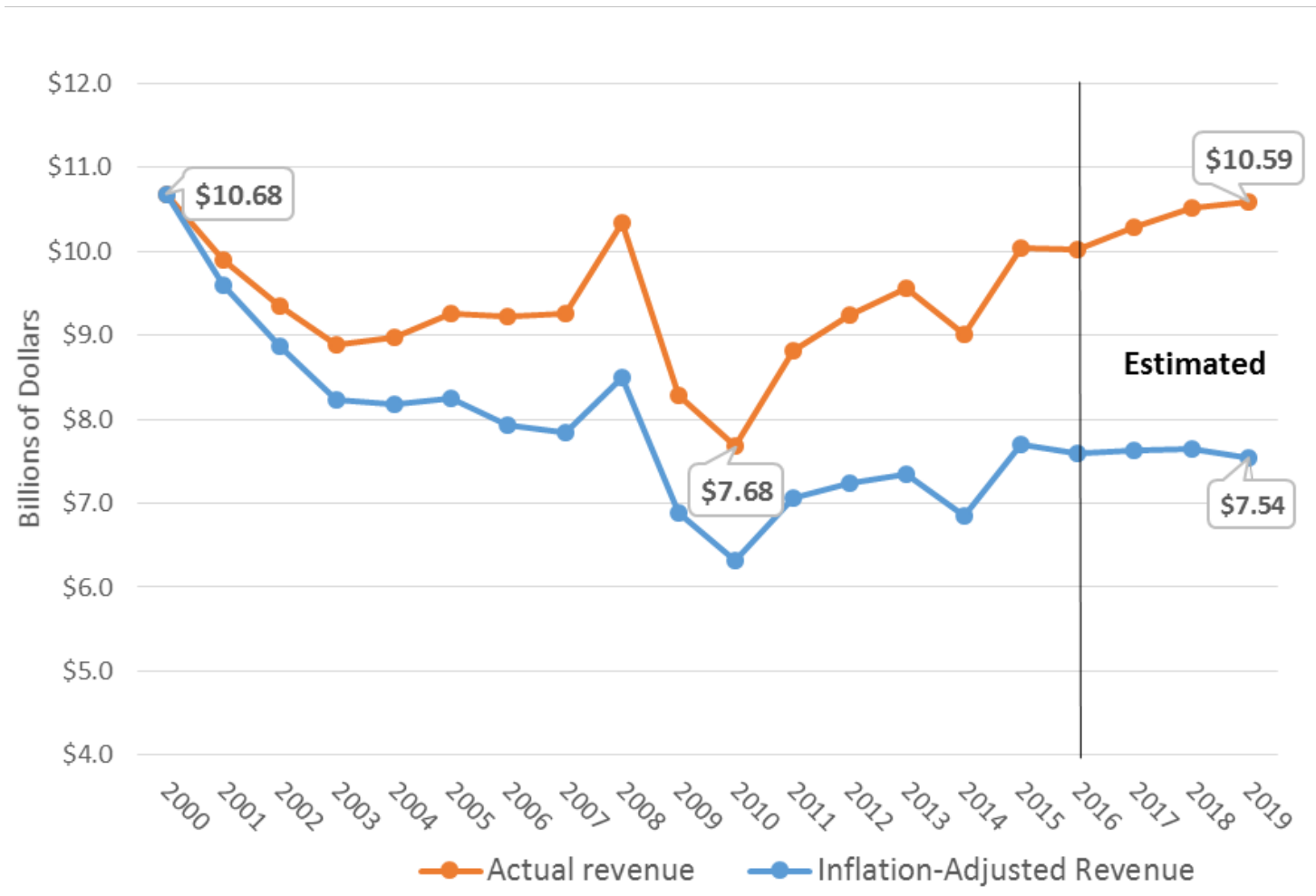
# What is funded through the General Fund?

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



# GF/GP Revenue Growth Since 2000

*Improving, But Still Below 2000 Levels*

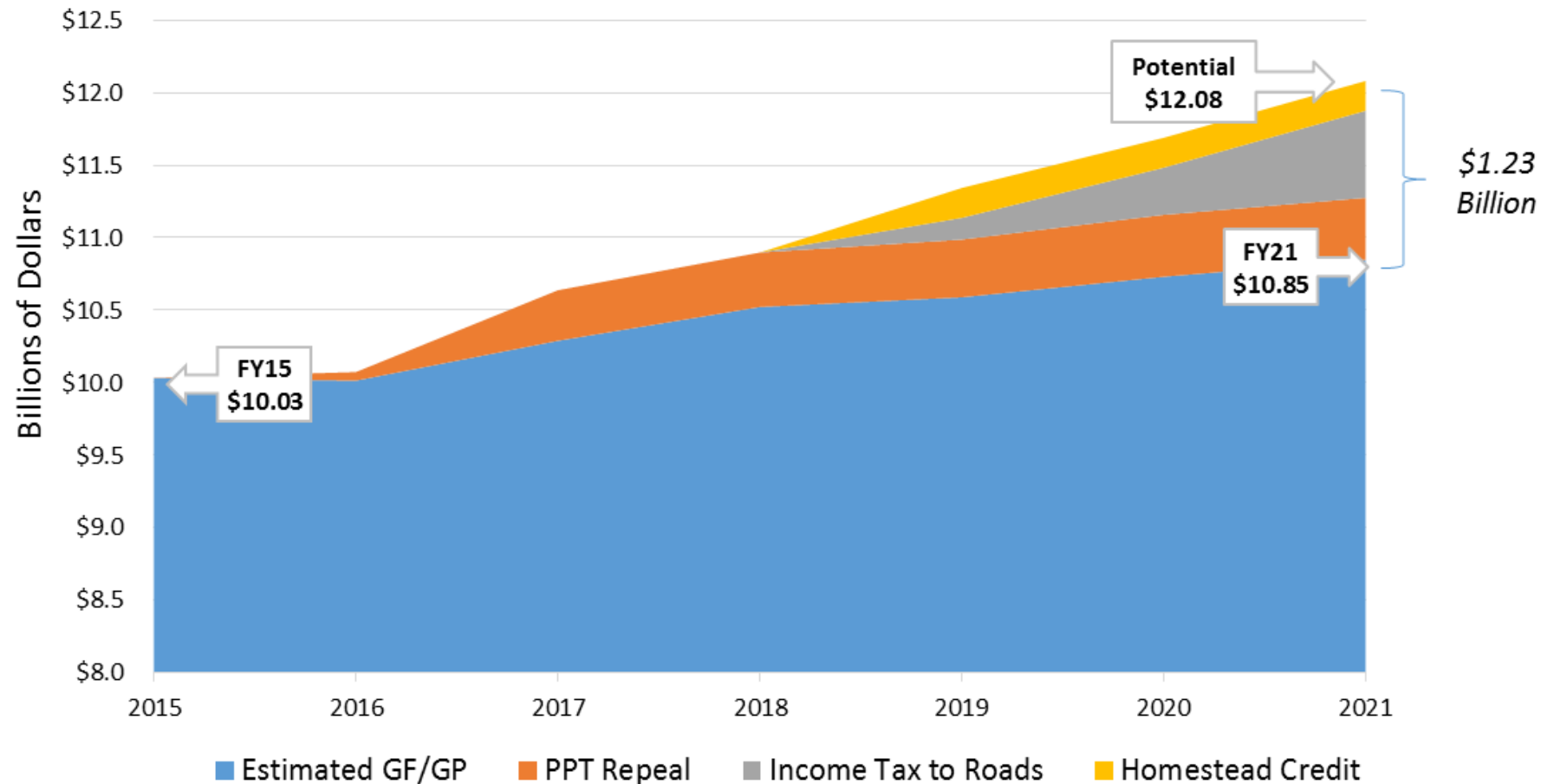


# Pending Budget Pressures

- Business Tax Credits
- Highway Funding
- Tax Credits for Low and Moderate Income Households
- Personal Property Tax Reimbursement
- Healthy Michigan Funding
- Use Tax on Medicaid Managed Care Organizations
- Sales Tax on the Difference
- Other Sales Tax Changes

# Recent Major Tax Changes Constrain Growth

*Foregone GF/GP Revenue Exceeds \$1.2B*



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