Michigan League for Human Services
CELEBRATING 100 YEARS OF RESEARCH AND ADVOCACY

Testimony Before Senate Finance Committee

April 25, 2012

Gilda Jacobs, President & CEO, Michigan League for Human Services

As a former state senator, like many of you sitting here, I came from local government where the taxes we collected were used to provide public safety, garbage pick-up and smooth roads. The taxes my constituents paid provided and preserved good services in our community, which stabilized my neighborhood and attracted new people and families to move in. I knew that the taxes I paid, along with my neighbors, ensured good schools, safe streets, and an incredible quality of life for me and my family. I was and am willing to chip in to pay our bills to make sure my community has what we need.

The plan in front of you cuts another $470 million in business tax revenues, continuing the $1.6 billion tax shift from businesses to individuals. More importantly, the intended or unintended consequences are that this tax cut will impact our local governments, schools and the quality of life we enjoy. Our communities will suffer.

In my current position as the President & CEO of the League, I'm here to talk about how these policy changes will impact Michigan's overall tax structure and the people in your district. The League supports changes to the tax structure that ensure tax equity. This business tax cut is not good tax policy for our state. This plan gives another large tax break to businesses while tuition is raised, our classrooms are overcrowded, and our public safety officers are being reduced.

The League understands the theory behind this tax cut is to encourage job creation. An ordinary consumer in your own community is far more of a job creator than another business tax cut. When people have more dollars in their pocket because they are not suffering from the burden of additional taxes, they will spend more money in their communities. This translates into more jobs. Ironically, one of the best job creators was the EITC that was reduced by 70%. When low-income families get an EITC refund they spend it immediately in their local communities for necessities. This boosts the local economy, benefits business and preserves or increases jobs

The replacement revenue under discussion is based on the phaseout of the certified credits that will be honored even with the ending of the Michigan Business Tax. Using these credits for replacement revenue has its flaws. This is explained in the attached chart. Interestingly, Bridge Magazine reported Treasury data on the revenue needed for certified credits through 2019. There does not appear to be enough revenue to even replace the 81% replacement revenue out of the $470 million revenue cut.

The first local revenue cut of $67 million starts in FY 13 without any replacement revenue until FY 16 when the credits start to decline. Given this timing, MBT credits are not likely to provide enough funds for immediate replacement revenue.

So what will happen? If Personal Property Tax collections are not fully replaced with business tax revenues, it will directly impact individual taxpayers through either cuts in services or a tax shift.

Individuals are already facing increased taxes as a result of the recent tax changes. Last year's changes to the tax structure cut business taxes by 83%. This was paid for by increasing taxes on individuals by 23% or $1.4 billion in FY 13.

As a result, 51% of Michigan residents will now pay more state personal income taxes after FY 12. And most will get a great shock when they do their income taxes next year and find all sorts of credits and deductions have been eliminated.

In addition, the lowest-income families were the hardest hit by the income tax changes. They will pay 1% more in taxes as a percent of their income, or $101 more. By comparison, the highest-income group will pay an average of 0.001%, or $7, more per year.

Another example of a possible tax shift would be if local homeowners are forced to pay higher property taxes in order to compensate for the business tax cuts, so that crucial local services can still be provided.

If 81% of the PPT collections are expected to be replaced, the 19% left represents a cut to the revenue provided to local communities. Not fully replacing the revenue is unacceptable in light of all of the cuts over the last decade. We can't just erase existing local revenues without a plan for a specific allocation of replacement revenue. However, the proposed legislation doesn't include any specific revenue for revenue replacement.

So, what's a possible solution? Local government should not be cut and taxes should not be shifted to individuals who are already paying more. If the PPT is reduced, the

League proposes that businesses continue to pay the same amount of revenues paid before reducing the PPT.

PPT revenues can be painlessly and fairly replaced by increasing the collections from the Corporate Income Tax. There is room to either raise the 6% CIT tax rate or to expand the base to the 95,000 businesses that don't pay the tax at all.

Our close neighbor, Illinois, ended the PPT and replaced it with the CIT.

Michigan's 6% corporate income tax rate is lower than in any nearby state except Ohio, which does not have a CIT. (Pennsylvania 9.9%, Illinois 9.5%, Indiana 8.5%, Wisconsin 7.9%, New York 7.1%. Ohio is not comparable because it has no CIT but gross receipts tax.)

In summary, if the PPT is cut, replacement revenues need to be provided by businesses so that the tax burden is not shifted to individuals, and local governments and schools are not further harmed by revenue reductions.

As you deliberate moving forward, I hope you will take into consideration equitable options for replacing the PPT. As always, the League is happy to provide you with any information you need to help you make these important decisions that will impact Michigan for many years to come.

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Revised
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MBT Credits Not Likely to Provide Enough Funds for Replacement Revenue

The suggested replacement revenue source is the phaseout of the certified credits that have been honored after the Michigan Business Tax was ended. While these credits have a limited life, the phaseout schedule needs to match the new revenue stream. The revenue is lower than the amount needed for full replacement and only a small portion will become available by FY 2016. Given this timing, MBT credits are not likely to provide enough funds for replacement revenue as shown in the table below.

Michigan Certified Business Credits
Estimated Revenue for Credits Claimed
(in millions)

Fiscal Year	Credits Claimed	Annual Change	Replacement Revenue Available	Estimated Revenue Loss
2012	$282	—	—	—
2013	$502	$220	—	($80)
2014	$624	$122	—	($80)
2015	$623	($1)	—	($81)
2016	$502	($121)	$122	($454)
2017	$367	($135)	$257	($481)
2018	$353	($14)	$271	($506)
2019	$344	($9)	$280	na

Source of Credits Claimed: Department of Treasury as reported by Bridge, April 2012.
Source of Revenue Loss: Senate Fiscal Agency, April 19, 2012.
Table prepared by Michigan League for Human Services.

1223 TURNER STREET • SUITE G-1 • LANSING, MICHIGAN 48906
517.487.5436/PHONE • 517.371.4546/FAX • WWW.MILHS.ORG
A UNITED WAY AGENCY