Michigan League FOR Human Services

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Federal Stimulus Package Projected to Cost Michigan $127 Million in Lost Revenue: Tax Code in Other Midwest States Avoids Revenue Losses Due to Bonus Depreciation

On May 16th the directors of the Michigan House and Senate Fiscal Agencies together with State Treasurer Bob Kleine, convened the semi-annual Consensus Revenue Estimating Conference to determine estimated state revenues for FY2008 and FY2009. The consensus reached by the conferees indicated that net state revenues would decline by $60.6 million in FY2008 and by $472.3 million in FY2009 compared to the revenue forecast issued in January. Of these revenue declines, the Conference attributed approximately 25 percent ($127 million) to the bonus depreciation component of the recently adopted federal stimulus package. This temporary federal tax code change permits businesses to claim a 50 percent depreciation credit for capital acquisitions such as new equipment purchased in calendar 2008.

In a report released by the Washington D.C.-based Center on Budget and Policy Priorities (CBPP) it was noted that the majority of states, including those in the Midwest region with the exception of Michigan, have taken action to avoid the loss of state revenues that would otherwise occur in association with federal tax code changes such as the recently adopted stimulus package. By taking this action the other Midwest states have, according to the CBPP, avoided the loss of an estimated $1.5 billion in revenues as outlined in the table below.

By following the lead of the other Midwest states, Michigan could reduce a significant share of the projected revenue shortfalls for FY2008 and FY2009. Taking action to preserve $127 million in previously anticipated revenues would also significantly reduce the program reductions and/or revenue increases needed to close projected deficits as required by the Michigan Constitution.

Impact of Temporary Federal “Bonus Depreciation” on State Revenues

State	Potential Revenue Loss ($s in millions)	Action Taken	Projected Loss ($s in millions)
Illinois	$390	Tax Code Precludes Loss	$0
Indiana	$152	Tax Code Precludes Loss	$0
Iowa	$ 59	Tax Code Precludes Loss	$0
Michigan	**$127**	**Tax Code Permits Loss**	**$127**
Minnesota	$151	Tax Code Precludes Loss	$0
Ohio	$201	Tax Code Precludes Loss	$0
Pennsylvania	$335	Tax Code Precludes Loss	$0
Wisconsin	$162	Tax Code Precludes Loss	$0
Midwest Totals	**$1,577**		**$127**

Sources: Projected loss of Michigan state revenues taken from the May Consensus Revenue Estimating Conference report

Potential revenue losses for other Midwest states, all of whom have acted to protect revenues by decoupling, taken from a report issued by the Center on Budget and Policy Priorities entitled NEW FEDERAL LAW COULD WORSEN STATE BUDGET PROBLEMS: States Can Protect Revenues by “Decoupling”.

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