



Testimony Before the House Tax Policy Committee

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As President and CEO of the Michigan League for Public Policy, formerly the Michigan League for Human Services, I am urging you to move slowly and cautiously as you address the personal property tax (PPT) repeal proposals currently before you. As a former state senator, like many of you, my background includes local government experience. Those local leadership roles make us all acutely aware of the critical importance of good community services including public safety, effective schools and community colleges, good roads, libraries and parks.

The Michigan League for Public Policy recognizes the need for a strong manufacturing base in Michigan, and understands that manufacturers pay a larger share of PPT taxes. Our concern with both the Senate-passed bills and the lieutenant governor's proposal are twofold.

Both plans further shift the responsibility for funding important state and local services to low- and moderate-income families and taxpayers. By failing to provide full replacement revenues provided by businesses, both the Senate bills and the lieutenant governor's proposal would have the intended or unintended consequence of shifting an even greater portion of the burden for state services from businesses to low- and moderate income families and individuals. For example, reductions in PPT funds without full replacement revenues would trigger automatic millage increases on homeowners in school districts still legally obligated to repay bonds, but without the PPT funds to do so. In addition, diverting use tax revenues to reimburse for lost PPT funds constitutes yet another tax shift from businesses to individuals, as use taxes are expected to be increasingly paid by individuals as consumers shift to internet sales, and hopefully as you find ways to ensure better enforcement of current use tax obligations.

The proposed overhaul of the PPT comes on the heels of a major tax shift that reduced business taxes by 83%, while increasing taxes on individuals by 23%. The net result is that two-thirds of Michigan businesses will not be subject to the new corporate income tax (CIT), while more than half of the state's residents will pay more in personal income taxes. The tax shift passed last year disproportionately affected the lowest-income



families. Families with incomes of less than \$17,000 are now paying an average of 1% more in taxes as a percent of their income, while the top earners (\$334,000 or more) face an average increase of only 0.001%.

We believe that as a matter of fairness and good tax policy, it is imperative that revenues lost through the elimination of the PPT be fully replaced with business tax revenues, and not through yet another tax shift to individuals. This could be accomplished either through an increase in the CIT rate, or by broadening the base to include the more than 95,000 businesses that don't pay the tax at all.

Reducing or eliminating the PPT will not make Michigan more competitive if the result is cuts in the local services and infrastructure that attract and retain business investments. While we understand that the goal of reducing or eliminating the PPT is to improve Michigan's business climate and make the state more competitive, tax levels are not the only factor considered by businesses in determining location. It would be counterproductive to further reduce funding for the local services that businesses rely on, including public safety and transportation, as well as to weaken the public schools needed to create a skilled workforce, or eliminate the community attractions that draw businesses and skilled workers such as parks and libraries.

Of concern in the lieutenant governor's proposal is the reliance on expiring business tax credits as the revenue stream to hold the state budget harmless from the losses in diverted use taxes. If the funds generated by those credits are less than the state's use tax losses, which is widely considered to be the case, the resulting budget hole will put more fiscal pressure on state-funded human, educational and other public services.

The strategy of reducing taxes and cutting state services has been used extensively in Michigan over the last decade and hasn't produced the promised result of economic growth. Instead, we have seen public schools that are grappling with large deficits; thousands of the state's poorest children losing basic public assistance and increasingly facing homelessness; cuts in state revenue sharing that have forced the postponement of much needed capital improvement projects and resulted in cuts in police and fire protection; and deep cuts in funding for higher education, resulting in part in increases in tuition, putting higher education, so important in building our next workforce, out of the reach of many.

As you continue your deliberations, we hope that you will take the time needed to ensure that there are stable and equitable options for replacing the PPT. It is more important to get it right than to just get it done.

As always, the League stands ready to provide you with any information you need to help you make the important tax policy decisions that will shape Michigan for many years to come.