

2020 STATE BUDGETS CONTINUE TO IGNORE THE NEED FOR NEW MONEY

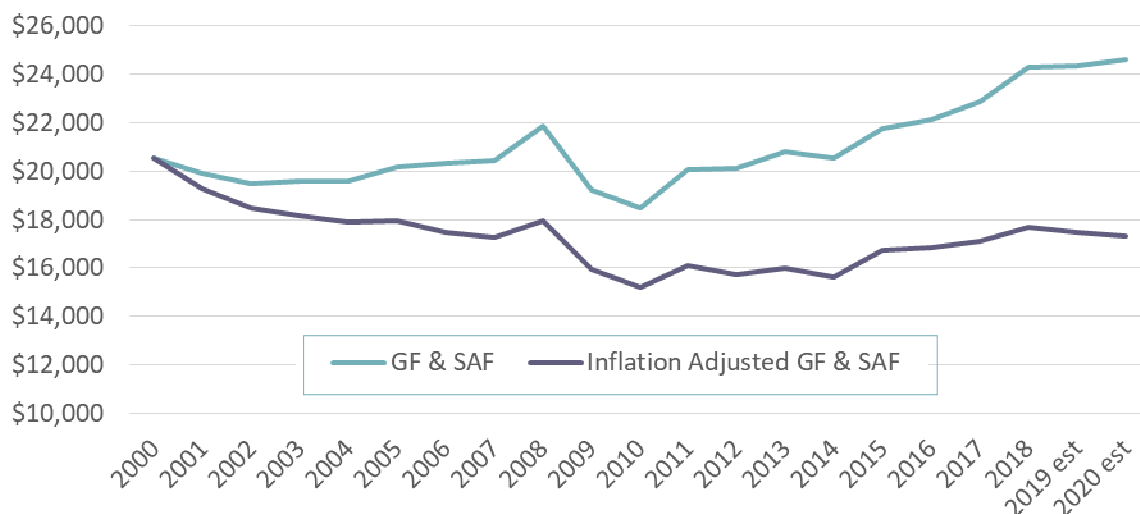
Rachel Richards, Legislative Director | July 2019

Both the Michigan House and the Senate have approved budgets that continue to fail to address the inadequacy of the state's tax revenue. Over the past several years, budgets have been largely silent on the need for revenues. Instead, lawmakers prioritized tax cuts and budget shifts instead of investing in the things Michigan businesses and residents really need—safe roads, quality K-12 education and skilled workers. And the 2020 budget proposals currently before the Legislature do not change this.

When adjusted for inflation, combined state General Fund and School Aid Fund revenues fall short of the levels from 20 years ago. In fact, inflation-adjusted school revenues are below 1995 levels when Proposal A was put in place, and inflation-adjusted General Fund revenues are below 1968 levels when the state personal income tax was implemented. And while Michigan's needs in infrastructure, education and other areas have continued to grow, tough choices have been made as the costs of providing basic services have gone up.

Raising taxes is the one tough choice that House and Senate leaders have been unwilling to make at this point in the budget process. Gov. Gretchen Whitmer's budget included significant revenue increases to help improve and maintain the state's roads and other infrastructure and to improve the K-12 education system, while aligning funding streams and providing increases to other key areas of the budget. Instead, the House and Senate relied on dangerous cost cutting and revenue shifts in order to cobble together a still-inadequate budget for 2020.

State General Fund and School Aid Fund revenues have not kept up with inflation



Source: Senate Fiscal Agency; League calculations using Detroit CPI

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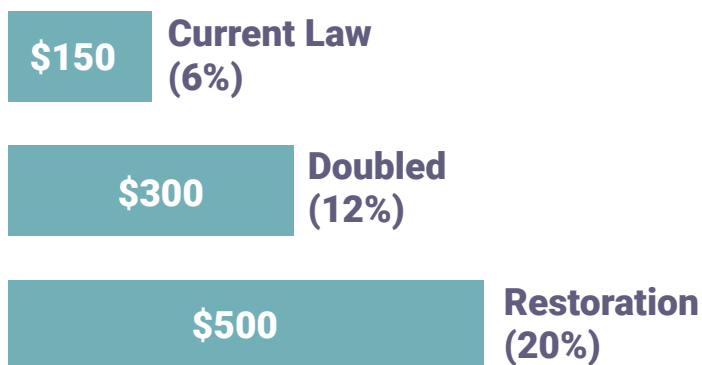
What follows is where each of the budgets stand on revenues and more equitable tax changes as of July 2019.

Gas Tax/Road Funding:

- **Governor:** The governor proposed increasing Michigan's fuel tax by 45 cents per gallon, phased in over one year. This alone would bring in an additional \$1.3 billion for the next budget year and then \$2.5 billion more per year thereafter. When combined with the reversal of the income tax earmark that was put in place in the 2015 road plan, the proposal would net about \$2 billion more for roads than under current budget projections. While existing fuel taxes and registration fee revenues would continue to be distributed under current law (with grants to county road commissions, cities and villages, and for state trunkline roads following other allocations), the new revenues would be distributed under a new formula that accounts for the functional classification of the road (for example, freeways, highly-traveled non-freeway routes, local roads that are less traveled and local bridges).
- **Senate:** The Senate rejected the fuel tax increase as well as the reversal of the 2015 road plan earmark and did not address new road funding as part of their budget proposal.
- **House:** The House rejected the fuel tax increase as well as the reversal of the 2015 road plan earmark. Instead, the House proposes to eliminate the state sales tax on fuel—a tax which in part helps pay for schools and local community services—over two years and creates a new road-dedicated tax. This would raise nearly \$550 million the first year, falling far short of the money needed—and what the governor's budget raised—to help improve and maintain Michigan's roads.

Michigan Earned Income Tax Credit:

Strengthening Michigan's EITC would mean more money in workers' pockets (average credit)



Source: Michigan Department of Treasury, League calculations

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- **Governor:** The governor proposed doubling the Michigan Earned Income Tax Credit (EITC) from 6% of the federal credit to 12% of the federal credit over two years. The state EITC is a bipartisan, pro-work policy that helps boost families out of poverty and has long-lasting benefits for children in families that receive it. In tax year 2017, about 748,500 families received the credit, at an average of about \$150 that year. Doubling the EITC would boost after-tax incomes for many working families, while at least partially offsetting the higher fuel taxes proposed.
- **Senate and House:** The Senate and House did not include any increase in the EITC in its budget.

Reinstating Preferential Treatment for Retirement Income:

- **Governor:** The governor recommends reinstating the senior tax preferences that were in place prior to the 2011 tax shift. As part of the tax shift, Michigan retirees started paying taxes on a portion of their retirement income based on their age instead of based on the type of income. The governor recommends reverting back to the tax treatment prior to the shift, while allowing taxpayers older than 67 an option either to deduct their retirement income or claim a deduction against all of their income as they currently do in order to ensure that no Michigan retiree sees a tax increase—at a cost of \$355 million for the first full year.
- **Senate:** The Senate does not include this tax change in its budget.
- **House:** The House does not include this tax change in its budget. However, this tax change was one of the first bills to be considered and passed by the House Tax Policy Committee, and it currently sits before the House Ways and Means Committee for further consideration.

Business Parity Tax:

- **Governor:** The governor recommends increasing taxes on some pass-through business entities, creating parity with businesses currently paying the Corporate Income Tax (CIT). Currently, C-Corporations—traditional corporations—pay a 6% CIT while income earned by pass-through entities, such as Limited Liability Corporations (LLCs), S-Corporations and Partnerships, are passed through to their owners for tax purposes and are thus currently taxed at the lower personal income tax rate. The governor proposes that all businesses be subject to a 6% tax rate, with some credits and deductions to protect small businesses and owners.
- **Senate and House:** Both the Senate and House do not include the business parity tax.

State Funding Shell Game:

- **Governor:** The governor proposes ending the funding shell game, ensuring that roads are funded by dedicated transportation funds and School Aid dollars are used to pay for preschool through community college. The governor would end the practice put in place by the 2015 road plan that dedicated up to \$600 million in state General Fund dollars to roads. By ending this shift, the more recent practice of partially paying for aid to state universities out of the School Aid Fund—to the tune of \$4.5 billion since 2010—would also end, and additional resources would be available to invest in Michigan K-12 students.
- **Senate:** The Senate continues the implementation of the 2015 road funding plan. Additionally, the Senate continues to partially pay for aid to state universities out of the School Aid Fund.
- **House:** The House continues the implementation of the 2015 road funding plan. The House also eliminates the sale of fuel from the sales tax, which would

decrease revenues to local communities through revenue sharing and schools. However, the House proposes ending the practice of using School Aid Fund dollars to partially pay for aid to state universities and would instead use state General Fund dollars for that state aid. In order to make enough state General Fund dollars available, the House proposes significant cuts to information technology as well as across-the-board budget cuts.

WHAT CAN YOU DO ABOUT IT?

The state budget process is still ongoing. Legislative leaders are meeting with the administration on important issues such as the state budget and road funding, and changes are expected. **This is your chance to weigh in on the issues that really matter, and adequate funding for state services is probably the most important.**