Testimony to the House Tax Policy Committee on HB 5265-5267

GILDA Z. JACOBS

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The Michigan League for Public Policy opposes House Bills 5265, 5266, and 5267 because across-the-board cuts in the state's personal income tax will not create jobs or grow Michigan's economy. In fact, revenue reductions associated with income tax reductions could affect long-term prosperity by locking in cuts in funding for colleges and universities, local communities, transportation and the other services and public structures that fuel economic growth.

Decades of research, as well as evidence from other states, show that income tax cuts will not create the good jobs our state needs, and will undermine our future by making it harder to invest in what does build a strong economy. A study of 65 years of data by the Congressional Research Service found that top income tax rates have had no discernable impact on economic growth, a finding that is consistent with most other serious studies. And the experience of states that cut income taxes deeply in the 1990s and 2000s provides no evidence that those tax cuts worked as advertised. The states that cut taxes the most in the 1990s did worse than more prudent states in the next economic cycle, and only significant oil producing states performed well after they cut taxes in the 2000s.

Over the last decade, Michigan budget and tax policies have resulted in deep cuts in the public services and structures that are the foundation of economic opportunity and growth. To gamble on personal income tax cuts—despite the evidence that tax cuts do little to boost the economy—puts basic public services at risk, and undermines Michigan's fledging economic recovery.

Reinvesting in education must be at the top of our to-do list. A well educated workforce is essential to growing our economy. In addition, cuts to local governments have affected their ability to provide the services that businesses want and need, including police and fire protection. We must reinvest in our communities.

Of particular concern to the League in HB 5276 is the open-ended nature of the tax reduction—without a specified income tax base rate. This bill could potentially result in personal income tax rates that are lower than the 3.9% in SB 402, which we also oppose.

The reality is that the bills before you, like SB 402, would benefit the state's wealthiest taxpayers. For example, if the income tax rate is reduced to 3.9%, nearly one in four Michigan households would receive no tax cut at all, including half of the state's lowest wage workers. By contrast, 60% of the tax cut dollars would flow to Michigan's wealthiest 20% of taxpayers. This is not the way to help low- and moderate-income families, many of whom are still struggling to meet their basic needs. Fortunately, there is a vehicle already in place to support low wage workers. The state EITC, which was cut by 70% as part of the tax changes adopted in 2011, is one of Michigan's most effective tools for supporting working families and reducing poverty.

The higher than expected state revenues for the upcoming fiscal year create an opportunity to stabilize Michigan's budget, reinvest in the services that make the economy grow, and address the needs Michigan's lowest wage workers. This is not the time for an across-the-board tax cut that will not create jobs or grow the economy.