Testimony Presented to the House Tax Policy Committee

House Bill 4001
State Income Tax Reduction

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February 15, 2017

Good morning Chairman Tedder and members of the Tax Policy Committee. I am Gilda Jacobs, President and CEO of the Michigan League for Public Policy, a nonpartisan research and advocacy organization that promotes economic opportunity for all, regardless of race, place or income, and addresses poverty in a comprehensive manner. I thank you for the opportunity to testify this morning. We have several concerns with HB 4001, which would ratchet back the state income tax over the next 40 years.

This proposal will not create jobs or grow the economy as suggested and will disproportionately benefit the wealthiest taxpayers most. Instead, it will leave our state unable to invest in our schools, colleges and universities, communities, infrastructure, healthcare and public safety—the things that actually fuel economic growth.

Let's look at the facts which I hope you will weigh when considering this harmful legislation. While this appears to be a "drop in the bucket" when you look at the state budget as a whole, including federal dollars, the impact this legislation will have on state funds is significant. State income taxes make up about one-third of total state revenues, about one-fifth of state funds for schools, and 7 out of every 10 of our state's discretionary dollars.

The immediate impact of this legislation would be to eliminate $680 million from our state General Fund budget in fiscal year 2018 alone. This is equivalent to an about 7% across-the-board General Fund cut to all state departments, nearly half of state funding for colleges and universities, or total state General Fund dollars for around 10 state departments, including the funding for the Legislature. And the proposal would increase the amount of state revenue lost year after year, eliminating a revenue stream worth more than $9 billion once the income tax is fully repealed.

All of these budget decisions have a personal impact on the lives of Michigan residents. At a time when we are talking about reforming our criminal justice system, we wouldn't be able to provide returning citizens the support they need to be productive again. We also just started making investments so that our children can read proficiently. Taking money away would reverse that growth. These are the people who will one day be our doctors, lawyers, engineers, and skilled tradespeople; do we really think it's okay that we won't support them now so they can support us later? It would also impede our ability to put money into our Rainy Day Fund and save for the future or the next economic downturn, expecting our children to deal with budget cuts.

And your constituents agree with us. Recent polling shows that Michigan residents in your districts and around the state care more about the services they receive than they do about tax cuts. And they are highly concerned about the impact an income tax elimination could have without replacing those revenues.

If we think cutting off our ability to make these investments and pay for the things Michigan residents and job-providers rely on will grow the economy, we are fooling ourselves. All we need to do is look to other states that have recently gone through this to learn from their dismal outcomes. Take Kansas, for example. In 2012, Kansas enacted changes that eliminated taxes on a number of businesses and phased in income tax cuts. Instead of boosting the state economy, Kansas has been in a perpetual budget crisis, had to use gimmicks in order to patch budget holes, and had its credit downgraded several times. Schools have had to close weeks early, and due to raiding its road fund, the state went from being able to maintain its roads every 9 years to every 50 years. And some Republican Senators in Kansas are already scrambling to undo this mistake and repeal the tax cuts passed by their party's governor.

Take Mississippi—the state only recently started phasing in tax cuts and has already had to use reserves to patch a budget hole and now has a negative credit outlook which could impact its ability to deal with budget crises in the future.

Some have compared this proposal with how states like Texas and Florida have fared without ever having an income tax. That's like comparing apples with oranges. Unfortunately, Michigan does not have their warm weather or their oil, one of Texas' most significant revenue streams. Texas also taxes a number of services that we currently do not, and both states allow local option sales taxes.

On top of decimating our budget and our ability to attract and keep Michigan residents and businesses, a tax cut would disproportionately benefit Michigan's wealthiest taxpayers and contribute to rising income inequality. In the first year alone of an income tax reduction, taxpayers with low incomes, with an average income of $13,000, would get $16 back, middle-income taxpayers with an average income of $51,000 would receive $82, while those at the very top of the income scale, with an average income of over $1.5 million would receive $3,700.

Over 1 in 5 (22%) Michigan taxpayers would see no tax cut at all—including about 40% of the state's taxpayers who are struggling to get by (those making less than $22,000 per year). Two of every $3 in tax cuts would flow to Michigan's wealthiest 20% of taxpayers. The top 1% of earners, who make more than $484,000 per year, would take home 20% of the tax cut benefits.

On top of this, the proposal would ultimately eliminate the income tax. This will cause our already upside down tax system to get worse. In states that rely primarily on sales taxes, taxpayers with lower incomes pay a higher percentage of their incomes in state and local taxes than wealthier earners. Our state income tax allows our struggling taxpayers to offset their high sales and property taxes and level the playing field against higher-wage earners.

Phased-in deep tax cuts will only create major structural problems, weaken our ability to provide strong educational systems, safe drivable roads and bridges, and vibrant communities, and force our children and grandchildren to fix our mistakes. The current proposal would phase out taxes over 40 years so many of us won't even be alive by the elimination, and the rest of us will likely be retired elsewhere to avoid Michigan's winters. This allows all of you to avoid accountability for the problems these cuts will ultimately cause.

While Michigan is recovering from the Great Recession, we are not out of the woods yet. Our roads are still filled with potholes. Many of our schools are still struggling. And many of our Michigan residents still do not have safe, clean water to drink. Instead of tax cuts, we should be investing in the things Michigan residents and businesses need for a more secure future.

Taxes are all about collective impact. And while $82 for the average taxpayer might be a night out, we need to take a look at the deeper impact this will have on our state. Most families won’t miss the $82—which isn’t even enough to buy a coffee every week—but we will miss the teachers, vibrant communities and safe roads. The people of Michigan have told us as much. We just need to listen.

Thank you for your consideration.