



# WHO CAN PAY MORE? The Case for a Graduated Income Tax

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While the Michigan Legislature continues to prioritize budget cuts to essential services over the glaring need to raise new revenues, working families are being crushed by an upside-down tax system that relies more on them than the wealthy. The case for an equitable state income tax structure based on ability to pay is clear. A graduated income tax would reduce taxes for working families while raising additional revenue that would fund vital services and allow our Legislature to invest in Michigan's future.

## What is a Graduated Income Tax?

Fundamentally, a graduated income tax is structured based on a household's ability to pay. Under a graduated income tax structure, households with similar incomes pay a similar share of their income in taxes. Households with low to moderate incomes pay a smaller share of their income in taxes than their high-income counterparts.

Governments utilize tax brackets to define a tax rate for each dollar of income—the first \$100,000 of income is taxed at a lower rate than the next \$100,000, for example. Below, Table 1a illustrates a simple graduated income tax structure with three tax brackets. Table 1b demonstrates that households with similar incomes are taxed at a similar rate, while households with more income are taxed at a higher rate.

## How Does a Graduated Income Tax Work?

**Table 1a: Example Graduated Income Tax Brackets**

Household Income Range	Tax Rate for Dollars in Range
\$0 to \$100,000	5%
\$100,001 to \$1,000,000	10%
\$1,000,001+	20%

**Table 1b: Tax Collected and Share of Income Based on Brackets in Table 1a**

Taxable Household Income	Tax Collected	Share of Income
\$30,000	\$1,500	5%
\$100,000	\$5,000	5%
\$100,001	\$5,000.05	5%
\$1,000,000	\$95,000	9.5%
\$1,500,000	\$195,000	13%
\$5,000,000	\$895,000	17.9%

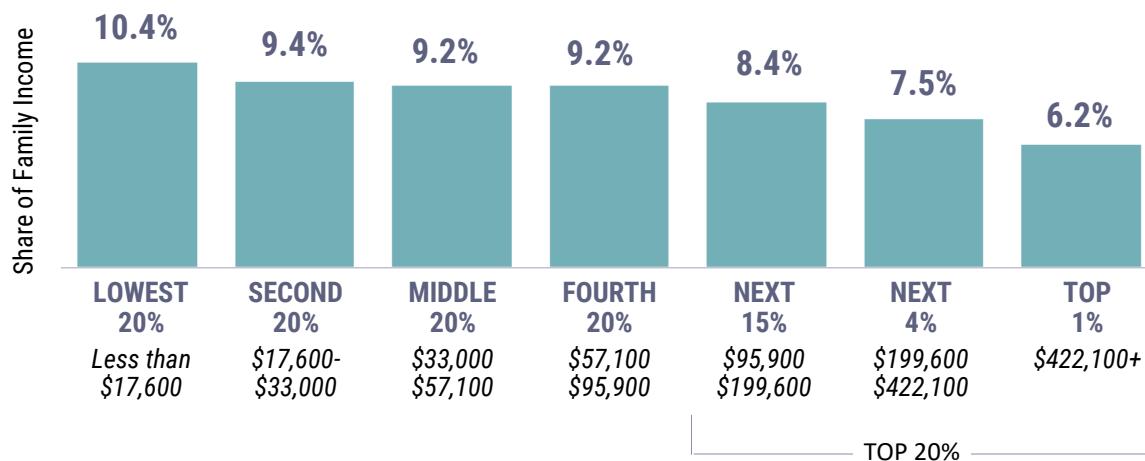
Source: Institute on Taxation and Economic Policy, 2018

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## A Tax Based on Ability to Pay

Michigan is one of nine states with a flat income tax—every working person in Michigan pays 4.25% of their income in taxes, regardless of their economic circumstances. When coupled with other state and local taxes, such as Michigan's 6% sales tax, Michigan families with relatively less income pay a greater share of their total household income in taxes.

### Total State and Local Taxes in Michigan 2018

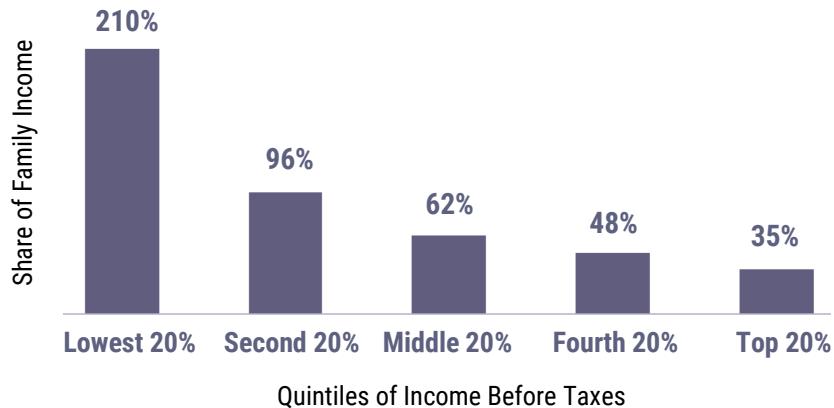


Source: *Michigan: Who Pays? 6th Edition*. ITEP, [itep.org/whopays/michigan/](http://itep.org/whopays/michigan/)

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An income tax based on a household's ability to pay would reduce the structural barriers facing working families who are striving to achieve economic security and prosperity. These households spend a greater share of their income to purchase necessities such as housing, food, utilities and transportation. A reduction in taxes for these households would free up money to purchase the goods and services that they need in order to achieve economic security.

### Share of Family Income Before Taxes Spent on Food, Housing and Transportation (National Average)



Source: Bureau of Labor Statistics 2018 Consumer Expenditure Survey

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## A Smart Way to Raise Revenue

Adopting a graduated income tax would provide more state revenue to invest in programs like early childhood education, job training, public safety and other vital services. Increased revenues would be coupled with a reduction in taxes for millions of Michiganders. Furthermore, since households would have more money in their pockets, they would spend more in their local economies, thus boosting local businesses and fostering entrepreneurship throughout the state; households with relatively less income tend to spend a larger share of their income on goods and services in the local economy.

A graduated income tax would bring in more revenue to Michigan, which would help fund state services at a critical time in our state's history. In 1978, Michigan voters approved the Headlee Amendment, which limited the amount of taxes that Michigan could collect to 9.49% of total personal income in the state. The Great Recession, combined with frequent and significant business tax cuts, caused Michigan to fall significantly below this limit. In the 2019 budget year beginning October 1, 2018, Michigan's tax collections were \$10.4 billion below the constitutional limit set by the Headlee Amendment. The multitude of tax cuts enacted over the past decade have put a strain on Michigan's budgeting process, where lawmakers have been forced to reduce the funding for essential state programs.

### Adopting a Graduated Income Tax in Michigan

- ✓ The Michigan Constitution currently prohibits the adoption of a graduated income tax.
- ✓ To adopt a fairer tax system, the people of Michigan must vote to amend the constitution through a ballot proposal.
- ✓ Coalitions have brought graduated income tax proposals to the ballot three times over Michigan's history: 1968, 1972 and 1976. Those proposals did not pass, but it has been over 40 years since Michiganders have had the opportunity to weigh in on their tax structure.
- ✓ An EPIC/MRA poll from 2017 suggests shifting views on a Michigan graduated income tax.
- ✓ An overwhelming 70% of Michiganders support this structure, while only 20% say they would reject such a proposal.
- ✓ According to the polls, the greatest support is found in the western half of the state, where 76% are in favor of a progressive tax structure.
- ✓ Even in Michigan's bay area, where a graduated income tax had the lowest favorability, the measure was still overwhelmingly supported by 65% of voters.

Lawmakers should heed this message and stop supporting continued tax cuts that constrain our budget. It is clear that Michiganders are ready for a tax system that gives relief to those with low and moderate incomes and asks millionaires and the ultra-wealthy to pay their fair share.