2022 BUDGET PRIORITY: STOP THE EROSION OF STATE TAX REVENUES

LEAGUE RECOMMENDATION:

Government spending is an integral part of the Michigan economy. During times of fiscal and economic stress, government spending can act as a bulwark against deeper and more severe recessionary forces that would otherwise ruin families and businesses financially. During good times, government acts as an intermediary in the market, providing contracts and jobs to residents while providing goods and services that ensure a prosperous future for all Michiganders.

For the state of Michigan to play its vital role for the Michigan economy, it is imperative that state lawmakers protect Michigan’s state revenue streams to ensure robust revenues to fund state priorities. During budget and revenue negotiations, as well as during consideration of tax cuts for corporations and the wealthy, lawmakers should prioritize equity for working families. Policymakers should oppose tax cuts, especially those that benefit wealthy taxpayers and corporations, because these tax cuts mean that the state will further be unable to act as a pillar of economic strength.

BACKGROUND:

Discretionary spending power is down. Although the Michigan economy grew for much of the decade since the Great Recession, the real purchasing power of Michigan’s General Fund and School Aid Fund have faltered because inflation has outpaced growth in the funds. Though the General Fund and School Aid Fund are estimated to recover from the pandemic-induced recession by 2022, the real purchasing power of those dollars will be nearly $750 million below pre-recession levels. Also, Michigan’s General Fund revenues remain below 1968 levels, the year after the Legislature passed the Income Tax Act, when adjusted for inflation. In 1968, Michigan’s population was 15% lower.

Michigan’s constitutional revenue limit indicates substantial room for revenue growth. The state last met this limitation in the 2020-21 budget year, during a period of substantial revenue growth. Michigan is currently $12.2 billion below the constitutional revenue limit. This deficit is expected to increase to $14 billion by the 2021-22 budget year.
There are a number of policy recommendations that have been made to bridge the gap in revenue collections and the constitutional revenue limit. These include amending the state’s constitution to allow for statewide graduated income taxes, the statutory implementation of a sales tax on services, the elimination of corporate tax breaks and the raising of the corporate tax rate. Michigan lawmakers need to be bold in implementing many of these recommendations so that the state’s budget can serve the needs of Michigan residents.

**WHY DOES IT MATTER?**

The Michigan budget reflects the state’s collective priorities and goals. By pooling resources, Michigan residents can be assured access to safe drinking water, high-quality K-12 education, child care, affordable colleges, healthcare, housing and more. Too often, the state has prioritized cutting taxes over funding the services and infrastructure that residents and businesses need to thrive. Even during the COVID-19 pandemic, lawmakers have pushed legislation to give substantial tax breaks to wealthy shareholders and corporations while struggling to find the funds to provide income supports to residents affected by the pandemic.

In 2020, the economic and fiscal crisis facing the state was averted precisely because of government spending. While the federal government provided much-needed relief for states, Michigan in turn provided expanded unemployment benefits, relief to local governments, and spending on many important programs and services. That state stimulus combined with federal supports ensured that personal income, a measure of personal economic well-being, remained relatively stable. Additionally, state and federal support to local governments stabilized local government budgets.

The federal landscape has changed and the Biden administration has signaled that providing fiscal relief for state and local governments will be one of their priorities for the first stimulus package of the year. However, as the state moves forward in recovering from the economic fallout caused by COVID-19, families and residents of the state still need a tax system that will ensure the long-term sustainability of revenues through the next period of economic decline. Observation and research show that corporations and wealthy shareholders are doing quite well during the pandemic. Their incomes are rising substantially, even as the economy collapses around them. Instead of tax cuts that fail to spur the economy, lawmakers should be looking to create progressive revenue streams so that the state can raise revenues in equitable ways to fund the programs that Michiganders rely on. Lawmakers need to be proactive and make those that are able to pay do so. This will ensure that the Michigan economy remains strong in the years to come.