MICHIGAN LEAGUE FOR PUBLIC POLICY

Date: March 11, 2025

To: Chair Tisdel and Members of the House Finance Committee

From: Monique Stanton, President and CEO of the Michigan League for Public Policy

Subject: Opposition to HB 4170 (Schmaltz) – Income Tax Rate Reduction

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The Michigan League for Public Policy opposes House Bill 4170, sponsored by Rep. Kathy Schmaltz, which will provide outsized tax benefits for wealthy Michigan households and begin Michigan's march to zero with triggered rate reductions, creating long-term revenue and budget instability.

For those of you who are not yet familiar, the League is a nonpartisan research and advocacy organization that promotes economic opportunity for all and analyzes the impact of public policy and budget decisions on the lives of Michiganders who have been historically and systemically left out of opportunities to advance prosperity. The League is also the state's Kids Count organization, working as a part of a national effort to measure the well-being of children at the state and local levels and to shape efforts that improve the lives of Michigan children.

House Bill 4170 makes two key changes: first, it immediately, for the current tax year, reduces our income tax rate from 4.25% to 4.05%, putting important services that we currently rely on at risk. Second, the bill seems to make permanent Michigan's triggered income tax rate reductions, slowly marching Michigan's income tax rate to 0% over time.

Broad tax cuts, such as reducing the personal income tax rate from 4.25% to 4.05%, are inequitable and funnel most of the benefits to Michiganders who are already doing very well. Additionally, white families are overrepresented in higher-income households, and tax rate cuts disproportionately benefit white households. Because of the structure of Michigan's income tax, where exemptions and deductions reduce taxable income, many of our families with the lowest incomes receive little to no benefit from rate reductions.

Triggering income tax rate reductions was bad policy in 2015 when the provision was added as part of the roads funding proposal, and it remains bad policy today in 2025 for several reasons in addition to the inequity created by rate cuts:

- First, we do not know if they are affordable. When tax cuts are enacted several years before they take place, it is virtually impossible to determine whether the state can afford to make such cuts. We cannot pinpoint the next economic recession or public health crisis that could require significant state investments. Even though the trigger requires that revenues rise above inflation before the cuts are considered affordable for

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the state, this mechanism does not take into account the additional revenue needed to maintain current level funding for services.
- Tax rate cuts can trigger based on non-economic factors. For example, federal tax policy could result in a shift of income tax revenues between two fiscal years, resulting in a one-time revenue increase in an earlier fiscal year followed by an offsetting decline the next. Despite not being a policy choice made by the state nor an actual economic improvement, the resulting one-time revenue increase could trigger a permanent rate reduction.
- Finally, triggered income tax cuts are not a key driver of population or economic growth. Evidence shows that taxes do not actually play a significant role in driving decisions by households about where to settle down. Individuals are more likely to make living decisions based on factors like family, job opportunities and cost of housing.

Furthermore, by slowly marching Michigan's income tax rate to 0%, Michigan will grow increasingly more reliant on more regressive tax systems, like sales and use taxes or property taxes. These ask families from lower incomes to 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.

We only need to look at our recent history to see how triggered income tax rate reductions are a bad idea. Michigan has had an income tax rate trigger on the books since 2015, and the conditions were met in the first year possible. The resulting impacts of the COVID-19 pandemic made it incredibly difficult to predict revenues. While at the May 2022 Consensus Revenue Estimating Conference, state fiscal experts predicted that triggering conditions would not be met; however, by the time books closed ten months later, Michigan experienced a 0.2 percentage point temporary rate reduction – from 4.25% to 4.05% – for the 2023 tax year. This unexpectedly pulled roughly $700 million out of our state budget, and many of the lawmakers that had put the income tax trigger in place were able to avoid accountability for those consequences because they were no longer in office.

Combined, these policy changes will have a significant impact on our ability to provide what our residents need. 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. The immediate impact of reducing the income tax rate to 4.05% now would be to cut over $700 million out of our budget on a full year basis. Long term, it will only create major structural problems and weaken our ability to provide strong educational systems, safe, drivable roads and bridges, and vibrant communities. State income taxes make up about 30% of total state revenues, about one-fifth of state funds for schools, and 3 out of every 5 of our state's discretionary dollars.

This proposal will not create jobs or grow the economy and will disproportionately benefit the wealthiest taxpayers most. 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. We should be investing in the things Michigan residents and businesses need for a more secure future. We urge the committee to reject the proposal and, instead, repeal the temporary triggered income tax rate reduction already on Michigan's books.