Michigan's Revenue System Needs a Refresh

Michigan League for Public Policy | October 2026

Michigan families succeed when they can afford the basics and have their unique needs, like healthcare, housing, childcare and education, met. However, Michigan's tax structure is inequitable and insufficient, meaning budget priorities are pitted against each other and leading to long-term disinvestment in our communities. Policymakers need to take a look at Michigan's revenue system and support sustainable, sufficient and equitable tax changes.

Strong revenues help us invest in...

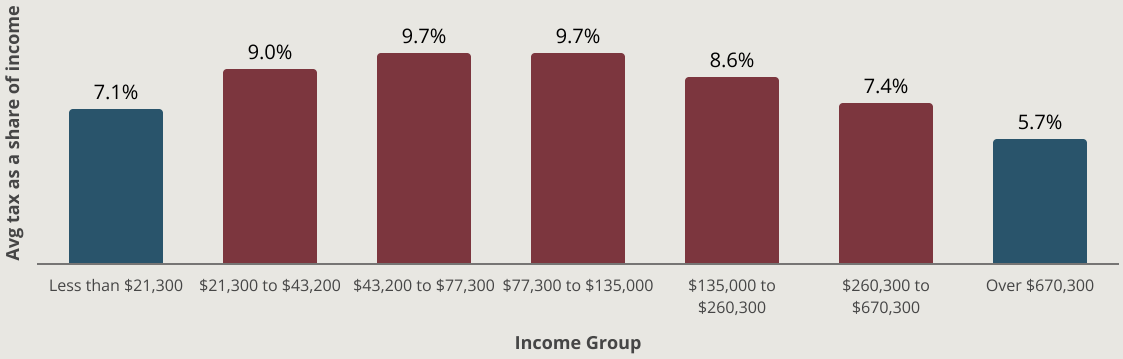


Michigan Policymakers Should...

- Allow and implement a graduated income tax and targeting tax relief, like a state-level Child Tax Credit, to families most in need.
- Extend our state sales tax to services.
- Tax vape and increase taxes on tobacco to support health programs.
- Tax wealth such as capital gains or intergenerational wealth transfers.
- Allow the option for local governments to tap into different sources of revenue.
- Review our tax code for ineffective or unnecessary tax expenditures.

Michigan's highest income earners pay the lowest effective tax rate

Share of total (non-elderly) family income



Source: Institute on Taxation and Economic Policy, 2024.

Michigan's Tax System is *Inequitable*

The heavy reliance on sales and property taxes as well as a flat income tax means Michigan households in the lowest income quintile — earning less than $21,300 per year — pay an effective tax rate at 7.1% while the highest-earning households — those earning over $670,300 — spend the lowest at an effective rate of only 5.7%. At the same time, tax changes over the past two decades have shifted the burden from businesses to families. Since 2011, business taxes have made up a smaller share of General Fund revenue; before the 2011 tax reforms, approximately 20% of GF/GP revenue came from business taxes, but this has shrunk to less than 10%.

This also deepens racial inequities that harm Black communities, which have lower incomes and less generational wealth due to the racist policies of governments and institutions. Historically, this includes policies like redlining to deny Black families access to neighborhoods; in the present day, this includes mortgage discrimination, wherein banks deny mortgages to Black applicants at nearly twice the rate of white applicants.

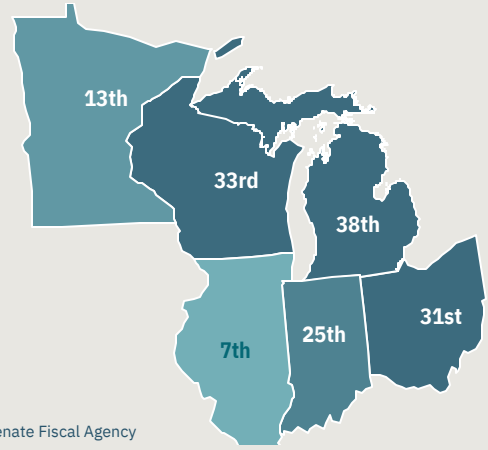
Michigan's Tax System is *Insuffcient*

Since 1979, Michigan's total state and local tax revenue as a percentage of personal income has fallen from nearly 11% to just over 8%; Michigan now ranks in the bottom third of states in total tax "burden." If Michigan taxed itself at the same level as it did in 2000, our Fiscal Year 2026-2027 state budget would have more than $14 billion more to support childcare, healthcare, food access, safe housing and quality education.

Ultimately, inaction on revenues coupled with regular tax cuts has meant our largest budget sources—our School Aid Fund and our General Fund—have failed to keep up with inflation, forcing the state to do more with less. Adjusted for inflation, Michigan's School Aid Fund is only marginally above levels set in 2000; what's worse, our state General Fund—Michigan's only unrestricted revenue fund—is estimated to be nearly 26% below the level set in 2000.

Michigan is not a high-tax state

State and Local Taxes (SALT) as a percentage of personal income, Michigan ranks below all other Great Lakes states.



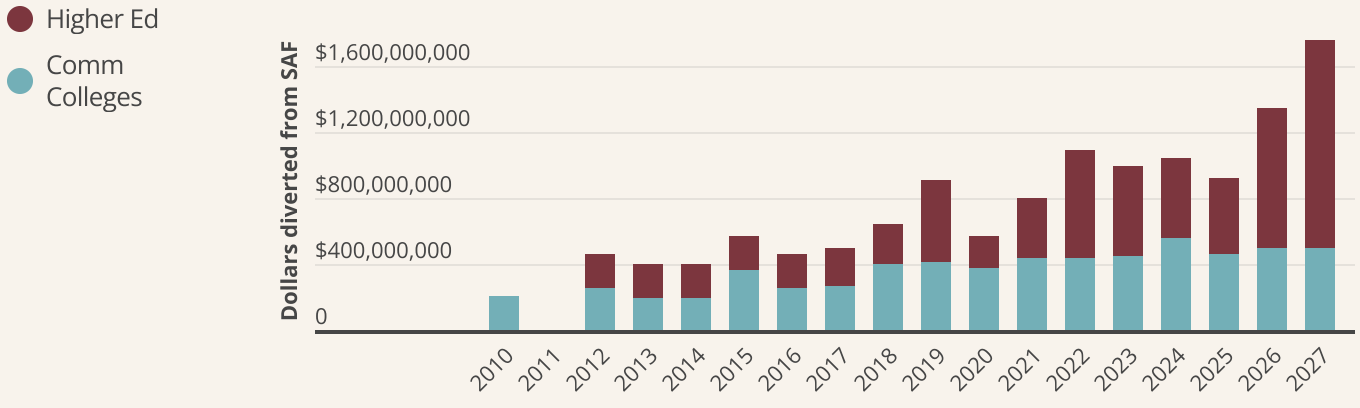
Source: Michigan Senate Fiscal Agency

Inequitable and Insufficient Revenues Pit Priorities Against Each Other

State lawmakers are already facing tight budgets; what's worse, the federal government is pulling back resources and leaving states to fend for themselves. Essential programs with proven track records at helping Michiganders make ends meet, improving health outcomes, helping children and young adults access quality education and strengthening our workforce are already having to compete for dollars because there aren't enough to go around.

In FY 2026-2027 budget, about $13 billion has been diverted away from K-12 to fund postsecondary education since 2010

FY 2026-2027 represents a record $1.75 billion in School Aid Fund (SAF) to support postsecondary education.



Source: House Fiscal Agency, MLPP analysis of enrolled budget

State Budget Basics

Tax Policy Basics

Michigan League for Public Policy | info@mlpp.org | www.mlpp.org | 101 S. Washington Sq., Suite 820 Lansing, MI 48933