



Tax Revenue and Expenditures: Historical and Comparative Perspectives

**Presented to
Michigan House of Representatives
Tax Policy Committee
Honorable Kate Ebli, Chair**

**Craig Thiel
June 17, 2009**





Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
- *www.crcmich.org*



Michigan Taxes

- 52 taxes (34-state and 18-local), see CRC *Tax Outline* for descriptions, categorization, and history
- Discussion of taxation must be comprehensive and avoid myopic perspective
- State **AND** local taxes taken together
- All taxing authority, regardless of level of gov't, comes from State of Michigan
 - Constitutional
 - Statutory
- Lets not forget that taxes fund public services



Previously Above the U.S. Ave, Not the Case Any Longer

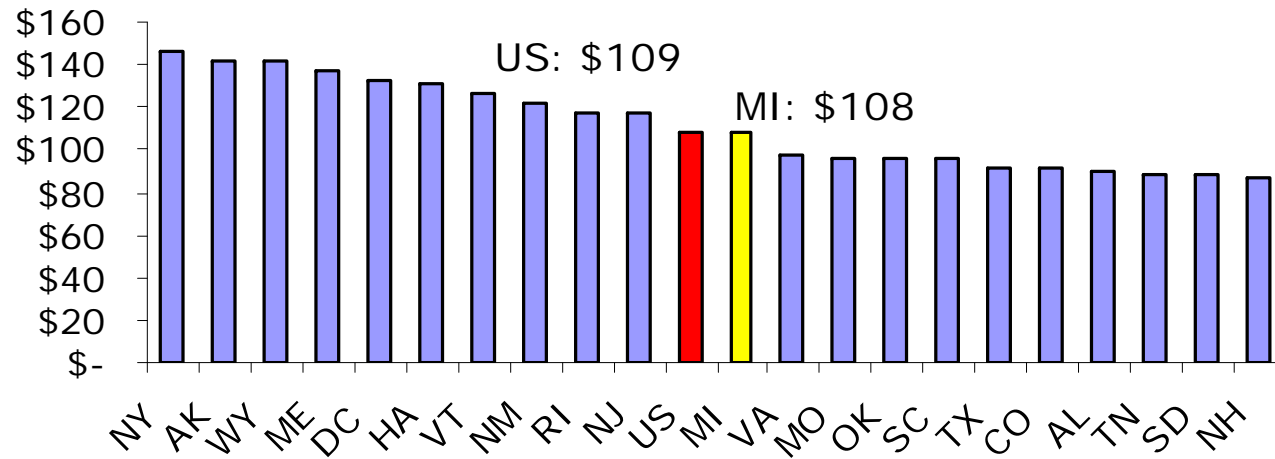
Total Tax Collections Michigan as Percent of U.S. Average

	Per <u>Capita</u>	<u>Rank</u>	Per \$1,000 <u>Pers. Inc.</u>	<u>Rank</u>
1979	112.4	12	108.0	13
1989	105.1	14	106.1	13
1999	101.3	16	102.8	15
2006	89.2	31	99.5	26



Mid Atlantic and New England at Top Southern and Western States at Bottom

State and Local Taxes Per \$1,000 Income
Top and Bottom 10 States, MI, and US Ave.





Déjà Vu – Rankings Similar to 1979

Property Tax Revenues

Year	U.S. Average				Michigan			
	Per Capita	Per \$1,000 Pers. Inc.	Amount	Per Capita as % of U.S. Avg.	Rank	Per \$1,000 Personal Income as % of U.S. Avg.	Rank	
1979	310	\$ 31.72	\$ 376	121%	12	\$ 38.81	122%	17
1989	566	32.1	766	135%	9	42.57	133%	10
1999	881	32.52	893	101%	20	33.47	103%	23
2006	1,204	32.71	1,341	111%	15	40.66	124%	11

General Sales Tax Revenues

Year	U.S. Average				Michigan			
	Per Capita	Per \$1,000 Pers. Inc.	Amount	Per Capita as % of U.S. Avg.	Rank	Per \$1,000 Personal Income as % of U.S. Avg.	Rank	
1979	\$ 195	\$ 22.47	\$ 184	94%	25	\$ 19.09	85%	35
1989	415	24.59	388	93%	41	18.79	76%	41
1999	736	27.17	733	100%	22	27.47	101%	25
2006	946	25.7	801	85%	31	24.29	95%	30



Tax Cuts and Poor Economy Affect Tax Receipts and Rankings

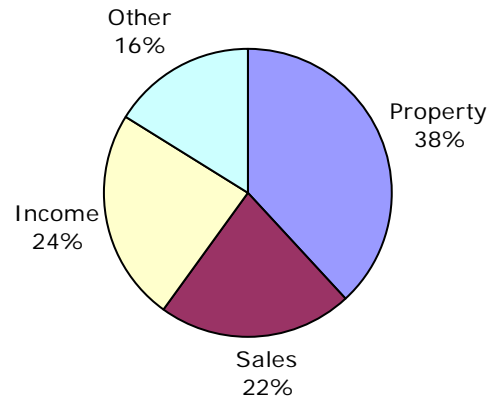
Corporate and Individual Tax Revenues U.S. Average

Year	U.S. Average		Per Capita as % of U.S. Avg.		Michigan			
	Per Capita	Per \$1,000 Pers. Inc.	Amount	U.S. Avg.	Rank	Per \$1,000 Personal Income	as % of U.S. Avg.	Rank
1979	\$ 208	\$ 22.96	\$ 341	164%	10	\$ 35.39	154%	10
1989	495	25.80	654	132%	11	36.36	141%	12
1999	819	30.23	1003	122%	11	37.57	124%	13
2006	1,078	29.29	851	79%	35	25.81	88%	35

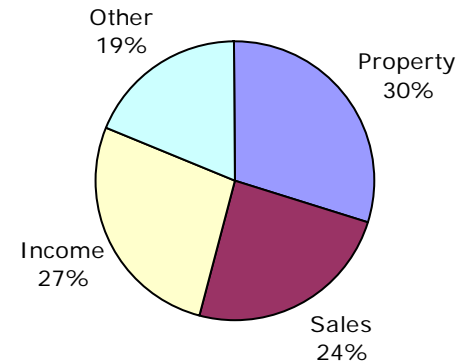


Property Taxes Play a Larger Role – Then and Now

Michigan State and Local Taxes



US Ave. State and Local Taxes



Percentage Shares of Total State and Local Tax Revenue

	Property	Sales	Income	Other
1979	35%	18%	33%	14%
1989	38%	17%	33%	12%
1999	29%	24%	34%	13%
2006	38%	22%	24%	16%



Tax Revenue Recap

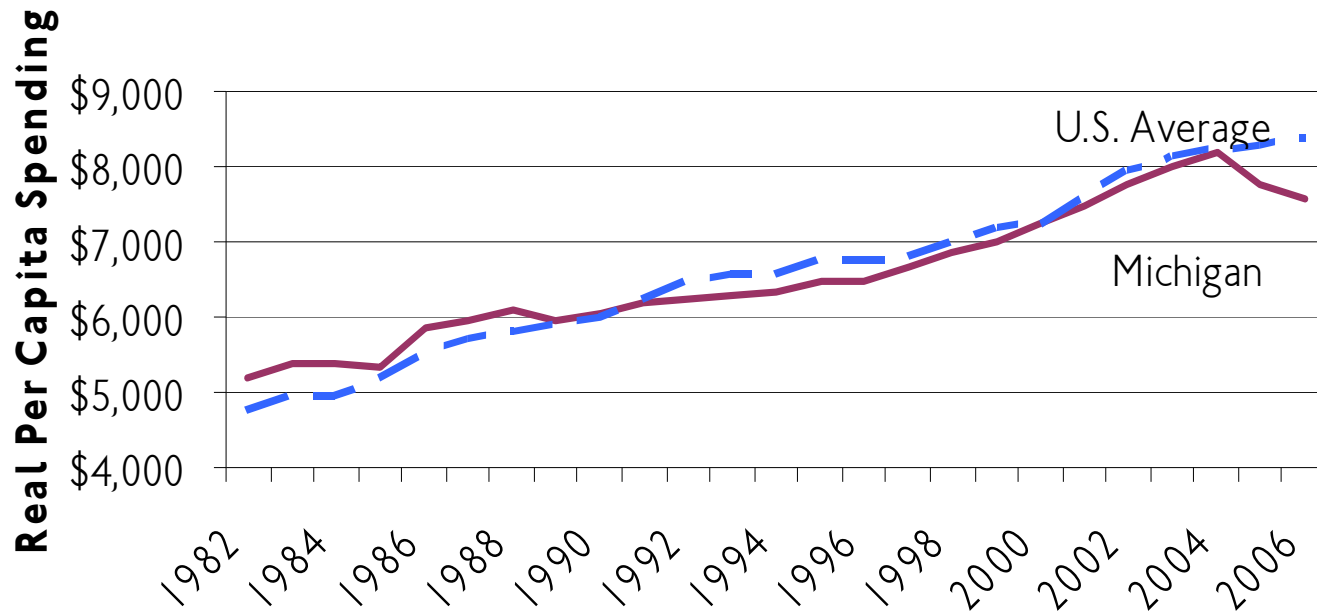
- Michigan was a high tax state relative to others, but NOT today
- Michigan's economic performance and tax policy since 2000 have affected rankings
- Michigan's mix of taxes has evolved, but continues to rely more on property taxes and less on income and sales taxes
- Does Michigan want to mirror U.S. average in terms of tax burden? Tax reliance?
- Balanced budget requirements have resulted in state and local government spending to decline



Michigan Public Spending

Below US Average Since Early 1990s

Total State and Local Government Spending
Real (2006\$) Per Capita, 1982 - 2006

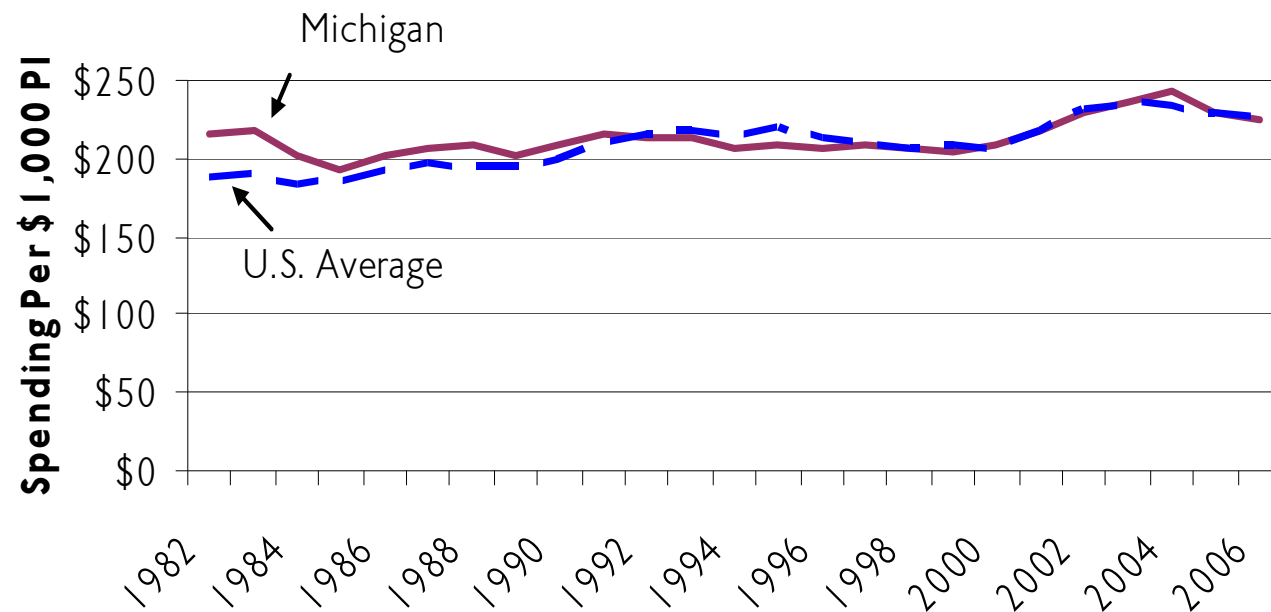




Public Sector Share of Economy

Fairly Constant Over 25 Yrs

**Total State and Local Government Spending
Per \$1,000 Personal Income, 1982 - 2006**





Michigan's Fiscal Future

On-Going Structural Deficits Through 2017

- Ten-year scenarios of the Michigan economy with varying assumptions about:
 - Auto industry
 - Office furniture
 - Chemicals
 - R & D
- W.E. Upjohn Institute staff used Regional Economic Models, Inc. (REMI) to prepare economic projections
- Economic projections translated to revenue projections based on current mix of taxes and projections of spending pressures based on current policy
- Not predictions but projections



Projections Made Against a Much Different Backdrop

	Annual Rates	
	Current Estimates <u>2009 - 2010</u>	Fiscal Future Projections <u>2009 - 2017</u>
Economic Projections		
Employment	-6.5%	-0.1%
Personal Income	-3.5%	4.2%
Salaries and Wages	-5.1%	3.8%
State Tax Revenue Projections		
Income	-13%	3.25% (1.4% net)
Business	-3%	3%
Sales and Use	-5%	3%
Tobacco	-5%	-2.5%
State Education	-5.5%	4.25%
Revenue By Fund		
General	-13%	1.4%
School Aid	-4.25%	3.0%



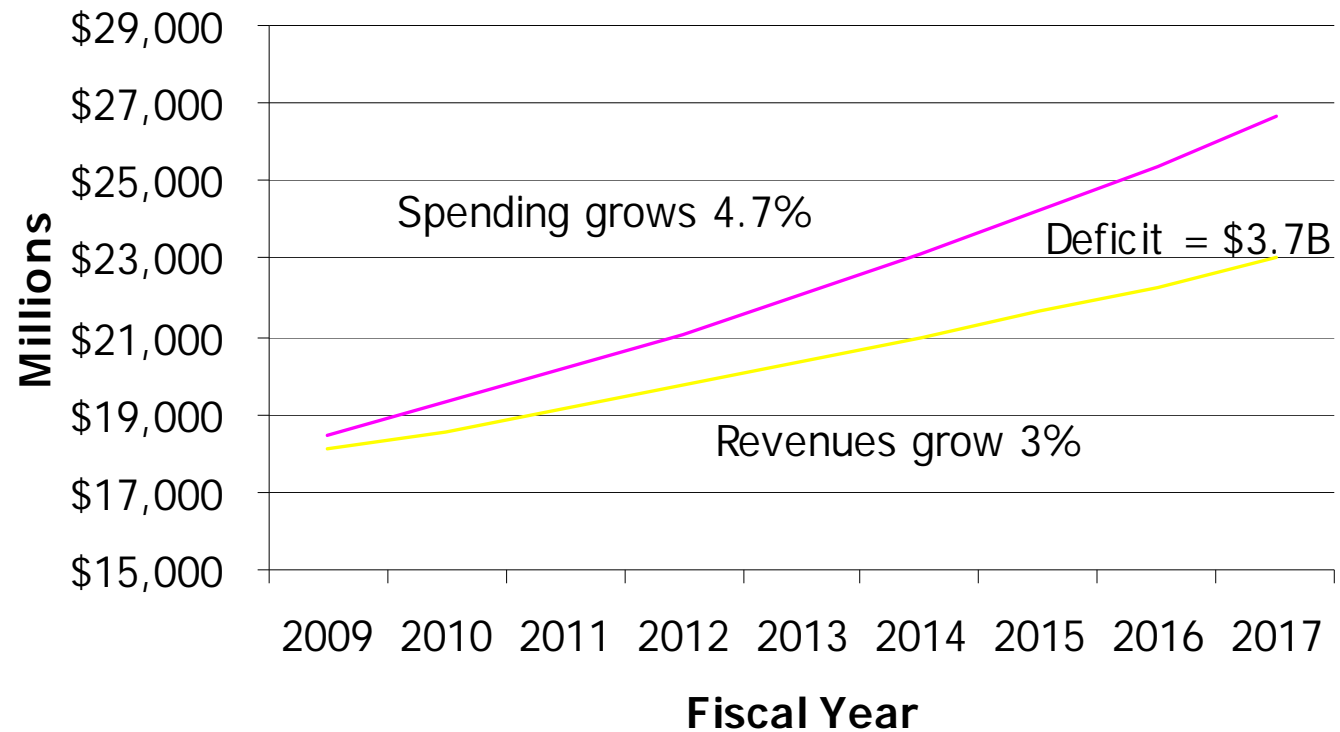
School Aid Structural Deficit

Spending Pressures Outpace Revenue Growth

- Retirement Contributions—rapid growth
- Employee Health Insurance—rapid growth
- General Pay Raises
- Other—Fuel, Utilities, Supplies
- Revenues Grow Slowly
 - State revenues account for 2/3 of total K-12 resources
 - Local property taxes constrained by tax limitations (Headlee)



School Aid Structural Deficit Projections FY09 – FY17

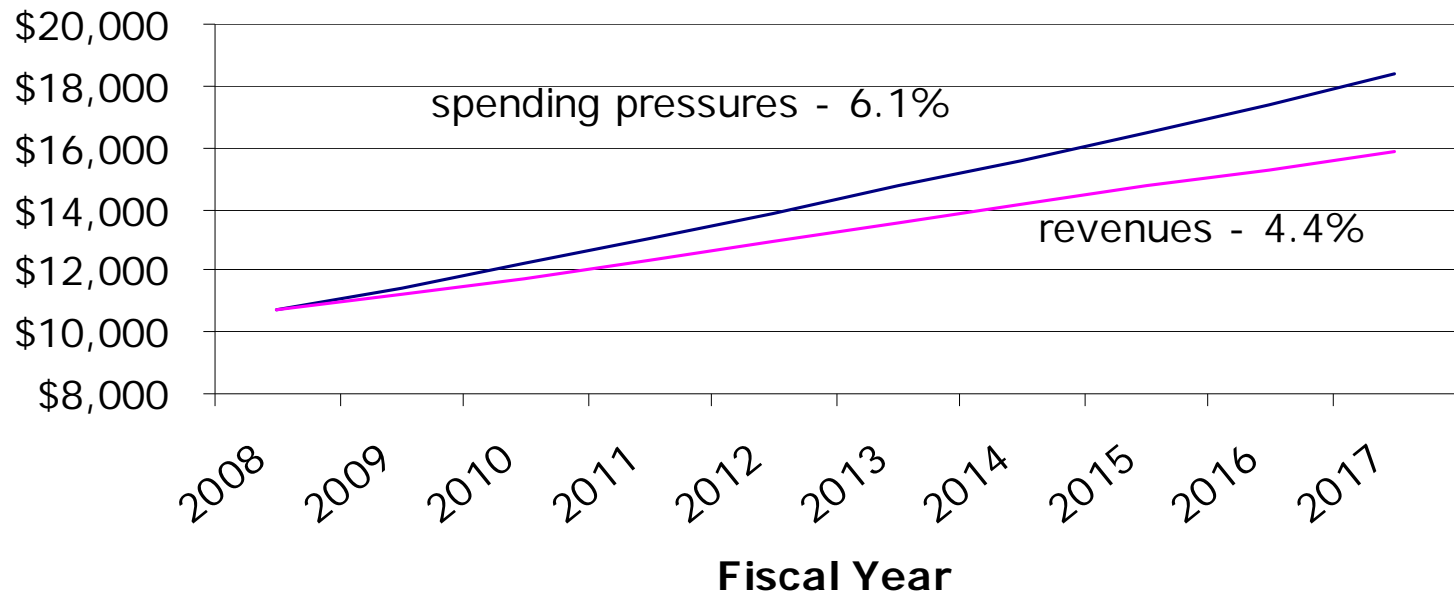




Classroom Perspective

What the Structural Deficit Means to Per Pupil Funding

Structural Deficit Projections - PER PUPIL





Policy Options

Achieving Long-Term Structural Balance

- Increase revenue growth
- Reduce rate of spending pressure growth
- Bend the two curves so they meet



Revenue Scenario

Testing the Math - Increasing the Growth Rate

- Expand Base of Sales and Use Taxes
 - Cast wide net – only exempt business-to-business
 - Service base grows 2 percentage points faster
 - Reduce tax rate to 3.6% (revenue-neutral)
 - Adds 0.8% to tax revenue growth rate
- Graduated Income Tax
 - No specific plan – combination of base and rate
 - Increase elasticity to 1.4 (from under 1)
 - Nearly doubles growth rate, from 3.3% to 5.9%
- Combined effects
 - Adds 0.8% to School Aid Fund growth – 3.8%
 - Account for about one-third of problem in 2017
 - Still work to do – spending solutions



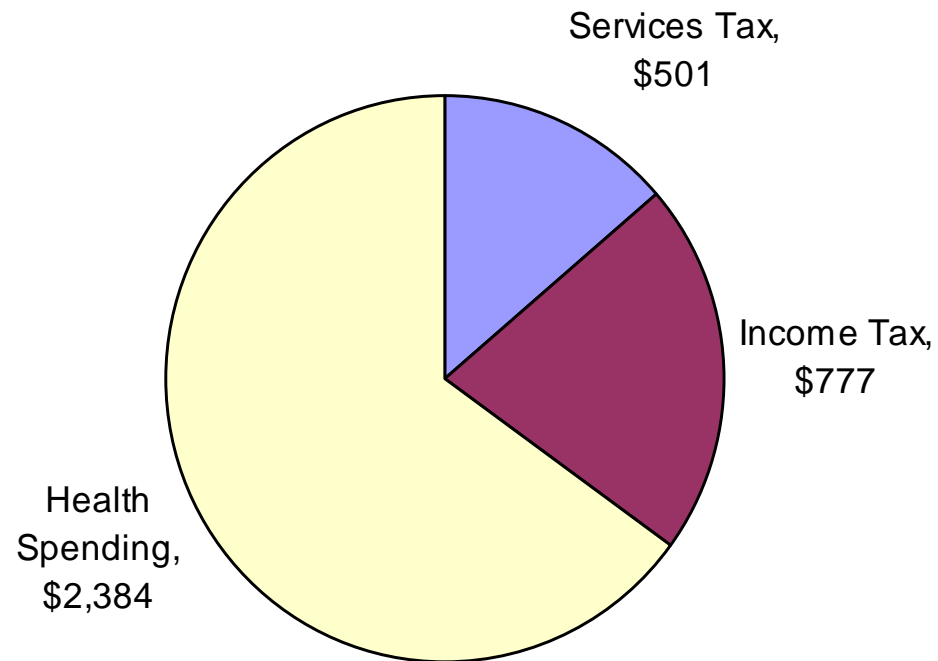
Spending Scenario

Testing the Math - Decreasing the Growth Rate

- Spending concentrated in personnel costs = potential savings
- Focus on component growing fastest
- Health Care – current and retired employees
 - No specific recommendation
 - Hold health care cost increases to 5% per year
 - Reduces School Aid annual spending pressure growth by 1.1%
- Accounts for two-thirds of solution in 2017



Effects of Alternative Policies to Close \$3.7 Billion of \$4.0 Billion School Aid FY17 Deficit (\$ in Millions)





Questions?

CRC Publications available at
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