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Changing tax payment focuses debate on whether a shift is a hike

Collection shift results in a tax increase, costing taxpayers lost interest

By Jack McHugh

The Legislature is considering a bill to shift the county tax collection date forward from December to January, with the change phased in over a three-year period. The legal details of the proposal are awesomely complicated, and they are giving county officials and the real estate industry huge headaches.

But the proposal is not complicated from the point of view of an average taxpayer. He doesn't care whether he is billed in advance or arrears, or how his payments affect the county's accounting. Rather, he is concerned with just two things: How much do I owe, and when do I have to pay it?

The answers show this proposal is unquestionably a tax increase.

Imagine you pay $100 in annual county property taxes. Under current law, between July 2005 and July 2007, you will have paid $200 — $100 in December 2005 and $100 in December 2006.

From December 2006 through June 2007, you will also have accrued another seven months' county tax liability, or $58, which is not payable until December 2007. So an informal "personal balance sheet" in July 2007 would show your wealth down by $258: $200 in cash already paid out, plus a $58 accrued liability.

Under the new law, in contrast, you will have paid out $300 between July 2005 and July 2007 — $33 in July 2005 and $67 in December 2005; $67 in July 2006 and $33 in December 2006; and $100 in July 2007. (The twice-yearly payments in 2005 and 2006 are part of the phase-in.)

Although you won't have accrued the $58 "accounts payable" liability that you would under current law, your personal balance sheet would still show your wealth down by $300: $300 in cash already paid and nothing in accrued liability.

Therefore, you would be $42 poorer under the new system — the difference between the $300 decrease in your wealth under the proposed system and the $258 decrease under the current system. Over the entire phase-in period, this represents a tax hike of 16.3 percent.

Moving forward from July 2007, you would be back to paying the old rate of $100 per year. When December of 2007 rolls around, you won't get a new tax bill, but will have accrued another five months of "accounts payable" liability, or $42, which you never do recoup. It's as if you paid for 36 months of service, but received only 31 months' worth.

Contrary to the arguments of some proponents, this loss is not an "accounting fiction." While most people don't use double-entry accounting in their personal finances, businesses do. A firm with substantial plant and equipment assets might pay not $100 in county tax, but $100,000, and it would suffer a loss of $42,000. Any company that failed to report to shareholders the new accrued taxes payable liability, and the consequent loss in book value would be guilty of Enron accounting.

For the average homeowner, whose net worth would decrease by $50 to $600, depending on his county and the worth of his house, an analogy would be an equivalent drop in the value of his home. When his home equity falls, he would not lose any cash, but he is still poorer.

And that is not the only damage done by this proposal. For many taxpayers, there is also the opportunity cost of handing over their cash five months earlier, during which time they lose the chance to earn interest on their money.

This isn't an "accounting fiction," either. In 2001, the state House Fiscal Agency calculated just such a cost to taxpayers for a tax date shift proposed by then Gov. John Engler.

So is this a tax increase? Taxpayers will have involuntarily lost wealth, and the government will have gained it. That is called a tax increase.

The big winner is a Lansing political establishment that gets to postpone cuts in excessive spending. In doing so, it takes more from homeowners, makes Michigan businesses less competitive and risks further damage to the state's ability to attract and retain good jobs.

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