



Tax Day Highlights Burden of State Government

By James M. Hohman

Summary

Determining exactly how Michigan's tax burden compares to other states can be an inexact science. Taxpayers should not, however, be content with status quo policies in a state experiencing an economic free fall.

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In economically hard-hit Michigan, Tax Day — April 15 — is an especially painful reminder of how heavy a burden big government imposes. Excessive taxes add insult to injury by sucking resources from residents and job providers in a state with the nation's highest unemployment rate (12 percent) and family incomes that have fallen 11.2 percent below the national average.

Are worse-than-average tax burdens responsible for those dismal figures? Those who oppose trimming the size and scope of Michigan government defend the status quo by arguing that tax burdens here really are about average compared to other states. The evidence for this claim, however, is murky at best, and easily manipulated.

For example, raw state and local tax, fee and other revenue numbers, unadjusted for population, show Michigan having the 8th highest tax burden and Vermont 50th. That's fairly meaningless — it only says that California, which ranks first, is large and Vermont is small. When the adjustment for population is applied, Michigan comes in as the state with the 22nd highest government revenue per-capita. Measuring tax revenues as a percentage of total income puts Michigan in 17th place. Comparing state and local revenue as a percentage of the total value of production moves Michigan into the 13th worst position, and 14th if we measure government revenue per job.

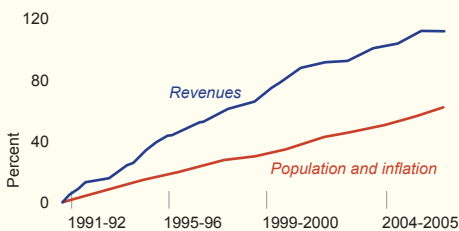
If you take out federal revenue, then Michigan is ranked between 6th and 18th by these various measures. If only tax revenue is considered, instead of all government fees, charges and miscellaneous revenue which are included in the measures above, Michigan places between 17th and 30th.

Narrowing the focus to state business taxes also raises problems. A new report by the Anderson Economic Group shows that Michigan taxes businesses at a level slightly below the average of all states. A similar study by the Council on State Taxation included compliance costs, and this added about \$100 billion to the burden, moving Michigan to slightly worse than average. A Tax Foundation report — a survey of business tax structures — found Michigan to be slightly better than average.

Part of the challenge is that the actual impacts of various taxes are hard to determine. For example, a 2008 Mackinac Center study shows that

Michigan government grows

1990-1991 to 2006-2007



No matter what type of numbers or study is used to determine Michigan's tax ranking, one thing is evident: Michigan's political class continues to take more and more money away from a shrinking number of residents.

Source: Data compiled from the Michigan Senate Fiscal Agency, U.S. Bureau of Labor Statistics, and the U.S. Census Bureau

hiking cigarette taxes leads to unintended consequences including smuggling, bootlegging and even violence caused by people trying to avoid the taxes. How does one measure those effects?

Another example: When Michigan legislators chose to shift business tax burdens from manufacturers to service industries, they had no intention of causing day care providers to defer facility improvements and staff compensation increases. However, a Mackinac Center investigation finds anecdotal evidence that Michigan businesses are facing such difficult-to-measure consequences as a result of the new Michigan Business Tax.

Then there are the non-tax but tax-like burdens imposed by other state policies, such as Michigan's notoriously business-unfriendly environmental and labor laws and regulations. Not having a right-to-work law promotes a more adversarial labor environment — what additional costs does that impose on employers? If a firm can't get a required wetland or groundwater permit from the Department of Environmental Quality, it won't even get a chance to worry about tax burdens — that company won't be doing business in Michigan, period.

Recently, Gov. Jennifer Granholm endorsed imposing a graduated income tax as a means of removing a 22 percent business tax surcharge that was adopted in 2007 to avoid state budget reforms and spending cuts. Yet adopting cost-saving reforms — from ending ineffective economic development programs to repealing the state's prevailing wage law — would be an economically healthier solution. Encouraging high-earners to flee the state and inviting the revenue yo-yo effect that's a characteristic of progressive state income taxes won't do Michigan's beleaguered economy any favors.

In sum, facile state tax burden comparisons should always be examined critically. Getting a true picture requires more in-depth examination. One thing is certain: Michigan has plenty of room for improvement in all these tax and business climate areas. "We're no worse than the rest," is hardly a useful public policy prescription for a state that is much more advanced in the rate of its economic decline.

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