



## Summary

While some government officials complain about spending limits, these constitutional measures serve a good purpose and can be bypassed with sufficient popular support.

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## Keep Michigan Taxes Limited

### Officials should respect the tax hike “speed bumps” voters put in state constitution

By James Hohman

The threat to vote politicians out of office used to be Michigan taxpayers’ only line of defense against state and local government officials who see tax increases as the easiest solution to their budget challenges. Michigan voters have since added constitutional restrictions to keep government from growing beyond their willingness to pay for it.

Yet there is constant rumbling against these protections from those who would rather it be easier to raise taxes.

The constitutional limits were approved by voters after extended efforts by residents and government leaders to find consensus on real problems that threatened both taxpayers and government budgets.

Michigan’s constitutional tax limits aren’t hard-and-fast caps like highway speed limits. Instead, they are procedural requirements for different types of tax increases. These requirements include a supermajority vote by lawmakers or approval by voters at the polls, and triggers to automatically lower some tax rates in some instances.

All taxes in Michigan face one limitation or another, depending on which tax is being increased and whether it is levied by the state government or a local government. The state government is prohibited from collecting taxes and fees that exceed 9.49 percent of residents’ total personal income. This keeps the government from growing faster than the people’s ability to pay for it.

If revenues exceed the limit, the excess is returned to taxpayers. But there is also a loophole: The Legislature can declare an emergency and collect more than the limit with a two-thirds vote in both the state House and Senate.

State spending is \$7.4 billion below the cap, so lawmakers can increase taxes up to that point without triggering tax rebates. It also means that the state government can increase its revenues faster than personal income growth until it gets close to the limit, making it a loose restriction on state revenues for now.

The constitution also gives taxpayers democratic protections against local government property tax increases. All new tax levies from local governments must be approved by voters. Again, there are exceptions: Taxes authorized by law or charter before 1978 can be enacted without a vote.



Speed bumps for tax hikes have become an important part of Michigan’s political environment.

There are further protections when it comes to property taxes. The taxable value of property cannot increase faster than the rate of inflation. This limit protects seniors on fixed incomes and others from being taxed out of their homes if their neighborhood becomes a hot property. The assessments, however, reset when a home is sold, meaning that local government revenues eventually catch up.

There is a second protection against property-tax inflation. The constitution also lowers local property tax rates if a community's property tax revenues increase faster than inflation. If they do — after subtracting out the added tax collections generated by new construction — then the local government must reduce the overall tax rate. This means that residents and businesses get a lighter tax rate when the value of the community's tax base is broadened. But local governments can also ask voters if they can keep the higher rate as well.

There is one more limitation on the overall level of taxes levied on property. The state constitution limits the property tax rate to 15 mills, but it can be increased to 18 mills if a county votes for it. Rates can rise as high as 50 mills with voter approval. These limits do not, though, apply to millages that pay off bonds or if a local government charter contains a different tax limitation.

It may seem odd that citizens have placed so many restrictions on property taxes, but it shouldn't. Property taxes are the largest source of revenue for state and local governments. The levies collected \$13.5 billion in 2015, compared to \$9.6 billion collected by the state income tax, the next largest tax.

All told, Michigan's tax limits still allow governments to raise revenues and even allow for taxes to grow faster than inflation. The limits can be characterized as speed bumps for government revenues and can be bypassed with popular support.

These are necessary because the power to tax is the power to destroy, to weigh down Michiganders with financial burdens that harm their prosperity. Michigan's tax limitations protect the people from such abuse and ensure there is democratic accountability for all state and local taxes.

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