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Lansing bets on a tax hike

Michigan lawmakers spend inappropriate tax hike on unreasonable items

By James M. Hohman | May 2024

Michigan Gov. Gretchen Whitmer cancelled a tax cut based on a questionable reading of a tax cut law. But legislators seem confident in her legal interpretation. Instead of waiting to spend money they might not be entitled to, they are already planning to spend every dollar available to them.

To make the 2015 fuel and vehicle registration tax hikes more palatable, legislators promised to lower the income tax rate in the future, provided that revenue had grown. When it was time to check whether people were due for a tax cut, revenue had grown. According to the formula legislators put in law, revenue increased enough to require the income tax rate to drop from 4.25% to 4.05% in 2023.

The governor fought against this reduction, trying to reclassify revenue to avoid the tax cut. But she was not able to get enough support.

She instead reached the strange conclusion that the tax cut was only effective for a single year. The people who passed the law didn't think it was temporary. We'll see what the courts say.

The state treasury department has been charging people an extra 0.2% on their income taxes since the start of the year.

State legislators have been spending the extra money. It accounts for around \$700 million a year; not a huge amount when the state spends \$47 billion in state taxpayer money a year.

Still, it demonstrates that spending is a higher priority than leaving the money in taxpayers' pockets.

Legislators have bad priorities for the extra tax hike money. They are spending it on pork projects and corporate welfare.

Lawmakers approved \$1.8 billion in grants directed by legislators in the most recent budget. This is spending explicitly directed to some legislator's political purpose rather than to support the public interest. It's not how state lawmakers ought to budget.

Lawmakers have approved \$4.4 billion in select business subsidies. Writing big checks to big companies is ineffective in creating jobs, unfair to

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taxpayers who don't get such favors, and expensive to the state budget.

They had to take 0.2% of everyone's income to spend on pork and corporate welfare.

There is a better way. Legislators ought to stop spending the tax hike money.

They should instead pass a Sustainable Michigan Budget and increase the budget no more than the growth of the state's population plus inflation. Had lawmakers kept the budget growth at sustainable levels since fiscal year 2018-19, they would be saving \$6.5 billion this year. That's more than enough to afford to let people keep 0.2% of their income.

Instead of spending tax revenue on pork and corporate welfare, lawmakers should let people keep more of what they earn.

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