

2017 Tax Revenue Extrapolation MBT/CIT vs Pass Through Entities Paying Personal Income Tax

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Income	6,706,000,000	6,955,500,000	7,182,200,000	7,069,100,000
Pass Through Business Taxes	696,526,268	722,440,867	745,987,319	734,240,060
MBT	(878,900,000)	(640,400,000)	(637,400,000)	(632,900,000)
CIT	929,800,000	952,000,000	980,000,000	1,010,000,000
Net	50,900,000	311,600,000	342,600,000	377,100,000

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SB Pass Through
SB as a % of Income Tax

702.0
0.10386613

From AEG 2016 Business Tax Study of 2014-15 income tax data

National Federation of Independent Business

2017 Michigan Income Tax Rollback-Repeal Proposals

Background: The Michigan individual income tax was enacted by Public Act 281 of 1967. It is a flat rate tax that has been levied at a rate of 4.25% since October 1, 2012. Michigan collected more than \$9.3 billion in personal income taxes in the 2016 fiscal year and it is the largest single source of revenue for the state. In 2007 Michigan legislators and Governor Jennifer Granholm raised the income tax rate to 4.35 percent. It was scheduled to roll back to 3.9 percent by 2015 but was frozen at 4.25 percent under Governor Snyder as part of the reforms to eliminate the Michigan Business Tax. Both the Michigan House and Senate have introduced competing proposals to reduce and phase-out the state Income Tax. The House plan would reduce the rate to 3.9 percent and then gradually phase out the tax over 40 years. The Senate plan would phase out the tax over five years.

Supporters of reducing and repealing the state Income Tax say that it is time to make Michigan competitive with other states including seven states that have no income tax. They argue that this would be a tax cut for all citizens and most small businesses that pay their business taxes via the personal Income Tax as “pass through entities” such as partnerships, sole proprietors, sub S corporations, etc. Supporters of reducing and repealing the state Income Tax claim that many working citizens deserve relief from recent increases in fuel taxes and vehicle registration fees and other cost of living expenses that have been rising. Supporters also believe that state government still has not done enough to reduce the growth and spending of government and that reducing revenue is one way to accomplish that goal.

Opponents of reducing and repealing the state Income Tax warn supporters to “be careful what you wish for” when it comes to eliminating a tax that is the largest single source of revenue for the state. They say that eliminating the Income Tax will be a prelude to expanding the sales tax to services and creating other new taxes that would be worse than the Income Tax to make up for the lost revenue. Opponents point out that other states that do not have an Income Tax often have higher property, sales, and business taxes to make up the difference. They also believe that after the revenue is reduced from the Income Tax rollback, pressure will mount to raise taxes on all businesses – including small business – to make up the revenue difference and that such a move would be supported by the general public.

Should Michigan’s Income Tax rate be reduced to 3.9 percent?

71% Yes

19% No

10% Undecided

Should Michigan’s Income Tax rate be reduced to 3.9 percent and phased out over 40 years?

22% Yes

56% No

22% Undecided

Should Michigan's Income Tax be phased out over five years?

40% Yes

48% No

12% Undecided

Should the sales tax be expanded to services to make up for revenue lost due to a repeal or reduction of the Income Tax?

17% Yes

74% No

9% Undecided

Should new or increased business taxes be enacted to make up for revenue lost by repealing the Income Tax?

1% Yes

96% No

3% Undecided