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Editorial: Taxing decisions

Snyder and lawmakers must attack Michigan's uncompetitive tax burden to make it a Top 10 state

THE DETROIT NEWS

Nothing's certain about taxes in Michigan except that the current code works against attracting jobs and investment. As new Gov. Rick Snyder and the newly seated Legislature get down to the business of reinventing Michigan, they've got to put a big target on a tax structure that keeps the state from becoming what it wants to be - a Top 10 state in terms of economic growth. That will take bold moves and tough choices, but it's what must be done.

Defenders of the current tax code note that Michigan is at about the middle of the pack in its tax burden. But that's not a good place for a state trying to rise from the very bottom of economic activity lists. Reducing taxes should be a top priority for the new policymakers.

The current Michigan Business Tax is nearly as despised as the Single Business Tax it replaced in 2007, particularly because a 22 percent surcharge was tacked on to spare policy makers from painful spending choices.

"That surcharge stands as a symbol of our failure to get the budget under control," says economist Patrick Anderson of the Anderson Economic Group in East Lansing. "The MBT with the surcharge is a proven job killer."

The surcharge has to go. That will leave Snyder with another \$400 million gap in the budget. But as long as the surcharge remains in place, Michigan will not be able to generate the economic activity necessary to put its people back to work and increase overall tax revenue through growth.

That's the immediate task. Longer term, Snyder has to come up with a replacement for the Michigan Business Tax, and bold ideas for using the tax code as an economic driver.

There's no ignoring the fact that states like Tennessee, Texas and Florida that have no individual income tax are doing better than Michigan. If Snyder wants to send a big message, his goal should be cutting spending enough to make it possible for Michigan to join their ranks.

"If I could make only one bold, dramatic change, I'd get rid of the income tax entirely," says Rich Studley of the Michigan Chamber of Commerce. "What an exciting statement of change that would be."

Exciting statements are what Snyder should strive for. He may have one with his plan for replacing the MBT with a 6 percent tax on business profits. Studley says the idea has appeal to his members because they pay taxes only when they make money. The main obstacle is that the profits tax will bring in far less revenue than the MBT, and that's Snyder's intent — to ease taxes on business.

To get there, as Studley notes, he has "a lot of work to do in forcing local communities to consolidate, in downsizing the state work force, in cutting pension and health care costs."

Michigan also must dump the personal property tax, a levy on all machinery, equipment and furniture owned by a business.

Roughly half the states don't have a personal property tax on business equipment, and those that do generally

apply the tax on a much smaller percentage of market value than the 50 percent rate Michigan uses.

The tax serves to discourage entrepreneurship in that it makes it more costly to start a business and get it through the development stage. It ought to be pitched.

Snyder and lawmakers also must redesign the tax structure to better reflect today's economy — that may include extending the sales tax to services, while lowering the rate. The Legislature tried that three years ago, but got bogged down in special interest lobbying.

But as service industries begin to dominate the state economy, a broader sales tax with a lower rate may be the most efficient way to raise revenue, without favoring one sector over another.

The governor and Legislature may even decide that select tax hikes — such as a higher gasoline tax to repair our awful roads — are wise investments. Michigan will have only about \$700 billion for road projects between 2012 and 2015, about half what will be spent this year. A ragged infrastructure is a deterrent to growth.

If Snyder really wants to make an exciting statement, he should embrace former House Speaker Newt Gingrich's proposal, made at last year's Mackinac Island conference, for eliminating all taxes in Detroit.

Snyder has one chance to get taxes right.

What he does will signal how much Michigan has really changed, and how far it is willing to go to regain its status as one of the nation's most prosperous states.

This is the time for boldness.

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