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State needs a new tax structure

By *GILDA Z. JACOBS*

By now, all Michiganians are familiar with the recent “call-to-arms” for massive tax and government reform for the State of Michigan. I agree, but it should not be done with narrow tunnel vision focused on simply cutting taxes. We have cut taxes dramatically in this state this decade, and our economy has not turned around.

Instead, we need to look at the right mix of taxes and services that will encourage the knowledge economy and the employees they are looking for to stay in or come to Michigan. While I believe that state government needs to help reduce costs for our business community, a balanced approach is more appropriate. In fact, recent history shows that cutting taxes alone is not the key to economic prosperity or growth.

If lower taxes were the sole key to a successful state, i.e., one with high per capita income and low unemployment, this decade should have been good for Michigan. In the 1990s, our state’s income tax rate was 4.4%, and our main business tax, the Single Business Tax, had a rate of 2.35%. Most of this decade, we have had an income tax of 3.9%; our SBT was down to 1.9%.

In 2000, Michigan spent 9.49 cents out of every dollar in personal income on state government. Today we are spending 7.69 cents of every dollar earned on state government — a 19% reduction in overall state tax burden.

Michigan’s reward for these tax reductions? Nation-leading unemployment and constant budget warfare. We’ve cut higher education spending dramatically, reduced funding to our cities, and even held K-12 spending down to about half the rate of inflation — steps that the “cut taxes” team tells us should have helped our economy. Instead, these kinds of cuts have made us less attractive to college grads and the companies that desire them, increasing the flight of that most valuable resource from Michigan.

If we look at the states with the lowest business taxes as a share of profits, as Patrick Anderson of the Anderson Economic Group has done, we find nine of the ten states with the lowest tax burden have graduated income taxes. In other words, these low business tax states have seen the value in a balanced approach.

For our state to grow and prosper, we need to be proactive. We need to pour the foundation on which our businesses and emerging industries can build upon. We need to rethink our city planning inward and upward, and not outward into sprawl. We need to ensure that our universities remain world-renowned research hubs, yet affordable enough so that every child can have the opportunity to attend.

I urge my fellow legislators to be bold and tackle comprehensive tax reform that is pro-growth and pro-investment in order to respond to economic trends and better position ourselves for a successful future.

Gilda Z. Jacobs is a Democratic state senator from Huntington Woods.

She is holding a town hall meeting tonight at from 6:30 to 8 p.m. at the Southfield Public Library to discuss Michigan’s tax structure. Irv Lowenberg, Southfield’s treasurer, will be her guest.