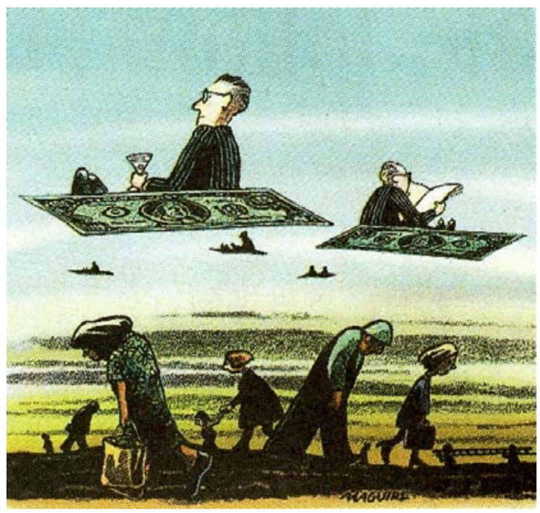
LOCAL COMMENT | STATE OF CRISIS

Raise Michigan's top income tax rate

Progressive change would shore up the budget and add greater fairness to system



BARRIE MAGUIRE/Special to the Free Press

If a good tax system is one that raises enough revenue to pay the government's bills and distributes the burden of the tax fairly, then the Michigan tax system is in serious trouble.

The state has been running chronic deficits, now on the order of $1 billion a year, since the last years of the Engler administration.

Meanwhile, the burden of Michigan taxes (sales, property, income and other taxes) falls disproportionately on low- and moderate-income taxpayers, who are having their own problems making ends meet.

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The solution to the revenue shortfall and the fairness problem is the same: an increase in the personal income tax on the well-to-do. By adding a new income tax bracket of 7 percent on married couples earning over $200,000 and single taxpayers making more than $100,000, Michigan could raise an additional $1 billion annually.

This sensible change would eliminate Michigan's structural deficit and would impose additional taxes on only 3% of all taxpayers, those who have been able to avoid most of the pain of the Michigan recession.

No one can plausibly claim that an additional income tax on Michigan's wealthiest individuals is unfair. The current Michigan tax system is seriously regressive, meaning that right now the wealthy in Michigan pay far less than their fair share. Specifically, middle-income Michigan families pay more than 10% of their income in state and local taxes, while those at the top of the income scale pay less than 7%.

The suggested 3.1% increase in the income tax rate on family incomes over $200,000 would be an important step in correcting this imbalance.

The new top rate of 7% would be significantly lower than the top rate in prosperous states such as California (9.3%), Iowa (8.98%) and Minnesota (7.85%), and just above the top rate in Ohio (6.56%).

Unfortunately, graduated income tax rates are prohibited in Michigan under Article IX, Section 7 of the Michigan Constitution. As a result, the proposal outlined above cannot be adopted without amending the constitution, which cannot happen before the election in November of 2008.

In the interim, Michigan needs a short-term tax plan that will allow it to balance its budget. I suggest that the Michigan legislature temporarily raise the current income tax rate back to the 4.6% rate that was in effect during most of the glory days of the Michigan economy.

To prevent the resulting tax increase from putting further economic pressure on the most vulnerable taxpayers, the rate increase should be coupled with a $140 tax credit for each individual taxpayer ($280 for couples).

The credit would be phased out between $20,000 and $30,000 for individuals and between $40,000 and $60,000 for couples. This tax package would net about $1.2 billion a year in additional taxes.

The interim plan is less desirable than the graduated-rate plan. Still, it is a good plan that would solve Michigan's deficit problem and would serve as a useful way station on the pathway to a graduated income tax.

It is the only plan on the table that would eliminate the structural deficit without placing additional tax burdens on low-income taxpayers who are already paying more than their fair share of Michigan taxes.

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