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Report: Voters Have To Decide Priority For Use Tax

Because Proposal 14-1 will not mean an actual change in taxes for most residents, they will have to decide whether the use tax should go for local priorities or state priorities, a report issued Wednesday by the Citizens Research Council said.

The ballot proposal, required by PA 80 of 2014, asks voters to designate a portion of the use tax to reimburse local governments for loss of personal property taxes, partially phased out by a package approved in 2012 (See Gongwer Michigan Report, December 27, 2012).

The change will mean a net loss of $107 million to the state General Fund in 2015-16, increasing to $502.2 million in 2027-28, the report said. Those losses are a combination of the reimbursement for loss of the PPT and additional state share for loss of the education taxes included as part of the PPT, but are offset by a new state Essential Services Assessment on some equipment that would have been covered under the PPT.

Voter approval of the change is required because the law essentially converts a portion of the use tax to a local tax. Under the Headlee Amendment, all new local taxes have to be approved.

"[T]he relevant question to Michigan citizens in terms of evaluating the proposal's fiscal implications becomes simpler: Is the enacted personal property tax relief plan the best use of the revenue being invested to finance the local reimbursement component of the plan? Or alternatively, should the state use this revenue to boost spending within some other priority area(s) of the state budget; or to provide tax relief in some other form; or to implement some combination of all these things?" the report said.

If voters reject the proposal, the changes to the PPT would also be rejected under the legislation.

Should the proposal be adopted, the report notes the changes are still not irreversible. While the system is in place, the Legislature would not be able to reduce local funding (as it has done with statutory revenue sharing) because the funds flow through the Local Community Stabilization Authority, essentially a new local government authorized to collect a portion of the use tax and redistribute it to other local governments.

Because the LCSA is not a state government entity, its funds are not subject to appropriation.

"This arrangement does not, however, prevent a future legislature from making changes directly to the authorizing statutes to accomplish this goal, so these protections are not fail-safe," the report said.

The report notes there are 30 local governments for which the reimbursement for loss of PPT revenues would be essential because personal property represents at least 30 percent of their taxable property. For 13 units, personal property is more than half of their taxable value (Carson City has 71 percent of its property value in personal property).

The Mackinac Center for Public Policy, meanwhile, praised the proposal as a $500 million annual tax cut. "Voters are being asked to certify a $500 million reduction in an economically inefficient tax," James Hohman, assistant director of fiscal policy for the think tank, said.

"Taxing equipment and machinery discourages expansion and growth."