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OPINIONS + EDITORIAL

Michigan's Prop 1 is good reform

By James M. Hohman and Scott Drenkard

There is an understandable amount of confusion over Proposition 1 on the Aug. 5 primary ballot, yet it deserves the attention of voters because it strategically lowers the economically inefficient personal property tax more effectively than our neighboring states' attempts.

While individuals only pay property taxes on their real estate, businesses pay a personal property tax on their machinery and equipment in addition to any real property taxes they owe.

This means that businesses pay taxes every year on everything from paper clips to boilers. Because this is a tax on things that people use to do their jobs, it's widely considered to be economically inefficient and damaging to growth.

Proposition 1 would exempt small businesses with less than $80,000 worth of equipment from having to pay this tax; would eliminate these taxes on new manufacturing equipment; and phase in relief for existing manufacturing equipment.

Businesses claiming the manufacturing exemptions will have to pay an alternative assessment, but even this would be a fraction of the original tax.

When the entire package is phased in and the alternative assessment is levied, these reforms will cut taxes by about $500 million.

Normally, this would mean a reduction in local government tax revenue. But the state is attempting to hold municipalities harmless through a formula administered by a new authority that will receive a portion of the use tax, a complement tax to the sales tax.

Whereas a sales tax is levied at the point of a sale, a use tax is levied on people and businesses that use goods and services. The total use tax rate will not increase — the state budget will, in effect, absorb the $500 million personal property tax cut.

In support of Proposition 1, it's frequently noted that Michigan is the only state among our neighbors to levy property taxes on business equipment, save Indiana. But the truly notable aspect of Proposition 1 is that it limits personal property taxes without creating new, more harmful taxes.

In Ohio, the personal property tax was replaced by a statewide gross receipts tax. In Illinois, the personal property tax was replaced by a corporate income tax add-on of 2.5 percent, bringing Illinois' current corporate income tax to 9.5 percent, one of the highest rates in the nation.

Ohio sees its new gross receipts tax as a spigot, and even saw calls from Gov. John Kasich, a Republican, to increase it this year, which would further hamstring businesses in a state that the Tax Foundation ranks 39th in its "State Business Tax Climate Index."

Illinois officials sometimes pretend their corporate tax add-on doesn't exist, instead calling the tax a "replacement tax" and contending that the corporate income tax rate is only 7 percent.

Indiana is aware of these mistakes in other states, and has made a concerted first effort at limiting its personal property tax this year. This session, the Indiana Legislature for the first time gave localities the autonomy to offer an exemption for businesses with under $20,000 in personal property and an option to exempt new personal property purchases from the tax.

Indiana Gov. Mike Pence, also a Republican, has further promised to make the complete elimination of this tax a policy priority in the coming years.

Michigan's Proposition 1 is better crafted and more sweeping than any of our neighbors' attempts to reform this tax. It's encouraging to see such a thoughtful policy proposal on the ballot.

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