



The Cost of the Proposal 1: The May Tax Vote

By James M. Hohman

Summary

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When voters take to the polls on May 5 to approve or reject a constitutional amendment and a package of related bills, they may want to know the price tag for their decision. Plenty of people have written about the package and the condition of the roads in the state, but few have looked at the costs for the typical taxpayer.

The proposal increases sales and use taxes from 6 to 7 percent, creates a new and higher fuel tax and increases vehicle registration fees, generating a projected \$2 billion in its first year. As a result of these increases, the typical Michigan household can expect to pay between \$477 and \$525 in 2016 if voters approve Proposal 1.

There are two proposed changes that would affect the price of gas we see at the pump. The state would eliminate the sales tax that it levies on fuel purchases, but replace it with a new and higher fuel tax, initially levied at 41.7 cents per gallon. How much a household will pay in higher taxes depends on the price of fuel. But if gas is selling at \$2.39 per gallon (the projected national average) the day before the tax is implemented, it will pay \$2.49 the day after. This will increase the tax burden of the typical household by between \$88 and \$136 in 2016.

Under the proposal, this new fuel tax would increase based on inflation. But the proposal's drafters used an odd formula that ensures the rate will increase slightly above inflation. If inflation grows at the same rate it did for the past decade, the proposed fuel tax rate would increase between 4 and 14 percent above inflation, depending on the wholesale price of fuel.

The state currently gives vehicle owners discounts the first three times they renew their passenger-vehicle registrations. The proposal would stop this discounting. For the first year this would only raise \$11 million from people that own newer vehicles, and raise \$150 million when these discounts no longer apply. According to the Anderson Economic Group, it might also mean that residents of the state could no longer deduct these expenses on their federal income taxes.

Owners of electric vehicles would also pay an additional \$75 for vehicle registrations. The proposal levies additional taxes on heavy commercial trucks too — raising an extra \$50 million for the state. The typical household will not pay these fees unless they get baked into the price of goods.

Taxpayers would get something in return for their \$2 billion in increased taxes. They'll get better roads in the future. State road officials have long warned that pavement quality is set to deteriorate without additional funding, and this proposal provides it.



Proposal 1 of 2015 would increase some taxes and fees, and set into motion a number of new laws and changes to the Michigan Constitution.

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There's more to this proposal than road funding, though. The state's School Aid Fund will get a \$293 million boost in revenue. Low-income households will get larger refundable income tax credits. Cities, villages and townships will split \$100 million in additional revenue sharing. There will also be more money for public transportation, harbors and waterway facilities.

If voters approve Proposal 1, these constitutional and legislative changes will go into effect. A rejection of Proposal 1 would likely send legislators back to the negotiation table to figure out a different way to raise the revenue needed to maintain and improve Michigan's roads.

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