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## Let's Cut the Michigan Income Tax

By James M. Hohman

### Summary

If lawmakers were to cut the Michigan income tax rate, state revenues would still grow. A cut would make good on a 2007 pledge to phase out what was supposed to be a temporary tax increase.

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The state of Michigan can afford a cut to the income tax rate, if lawmakers wish to end what was originally a temporary tax increase.

Michigan lawmakers passed a temporary income tax hike in 2007 that's still with us, and despite the COVID-19 pandemic, Michigan's finances are looking good. Lawmakers can afford to lower the income tax if it is important to them.

Lowering the income tax rate makes Michigan more competitive for businesses. It lets residents keep more of what they earn, further encouraging economic growth. And letting taxpayers control more of what they earn is the fair thing to do if the state can operate on less.

Lowering the income tax rate would be fair for residents for another reason: The last tax hike was supposed to be temporary. Lawmakers were dealing with projected overspending and found that raising taxes was going to be easier than cutting the budget. The tax hike they turned to was going to boost revenue by \$700 million for the year, and the rate increase would be phased out over several years after that. (Gov. Gretchen Whitmer voted for the tax hike when she was in the Legislature.)

The tax increase didn't solve Michigan's fiscal problems. The national economy tanked and took plenty of Michigan jobs with it. State revenue fell by over \$3 billion — 11% — between fiscal year 2007-08 and 2010-11, though federal bailouts pushed state spending to new highs, and extra federal money lingered well into the state recovery.

State revenue has increased since then, jumping from \$25.2 billion in 2011 to \$35.4 billion, which is budgeted for the current fiscal year. That's a 17% increase when adjusted for inflation. Part of this increase came about because lawmakers stopped phasing out the income tax hike and made the "temporary" tax increase permanent. The growth of the state budget shows that the temporary problems from 2007 are long gone, and the state can afford to lower taxes.

Cutting taxes back down to where they were before 2007 would decrease state revenue by about \$870 million. Even if lawmakers were to cut the income tax rate, state revenue would still increase due to economic growth. In other words, the state could lower the income tax rate and still have more to spend next year than it did this year.

The affordability of a cut is clear when some current spending priorities are considered. Late last year, senators expressed interest in approving \$300 million in select business subsidies. Michigan's cities asked for an extra \$250 million. Some lawmakers wanted to subsidize film production

again, apparently not having learned the lesson from the \$500 million spent on it previously — it's a net loser for both taxpayers and the broader economy. Clearly, some fiscal priorities are affordable, otherwise new programs and spending wouldn't be introduced. Tax cuts are likewise affordable if elected officials make them a priority.

There are a lot of decisions that get built into budgets. Increased demand for Medicaid during the pandemic cost more than \$870 million — some of it supported by federal dollars — and perhaps a recovering economy will put less strain on Medicaid rolls.

It simply comes down to whether lawmakers make reducing taxes a priority, as the state can afford it. It would only be fair to taxpayers to let them keep more of what they earn if lawmakers can work without it.

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**James M. Hohman is the director of fiscal policy at the Mackinac Center for Public Policy,** a research and educational institute based in Midland, Michigan. Permission to reprint in whole or in part is hereby granted, provided that the author and the Mackinac Center are properly cited.

**Economic growth in Michigan has been strong enough for lawmakers to cut the income tax without having to also reduce spending.**

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**Holly Wetzel**  
Communications Manager  
989-698-1927  
[wetzel@mackinac.org](mailto:wetzel@mackinac.org)

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