Lawmakers Ought to Lower Taxes

By James M. Hohman | February 2022

The Michigan Senate Finance committee passed a bill to the full senate that would lower the income tax rate, the corporate income tax rate, and to give families a $500 tax credit for each of their dependent children. It's good to see that lawmakers are interested in lowering taxes. It improves state competitiveness and creates jobs. It's also a good time to consider tax cuts, since strong revenue growth ensures that the state can afford to reduce tax rates.

Over the past year, 14 other states have reduced their tax rates. This includes Ohio, which now taxes income at lower rates than Michigan. And further, neighbors Indiana and Wisconsin are considering lowering their income tax rates, too. Michigan ought to follow suit, and the Senate proposal would give the Great Lake State the lowest corporate income tax rate in the region.

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Tax cuts would also improve Michigan's economic recovery. Michigan is still down 205,200 jobs since the pandemic began, a 4.6% decrease. This is the 10th worst economic rebound among the states. Lowering income taxes is a time-tested way to generate more economic growth. It lets people keep more of what they earn, and this encourages businesses to add more jobs and to retain the jobs that they have. The state economy creates and loses over 800,000 jobs every year. Both small and large businesses add jobs and reduce job losses when they see business climate improvements that affect all people and businesses.

Two other developments have made state tax cuts a more potent policy. The federal government has capped the state and local tax deduction, and people become more sensitive to rate changes when they cannot deduct their state taxes from their federal taxes. In addition, the pandemic has been a boon to remote work, which gives an incentive to people to live where they want. And people are moving to states that tax them less.

Lawmakers have a lot of extra cash that they can use to afford priorities like tax cuts. Despite job losses, state taxes keep generating revenue that beats administrators' expectations, and budgeters are sitting on more than $7 billion in state funds right now. State revenue is expected to continue to increase, with more than $2.3 billion in revenue growth projected for the upcoming fiscal year. This is on top of the $5.1 billion increase in state spending over the past five years. And these resources do not

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include the extra federal transfers to the state, either. This means the lawmakers can afford to cut taxes without having to cut the state budget.

Michigan can use a boost to its economic recovery, and tax cuts can provide it. Other states, including Michigan's neighbors, are finding a way to let their residents keep more of what they earn. It's good that our own lawmakers are considering reducing tax rates too.

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James M. Hohman is the director of fiscal policy at the Mackinac Center for Public Policy.