



A2Y Chamber Statement Opposing HB 4011

May 25th, 2017

The Michigan Legislature should not proceed with its plan to phase out the Michigan Income Tax (MIT). This idea sounds great in theory but would create massive and widespread problems in reality, quickly threatening our ability to sustain the physical and societal infrastructure that underpins the success of both private industry and the broader community throughout Michigan. It will also lead to uneven responses from local governments. The only proposal worth pursuing would be one that fully replaces the needed revenue and does so in a way that adds no additional burden to our business community or our population. No such plan has been offered.

HB 4011 seeks to repeal the MIT through conditional annual reductions of 0.05%, achieving full repeal in 2097. The MIT currently provides roughly \$7B to Michigan's \$10.45B General Fund (the fund the Legislature can actually control). The GF funds a vast array of vital state services, including 84% of Higher Education, 65% of Health and Human Services, and roughly a third of funding for community colleges and state departments. If this MIT repeal is passed, it could result in a potential \$1B cut to the GF within four years. Repealing the MIT will deprive the State of Michigan of needed revenue at a time when the state is already operating on half its Constitutional limit.

Repealing the MIT will have an impact on real people. College tuition costs could go up as public universities (such as the University of Michigan and Eastern Michigan University) receive less funding. State departments that protect our environmental and recreational quality of life will see cuts, as will public safety, human services and broader education funding. All of these things will have negative impacts on current residents and compromise Michigan's ability to attract and retain talented professionals going forward.

MIT repeal will also prove detrimental for tax payers. A small cut in income taxes will likely mean a net increase in tax burden as local governments (with funding constrained by Headlee and Prop A) will not be able to match the costs of their services, leading to more millage requests. Those requests will eventually fail and local governments will cut additional services or ask state government (which just reduced its overall revenue by 16%) for help. With differing local tax rates, businesses will face the same uneven tax burden that was the catalyst for past reform such as the Michigan Business Tax.

Proponents of the MIT repeal have argued the revenue hole will be filled with overall economic growth. This is not backed by past data or sound logic. Even in the current positive economic climate, Michigan would need to see vast and exponential economic growth simply to match the revenue loss. This fails to factor in any future downturns, which history and logic suggests could happen.

While the A2Y Chamber would normally welcome a reduction in taxes, the MIT repeal sounds good but it creates worse problems than it solves. The average citizen will see a very slight income tax cut, but they, and their businesses, will be hit with an increase in their overall tax burden. MIT repeal deprives the state of needed revenue to ensure continued growth in our economy and improvements in our competitiveness and quality of life. For these and many other reasons, the A2Y Chamber believes MIT repeal should not be implemented.