

Michigan Taxes

The governor of Michigan and others have stated that Michigan's methods of raising revenue are outdated due to a changing economy that now spends more money on services than goods. There is a sales tax on purchased goods, but not on purchased services. There is also an income tax and a business tax. The economy has shrunk and the need for revenue has increased. The obvious result is red ink for the state of Michigan. There are two ways to reduce the red ink, lower the spending and/or raise more revenue for the state of Michigan. This paper will only address the issue of a services tax and why it is a bad idea.

Taxing purchased services is a new concept for the citizens of Michigan. The governor proposes cutting the sales tax by 0.5%, and then adding a 5.5% services tax. I tried to figure out how much this combination would cost me and I cannot. This proposal has another cost that has not been stated. How much will it cost the state to collect the services tax? Certainly many new tax collectors will have to be hired by the state of Michigan to collect the new tax. Business owners will have a monetary expense in complying with the collection and payment of the tax, and they will have to expend more time running the business. Many services are on a cash basis, and this type of tax could cause income to go unreported. The services tax is very repressive for those at the lower income level. Assuming that beyond untaxed food and medicine expenses those at a lower income level will spend most of what they make on goods and services. The rate of taxation across the board for them will be 5.5%. The wealthy who are able to save will be taxed at an effective rate that is less than 5.5%. This proposed tax is very repressive. Another problem is what services should be taxed. In 2007 when Michigan very briefly had a services tax before it was rescinded it appeared that the services tax was not applied in a fair manner. Some services were subjected to the tax and others were not. The services tax is not the best or fairest way to increase revenue for Michigan.

I feel that an adjustment to the income tax is an easy and fair way to increase revenue for Michigan. The burden to the individual tax payer should be easy to calculate. Changing the income tax rate should not cause the state to have additional expenses in collecting the tax. An income tax is not quite as repressive as a sales and services tax to those at the lower income level. Ideally Michigan should have a graduated income tax, but a constitutional amendment for a graduated income tax is needed. Michigan is one of seven states that does not have a graduated state income tax.

During his term Governor Engler quietly eliminated the intangibles tax, which was a 3.5% tax on interest and dividend income after a \$10,000 exemption. Most individuals did not pay the tax because they were not fortunate enough to have sufficient interest and dividend income to qualify for the tax. The intangibles tax was legal and like a pseudo graduated income tax. Income tax rates went down from 4.6% to 3.9% while Governor Engler was in office, but the wealthy got a disproportionately larger tax break due to the elimination of the intangibles tax.

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