


Reforming Michigan's Tax System

Presentation for Detroit Renaissance

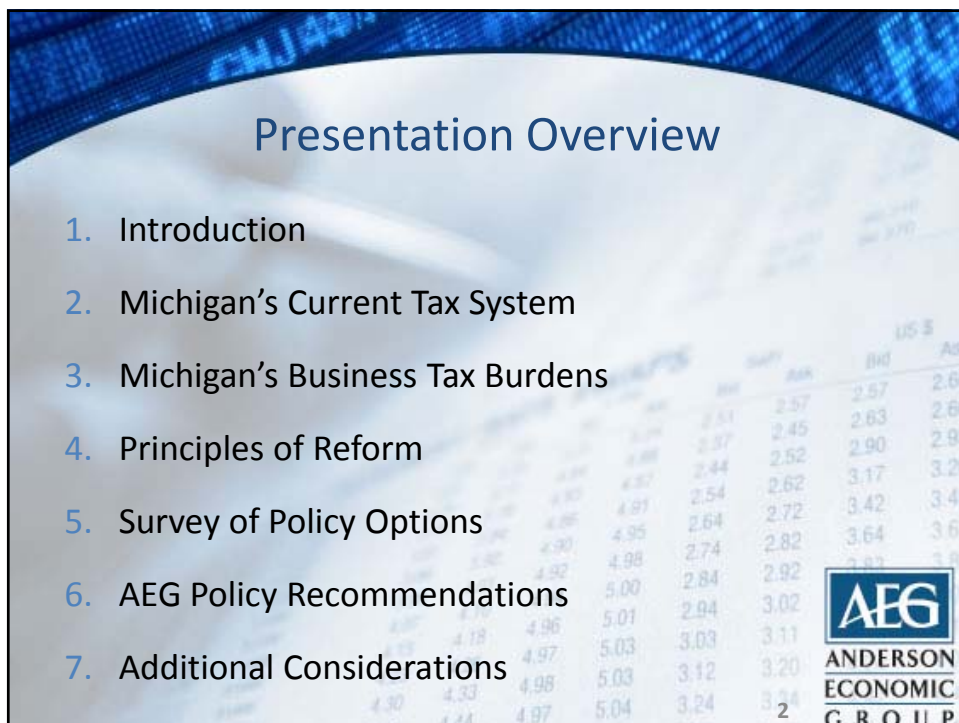
February 25, 2009
Detroit Renaissance Board Meeting

Patrick L. Anderson, Principal and CEO




	Bid	Ask	Bid	Ask
	2.57	2.60	2.57	2.60
	2.63	2.66	2.63	2.66
	2.90	2.93	2.90	2.93
	3.17	3.20	3.17	3.20
	3.42	3.45	3.42	3.45
	3.64	3.67	3.64	3.67
	3.83	3.86	3.83	3.86
	3.99	4.01	3.99	4.01
	4.12	4.14	4.12	4.14
	4.24	4.26	4.24	4.26
	4.42	4.44	4.42	4.44

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Presentation Overview

1. Introduction
2. Michigan's Current Tax System
3. Michigan's Business Tax Burdens
4. Principles of Reform
5. Survey of Policy Options
6. AEG Policy Recommendations
7. Additional Considerations



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	3.99	4.01	3.99	4.01
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2. Michigan's Current Tax System



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Michigan State Tax Revenue

- In FY 2008, Michigan state tax revenue totaled \$24.9 billion.
- Total revenue for the state from all sources totaled \$42.3 billion. Federal funds provided most of the additional revenue.
- Sales and use, income, and "business taxes" generated the most state tax revenue.

State Tax Revenue, by Category (FY 2008)

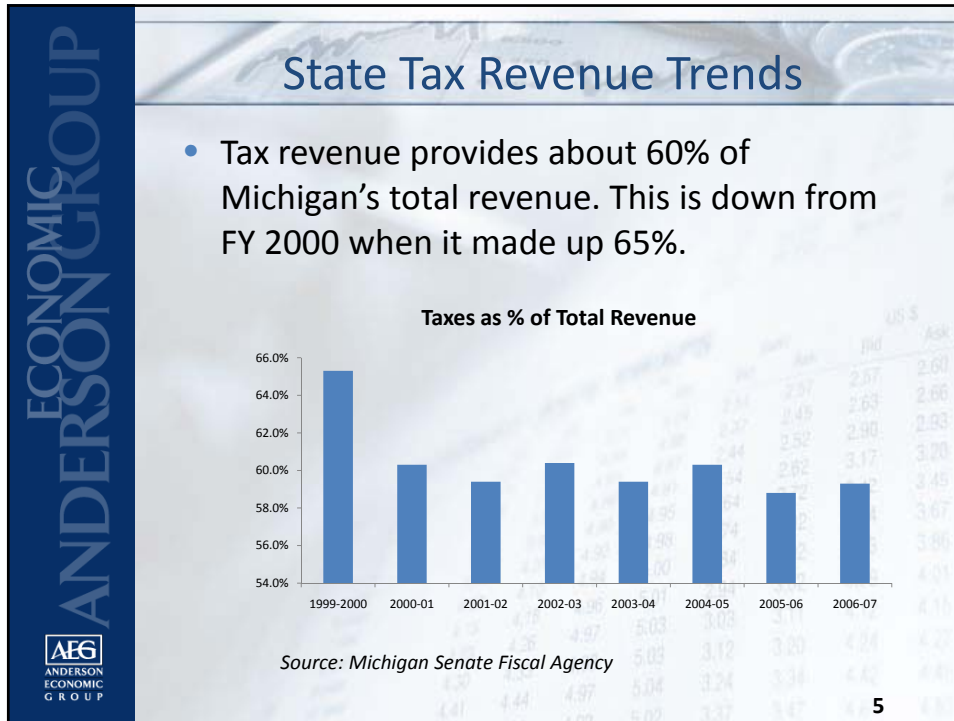
Category	Percentage
Sales and Use Taxes	32%
Income Taxes	29%
Business Taxes	11%
Transportation Revenue	8%
State Education Tax	8%
Tobacco Taxes	4%
Other Taxes	8%

Source: Michigan House Fiscal Agency
 Note: HFA's definition of "business taxes" includes: SBT and MBT, insurance company tax, and the casino wagering tax.

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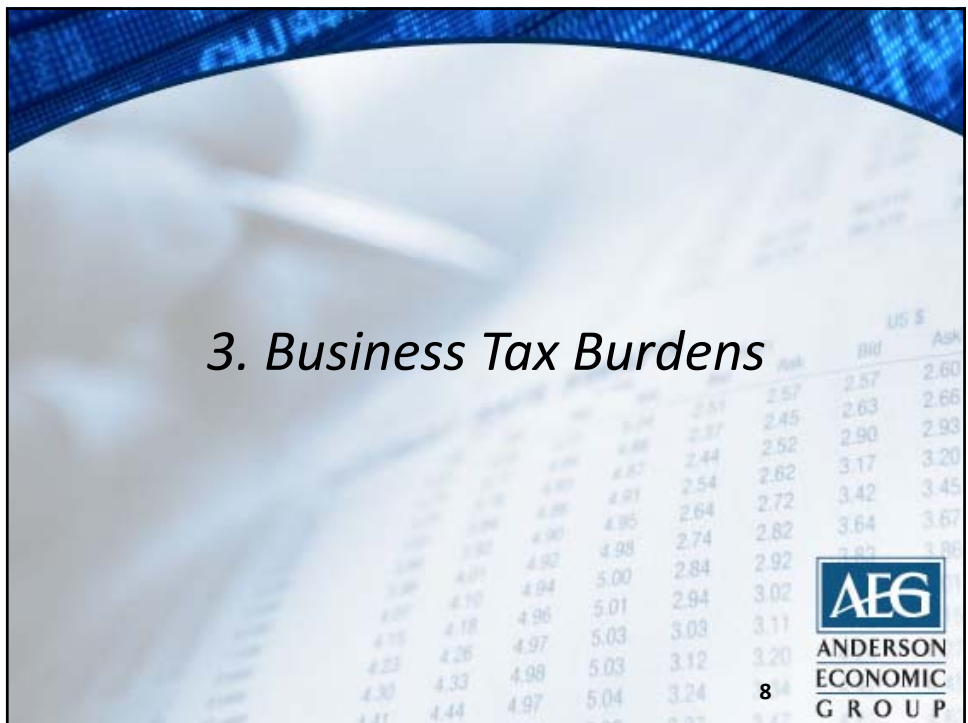
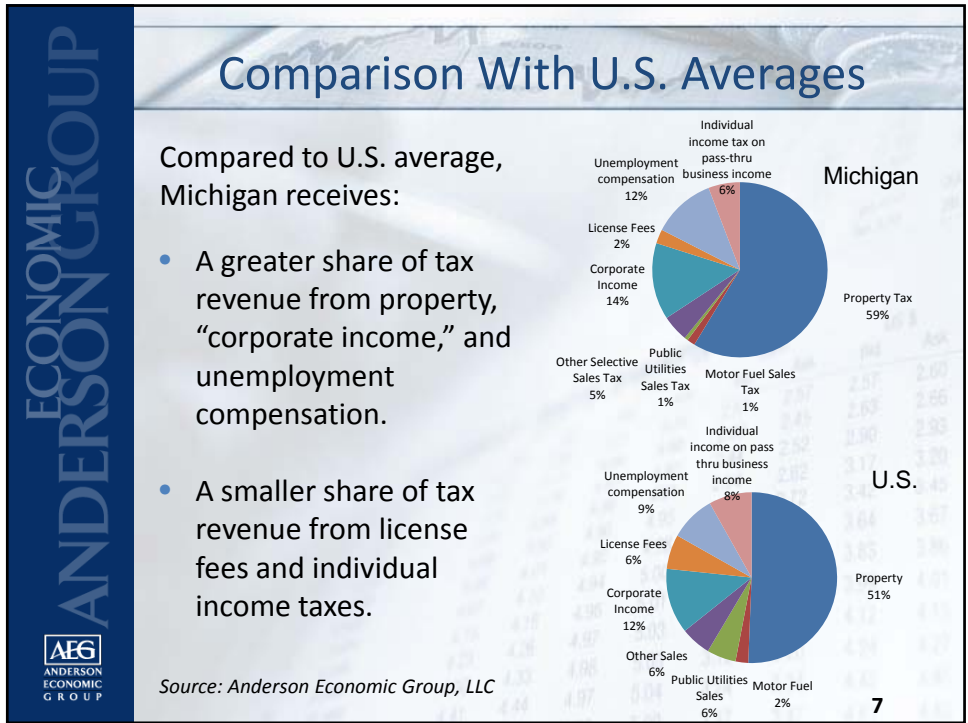
AEG Estimate: State and Local Taxes Paid by Michigan Businesses

Tax Category	FY 2006 (in thousands)
Property Tax	\$ 7,827,071
Motor Fuel Sales Tax	\$ 196,197
Public Utilities Sales Tax	\$ 91,223
Other Selective Sales Tax	\$ 656,057
Corporate Income	\$ 1,886,168
License Fees	\$ 345,906
Unemployment compensation	\$ 1,553,877
Individual income tax on pass-thru business income	\$ 777,459
Total Taxes Paid by Businesses (in thousands)	\$ 13,333,958

% of Total State and Local Taxes Paid by Business 37%

Source: Anderson Economic Group, LLC


- Michigan businesses paid over \$13 billion in state and local taxes in FY 2006.
- 37% of all state and local taxes were paid by business.
- Property and "corporate income" (SBT and MBT) taxes raised the most revenue.



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AEG State Tax Burden Study

1. Annual ranking of state business tax burdens, published in *State Economic Handbook*.
2. Measures burden as business taxes paid divided by profits earned within the state. This provides a good measure of what businesses actually pay compared to available income.
3. Business taxes include: property taxes; motor fuel, public utilities, and other selective sales taxes; corporate income taxes (includes SBT and MBT); license fees; unemployment compensation; and individual income tax on pass-thru business income. (See Exhibits 1 and 2 in board packet.)
4. Uses U.S. Census of Governments and IRS Statistics of Income as base data sources.


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AEG Business Tax Burden Measures

Level	Measure	MI	MI Rank	U.S. State Average
Below Average	Business Taxes Profits Earned Within State	14.94%	22	16.69%
Average	Business Taxes Personal Income	4.00%	34	4.01%
Above Average	Business Taxes Private Gross State Product	4.00%	36	3.79%

Source: Anderson Economic Group, LLC

- We will use the measure that Michigan performs the best on (Business Taxes/Profits Earned within State) for our comparisons with benchmark states.


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Top 10 Business Tax Burden States

AEG State Business Tax Burdens, 2008

Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
1	North Carolina	10.88%
2	Delaware	11.03%
3	Tennessee	12.01%
4	Ohio	12.01%
5	Missouri	12.10%
6	Louisiana	12.22%
7	Alabama	12.57%
8	Minnesota	12.58%
9	South Dakota	12.60%
10	Connecticut	12.63%
Top 10 State Average		12.06%
22	Michigan	14.94%
<i>U.S. State Average</i>		<i>16.69%</i>

Data is from FY 2006, last year that Michigan had the SBT. Taxes burdens will be higher in 2007 with MBT. Source: Anderson Economic Group, LLC; See Exhibit 2 in board packet.

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Michigan v. Great Lakes States

AEG State Business Tax Burdens, Great Lakes States, 2008

Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
4	Ohio	12.01%
16	Wisconsin	13.54%
20	Pennsylvania	14.63%
22	Michigan	14.94%
30	Indiana	16.08%
34	Illinois	16.91%
Great Lakes Average		14.69%

Data is from FY 2006, last year that Michigan had the SBT. Tax burdens will be higher in 2007 with MBT. Source: Anderson Economic Group, LLC; Annual business state tax burden rankings are published in Anderson Economic Group, "State Economic Handbook."

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Findings from DR Benchmarking Study

Michigan has:

1. "A high cost of doing business."
2. "A talent base that has pockets of select expertise, but overall is relatively less educated than our peer regions..."
3. "A quality of life index that is much better than its perception; however, hurt by a high crime rate and a perception (but not reality) of lack of cultural offerings."

Source: Detroit Renaissance, *Assessing Regional Competitiveness: Benchmarks*, completed by McKinsey & Company, August (2008).



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MI v. DR Benchmark States for Knowledge Jobs

AEG State Business Tax Burdens for Detroit Renaissance Benchmark States: Knowledge Jobs, 2008

Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
1	North Carolina	10.88%
18	Washington	13.86%
21	Massachusetts	14.84%
22	Michigan	14.94%
24	Texas	15.28%
34	Illinois	16.91%
DR Benchmark States Average		13.96%

Data is from FY 2006; includes SBT. Tax burdens will be higher in 2007 with MBT.
Source: Anderson Economic Group, LLC; Annual business state tax burden rankings are published in Anderson Economic Group, "State Economic Handbook."

Note: Detroit Renaissance Benchmark states for knowledge jobs from: Detroit Renaissance, "Assessing Regional Competitiveness: Benchmarks," completed by McKinsey & Company (2008).



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MI v. DR Benchmark States for Manufacturing Jobs

AEG State Business Tax Burdens for Detroit Renaissance Benchmark States: Manufacturing Jobs, 2008


Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
3	Tennessee	12.01%
7	Alabama	12.57%
13	Georgia	13.22%
18	Washington	13.86%
22	Michigan	14.94%
34	Illinois	16.91%
DR Benchmark States Average		13.92%

*Data is from FY 2006; includes SBT. Tax burdens will be higher in 2007 with MBT.
 Source: Anderson Economic Group, LLC; Annual business state tax burden rankings are published in Anderson Economic Group, "State Economic Handbook."*

Note: Detroit Renaissance Benchmark states for manufacturing jobs from: Detroit Renaissance, "Assessing Regional Competitiveness: Benchmarks," completed by McKinsey & Company (2008).


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4. General Tax Principles


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Principle #1

Michigan's tax system should impose significantly lower costs on businesses that employ workers and invest in Michigan than it does today.

We observe that:

- The level of business taxation is one of the few location factors under direct control of the state government.
- Employers in Michigan face significantly higher costs than in other, more competitive, states.

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Principle #2

Michigan's tax and budget systems should provide a stable and predictable tax environment for business.

Michigan's businesses would benefit from:

- Steps to reduce the frequency and severity of fiscal crises.
- Steps to limit the state legislature's ability to impose new taxes or significantly increase existing taxes.

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