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Statewide Ballot Proposal 2014

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Summary

In the August 5 primary election, Michigan voters will decide one statewide ballot proposal, Proposal 14-1. The proposal is a statutory referendum on Public Act 80 of 2014, which, if approved, would phase in a reduction of state and local personal property taxes paid by businesses, and create a new reimbursement system to local governments.

Proposal 14-1 will appear on the ballot as follows:

Statewide Ballot Proposal 14-1

APPROVAL OR DISAPPROVAL OF AMENDATORY ACT TO REDUCE STATE USE TAX AND REPLACE WITH A LOCAL COMMUNITY STABILIZATION SHARE TO MODERNIZE THE TAX SYSTEM TO HELP SMALL BUSINESSES GROW AND CREATE JOBS

The amendatory act adopted by the Legislature would:

1. Reduce the state use tax and replace with a local community stabilization share of the tax for the purpose of modernizing the tax system to help small businesses grow and create jobs in Michigan.
2. Require Local Community Stabilization Authority to provide revenue to local governments dedicated for local purposes, including police safety, fire protection, and ambulance emergency services.
3. Increase portion of state use tax dedicated for aid to local school districts.
4. Prohibit Authority from increasing taxes.
5. Prohibit total use tax rate from exceeding existing constitutional 6% limitation.

Should this law be approved?

YES [ ]

NO [ ].

Public Act 80 of 2014 is a compromise between state policymakers, local governments and business groups to reduce taxes on business while protecting local governments from revenue losses. The Act includes a number of personal property tax (PPT) reforms enacted in 2012, but goes further to protect local governments dependent on the income they collect from the PPT. The enactment of PA 80 is now contingent on the passage of a statewide ballot initiative, because it includes a change in the way Michigan will distribute and administer the currently assessed 6 percent state use tax. According to Michigan's Constitution, this constitutes a "new" tax, which the voters must approve.

If Proposal 14-1 is approved by a majority of the electors, Public Act 80 and other legislation tied to it will go into effect January 15, 2015. If the measure is not approved, Public Act 80 would be repealed, and the PPT revisions that were created in 2012 would become void.

Background on the Personal Property Tax

Currently, businesses pay an annual PPT on the value of their commercial and industrial personal property (such as machinery, furniture, equipment and computers) to the cities, villages and townships in which they are located. The amount of the tax is based on the taxable value of the property – typically the purchase price minus depreciation. The tax revenue is then used by local governments to provide services that include police, fire and emergency response. The state also receives some of the PPT revenue into the School Aid Fund, which is then distributed to local school districts for operating expenses.

Advocates of this reform believe that the PPT, which is paid in addition to the 6 percent sales tax when the machinery or equipment is purchased, discourages business investment, expansion and job creation. Michigan Citizens for Strong and Safe Communities, a coalition of interests advocating for passage of 14-1, argues that, for some local governments, administering and collecting the PPT can be burdensome, especially if many businesses appeal the tax or if the tax makes up a small percentage of the local unit's overall revenue (Michigan Citizens for Strong and Safe Communities, 2014). However, many local governments, particularly those with economies dependent on manufacturing, rely on the business PPTs as a significant source of revenue to support services in their communities.

Proposed Redistribution of the 6 Percent Use Tax

Therefore, Public Act 80 reimburses local governments and the School Aid Fund for revenue lost in phasing out most of the PPT by redirecting a portion of the money collected from the state use tax to create a new local tax (the **local community stabilization tax**) and create a statewide taxing authority to administer the new tax. Currently, most local taxes are determined by a percentage or millage rate. But the local community stabilization share tax rate would be determined through a calculation by the Michigan Department of Treasury, according to statutory guidelines (Citizens Research Council of Michigan, 2014, July).

The newly created taxing authority, the **Local Community Stabilization Authority (LCSA)**, would administer the local community stabilization tax. The LCSA would consist of five members appointed by the governor. Under Public Act 80, and under the state constitution, the LCSA would be prohibited from raising taxes.

The current 6 percent state use tax is generally paid on purchases that are exempt from sales tax, such as catalog or Internet purchases; the sale of used vehicles and watercraft, between individuals; hotel rooms; and telephone and other "leased wire communications" (Citizens Research Council of Michigan, 2014). Under Public Act 80, the rate of the use tax remains at 6 percent. Instead, Public Act 80 alters how the use tax is divided up and distributed.

Currently, four percent of revenue from the use tax is directed into the state's General Fund, while two percent of it is earmarked for the School Aid Fund as part of the 1994 Proposal A school finance reform. Under Public Act 80, the four percent of the state use tax that currently goes to the General Fund is divided into two new separate taxes 1) the local community stabilization tax that distributes back to local governments in the amount lost from the repeal of the PPT, and 2) a **state share tax** that would be collected and distributed in the same manner as the current use tax.
The two percent of the use tax dedicated to the School Aid Fund would not change. But additional revenue generated from the new state share tax would be deposited into the School Aid Fund to make up for any losses incurred by phasing out the PPT. Ultimately, the School Aid Fund would be held harmless (House Fiscal Agency, 2014).

Other Tax Changes

Additionally, Public Act 80 reduces the use tax paid by individuals on the purchase of used autos and watercraft by taxing only the difference between the purchase price and the trade-in price. Formerly, tax was paid on the whole purchase price (Citizens Research Council of Michigan, 2014).

Last, under the proposal, extra revenue would be generated from the state levying a statewide **Essential Services Assessment (ESA)** on industrial property owners who were paying PPT as of December 2012 (and therefore, not on new industries that locate in Michigan). The tax would be in the form of a millage rate. Revenue from this ESA will be deposited in the state's General Fund.

Supporting Arguments

Those in favor of Proposal 14-1 believe that, in addition to the reduction of taxes on business, the tax changes would benefit local governments by providing a more stable and predictable source of funding from the state (M-Live, 2014). Currently, under the practice known as revenue sharing, local governments must await their annual appropriation from the Legislature, which means competing with other state funding priorities such as state prisons, higher education, and health and human services. Economic analysis from the Senate Fiscal Agency of Senate Bills 821-830 (the bills that became Public Act 80) estimates that, overall, local units of government would come out even under this new formula. However, some individual units of government may receive more and some less than what they could expect to receive without this proposal. School districts, both local and intermediate, also are unlikely to be affected by the change (Senate Fiscal Agency, 2014).

Those supporting Proposal 14-1 also point out that this is not a tax hike; to most Michigan citizens, the changes under the proposal would be largely invisible. In addition, supporters state that, because many other Midwestern states have eliminated their personal property taxes, the approval of Proposal 14-1 would enhance Michigan's ability to attract new manufacturers to the state (Detroit Free Press, 2014). If the proposal is defeated, the PPT would go back into effect, and local units of government and businesses would be back where they started.

Opposing Arguments

No formal opposition to Proposal 14-1 has emerged, but fiscal analyses of the proposal from the Senate Fiscal Agency and from the House Fiscal Agency, nonpartisan research branches of the state Legislature, reveal that the largest loser is likely to be the state's General Fund. The House Fiscal Agency estimates that the changes proposed under PA 80 would reduce the General Fund by $19.9 million in 2014-15, climbing to an estimated reduction of $47.1 million by 2027-2028, which is when the changes under PA 80 would be fully phased in (House Fiscal Agency, 2014).

While legislative intent language in Public Act 80 states that the Legislature intends to make up for these future losses through appropriating revenue from expiring business tax credits, this language is not binding. Furthermore, these revenues from expiring tax credits would go to the General Fund with or without PA 80, and do not represent "extra" allocations.

Others have also noted that, since the use tax levy formula for local reimbursement is specified in statute, a future legislature could amend this and alter the amounts locals receive. Over the years, local governments have pointed out that the state has often not met its obligations to local units under revenue sharing.

Ultimately, Proposal 14-1 represents a major shift of tax dollars away from the state and toward local governments. While businesses benefit from a reduction in taxes and locals benefit from more stable funding to provide public safety, state-provided services such as prisons, state police, highways and higher education may decline (House Fiscal Agency, 2014).

Also, some individuals opposed to Proposal 14-1 believe that creating a new state authority to allocate money to local governments erodes local control and creates unnecessary bureaucracy (Grand Haven Tribune, 2014).

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