

# Michigan Taxes Hit Poor & Middle Class Far Harder than the Wealthy

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Low- and middle-income families in Michigan pay a far higher share of their income in state and local taxes than do the richest families in Michigan, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Michigan has a very unfair tax system.”

## Michigan’s Tax Code: Soak the Poor and Middle Class, Spare the Wealthy

When all Michigan taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Michigan families—with average incomes of \$828,000—is 6.7% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a mere 5.0%.
- The average tax rate on families in the middle of the income distribution—those earning between \$29,000 and \$48,000—is 11.1% before the federal offset and 10.8% after, more than double the effective rate the richest pay.
- But the tax rate on the poorest Michigan families—those earning less than \$16,000—is the highest of all. At 13.3% it is over two and a half times the rate on the very wealthy.

“Michigan’s flat rate income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall sharply as is the case in Michigan.”

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## Michigan Taxes Among Nation's Most Regressive

Michigan's tax system earns it the dubious distinction of placing on the list of the "Terrible Ten" most regressive states in the nation. Even before federal itemized deduction savings, Michigan asks poor families—those in the bottom 20% of the income scale—to pay 2.0 times as great a share of their earnings in taxes as do the wealthy. By the same measure, middle-income families in Michigan pay 1.7 times as high a share of their income in taxes as the wealthiest families.

"Michigan is one of only six states nationwide that has a flat rate income tax," McIntyre said. "The lack of a progressive income tax to offset high sales and excise taxes is the most important factor in making the Michigan tax system so regressive."

## Tax Regressivity Has Worsened Since 1989

The study also examined the impact of changes in the regressivity of Michigan taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens rose substantially for low- and moderate-income families and dropped for the wealthiest families.
- A tax swap decreased local property taxes, but was funded by the increasing the regressive sales tax.
- Income tax burdens, particularly among high-earning Michigan taxpayers, fell with the lowering of the flat rate.

"Michigan's tax burden was already one of the most regressive in the nation before it increased taxes again for low- and middle-income taxpayers," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

### **Two pages of tables detailing the Michigan findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

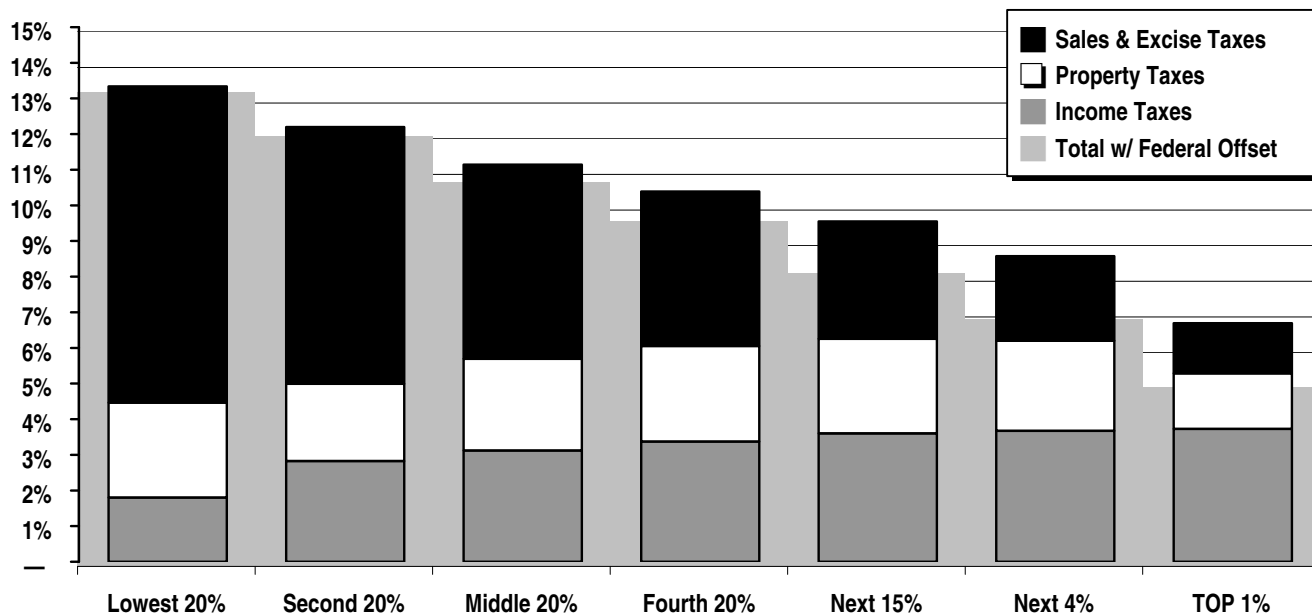
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# Michigan

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
<b>Income Range</b>	Less than \$16,000	\$16,000 – \$29,000	\$29,000 – \$48,000	\$48,000 – \$76,000	\$76,000 – \$139,000	\$139,000 – \$278,000	\$278,000 or more
<b>Average Income in Group</b>	\$8,900	\$22,000	\$37,600	\$60,700	\$98,100	\$178,400	\$828,000
<b>Sales &amp; Excise Taxes</b>	<b>8.9%</b>	<b>7.2%</b>	<b>5.5%</b>	<b>4.3%</b>	<b>3.3%</b>	<b>2.4%</b>	<b>1.4%</b>
General Sales—Individuals	3.0%	2.7%	2.1%	1.7%	1.3%	0.9%	0.6%
Other Sales & Excise—Ind.	3.8%	2.7%	2.0%	1.5%	1.1%	0.7%	0.3%
Sales & Excise on Business	2.0%	1.8%	1.4%	1.1%	0.9%	0.7%	0.5%
<b>Property Taxes</b>	<b>2.7%</b>	<b>2.2%</b>	<b>2.6%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>2.5%</b>	<b>1.6%</b>
Property Taxes on Families	2.6%	2.1%	2.5%	2.6%	2.5%	2.2%	0.9%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.7%
<b>Income Taxes</b>	<b>1.8%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>3.4%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>3.7%</b>
Personal Income Tax	1.8%	2.8%	3.1%	3.4%	3.6%	3.7%	3.7%
Corporate Income Tax	—	—	—	—	—	—	—
<b>TOTAL TAXES</b>	<b>13.3%</b>	<b>12.2%</b>	<b>11.1%</b>	<b>10.4%</b>	<b>9.6%</b>	<b>8.6%</b>	<b>6.7%</b>
<b>Federal Deduction Offset</b>	<b>-0.0%</b>	<b>-0.1%</b>	<b>-0.4%</b>	<b>-0.7%</b>	<b>-1.3%</b>	<b>-1.6%</b>	<b>-1.7%</b>
<b>TOTAL AFTER OFFSET</b>	<b>13.3%</b>	<b>12.1%</b>	<b>10.8%</b>	<b>9.7%</b>	<b>8.2%</b>	<b>6.9%</b>	<b>5.0%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# Michigan Tax Trends

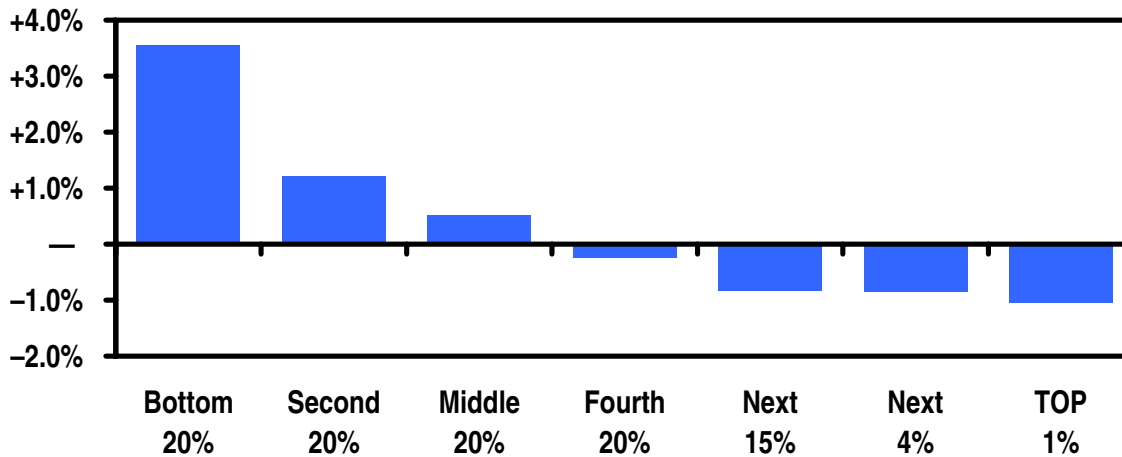
## Progressive Features

- ✓ Personal exemptions indexed
- ✓ Property tax circuit breakers

## Regressive Features

- ✗ Flat-rate income tax
- ✗ High cigarette tax

### Changes in Taxes as Shares of Income, 1989 – 2002

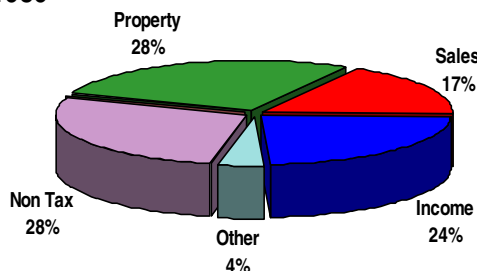


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
<b>Sales &amp; Excise</b>	+2.2%	+1.3%	+0.9%	+0.7%	+0.5%	+0.3%	+0.2%
<b>Property</b>	+1.4%	+0.2%	+0.1%	-0.4%	-0.9%	-0.9%	-0.8%
<b>Income</b>	+0.0%	-0.3%	-0.4%	-0.5%	-0.5%	-0.5%	-0.4%
<b>Federal Offset</b>	-0.0%	-0.0%	-0.0%	-0.0%	+0.1%	+0.3%	-0.1%
<b>Overall Change</b>	+3.6%	+1.2%	+0.5%	-0.2%	-0.8%	-0.8%	-1.0%

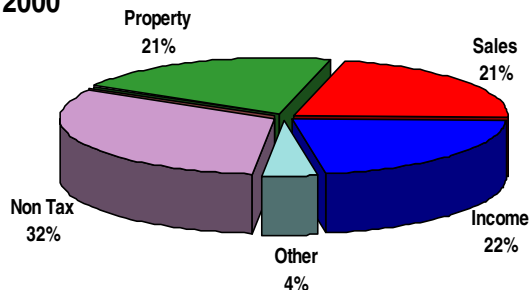
In 1994 Michigan voters approved a 2 percent sales tax hike to replace local property tax revenues. The impact of this regressive tax hike was compounded by a series of income tax rate cuts which will eventually drop the flat tax rate from 4.6 percent to 3.9 percent, and the repeal of Michigan's intangible property tax. The state cigarette tax was increased by \$1 a pack during the decade. While personal exemption increases provided some low-income tax relief, the net impact of these changes was a regressive "tax swap". The scheduled 2009 repeal of the state's "Single Business Tax" will leave Michigan without a major corporate tax.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census