

The Michigan Fair Tax Proposal

Currently, Michigan citizens make nearly all their purchases with after-tax dollars in terms of state taxes. In a Fair Tax environment, all purchases made by Michigan citizens in regards to income would be made with pre-tax dollars. There would be no Michigan payroll/income tax withholding. Residents would keep just less than four cents on every dollar they earn, money that is currently taken from their check and sent to the State. Based on 2006-07 projections, the Michigan Fair Tax Group estimated the rate to replace all business and state income taxes to be 8.58 percent. Treasury currently estimates it to be 10.2 percent; I believe it would be more like 9.5 percent. At 9.5 percent, Michigan citizens would actually realize a half a percent reduction on every dollar used for a purchase, for which they are currently paying 6 percent. The other nine states that have no income tax are able to subtract the sales tax they paid from their federal income tax liability just as they do now with their state income tax. There are already tables in the 1040 for states that do not have a state Income Tax.

The Michigan Fair Tax would export a greater portion of our tax burden to non-residents who travel to and vacation in Michigan--we are a destination state for vacationers. We have a huge underground or cash economy in our state, not to mention an illegal economy and illegal aliens as well. All economic activity would be taxed in a Fair Tax economy, because if you live here you will get taxed on whatever you buy. As stated in Jim McTague's article, "Going Underground-The shadow economy is about to top \$1 trillion—at a great cost to many" in Barron's, January 3, 2005, "The IRS estimated that its tax gap --the estimated amount of taxes owed minus the amount collected -- to be \$311 billion in any given year. The agency will produce a new estimate in 2005, it could be as high as \$400 billion, says former IRS Commissioner Donald Alexander. The gap number measures only a portion of the underground economy. Because the number is extrapolated from audited returns, it makes no allowances for criminal enterprises that report no income, and it even fails to capture some garden varieties of non-reporting. The unreported wages of illegal immigrants alone could be costing the government another \$50 billion a year." These amounts could be as great as \$2.2 billion in the state of Michigan according to IRS non-compliance figures. This number has not been factored into the Michigan FairTax proposal as of yet.

This would not be a regressive tax or cause the poor to pay any more taxes than they currently pay, because of the rebate. Currently, Michigan citizens have personal exemptions to offset state income tax according to the number of people in their household. In a Fair Tax environment, Michigan citizens would automatically receive a rebate of the sales tax just like the personal exemption. All Michigan citizens would receive a rebate to offset the additional items such as food and services which would now be taxed. For someone who earns minimum wage, they wouldn't pay any taxes. On the other hand, people who have or make more money will purchase more items and will pay more taxes.

Governor Granholm's statement that she would not take the business taxes off the backs of businesses and put them on the backs of people is a great sound-bite, but doesn't hold water. Everyone knows they are already paying the Single Business Tax (SBT), the Personal Property Tax, or any other tax in the products and services they purchase. This change would require a Constitutional amendment to eliminate the Michigan Income Tax, Personal Property Tax, and

Single Business Tax while replacing it with a sales tax of 9.5 percent. None of the taxes could be restored, enacted, or the sales tax amount increased without a vote of the people. The Fair Tax can be placed on the ballot by a two-thirds vote of the Legislature or by signature collection by the people.

Elimination of the Personal Property Tax, SBT, and State Income Tax would make Michigan the best place to manufacture, the best place to do business, the best place to start a business, and the best place to reside anywhere in the United States. The first state that adopts the Fair Tax system will reap the greatest benefit. Businesses, especially those with a manufacturing focus, will relocate to Michigan in order to take advantage of the lower cost of doing business and favorable tax structure. Many businesses who already maintain a satellite office in the state will want to make Michigan their corporate office. Once Michigan adopts a Fair Tax structure, others will have to follow suit in order to remain competitive.

Michigan Treasury's own projections are saying unemployment and the business environment are going to get worse, not better. There is no other plan or proposal that would lower the cost of doing business, spur capital investment, or create a more inviting environment for job growth. The time for action is now. If Michigan were to enact the Fair Tax Proposal, it would become an economic engine on the cutting edge, instead of riding in the caboose.