

Michigan taxes: A fair system has evolved

By MSU News Service

Michigan voters will have three state tax proposals on the Nov. 4 general election ballot: the Smith-Bullard School Financing Tax Shift (Proposal A); the Executive-Legislative Tax Shift Plan (Proposal C) and the Tisch Tax Cut (Proposal D).

In this interview, Garland Wood, Michigan State University Cooperative Extension Service state and local government specialist, talks about the main policy points of the current and proposed tax system.

Q. What is wrong with the tax system as it now exists?

WOOD: The current system is an evolving one, which in my opinion, is a constructive way of making changes. The system we had in the 1960s was quite unwieldy and, in some areas, unjust. For instance, it had eight business taxes that overlapped and were oppressive to Michigan firms.

Then came the Single Business Tax (SBT) which consolidated these and made the system more equitable and fair. There have been many other changes in the current tax system as it is amended so as to tax people according to their ability to pay.

The income tax was enacted in 1967 to make our system more equitable; i.e. taxed according to ability to pay. Food and drugs were exempted from the sales and use tax.

Changes were made in the property tax, which had tended to be quite burdensome to low-income persons. These types of burdens were all alleviated through a variety of "circuit breakers" that now exist in the current system. In addition to the circuit breakers that now exist in the current system there are nearly 100 exemptions that apply to agriculture, business, senior citizens, renters, and the economically disadvantaged.

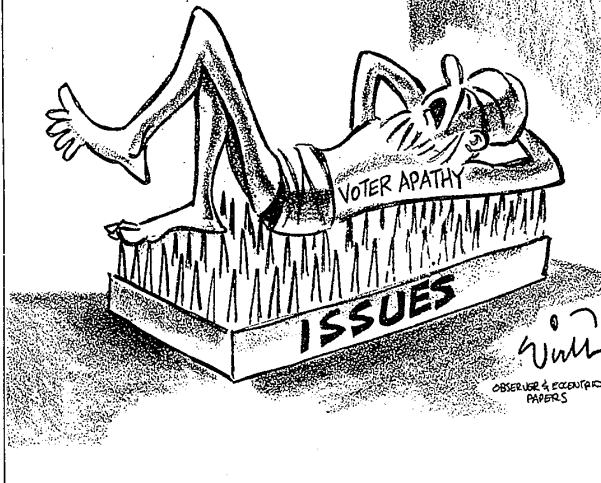
Q. The system must have stagnated — why else the ballot proposals?

WOOD: Quite the contrary, the present system is a dynamic one, constantly subject to improvement. For instance, this year the legislature drafted measures that would provide further breaks for those who find their taxation unreasonable, but they have been shelved since the present tax proposals have come on the ballot. I think they'll be reviewed again when the election is over.

Q. How Does Michigan's taxation system compare with that of other states?

WOOD: A 1978 national study rated Michigan's system as being the second-best in the nation in terms of fairness and equitability. Another study

'OUCH!'



conducted since the last election shows that the Michigan taxation system does not become regressive until an income level of \$25,000 is reached.

Q. Do you, from a professional standpoint, feel the present system should be retained?

WOOD: I think it should be seriously considered in

the light of whether or not the ballot proposals will improve the current tax system.

Q. What is the main policy point of Proposal A?
WOOD: It would give equal financial support to every student in the state's K-12 system. It would do away with the local tax allocation board. It would reduce property taxes but likely would increase personal income taxes.

When you limit the amount the local school district can collect and place that obligation in the hands of the state, it means the state will have to find an additional \$1.5 billion to funnel into the school aid system. Actually, the proposal doesn't specify where the legislature will get the additional funds.

If the proposal passes, it would be a shift in policy that would transfer more control from the local school district to the state because the entity that controls the pursestrings can and in large measure will determine how the money is spent for local programming.

Q. What about Proposal C?

WOOD: The Executive-Legislative coalition proposal is essentially a further modification of our present tax system. It contains additional tax breaks for property owners. But it would shift that break to other areas — sales taxes would rise from 4 to 5.5 percent, for instance. The middle-income citizen would pay in extra sales tax an amount roughly equivalent to the property tax benefit. Low-income persons would gain some net benefits.

Q. What is the primary policy change under Proposal D?

WOOD: This represents a major shift in tax policy. The Tisch Tax cut would minimize property tax as a major source of local government revenues. It would also limit the increase in assessed property valuations to a maximum of 2 percent per year. If economic and inflationary pressures continue, the property tax would be a minor local tax in the near future.

This shift in revenue sources would mean the state would have the responsibility of trying to make up the loss of revenue. It therefore transfers more power to the state over how the monies will be spent. Furthermore, the limitations set by the Headlee Amendment limit the amount the state can collect. There would be a drastic change in service provided by the state and local government, because the money would not be available.

Q. How would a voter express preference for retaining the present tax system over any changes?

WOOD: By voting "no" on the three state proposals, A, C and D.

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