

Tipping the balance

Finance plans end property tax reliance

By TIM RICHARD
STAFF WRITER

Whatever voters decide Tuesday, Michigan this year will see a massive transfer of school funding responsibility from local districts to the state.

Both Proposal A on the ballot and the statutory plan B shift the \$10 billion burden of local school districts to the state school aid fund.

"School boards will be out of the millage business and back into educating," said Gov. John Engler, with a slight exaggeration. Districts that had been spending more than \$6,500 per pupil will be allowed to levy "hold-harmless" property taxes to maintain their degree of comfort. Others, under limited circumstances, can ask voters for "enhancement" money.

The tug-of-war started last July when the state Legislature abruptly voted to repeal all property taxes for school operations. After five months of preaching, posturing and negotiating, lawmakers came up with two plans for replacement money.

Both involve reinstating part of the property tax, but with a difference. The money will go into the state school aid fund rather than into local treasuries. In time, every public school child will be worth at least \$5,000 in aid to his or her district and, for many suburban districts, up to \$6,500.

State funding will be the most massive change in school funding in history. The changes will be even bigger than the 1964 income tax and the 1930 sales tax.

Proposal A

Proposal A must go before voters because it involves amending the Michigan Constitution. It would:

- Raise the sales tax from 4 percent to 6 percent and dedicate new revenue to the school aid fund, where it would be constitutionally protected from the Legislature.

- Limit assessment growth to 5 percent or the rate of inflation, whichever is less. (When a property is sold, it would be reassessed to half the market value.) This so-called "cap" is expected to be popular in suburban and lakefront areas with rising residential values. A caller to this newspaper insists it's "the principle."

ANALYSIS

Long-term advantage? The whole school finance reform movement.

- Levy property taxes of six mills on principal residences and 24 mills on all other property — mainly business and second homes. (Many southern Oakland districts — Bloomfield Hills, Birmingham and Southfield — would see no cuts from the current system because of the "hold-harmless" taxes.)

- Require a three-fourths vote in the Legislature to raise those property tax rates.

- Trigger other tax laws — a 0.75 percent tax on real estate transfers, a 50-cent-a-pack increase in the cigarette tax, 2 percent more on interstate and international telephone calls, and so on. It would cut the personal income tax from the current 4.6 percent to 4.4 percent. It also would keep the single business tax (SBT) at 2.35 percent instead of raising it, as under plan B.

Chief champions have been Engler, chambers of commerce, manufacturers, the real estate industry, the Farm Bureau and the townships association.

Backup plan

The statutory plan — also called the "backup plan" or plan B — requires no vote of the Legislature. No voter approval is needed. If Proposal A loses, plan B would:

- Raise the personal income tax to 6 percent. The per-person exemption, however, would be raised from \$2,100 to \$2,400.

- Levy property taxes of 12 mills on principal residences (double the rate under Proposal A) and 24 on all other property (same as Proposal A).

- Raise the single business tax to 2.75 percent and the corporate tax by only 15 cents-a-pack. The real estate transfer tax would go to 0.75 percent.

Most Democratic gubernatorial candidates favor plan B. Tobacco companies are funding the anti-A campaign because they fear neighboring states will raise their cigarette taxes by huge amounts if Michigan's Proposal A is adopted.

Second biggest source of anti-A money is the Michigan Education Association, the teachers union in most districts outside Detroit. Other labor unions also oppose A. So does the Michigan Municipal League, an association of cities and villages which fears its state aid will be cut by the constitutional amendment.

'Fairness' Issue

Enemies of A say the sales tax falls unfairly on lower income groups because it taxes consumption. Income taxes fall on both consumption and savings and hit high-income families relatively harder.

Enemies say Michigan would lose money to Washington under Proposal A because the sales tax is not a deduction under the federal income tax while the state income tax is deductible.

Engler calls the income tax "a job killer" because it falls on savings and investment, discouraging business expansion. He notes the U.S. has the lowest rate of personal savings in the industrial world because of its heavy taxes on income and capital gains.

Engler calls the deductibility argument irrelevant because two-thirds of Michiganders don't itemize their deductions anyway. And he notes that groceries and prescription drugs are exempt from the sales tax, easing the burden on low-income folks.

Backers of A also say the income tax is unfair because MEA pensions, and the pensions of other governmental employees, are exempt from income taxes.

Late issues

Since the reform plan was adopted Christmas Eve, lawmakers of both parties have sought to change the bills, with Republicans the most successful. Items:

- Homestead affidavits — origi-

nal filing deadline was March 1. It has been pushed back to May 1. ■ Real estate transfer tax — originally it was 2 percent under Proposal A beginning Jan. 1 and 1 percent under plan B beginning this May 1. The Legislature in February cut the rate to 0.75 percent for both, but with one difference:

Under Proposal A, the rate will continue to be 2 percent from Jan. 1 to about April 1, 1995. Reason: Democrats withheld votes to give the law immediate effect, delaying the cut until 90 days after the Legislature adjourns.

■ Farm tax — as written, farm homes and contiguous land are taxable at the lower homestead rate. The Farm Bureau and Engler want all farmland taxed at the lower rate.

■ Auto tax — as written, the sales tax applies to the purchase price of an automobile. Dealers want it applied only to the difference between the purchase price and the trade-in price.

File if you haven't

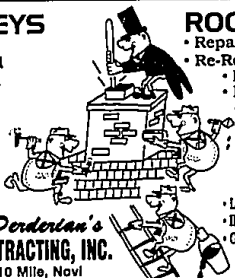
Homeowners who still haven't received a homestead affidavit form to apply for the lower tax rate have until May 1 to file them. The form requires only your PIN (property identification number) from your tax bill or assessment notice, your social security number and signature. Forms are free from your local city or township assessor.

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