

Proposal A complex, but it does cut taxes

By Mike Scanlon
staff writer

It's hideously complex — as many as two dozen new laws may be required to make it work. But the May 19 tax reform proposal appears to offer some savings to most Michigan residents.

Many governmental units from Lansing to Livonia will have less money to spend as a result, but they think the alternative is much worse.

"Compared to Tisch, we've never had it so good," said William Davis, who, as associate director of the Michigan Municipal League, is lobbyist for an organization of cities and villages.

"That's the bottom line — Tisch."

DAVIS WAS joined Thursday in a forum for Observer & Eccentric editors and reporters by Douglas Roberts, deputy director of the state Department of Management and Budget, and Gerald Dunn, executive secretary of a group of 10 suburban school districts called the Metropolitan Association for Improved School Legislation (MAISL).

They mutually agreed that, taken a whole, Proposal A is a good idea.

Initiated by Gov. William Milliken and the bipartisan "quadrant" of state legislators, the plan was substantially changed in a state House subcommittee.

As it now stands, the measure would cut property tax bills for most homeowners nearly in half with a maximum \$1,400 cut, cap the average future property tax increase at 6 percent a year and raise the state sales tax (see box).

Tisch, in contrast, would include business and industry in cutting property assessments in half with no maximum. Tisch would put a 2 percent cap on future increases and provide no offsetting tax increases.

Other details of the May 19 plan:

That 6 percent annual cap applies to average residential property tax increases within a taxing area such as a city or school district. Taxes on some houses will be higher, others lower.

People who own expensive houses — say, \$100,000 and up — would get an added benefit, since the 6 percent limit is not linked to the \$1,400 ceiling. The ceiling is tied directly to property values. When real estate prices rise dramatically, so would the maximum benefit.

SMALLER GROUPS also get help.

Persons who live or work in the 11 Michigan cities that impose income taxes: benefit from a new ceiling of \$100 per 1/2 percent of tax rate.

Low-income senior citizens will enjoy greater property tax reductions, and those earning \$5,000 a year or less will pay no property tax at all. All state lottery income will go to education under the plan, which should end a lot of grousing at coffee klatches and bars. But it's no promise of more money for schools, because other education funds may be cut.

LESS AGREEABLE effects include higher federal income taxes for many residents. Dunn estimated 20 to 25 percent of the total state tax cut will end up in Washington.

Also, the measure doesn't affect property taxes local government uses to pay off debt, although those taxes are relatively small (10 percent of the average bill).

To offset the money local governments would lose by these cuts, Proposal A will raise the sales tax from 4 percent to 5.5 percent. The revenue hike will go to local losers, mostly school districts, which collect about 60 percent of all property taxes.

But the sales tax isn't expected to make up the whole difference. State government will lose about \$250 million outright, and many cities, villages, townships and school districts are likely to also experience a drop in income, the panelists agreed.

That's all pretty straightforward.

THE COMPLEXITY will start — as it often does — in the state Legislature, which must draw up rules to make the plan work. Dunn estimated some 25 pieces of enabling legislation are already pending.

Davis predicted some will still be pending when the proposal is due to take effect July 4.

The legislature's maneuvering will have little impact on the payments for taxpayers, but panelists agreed it could matter a great deal to schools and local governments.

Most school districts, for instance, receive state aid through a formula that divides the total value of taxed buildings and land by the number of stu-

How it looks on ballot

PROPOSAL A

Proposal to reduce property taxes, reduce city income taxes, limit growth of property tax revenues, return additional sales tax to local governments and schools and give state lottery profits to school aid fund.

The proposed amendment would:

1. Reduce by 50 percent homestead property taxes used for operating schools and local governments. Reduction limited to \$1,400 in 1981 and changed yearly as home values change.
2. Reduce by 50 percent local individual income taxes on first \$40,000 of taxable income.
3. Make state return to local governments all funds lost by above reductions.
4. Limit yearly property tax revenue growth to 6 percent by property type unless raised by local voters.
5. Raise sales tax from 4 percent to 5.5 percent. Raise must be returned to local governments and schools.
6. Let farms and forests be assessed at use value.
7. Give state lottery profits to school aid fund.

Should this amendment be adopted?

dents. Many districts are highly dependent on aid assigned through the formula.

But districts can also price themselves out of that aid formula when the value of land and buildings rises too high compared to student numbers.

Districts, Dunn said, are worried about what those 25 pending laws will have to say on the subject. If districts are limited to 6 percent annual increases in property tax — but faced with building and land values that may skyrocket — some school districts that now receive state aid could find themselves on the outside looking in when state aid is handed out — without receiving enough local tax to offset it.

Dunn said it's likely many taxing units, perhaps by year's end, will ask voters to waive the 6 percent cap or approve tax increases — or both.

TAXING UNITS will likely lose interest money, too.

They now collect huge sums of cash on the tax due date, but they take all year to spend it. With a double-digit prime interest rate, the money makes a lot of money in the meantime. The annual influx of property tax money will be severely reduced by the reform proposal, and interest earnings will likely suffer.

Those are two examples of the questions that have to be resolved. Dunn estimated there might be more than two dozen others.

"This is not going to be a simple program to administer," Roberts admitted.

ESPECIALLY VEXING are "very, very serious administrative problems" in revamping tax records in time to include reform provisions in July tax bills, Davis said.

Speedy record revamping may be the goal of one of those 25 pending bills, he said. The bill would require a May 1 mailing to millions of Michigan addresses in an effort to identify homesteads, or houses used as principal residences. Only homesteads of Michigan residents will qualify for the 50 percent reduction.

Since the proposed mailing date is less than three weeks before the election date, it could be interpreted as a tax-paid lobbying effort on behalf of the proposal. Davis said it will mean "the governor and the legislature have taken that political hotseat on themselves" if the notices are mailed.

WHY REFORM NOW?

"There are two very important reasons. The first is a very political reason," said Roberts, citing the impact of legislative reapportionment and next year's elections, with many lawmakers in new districts.

Tisch is the second reason, although Roberts stopped short of spelling the Shiawassee drain commissioner's name.



BILL BRESLER/staff photographer

Doug Roberts, deputy director of management and budget: "The objective where we really felt down is simplicity. Simplicity in,

the sense people can understand the plan is there. Simplicity in administration is not."



William Davis, Municipal League lobbyist: Local governments by May 1 must send every address a homestead tax exemption form — "a very serious administrative problem."

Failure to allow voters to decide on a tax reform package now, Roberts said, may "force people to take things into their own hands" through a petition route (that) would be successful in '82. The proposal, in our judgment, would be less than acceptable."

No law required the tax reform measure face the voters, Dunn said. The legislature could have passed everything but the sales tax increase. Dunn saw the election as a maneuver by the state to let voters express their dissatisfaction now instead of by voting for a Tisch-type cut next year.

"People want to vote on it and get it out of their system. People have to see — their taxes are \$2,800 and just by voting Yes they get a \$1,000 (tax) bill. If this passes, we will be able to go the people and say, 'This is what we've done for you. You don't need Tisch.'"

IF PROPOSAL A passes, the state will still be \$250 million short of revenue.

That shortage will be made up through three avenues, Roberts said.

Some \$125 million was initially provided in the governor's budget. Another \$40 million earmarked for distressed cities has already been diverted. An additional cut of \$80-\$85 million would follow in the fall.

The final \$80 million cut, he said, will be "tough" but "acceptable."

Chefs de Cuisine Festival

Coming Sunday, April 26:
at Hudson's Eastland,
a gala evening for gourmets

In celebration of our 100th anniversary, Hudson's and the Michigan Chefs de Cuisine Association are having a buffet dinner featuring American and International specialties from the best chefs of Metropolitan Detroit. Join us to sip wine and savor food, including cold and hot hors d'oeuvres, entrees, desserts. Also enjoy creative cooking demonstrations and a table top fashion show.

TIME: Sunday, April 26 at 6:30 p.m.
PLACE: Hudson's Eastland, 18000 Vernier Road, Harper Woods; entrance S, facing Vernier Road

CHEFS PARTICIPATING ARE:
Chef Michael J. Agius, Plum Hollow
Chef Maria Zayda Ang
Chef Elizabeth Campbell, Elizabeth's
Chef Mitos Cihelka, The Golden Mushroom
Chef Jeffrey Gabriel, Grosse Pointe Yacht Club
Chef Dan Molchan, Tweeny's Cafe
Chef Douglas Grech, Restaurant Duglass
Chef Gary Grzywacz, Midtown Cafe
Chef Carolyn Haskins, Jacques Petite Jardin
Chef Daniel Hugelier, Detroit Athletic Club
Chef Rene Mouttet, Bijou Restaurant
Chef Leopold Schaefer, Machus Enterprises
Chef Jimmy Schmidt, London Chop House
Chef Ray Schwartz, Pontchartrain Wine Cellars
Chef Andy Toth, Joe Muer's Sea Food
Chef John Vanderwouwe
Chef Phillip "Pancho" Velez
Chef Glen Williams, Detroit Club

GENERAL ADMISSION: \$25
Proceeds benefit the Michigan Chefs de Cuisine Association's Educational Fund and are tax deductible. Your check is your receipt. Tickets are available at Hudson's cash office, Eastland, Oakland, Northland and at The Golden Mushroom, Tweeny's Cafe, Restaurant Duglass, Elizabeth's, Midtown Cafe, Pontchartrain Wine Cellars and Bijou; or call 223-2404.

hudson's



Gerald Dunn
More votes in fall

Fiscal Impact Summary

(\$ Millions)

\$ 1,200*	50% Property Tax Cut
120*	50% Local Income Tax Cut
115	Increased Property Tax Credits

\$ 1,435	INCREASED TAX RELIEF
-800	1% Cent Sales/Use Tax
-385	Reduced Property Tax Credits

\$ 250 NET REDUCTION IN STATE REVENUE

* Could be reduced by up to \$50 million due to the 6% revenue growth cap, however this amount may be offset by increased millage rates.

** Assumes 1% increase in city income tax rates in Detroit and other cities experiencing fiscal difficulties.

Source: Michigan Department of Management and Budget.

General Taxpayer Net Tax Cut (Examples)*

	\$10,000		\$20,000		\$30,000	
	Current	Proposed	Current	Proposed	Current	Proposed
Operating Property Tax	\$675	\$337	\$1,125	\$562	\$1,800	\$900
Credit	240	98	330	113	570	210
Net Oper. Prop. Tax	\$435	\$239	\$795	\$449	\$1,230	\$690
Net Prop. Tax Reduction	\$196		\$346		\$540	
Sales Tax Increase	60		105		143	
NET TAX CUT	\$136		\$241		\$397	

* Excludes gain from 50% cut in local income taxes