

# Capital gains tax debate flairs

By Tim Richard  
staff writer

A suburban legislator and Michigan's treasurer tangled over the question of whether the state should tax capital gains — the money one makes on the sale of property.

It signaled that the question could become a partisan one when the Legislature reconvenes in September to discuss Gov. James Blanchard's "tax fairness" plan.

"The effect of the governor's proposal," said Sen. Rudy Nichols, R-Waterford, "would not only be unfair but would discourage risk-taking."

Countered Treasurer Robert Bowman, a one-time Wall Street investment banker and Democrat Blanchard's economic point man: "We should treat investment income the same as earned income."

THE EXCHANGE took place last week as the tax-writing Senate Finance Committee held a public hearing in the Rochester Hills municipal building on Blanchard's plan to increase home-based property tax rebates at the expense of closing what the administration calls "loopholes."

A \$45 million "loophole," as Blanchard and Bowman see it, is capital gains. Currently, 60 percent of a capital gain is excluded from taxable income. Blanchard would make such gains 100 percent taxable. The Reagan administration endorsed a similar proposal for the federal income tax.

Bowman told the committee Blanchard accepted House amendments adding three important exceptions to full taxation of capital gains: the first \$2,000 in any one year, sale of farm property and sale of a family business.

"The working stiff on the assembly line should be treated no better and no worse than the investor," Bowman said, adding that 93 percent of taxpayers have no capital gains and the 7 percent who do had incomes of \$40,000 a year or more.

"Thirteen other states tax capital gains higher than Michigan," said Bowman, citing New York, California, Minnesota and Massachusetts.

"This administration prefers to see property tax cuts," he said.

THE FINANCE Committee, chaired by Sen. Norman Shinkle, R-Lambertville, has scheduled six hearings around the state. Among the sites are Rochester Hills and Utica, in districts which in 1983 recalled two Democratic state senators who supported Blanchard's temporary income tax increase. That election gave Republicans 20-18 control of the Senate.

Nichols, one of the Republicans elected as a replacement, praised the Blanchard-House tax bills for returning

the income tax to its 4.6 percent level earlier than the planned 1987. But the freshman senator blistered its treatment of capital.

"The policy behind the preference capital gain rate can be translated into the statement, 'Jobs, Jobs, Jobs,'" said Nichols, quoting Blanchard's 1983 campaign slogan.

"The idea (of preferential treatment) is to encourage entrepreneurs to sell their capital investments in order to encourage the early termination of those investments and thereby contribute to capital formation in the private sector," he said. He added that taxing capital gains would be counter-productive to the goal of encouraging investment.

"THE GOVERNOR'S proposal would be unfair because it would tax individuals on the gains from the sale of an asset which occurred due to inflation, even though these gains do not represent an increase in wealth," he said.

"The person cannot buy any more from the proceeds of the sale of the asset than they could with the money used to originally purchase the asset."

"Just a few months ago, the governor argued that Michigan suffers from a lack of venture capital, and that was the primary reason he sought formation of the strategic fund."

"It does not make much sense for him to now suggest the state increase its tax on capital gains by 150 percent."

A MEMO from a Senate Republican economist gave yet another reason for GOP opposition to the capital gains tax: States are competing for capital investment. Wrote Dr. Gary Wolfgram:

"While the inclusion of 100 percent of real capital gains may make sense at the federal level, taxation at the state level can lead to individuals, especially venture capitalists, moving to other states."

"The relatively high inheritance taxes and intangibles taxes already contribute to the loss of Michigan seniors. An increase in the capital gains tax for those who are using sale of assets for retirement income — for example, individuals who were involved in stock sharing programs — will simply be another reason for wealthy seniors to exit Michigan upon retirement."

To Bowman, those points were unimportant:

"As treasurer, I get 20 letters a week from seniors on property taxes — not inheritance taxes or any of the others." Questioned by Nichols, Bowman agreed the Blanchard program on balance is "absolutely a tax shift," but insisted the business tax elements were "closing loopholes. We're not going to finance this fairness program out of thin air."



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— Michigan Treasurer Robert Bowman



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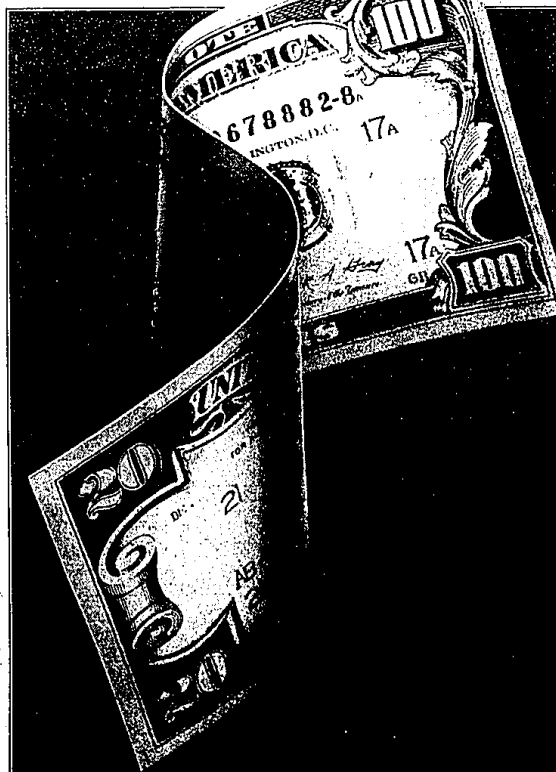
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