

The Detroit News

Column: Tax reform spurring economic growth

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February 26, 2018

Tax reform is a win for taxpayers in Michigan and across the country. In the few weeks that it has been in law, the bill has already resulted in higher wages and encouraged more investment. This will only continue.

While the law brings dramatic tax relief, it has an unintended consequence in Michigan. Since the personal exemption in the state's personal income tax was tied to the federal personal exemption, the federal tax bill effectively wiped out Michigan's personal exemption. Congress, looking only at federal taxes, eliminated the federal exemption in exchange for larger cuts in individual tax rates. The fix, however, is not ideal.

The fix basically involves allowing state taxpayers to take state exemptions and increasing the size of them, perhaps faster than would have happened otherwise. Rather than tinker with the exemption, though, lawmakers ought to transform the increased revenue they receive from the new federal law into an across-the-board rollback of the state income tax. That would be better for economic growth.

Some Michigan members of Congress deserve credit for supporting tax relief. Under the federal law, a Michigan family of four earning \$67,330 per year will see its tax bill go down almost \$1,900, or roughly 66 percent. This is not an isolated number. Americans at every income level will see significant tax reduction as a result. Nationwide, approximately 90 percent of Americans will see less money withheld from their paycheck starting in February.

There are 3.4 million families and individuals in Michigan that take the standard deduction, and almost 650,000 families take the child tax credit. The tax bill doubles the value of both provisions, resulting in more take-home pay for taxpayers across the state. The federal tax reform bill also preserved existing rules on education expenses and retirement savings.

The value of federal tax reform is not limited to more take-home pay. Michigan businesses are already investing in the economy and in their workers. Fishbeck, Thompson, Carr & Huber, a Grand Rapids-based engineering firm, has issued \$1,500 bonuses to all 400 employees. WebHobby Shop LLC, a small business in Pontiac, has already committed itself to raising employee wages by \$2 per hour. (A continuously updated list of pay raises, bonuses, and new investments nationwide can be found here).

The Cato Institute reports that the middle class is the biggest winner, with families earning between \$40,000 and \$50,000 receiving a 56.3 percent reduction in the federal income tax, and

those earning between \$75,000 and \$100,000 receiving a tax cut of 25.5 percent. Similarly, the Congressional Joint Committee on Taxation found that the biggest winners of tax reform are those with annual income between \$20,000 and \$50,000.

With the effects of federal tax reform playing out and a state exemption fix waiting in the wings, it is time for Michigan lawmakers to cut Michigan's personal income tax. While lawmakers in Washington last year showed real tax-cut courage, 12 Michigan Republicans in the state Legislature voted against a teeny 0.1 percentage point cut in the state income tax for 2018 and another 0.1 percent for 2019. They did so while voting for a corporate welfare program designed to heap rewards on well-heeled developers.

Michigan citizens deserve an income tax cut, which would take the rate from today's 4.25 percent to 3.9 percent. It's time to marry state-level, growth-inducing tax cuts to those already adopted at the federal level.