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Analysis of 2014 Proposal 1: Personal Property Tax Reform and the Michigan Economy

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I. Executive Summary *1*

Purpose of Report 1
Motivation for Proposal 14-1 1
Overview of Approach 1
Overview of Findings 2
Motivation for Personal Property Tax Reform 2
Economic Effects of Proposal 14-1 2
Local and State Revenue Changes 3
Constitutionality and Taxing Authority 4
Additional Policy Considerations 4
About Anderson Economic Group 5

II. The Personal Property Tax and Michigan's Business Climate *6*

History of Michigan's Personal Property Tax 6
Revenue from the PPT in Michigan 7
Table 1. PPT Revenue Compared to Resources of Local Units of Government, 2010 8
Table 2. Industrial Personal Property as Share of Taxable Value, Top 10 Michigan Communities, 2013 9
Michigan Business Tax Climate and Personal Property Tax 9
Table 3. Personal Property Tax in the Great Lakes States 11

III. Proposal 14-1 .... *12*

Recent Personal Property Tax Reform in Michigan 12
Schedule of Acts Affected by Proposal 14-1 13
Changes to Taxes and Transfers Under Proposal 14-1 13
Table 4. Public acts that go into effect if Proposal 14-1 passes ... 16

IV. Effects of Proposal 14-1 on Michigan's Economy and Tax Revenue *17*

Big-Picture Fiscal Effects 17
Table 5. Static Fiscal Impact of Proposal 14-1 on State and Local Governments 20
Table 6. Impact of Proposal 14-1 on Business Costs 22
Effect on Michigan's Economy 22
Table 7. Impact of Proposal 14-1 on Various Economic Activities, 2025 24
Fiscal Effects With Dynamic Analysis 25
Table 8. Fiscal Impact of the Proposal 14-1 on State and Local Governments 26

V. Proposal 14-1 and Taxing Authority *27*

Tax Limitations in the Constitution of the State of Michigan 27
Proposal 14-1 and Constitutional Tax Limitations 28
Exhibit 1. Ballot Description for Proposal 14-1 28
Authorization and Exemption of Taxes Under Proposal 14-1 32
Table 9. Exemptions, Authorizations, and Voter Approval Requirements for Taxes Under Proposal 14-1 33

Appendix A. Constitution and Law *A-1*

Appendix B. Fiscal and Economic Analysis Methodology ...*B-1*

Comparison of Estimates of Related Proposals B-1
Change in PPT Revenues B-3
Static Fiscal Impact B-3
Compliance Costs and Dynamic Effects B-6
Dynamic Economic Impact B-6
Dynamic Fiscal Impact B-8

Appendix C. About Anderson Economic Group *C-1*

Anderson Economic Group C-1
Authors C-1
Contributors C-3
Past Reports on Personal Property Tax and the Michigan Business Climate C-3

I. Executive Summary

PURPOSE OF REPORT

Small Business for Michigan, a non-profit civic organization, commissioned Anderson Economic Group (AEG) to complete an analysis on Proposal 14-1. Proposal 14-1 is a ballot initiative that will be presented to Michigan voters on August 5, 2014. This report estimates the fiscal and economic impact of Proposal 14-1.

MOTIVATION FOR PROPOSAL 14-1

The personal property tax (PPT) has long been criticized by the business community because it creates a disincentive to invest in the state, places a burden unrelated to revenue or other measures of "ability to pay" in any given year, and poses a high compliance cost compared to the revenue it collects. Efforts to reduce the tax have been difficult in part because the tax simultaneously affects many different stakeholders in the state. The tax provides state School Aid Fund and local operating and debt revenue, and its importance as a revenue source varies widely among municipalities.

Proposal 14-1 is a multi-part reform that would reduce the personal property tax burden on businesses without destabilizing the revenue streams of municipal governments and the state School Aid Fund. The proposal would:

- partially repeal the personal property tax in Michigan;
- reimburse local governments for lost revenue through a new state-wide metropolitan authority;
- implement a new "state essential services assessment" on eligible manufacturing personal property owned by businesses;
- replace the state-wide use tax with a combination of a state and a local tax on the same base at the same combined rate; and
- explicitly limit the total rate on the use tax to the current rate of 6%.

OVERVIEW OF APPROACH

We assessed the fiscal and economic consequences of Proposal 14-1 in several steps. First, we examined Proposal 14-1 and the laws it references, and identified the set of policies that would be in place if Proposal 14-1 passes. We then laid out the general fiscal impact by identifying the change in taxes on business and shift in revenues for state and local governments. We considered the basis within the Constitution of the State of Michigan for each tax affected by the law, as well as voter approval requirements of the constitution. We then assessed the economic consequences of these changes, and how such economic changes might affect tax revenue. Finally, we noted several issues that require future attention if Proposal 14-1 were to pass.

OVERVIEW OF FINDINGS

We found that the reforms presented in Proposal 14-1 would have a significant effect on Michigan's economy. Our main findings are as follows:

Motivation for Personal Property Tax Reform

1. *Michigan's personal property tax has long been considered a barrier to business activity because it discourages investment and has high compliance costs for both business and government. Proposal 14-1 would substantially reduce the personal property tax burdens on small businesses, and on owners of eligible manufacturing personal property.*

Michigan's personal property tax raises the cost of locating business equipment, such as manufacturing machinery and computers, in the state. This type of tax is particularly damaging economically because such equipment contributes to the productivity and earnings of Michigan workers, and businesses often have a choice of location for major factory sites. Furthermore, the tax is cumbersome to comply with, as businesses must inventory and assess the value of such items as furniture and spare computers. We have discussed the incentive effects and compliance burdens extensively in past work.[1] Proposal 14-1 would sharply reduce the personal property tax burden for small businesses starting in 2014, and significantly reduce the net burden of taxes on personal property for other industrial firms in subsequent years. See "The Personal Property Tax and Michigan's Business Climate" on page 6. It would also improve Michigan's competitive position when compared with other states, such as Indiana and Illinois. See "The Personal Property Tax in Competing States" on page 10. In addition, it would save approximately 53,000 small businesses about $1,200 per year in compliance costs. See "Private Businesses" on page 20.

Economic Effects of Proposal 14-1

2. *In 2014, the passage of Proposal 14-1 would maintain a $76 million tax reduction for small businesses. By 2020, the tax reduction would extend to owners of eligible manufacturing personal property and would total $372 million. Once fully phased in by 2025, these tax changes would result in $203 million to $474 million in additional business investment and 5,000 to 11,700 more private-sector jobs in the state.*

We find that the proposal's $372 million business tax cut would improve the economy through income, incentive, and signaling effects. Lowering the business tax burden can affect investment and location decisions, and leads to greater business activity. See "Effects of Proposal 14-1 on Michigan's Economy and Tax Revenue" on page 17.

1. See "Past Reports on Personal Property Tax and the Michigan Business Climate" on page C-3.

Local and State Revenue Changes

3. Under Proposal 14-1, tax revenue in 2014 would be reduced by $10 million for the state government and $66 million for municipal governments. By 2020 the state government would receive $407 million less revenue, while municipal governments as a group would see no significant change, as payments from a newly-formed local authority would exceed PPT revenue losses, in aggregate. Once the reforms are fully phased in, state revenue losses would be partially offset by $40 million to $94 million in new revenue due to increased economic activity in the state.

Local governments are the primary recipients of personal property tax revenue. After the exemptions under Proposal 14-1 go into place, the state government would provide local governments another source of revenue in order to continue providing essential services. We found that, by the year 2017, local governments would be made whole by this reimbursement revenue.

The state would forego a large share of use tax revenue in order to fund reimbursement of local governments. We found that, by 2020, the state government would have $407 million less in revenue than if Proposal 14-1 hadn't passed. The legislature expects, and states in a Proposal 14-1 statute, that expiring tax credits will approximately offset this reduction in use tax.[2] These expiring credits were estimated by the Michigan Department of Treasury to total $526 million for FY 2013, with over three quarters of them expected to expire by 2030 and all expiring eventually.[3]

As we noted earlier, the personal property tax is a particularly burdensome tax for business in Michigan. Reducing this burden would increase business investment and employment in the state. This new business activity would generate approximately $40 million to $94 million in state tax revenue; this revenue would be in addition to the revenue expected from expiring tax credits identified by the legislature. See "Effects of Proposal 14-1 on Michigan's Economy and Tax Revenue" on page 17.

2. While the expiration of these tax credits would remain in effect even if Proposal 14-1 does not pass, the existence of the expiring credits was an important part of the context under which the Proposal 14-1 bill package was considered by the legislature. The phase-out of personal property taxes was intended to align with the increase in revenue due to expiring tax credits. While we have not evaluated the timing of the expiring tax credits compared to the effects of Proposal 14-1, a 2012 analysis by Anderson Economic Group on related personal property tax reform bills indicated that the combination of these reforms, along with other business tax changes, would be approximately revenue neutral. For further discussion and citation of the 2012 analysis, see "Economic Impact due to Government Spending" on page 24
3. Anderson Economic Group analyzed data provided by the Michigan Department of Treasury as part of producing our 2012 study.

Constitutionality and Taxing Authority

4. The taxes affected by Proposal 14-1 would remain within existing statutory and constitutional tax limits, and the opportunity for voters to approve the changes is consistent with the Headlee amendment requirement.

Proposal 1 would affect state and local taxes, both of which are under specific and general constitutional tax limitations. Given the opportunity for the voters to approve these changes on the August 5, 2014 ballot, these taxes are within the existing statutory and constitutional limits, and the vote fulfills the Headlee requirement for approval of new local taxes.

In particular:

- The existing Article IX section 8 constitutional state sales tax limit of 6% is affirmed by the proposal, and in fact strengthened by making the use tax limit of 6% explicit in the statute that would be enacted by voter approval of Proposal 14-1.[4]
- The new local community stabilization share tax levied by the newly-created metropolitan authority would be approved by the voters, as required by the Headlee Amendment at Article IX, sections 25 and 31.
- The exemption of personal property for employers with less than $80,000 of such property, and the exemption of industrial personal property in general, means that the large majority of business taxpayers would see significant tax reduction.
- Although we do not disentangle the effects of different exemptions and treatment of property for all employers and locations, many business taxpayers would pay less under Proposal 14-1 and none would pay more than under existing law.

Additional Policy Considerations

5. There are implementation issues raised by Proposal 14-1, and at least one issue that raises a question about the proper exercise of state authority.

As with any significant change in law, Proposal 14-1 creates a set of implementation, information, and enforcement issues that future policymakers may wish to consider. These include:

4. There have been several examples of use-tax-like or value added taxes in Michigan's history, including the Single Business Tax and the Michigan Business Tax. Strengthening the implied limitation on the use tax rate may affect value-added taxation at the business level in the future.

- The "cliff" aspect of the $80,000 true cash value exemption, which creates perverse incentives and invites non-compliance as well as capricious enforcement. See "Personal Property Tax Changes" on page 13.
- The reimbursement targets for local governments were hard-coded into the law, and are almost certainly not the exact amounts that would reimburse local governments for revenue actually lost. Our estimates suggest that they exceed the amount necessary to fully reimburse local governments after the year 2020. See "Use Tax Changes and Reimbursement of Local Governments" on page 14.
- Significant compliance costs remain for governments and businesses to facilitate the state essential services assessment. See "State Essential Services Assessment" on page 15 and "Private Businesses" on page 20.

In addition, the Proposal 14-1 statutes assert that the state can create a "metropolitan" authority that is, in effect, a statewide body, a practice that invites future abuses of constitutional separation of powers, tax limitations, and powers of local governments. That said, we conclude that, whether it is a "state" or "local" body, the tax this particular metropolitan authority levies fits within the existing constitutional tax limitations and voter approval requirements.

ABOUT ANDERSON ECONOMIC GROUP

Anderson Economic Group, LLC is a research and consulting firm specializing in economics, public policy, finance and business valuation, and market and industry analysis. The firm has offices in Chicago, Illinois and East Lansing, Michigan. AEG has conducted economic and fiscal impact studies for private, public, and non-profit clients across the United States. For more information, please see "About Anderson Economic Group" on page C-1 or visit www.AndersonEconomicGroup.com.

II. The Personal Property Tax and Michigan's Business Climate

This section briefly summarizes Michigan's personal property tax and AEG's past work on the subject, then shows the contribution that the PPT makes in Michigan's performance in several business tax rankings.[5]

HISTORY OF MICHIGAN'S PERSONAL PROPERTY TAX

Michigan's personal property tax was instituted with the General Property Tax Act of 1893. "Personal property" essentially includes all property that is not land or buildings—all property that is "movable," including items such as machines, equipment, furniture, fixtures, and tools. Personal property is assessed, like real property, at 50% of the property's true cash value.[6] Cash value, for purposes of personal property taxation, is the acquisition cost adjusted for depreciation.

Notable exemptions from personal property taxes include some nonprofit property, government property, most household personal property including motor vehicles, agricultural personal property, inventories, pollution control equipment, and certain manufacturing tools.[7] Also, new personal property for specific businesses located in eligible distressed communities is exempt from the personal property tax.[8] Property taxes are collected at the local level, and revenues from these taxes (with some exceptions, described below) go to local governments, including cities, counties, townships, and school districts, to pay for operations and debt. Within certain constraints, these separate entities determine millage rates separately.

In addition to the exemptions listed above, some forms of personal property are taxed under separate laws from those determining general ad valorem taxation. Article IX, Section 3 of the Constitution of the State of Michigan allows that the "legislature may provide for alternative means of taxation of designated real and

5. AEG has examined the personal property tax several times, including in 1999, 2005, 2011, and 2012. These reports examine the history, constitutional basis, incentive effects, compliance costs, and other aspects of the law. See "Past Reports on Personal Property Tax and the Michigan Business Climate" on page C-3.
6. State equalized value is constitutionally limited to be *at most* 50% of the true cash value. Statute sets this at 50%. See "Constitution of the State of Michigan 1963: Excerpts" on page A-7 for further detail.

   Taxable value can be less than state equalized value because there are limits on how quickly taxable value can grow from one year to the next. However, personal property rarely grows in value from year to year.
7. Citizens Research Council of Michigan, *Outline of the Michigan Tax System,* "General Property Tax," January 2011.
8. Public Act 328 of 1998.

tangible personal property in lieu of general ad valorem taxation."[9] There are quite a few ways in which the Michigan state legislature has done this regarding personal property over the years, including broad-based exemptions such as the industrial facilities abatement under PA 198 of 1978.[10]

REVENUE FROM THE PPT IN MICHIGAN

In 2010, state and local governments collected a combined $1.13 billion in general ad valorem personal property taxes, not accounting for credits or alternative forms of taxation such as the utility property tax and the industrial facilities tax.[11] In addition, the state collected $53 million from the utility property tax on personal property and local governments collected $94 million through the industrial facilities tax on personal property. Tax credits on personal property liability totaled $145 million in 2010. Once accounting for all of these components to the tax, we estimate that the average effective tax rate on all business personal property subject to the personal property tax was 40.5 mills in 2010.[12]

9. See "Constitution of the State of Michigan 1963: Excerpts" on page A-7 for further detail.

10. Under Public Act 198, industrial firms may apply to local governments for an industrial facilities exemption upon construction, renovating, or replacing a facility. The industrial facilities tax is an in lieu of tax that freezes the taxable value of newly improved facilities at the pre-improvement level for up to 12 years following changes and offers a 50% rate reduction for new facilities.

    Patrick L. Anderson, Theodore R. Bolema, and Alex L. Rosaen, "Effectiveness of Michigan's Key Business Tax Incentives," March 2010.

11. Alex Rosaen, Jason Horwitz, and Greg Chojnacki, "The Michigan Personal Property Tax: Effects of Repeal on Michigan's Economy and Tax Revenues," Anderson Economic Group White Paper 2011-02, November 17, 2011.
    2010 estimates for personal property tax revenues are from:
    David Zin, "The State and Local Impact of Property Taxes Levied on Michigan Personal Property (Revised)," Senate Fiscal Agency, Issue Paper, September 2011.

12. In determining the effective tax rate, we use taxable value as the denominator, which is roughly 50% of the depreciated acquisition value for personal property.

TABLE 1. PPT Revenue Compared to Resources of Local Units of Government, 2010

		ALL SECTORS			INDUSTRIAL		
Taxing Entity and Use	**Total Revenue From All Sources (millions)**	**Personal Property Tax Levy (millions)**	**PPT as Share of Total Revenue**	**PPT, Shown as Equivalent Statewide Tax on Real Property**	**Personal Property Tax Levy (millions)**	**PPT as Share of Total Revenue**	**PPT, Shown as Equivalent Statewide Tax on Real Property**
Local governments - All Uses, excluding School Districts	$27,713.8	$515.3	1.86%	1.67 mills	$308.4	1.11%	1.00 mills
School District - Operating	$16,013.7[a]	$368.1	2.30%	1.19 mills	$65.1	0.41%	0.21 mills
School District - Debt & Capital	$3,269.0[a]	$143.6	4.39%	0.47 mills	$51.7	1.58%	0.17 mills
State - School Aid Fund[b]	$12,540.2	$197.8	1.58%	0.64 mills	$0.0	0.0%	0.00 mills
Total		$1,224.8		3.97 mills	$425.2		1.38 mills

Source: Michigan Dept. of Education 2009-10 Bulletin 1011, Michigan Comprehensive Annual Financial Report FY2010, Michigan Senate Fiscal Agency, U.S. Census Bureau State & Local Government Finances, 2010 Michigan State Equalized Value & Taxable Value Report, AEG Estimates
Analysis: Anderson Economic Group, LLC
Note: Local governments receive levies worth $94.0 million from the industrial facilities tax on personal property. The remainder ($1,130.8 billion) comes from ad valorem property taxes on the personal property base. $53 million in revenues from the utility property tax are not included because revenues go to the state's General Fund. We do not account for the 35% PPT credit because that is administered as a refundable tax credit by the state.
Total revenues are not additive because some school district operating revenues come from the school aid fund.
School district values shown here include independent school districts and community college districts.

a. We use 2010 total expenditures as a proxy for aggregate revenue.
b. The School Aid Fund receives PPT revenues from the State Education Tax.

As shown in Table 1 above, revenues from the PPT are spread among non-school local government units, school districts, and the state's School Aid Fund. Revenues from the utility property tax, totaling $53 million, go to the state's General Fund, and they are not shown in the table. Using AEG estimates for local government revenues in 2010, the $515 million in personal property tax revenues that went to non-school local governments accounted for 1.9% of their revenues. In 2010, school districts collected $368 million in personal property taxes for operating purposes and $144 million in personal property taxes for payment of debts. These amounts accounted for 2.3% and 4.4% of operating and debt costs in 2010, respectively. Finally, the state collected approximately $198 million for the School Aid Fund from personal property taxes, accounting for 1.6% of total revenues to the Fund in 2010.

One might look at these numbers, particularly in light of the recent decline in real property values, and assume that the effects of PPT reform would be modest. Indeed, about half of the state's municipalities and townships derived less than 6% of their taxable property value from personal property in FY 2013. In addition, approximately two-thirds of townships and cities derived less than 1%

of their taxable property value from *industrial* personal property; however, these statewide numbers fail to capture the geographic variation in the concentration of personal property tax in the state. There are a few municipalities that would lose a substantial portion of their revenues if they lost their industrial PPT base, underscoring the purpose of the local government reimbursement components of Proposal 14-1 described in "Proposal 14-1" on page 12.

Table 2 below shows the top ten cities and townships in terms of their share of taxable property value derived from industrial personal property. (We focus on industrial personal property because the bulk of the proposed PPT reform consists of exempting this base, in particular.) All of these cities and townships have a share above 50%.

TABLE 2. Industrial Personal Property as Share of Taxable Value, Top 10 Michigan Communities, 2013

Name	Type	County Where Located	Industrial Personal Property Taxable Value ($)	Total Taxable Value of All Property ($)	Industrial Personal Property as Share of Total Taxable Value
Riverton	Township	Mason	88,696,100	128,774,319	68.8%
Carson City	City	Montcalm	51,840,363	78,192,460	66.3%
Gilford	Township	Tuscola	91,475,300	139,286,782	65.6%
North Star	Township	Gratiot	60,350,600	97,955,446	61.6%
Minden	Township	Sanilac	43,498,244	71,330,288	60.9%
Delaware	Township	Sanilac	69,208,551	124,215,209	55.7%
Wheeler	Township	Gratiot	90,670,100	164,448,906	55.1%
Bethany	Township	Gratiot	73,783,500	139,664,201	52.8%
Chandler	Township	Huron	40,786,600	78,037,426	52.2%
Hamilton	Township	Gratiot	12,966,000	25,726,064	50.4%

Source: Michigan Department of Treasury
Analysis: Anderson Economic Group, LLC

MICHIGAN BUSINESS TAX CLIMATE AND PERSONAL PROPERTY TAX

The PPT has an adverse effect on the state's business climate, for several reasons:[13]

- First, any tax paid by business affects companies' resources available to invest, pay workers, weather downturns, and keep prices competitive.
- Second, a tax on industrial personal property, such as machinery and computers, in particular can affect location and expansion decisions for businesses planning their operations. This discourages one avenue by which firms can improve the productivity of their Michigan workforce.

13. See "Past Reports on Personal Property Tax and the Michigan Business Climate" on page C-3

- Third, compliance with the personal property tax is particularly onerous, requiring the assessment of dozens to thousands of individual pieces of property of many different types subject to different depreciation schedules. For some small firms, the cost of compliance with the law may approach, or even exceed, the amount of tax owed.

The effect on business tax burden can be seen by examining state business tax burden rankings analyses.[14] A $400 million business tax burden reduction is approximately 16% of what businesses paid in corporate income taxes under the Michigan Business Tax (MBT) in 2012, and is equivalent to 1.8% of all business taxes paid in Michigan that year.[15]

A reduction in industrial PPT burdens would also improve Michigan's score in the Tax Foundation's widely-cited "State Business Tax Climate Index," which counts the effective tax rate on property as approximately 7% of each state's overall score. Other components of the index include individual and corporate tax rates, as well as taxes on transfers such as inheritance.[16]

The Personal Property Tax in Competing States

Michigan competes for investment with other states and countries, especially states that border the Great Lakes or have a similar manufacturing base. A particulary intense competitive battle for employers involves capital-intensive businesses, such as manufacturers, who are mobile and might find the personal property tax of Michigan burdensome. Such firms on occasion threaten to relocate in other nearby locations where the tax burdens are lower, and some probably have moved for this reason. Table 3 on page 11 provides an overview of taxes on personal property in the Great Lakes states.

14. Anderson Economic Group completes an analysis of this type each year. Our 2014 business tax burden measure will be released in August 2014. Our 2013 report can be found at <http://www.andersoneconomicgroup.com>.

    Alex Rosaen and Jason Horwitz, "2013 State Business Tax Burden Rankings," May 2013.

15. This comparison uses actual 2012 Michigan tax burden inflated by 2% annually to be comparable to $400 million in 2025 dollars.

16. "Background Paper No. 68: 2014 State Business Tax Climate Index," Tax Foundation, October 9, 2013.

TABLE 3. Personal Property Tax in the Great Lakes States

State	Personal Property Tax
Illinois	No tax on personal property.
Indiana	Has a personal property tax that is similar to Michigan's current personal property tax.
Minnesota	Most personal property tax eliminated in the 1970s. Current personal property tax applies almost exclusively to utility property.
New York	No tax on personal property.
Ohio	Recently phased out personal property taxes on business inventory, machinery, furniture, and fixtures, as well as personal property owned by telephone and telecommunications companies.
Pennsylvania	No tax on personal property.
Wisconsin	Has a personal property tax with a tax base broader than in Michigan (fewer exemptions), but machinery and equipment for manufacturing are exempt.

Source: Jason Horwitz and Alex Rosaen, "Personal Property Tax Reform in Michigan: The Fiscal and Economic Impact of SB 1065-SB 1072," Anderson Economic Group, April 2012.

III. Proposal 14-1

Proposal 14-1 will be on the ballot in the State of Michigan primary election on August 5, 2014. The language of the proposal specifically discusses reallocating a portion of the state use tax to a local community stabilization authority and to school districts. However, this represents a brief summary of only a portion of the proposal's impact. There are 11 different public acts passed in the years 2012, 2013, and 2014, which would be repealed or rendered moot if Proposal 14-1 fails to pass.

In practice, the passage of Proposal 14-1 would result in a significant reduction in the personal property tax, a new authority to refund local governments for lost personal property tax revenue, a reallocation of revenue to fund that authority, and a new statewide tax on manufacturing personal property.[17]

RECENT PERSONAL PROPERTY TAX REFORM IN MICHIGAN

The laws that will be affected by the Proposal 14-1 vote in August have been passed and amended over the course of three years. Below, we briefly describe this legislative history.

2012 and 2013 Reforms

Michigan passed a package of personal property tax reforms in December 2012 (Public Acts 400 through 408 of 2012) that would partially repeal the personal property tax and establish a new authority to reimburse local governments. These laws each included an enacting clause that would prevent them from going into effect if a proposal on the statewide August 2014 ballot failed to pass with a popular vote.

Amendments to these laws (prior to their going into effect) during the 2013 legislative session (Public Acts 153 and 154 of 2013) made relatively minor adjustments, including penalties for fraudulently applying for an exemption, changes to the definition of which personal property would be exempt, and a change to the deadline to file for an exemption.

2014 Reforms

In April 2014, the governor signed new laws (Public Acts 86 to 93 of 2014) that included new language for the August 2014 ballot measure and further reforms, largely replacing many of the laws passed in 2012. Note that the 2012 laws replaced by these 2014 laws had not yet gone into effect.

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17. Manufacturing personal property primarily consists of industrial personal property, but may also include some commercial personal property that is used in support of processing such as research and development and testing.

While the 2014 reforms did not make any changes to the laws that exempted a large portion of personal property from the personal property tax, they did result in a different authority for reimbursement of local governments and a new mechanism for providing funds to that authority. Under these reforms, the share of revenues going to the local authority would increase considerably relative to the amount allocated in 2012, and the state would implement a new statewide tax on the acquisition value of manufacturing personal property.

SCHEDULE OF ACTS AFFECTED BY PROPOSAL 14-1

Given all of the amendments made to these reforms since their enactment and the complexity of the reforms themselves, it can be difficult to fully understand the consequences of the vote on Proposal 14-1. According to our analysis, the following laws would go into effect (or continue being in effect) if Proposal 14-1 passes, but would never take effect (or no longer be in effect) if Proposal 14-1 fails to gain a popular vote. You can see a brief description of the contents of each law in Table 4 on page 16.

- Public Act 401 of 2012
- Public Act 402 of 2012
- Public Act 403 of 2012
- Public Act 153 of 2013
- Public Act 154 of 2013
- Public Act 80 of 2014
- Public Act 86 of 2014
- Public Act 87 of 2014
- Public Act 88 of 2014
- Public Act 92 of 2014
- Public Act 93 of 2014

CHANGES TO TAXES AND TRANSFERS UNDER PROPOSAL 14-1

Proposal 14-1 would put into effect three major changes to taxation in Michigan: a reduction in the personal property tax, a reallocation of the use tax, and a new statewide tax on manufacturing personal property. We discuss these changes in more detail below.

Personal Property Tax Changes

The primary goal of this package of legislation is to significantly reduce personal property taxes in Michigan. Most of the provisions that would result in this personal property tax reduction were adopted in 2012 and amended in 2013. They include the following changes:

- Starting in 2014, if a business owns, leases, or uses less than $80,000 in personal property within the jurisdiction of a local government, then they are exempt from the personal property tax. Note that this is a “cliff” exemption rather than a phased-in exemption. Companies with $75,000 in personal property pay no personal property tax, but companies with $85,000 in personal property pay taxes on the entire value of that property, creating a strong incentive for companies near the threshold to take action to stay below it.

- Starting in 2016, all manufacturing personal property that was purchased and put in use in 2013 or later would no longer be subject to the personal property tax.
- Starting in 2016, all manufacturing personal property that has been in use for ten years or more will no longer be subject to the personal property tax.

As a result of the last two changes listed above, the personal property tax on all manufacturing equipment will be phased out by the year 2023.

Use Tax Changes and Reimbursement of Local Governments

A mechanism will be put in place that will reimburse local governments no longer able to collect a significant portion of their personal property tax revenue. Reimbursement will be provided by the Local Community Stabilization Authority (LCSA), a local government entity created by Proposal 14-1 to administer local government reimbursement.[18]

The LCSA will be provided funds by a change to the use tax. Proposal 14-1 would replace the current use tax with two taxes, the “local community stabilization share tax” and the “state share tax,” implemented at the same total rate and on the same base as the current use tax. Revenues from the local community stabilization share tax will go to the LCSA. The local community stabilization share tax would be set at a given dollar amount for each year through the year 2029, after which it would go up by about 1% per year.[19] The state share tax would consist of the remainder of the 6% tax on the use tax base.

The LCSA would then distribute revenue from the local community stabilization share tax to local governments, following a specific formula. This formula would allocate revenue to all local governments that receive personal property tax, based on how much less they receive in the current fiscal year than they received in fiscal year 2013. If revenue for the LCSA falls below the aggregate

18. The LCSA will also absorb another existing statewide local government authority, the Metropolitan Extension Telecommunications Right-of-Way Oversight Authority, which oversees telecommunications right-of-way issues.

19. The amount of use tax that would be allocated to the LCSA each year until 2029 is hard-coded into the law and would therefore not vary based on actual changes to the personal property tax base or local government revenues in coming years. In principle, this practice raises certain risks: the value of these hard-coded dollar amounts relative to the size of the economy or property tax base may change unexpectedly if there is unexpected inflation or other economy-wide developments. Nevertheless, the amount has been set at levels that we estimated would fully reimburse local governments. (See “Effects of Proposal 14-1 on Michigan’s Economy and Tax Revenue” on page 17.)

drop in personal property tax revenue, priority is given to reimbursement to school districts, reimbursement to repay debt, and reimbursement for "essential services" (ambulance services, police services, fire services, and jail operations). If revenue for the LCSA is above the amount that would have been collected from personal property taxes, this additional amount is allocated in proportion to the amount of losses from personal property tax reform.

A third of the use tax is constitutionally required to go to the School Aid Fund. An amount equivalent to that collected by a 2% rate on the use tax base would continue to go to the School Aid Fund after this change (it would now be a portion of the state share tax).

State Essential Services Assessment

The State of Michigan would implement a tax called the state essential services assessment (SESA) on all manufacturing personal property that has been exempted from the personal property tax (except for that which is exempt under the small business exemption). This tax would have a rate of 2.4 mills on items 1 to 5 years old, 1.25 mills on items 6 to 10 years old, and 0.9 mills on items older than 10 years. The base for this tax would be the acquisition cost of the item (how much it was originally purchased for), rather than a measure of its assessed value. Nevertheless, companies paying this tax would have to track a similar amount of information about their personal property holdings as under current law. Revenues from this tax would go the state's General Fund.

Certain types of personal property would be exempted from this tax and subject instead to the alternative SESA at the discretion of the Michigan Strategic Fund. The alternative SESA has the same characteristics as the SESA, but has half the rate. It is our understanding that the alternative SESA would be used to encourage investment by manufacturers, in the same way that the current industrial facilities tax (IFT) and Brownfield Redevelopment credits do now.

The Michigan Strategic Fund would have the discretion to exempt employers from one or both of these taxes. While there is a specific reference in law to potential exemptions for businesses that invest $25 million over five years in Michigan, it does not appear that this is either necessary or sufficient to gain an exemption.

Table 4. Public Acts that go into Effect if Proposal 14-1 Passes

Year	Public Acts	Description
2012	Public Act 401 of 2012	▪ All new manufacturing personal property (put in use in 2013 or later) is no longer subject to local personal property tax beginning December 31, 2015. ▪ Manufacturing personal property is defined as all personal property on a parcel where at least half of personal property is used in industrial processing or in support of processing (R&D, testing).
	Public Act 402 of 2012	▪ For commercial and industrial personal property, if an owner owns less than $40,000 worth of taxable value within a local taxing authority, that personal property is exempt. ▪ This exemption went into effect on December 31, 2013. *Note: This is the only act which has already gone into effect, and would therefore be reversed by Proposal 1. All other acts have yet to go into effect.*
	Public Act 403 of 2012	▪ All industrial personal property that is ten years old or older is no longer subject to local personal property tax, beginning on December 31, 2015.
2013	Public Act 153 of 2013	▪ Amendment that modified PA 402 of 2012. ▪ Changed the bar for exemption to $80,000 in cash value from $40,000 in taxable value. ▪ Changed the deadline for application for the exemption, and outlined new requirements for filing for the exemption. ▪ Outlines the penalty for a fraudulent claim as one to six months in jail and/or a $500 to $2,500 fine.
	Public Act 154 of 2013	▪ Amendment that modified PA 401 of 2012. ▪ Changed the deadline for application for the exemption, and outlined new requirements for filing for the exemption. ▪ Outlines the penalty for a fraudulent claim as one to six months in jail and/or a $500 to $2,500 fine. ▪ Modifies the definition of industrial processing and exempt property to be more in line with that in sales tax law.
2014	Public Act 80 of 2014	▪ Removes a portion of the 6% use tax and replaces it with the local community stabilization share tax, which is allocated to the LCSA. The portion of the use tax allocated to the LCSA each year is set by a schedule that specifies the dollar amount. ▪ The amount of revenue lost by school operating mills or the State Education Tax under the new personal property tax exemptions will be allocated to the School Aid Fund (SAF) from the remainder of the use tax. ▪ This law contains the ballot language for Proposal 14-1.
	Public Act 86 of 2014	▪ Creates the Local Community Stabilization Authority (LCSA). ▪ Establishes a formula for reimbursement of municipalities due to personal property tax loss and develops protocol for reporting current millage rates and personal property tax collections to the LCSA. ▪ Requires the state to appropriate enough funds to make up for debt loss in FY 2015 and FY 2016, and administrative expenses in all future years. ▪ Sets up a prioritized list for reimbursements to local governments, starting with debt loss, schools, TIF authorities, and other essential services.
	Public Act 87 of 2014	▪ Makes relatively minor amendments to 2012 acts in order to allow them to apply to the 2014 measures.
	Public Act 88 of 2014	▪ Gives the LCSA authority over telecommunications right-of-way oversight, formerly of the Metropolitan Extension Telecommunications Right-of-Way Oversight Authority.
	Public Act 92 of 2014	▪ Creates a new statewide tax, the state essential services assessment (SESA), beginning on January 1, 2016. ▪ The SESA is a tax on industrial personal property, with a millage rate of 2.4 mills on items 1 to 5 years old, 1.25 mills on items 6 to 10 years old, and 0.9 mills on items older than 10 years. These mills are on the acquisition cost, rather than the depreciated value of the property. ▪ Exceptions can be made for companies that invest $25 million over 5 years. ▪ The tax only applies to industrial personal property that is newly exempt under the reforms passed in 2012.
	Public Act 93 of 2014	▪ Creates a new statewide tax, the alternative state essential services assessment (ASESA), beginning on January 1, 2016. ▪ The ASESA is a tax on industrial personal property, with a millage rate of 1.2 mills on items 1 to 5 years old, 0.625 mills on items 6 to 10 years old, and 0.45 mills on items older than 10 years (half of the rates for the SESA). These mills are on the acquisition cost, rather than the depreciated value of the property. ▪ Exceptions can be made for companies that invest $25 million over 5 years. ▪ The tax only applies to industrial personal property that is newly exempt under the reforms passed in 2012. ▪ In certain situations, the Michigan Strategic Fund can exempt a company from the regular SESA and apply the alternative SESA.

Source: Michigan State Legislature
Analysis: Anderson Economic Group, LLC

IV. Effects of Proposal 14-1 on Michigan's Economy and Tax Revenue

This section presents our analysis of the fiscal and economic effects of Proposal 14-1. We first estimate how the change in taxes would impact state and local revenues, respectively. We then estimate the effect of the proposal's passage on the Michigan economy, focusing on business investment and employment. Finally, we estimate how the fiscal effects are changed by the economic effects, providing a "dynamic" estimate of the fiscal picture.

BIG-PICTURE FISCAL EFFECTS

The passage of Proposal 14-1 would affect the revenue and expenditures of the state government, local governments, and the newly-created Local Community Stabilization Authority (LCSA) as follows:

State Government

There are three major changes to state government revenues under the laws that would go into effect after the Passage of 14-1. Firstly, the state receives a portion of personal property tax revenues through the State Education Tax, which is a tax on all real and non-industrial personal property in the state. Secondly, a large portion of the state use tax would be renamed the local community stabilization share tax and allocated to the LCSA. Finally, there would be a new pair of taxes on eligible manufacturing personal property, the state essential services assessment (SESA) and the alternative state essential services assessment (alternative SESA), that would go to the state's General Fund.

In addition to these major changes, a portion of state government expenditures would be appropriated annually to the LCSA for its administration. We exclude these appropriations from our analysis because we assume that they would be negligible compared to the share of the local community stabilization tax. Also, in the first two years of implementation (fiscal years 2015 and 2016), state funds would be provided to the LCSA to reimburse local governments for a portion of exempted personal property tax revenues. These funds are provided because the changes to the use tax that would fund the LCSA in the future would not yet be in place.

The personal property tax exemptions for small businesses would reduce revenue for the state by $10 million starting in 2014. Due to the reallocation of $96 million in the use tax, there would be a considerable reduction in state government revenues starting in 2016. This reduction would be only partially offset by $26.8 million in revenue from the SESA and alternative SESA. These amounts increase to $570 million and $95.5 million, respectively, by the year 2025. The net impact on state government revenue would be a net reduction of $94.1 million in 2016 and $497 million in 2025.[13] See Table 5 on page 20 for a summary of these effects.

Local Governments

Local governments are the current recipients of the significant majority of personal property tax revenues. The personal property tax reforms that would go into effect if Proposal 14-1 passes would result in the eventual elimination of over half of these revenues. To offset these losses, local governments would receive reimbursement from the local community stabilization authority. These reimbursements are set at a pre-determined aggregate amount. Starting in 2016, these funds would be provided by the local community stabilization share tax, which is a portion of revenues from what is now the state 6% use tax.

In addition, as mentioned above, the state would provide funds to replace the portion of personal property taxes that would have gone to pay down debt in fiscal years 2015 and 2016, prior to the implementation of the local community stabilization share tax.

Local governments, under these reforms, would receive less revenue in aggregate in 2014 and 2015, before the reimbursement begins. In 2016, school districts, intermediate school districts, and tax increment financing districts would be reimbursed in full, as would the share of personal property taxes used to fund essential services (ambulance, police, fire, and jail) for all other municipalities. We predict that the LCSA may need to borrow from Treasury in order to provide these funds in 2016.[14] However, starting in 2017 and thereafter, we estimate that local governments would receive more in reimbursements than we estimate they would have received in total personal property taxes.

More specifically, local governments would receive $66 million less from personal property taxes starting in 2014 due to the exemption for small businesses.[15] This would increase to a reduction of $194 million in 2016. This 2016 reduction would be partially offset by $96 million from the local community stabilization share tax and $11 million from state appropriations that compensate for local government debt losses, as well as any transfers from Treasury necessary to reimburse local governments as described above. The property tax losses and local community stabilization share tax increase to $503 million and $570 million, respectively, by the year 2025. The net impact on local government revenue would be a net reduction of $87 million in 2016 (when we include the LCSA deficit), but a net increase in the following year. We estimate a net annual increase in local government revenue of $66 million by the year 2025. See Table 5 on page 20 for a summary of these effects.

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13. The state legislature has explicitly stated its intent to address this shortfall using revenue from expiring tax credits, which would remain in effect even if Proposal 14-1 does not pass. See "Economic Impact due to Government Spending" on page 24.

14. The authority to advance funds to the LCSA was granted to the Treasury in Public Act 86 of 2014, section 17-5.

Aggregate Effects on All Michigan Governments

We estimate that the personal property tax reforms would lead to a $2.3 million reduction in compliance costs for Michigan governments. The taxes and transfers authorized by Proposal 14-1 combined with the savings in compliance costs would result in a net reduction in revenue of $179 million for Michigan state and local governments in aggregate in fiscal year 2016. This number increases to $428 million by the year 2025. See our summary of the tax effects in Table 5 below.[16] Note that these are *static* effects. We consider how the positive impact of personal property tax reform on the economy might offset these static effects later in this chapter, in "Fiscal Effects With Dynamic Analysis" on page 25.

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15. There are two implementation issues regarding 2014 and 2015 revenue for local governments about which we had to make judgement calls based on our reading of the laws and their interaction with those that pre-exist Proposal 14-1. We note them below:

    (1) We have estimated a calendar year 2014 tax cut for small taxpayers filing an exemption, consistent with the clear purpose and clear statutory language of Proposal 14-1. However, there is an ambiguity that arises from the schedule of the small taxpayer exemption claims (filed in Spring 2014), tax assessment day (December 31, 2013), election day (August 5, 2014), and the issuance of summer and winter tax bills by local governments (late summer and late fall 2014). An argument could be made that the failure of Proposal 1 at the polls in August would not repeal the exemption for 2014, and that local governments would, even after Proposal 1 failed, not levy personal property tax on exemption-filing taxpayers in 2014 in such circumstances.

    We cannot fully resolve this ambiguity here, but note that the passage or failure of Prop 14-1 will be known before the issuance of tax bills by local governments in 2014; that the statute placing Prop 1 on the ballot (2014 PA 80) was not enacted until Spring of 2014, well after Tax Day in 2013; and that exemption certificates filed in the Spring of 2014 may not be honored by those local governments on a law that was rejected by voters a few months later. It is possible that, should Prop 1 be rejected, some aggrieved taxpayers could appeal their taxes to both their local review boards and the state tax tribunal, with results that would not be known for years.

    For these reasons, we have counted the 2014 tax cut as contingent upon the passage of Proposal 14-1.

    (2) There is an additional contingency in one of the Prop 1 statutes (2014 PA 86) of how reimbursement revenue, if in excess of the mandated payments by the LCSA, would be distributed in 2016 and following years. Under this contingency, 2016 and forward reimbursements to cities are affected by revenue loss in 2014.

    Because any such reimbursement payments are based on at least two contingencies (revenue loss in 2014, and excess revenue available for reimbursement in future years), and because any such amounts would be small compared to the overall tax cut and reimbursement revenue, we have not attempted to estimate it separately.
16. For a comparison of our estimates of the static fiscal effects with those of government agencies, see Table B-1 on page B-2.

TABLE 5. Static Fiscal Impact of Proposal 14-1 on State and Local Governments (millions, parentheses reflect a decrease in revenues)

	Fiscal Year[a]	2014[b]	2016[c]	2020	2025
State Government	Change in State Education Tax Revenue	($10.1)	($13.7)	($20.4)	($22.5)
	Change in Use Tax Revenue[d]	$0	($96.1)	($465.9)	($569.8)
	SESA and alternative SESA Revenue	$0	$26.8	$79.2	$95.5
	State Appropriations for Debt Loss	$0	($11.1)	$0	$0
	Net Fiscal Impact for State Government	*($10.1)*	*($94.1)*	*($407.1)*	*($496.8)*
Local Governments	Change in Personal Property Tax Revenue	($66.3)	($194.1)	($430.4)	($503.4)
	Revenue from Local Community Stabilization Share Tax (portion of current use tax)	$0	$96.1	$465.9	$569.8
	State Appropriations for Debt Loss	$0	$11.1	$0	$0
	Net Fiscal Impact for Local Government	*($66.3)*	*($87.0)*	*$35.5*	*$66.4*
	Change in Compliance Costs	$2.3	$2.3	$2.3	$2.3
TOTAL IMPACT ON STATE AND LOCAL GOVERNMENTS		($74.2)	($178.8)	($369.3)	($428.1)

Sources: AEG estimates based on data from Michigan Department of Treasury, Senate Fiscal Agency, and House Fiscal Agency
Analysis: Anderson Economic Group, LLC

a. For consistency, we used the state government's definition for fiscal year (October 1 through September 30) for all estimates. We recognize that many local governments have a different fiscal year than the state government.

b. Estimates displayed are for 2014 calendar year.

c. The only transfers that we include are those from the state government to the LCSA that are hard-coded in Public Act 80 of 2014. We did not estimate the funds that the LCSA may have to borrow from the state in 2016 in order to fully reimburse local governments. The LCSA has the authority to borrow funds from the Treasury for this purpose based on Public Act 86 of 2014, section 17-5.

d. The portion of use tax revenue that would go to the state, starting in 2016, would be called the "State Share Tax."

The following section describes how Proposal 14-1 would affect the tax burden of businesses in Michigan.

Private Businesses

As discussed in "Changes to Taxes and Transfers Under Proposal 14-1" on page 13, Proposal 14-1 contains three major changes to taxation in Michigan. Two of these changes affect the tax burden for businesses in Michigan. The changes in personal property tax have the most substantial effects. If Proposal 14-1 passes, a $76.5 million tax cut for small businesses would remain in effect, which began in 2014.[17] We estimate that the personal property tax cut would increase to $207.9 million in 2016. By the time that the exemptions on eligible manufacturing personal property have fully phased in, the personal property tax cut would increase to $525.9 million in 2025.

17. See footnote 15 on page 19.

The second change that would affect business tax burdens is the implementation of the SESA and alternative SESA, which offset a portion of the personal property tax relief. We estimate that the SESA and alternative SESA payments would amount to approximately $26.8 million in 2016 and increase to $95.5 million in 2025.

"Michigan Business Tax Climate and Personal Property Tax" on page 9 highlighted that one of the main criticisms of the personal property tax is a relatively high compliance cost, especially for small businesses. We estimate that these reforms in Proposal 14-1 would reduce business compliance costs related to personal property tax by $76.5 million annually.[18] Assuming that these businesses possess an average of $60,000 in cash value in personal property, this exemption would benefit approximately 53,000 small businesses. These businesses would save approximately $1,200 in compliance costs, on average.

Since the SESA and alternative SESA would remain in place for eligible manufacturing personal property, even after the personal property tax has been eliminated for this property, we expect the compliance costs for manufacturers to be slightly lower but remain high even after these reforms. They remain high because firms still have to track the acquisition cost and age of all personal property in order to comply with the SESA, an exercise that made up a large part of the compliance burden under personal property taxes.

18. Tasks that businesses conduct in order to comply with personal property tax laws include: taking the time to be informed of their obligation; tracking assets, purchase dates, prices, and depreciation; processing their annual assessment and tax notices; consulting with an accountant to update the depreciation schedule and calculate the tax payment; and potentially taking time to dispute the tax levy.

    In our previous research on the compliance costs of the personal property tax, we estimated that small businesses incur a compliance burden that ranges from 140% to 350% of their personal property tax payment. We assumed that, on average, the small businesses that qualify for this exemption incur a compliance cost equal to 100% their personal property tax payment. Our assumption is lower than the range reported in our 1999 research in order to take into account the adoption of automated accounting software and changes in depreciation schedules.

    For further details, see "Compliance Costs" on page B-5 or Patrick L. Anderson, "The Personal Property Tax in Michigan? Abolish or Reform," Anderson Economic Group, LLC, 1999.

TABLE 6. Impact of Proposal 14-1 on Business Costs[19]
(millions, parentheses reflect a decrease in costs for businesses)

Fiscal Year	2014[a]	2016	2020	2025
Change in Personal Property Tax Burden	($76.5)	($207.9)	($450.8)	($525.9)
SESA and alternative SESA	$0	$26.8	$79.2	$95.5
Net Tax Impact for Businesses	*($76.5)*	*($181.0)*	*($371.6)*	*($430.4)*
Change in Compliance Costs	($76.5)	($76.5)	($76.5)	($76.5)
TOTAL IMPACT ON BUSINESS COSTS	($152.9)	($257.5)	($448.1)	($506.9)

Sources: AEG estimates based on data from Michigan Department of Treasury, Senate Fiscal Agency, and House Fiscal Agency
Analysis: Anderson Economic Group, LLC

a. Estimates displayed are for 2014 calendar year.

EFFECT ON MICHIGAN'S ECONOMY

Among the many motivations for reduction of the personal property tax in Michigan, the primary one is the tax's adverse impact on the state's economy. In this section, we use evidence from rigorous economic research and our estimates for the relative change in the state's tax on business to estimate impact that Proposal 14-1 would have on Michigan's economy. For further details regarding our methodology, see "Dynamic Economic Impact" on page B-6.

Economic Impact on Business Activity

In previous research, Anderson Economic Group has investigated the impact that state and local taxes have on business investment and other types of economic activity. This economic research has found the following to be a conservative estimate of the impact of state taxes on business investment in the state: for every 10% decrease in business tax burden, there is approximately a 1.5% to 3.5% increase in business activity.[20] This result is based on empirical research on the impacts of a range of business tax changes at the state level. Due to the nature of the specific reform implemented by Proposal 14-1, there are a few factors that would determine where in this range the effect might fall. Firstly,

19. For a comparison of our estimates of the static fiscal effects with those of government agencies, see Table B-1 on page B-2.

20. The report in which we describe this research is proprietary, and draws upon an array of research on business activity, tax burdens, and economic growth. As observed elsewhere in this report, the incentive and signalling effects of tax policy changes depend heavily on the actual changes in costs to businesses and investors, as well as the credibility employers assign to commitments to maintain future policies. Furthermore, national economic conditions, policy changes in other states, and broad societal conditions (such as immigration and technology) also affect relative economic growth in states.

    Some such research on tax policy changes and economic growth is described in Patrick L. Anderson & Caroline Sallee, *Benchmarking for Success: A Comparison of State Business Taxes,* Michigan House of Representatives, August 2006.

reductions in the personal property tax result in lower taxes on *new* investment. This would likely result in a greater positive impact than a reduction in taxes that increases after-tax profits from investments already made. Secondly, this reform specifically targets the manufacturing industry. Since manufacturers have greater flexibility in location than other industries in the medium term, they are more responsive to localized tax changes.

There is at least one effect specific to this reform that mitigates the two mentioned above. The repeal of the personal property tax for manufacturers would result in a marginal change in the relative cost of labor and capital. At least some manufacturers may find it more affordable to use a mix of machines and labor that includes a higher proportion of machine production, as the tax-inclusive cost of owning manufacturing personal property would be lower.

We predict that the PPT reductions from Proposal 14-1 would result in a long-term increase of 0.5% to 1.1% in consumption and fixed investment by businesses. We define business consumption as business-to-business transactions and fixed investment as expenditures on fixed capital. (See Table 7 on page 24 for a summary of these and other economic effects, and their approximate scale in dollars.)

This increased investment would result in more employment in the state of Michigan. Recent trends suggest that employment growth occurs at about a fourth of the rate of growth in business fixed investment, in general. This implies that the long-term increase in employment due to the PPT reforms would be an additional 0.1% to 0.25%. By 2025, the PPT reforms and the long-term effects would have been fully phased in.

We have estimated that the long-term effects of Proposal 14-1 include a $203 million to $474 million increase in fixed investment as well as a $1.6 billion to $3.7 billion increase in business consumption. In addition, the effects of these reforms would result in an additional 5,000 to 11,700 private sector jobs in the state.

TABLE 7. Impact of Proposal 14-1 on Various Economic Activities, 2025 (dollar values in millions)

Direct Impact	Activity Effected	Impact of Reform (Change in Annual Level)			
		Worst Case		Best Case	
$506.9 million reduction in annual business taxes and business compliance costs[a]	Business Fixed Investment	+0.48%	+$203	+1.11%	+$473
	Business Consumption	+0.48%	+$1,585	+1.11%	+$3,699
	Employment	+0.11%	+5,016	+0.25%	+11,704
	Personal Income	+0.07%	+$252	+0.17%	+$588
	Personal Consumption	+0.07%	+$135	+0.17%	+$316

Sources: AEG estimates based on data from Michigan Department of Treasury, Senate Fiscal Agency, House Fiscal Agency, Bureau of Economic Analysis, and U.S. Census, Bureau of Labor Statistics
Analysis: Anderson Economic Group, LLC

a. Refers to the total impact on business costs for year 2025 in Table 6 on page 22.

Economic Impact on Individuals

The new investment and consumption by businesses would result in higher individual income for Michigan residents. We expect that the additional hiring that coincides with greater investment in the state would increase disposable incomes by $26.3 million to $62.1 million in 2016. By the time the PPT reforms have been fully phased in, we expect that disposable income due to increased business investment would be $252 million to $588 million higher. (The range is wider in later years due to uncertainty.)

We expect that the increase in individual income would also coincide with an increase in personal consumption. Our estimates indicate that personal consumption in Michigan would increase by $14.3 million to $33.4 million in 2016. By the time the PPT reforms are fully phased in, personal consumption would increase by $135 million to $316 million. We summarized these impacts in Table 7 above.

Economic Impact due to Government Spending

These gains in private-sector economic activity require that the state government properly manage what we estimate would be net reductions in revenue of approximately $330 million (see Table 8 on page 26). Legislators have acknowledged this revenue reduction and assert in Public Act 92 of 2014 that they would account for it via expiring tax credits for businesses.[21] In other words, as tax credits that remain from the MBT expire, the state government would gain more revenue from the corporate income tax, which can be used to offset this anticipated decrease in revenue from PPT reform.[22] These expiring

21. 2014 Public Act 92, enacting section 3.

credits were estimated by the Michigan Department of Treasury to total $526 million for FY 2013, with over three quarters of them expected to expire by 2030 and all expiring eventually.[23] While the expiring tax credits are of similar size to the state tax revenue reduction caused by Proposal 14-1, it is important to note that Proposal 14-1 eliminates the option to use the revenue from these expiring tax credits for other purposes. We have not quantified the economic impact of a net reduction in state government revenue.

FISCAL EFFECTS WITH DYNAMIC ANALYSIS

There are two components to consider when determining the impacts of changes to the tax code. There is the *direct* effect (or static effect), which provides an estimate of how much revenue is lost or gained, assuming that the economic behavior of those who are taxed does not change. There is also the *dynamic* effect of a tax change, which accounts for the probability that, for example, economic activity might increase when people or businesses have more disposable income or changes in their incentives due to tax changes. This increase in economic activity would, in turn, result in greater revenues to state and local governments.

Dynamic effects are important to account for here because one of the primary motivations for lowering taxes on businesses or individuals is that these dynamic effects occur. We consider a broad range of effects to account for their inherent uncertainty.

The negative direct fiscal effects discussed in "Big-Picture Fiscal Effects" on page 17 would be marginally offset by the improved economy of the state. Based on the dynamic economic effects discussed in "Effect on Michigan's Economy" on page 22 we consider the fiscal effects of increased business investment and consumption and of increased disposable personal income. By 2025, the additional state and local government revenues would have increased by a range of $13 million to $31 million due to increased business investment and consumption. We predict that increases in income taxes due to greater employment would range from $27 million to $64 million. Our estimates for the direct and dynamic effects of Proposal 14-1 are outlined in Table 8 below.

22. An analysis that Anderson Economic Group performed in 2012 verified that the combined revenue impact of corporate income tax reform and a similar version of personal property tax reform was approximately neutral, suggesting that it may in fact be the case that anticipated surpluses from corporate income tax (CIT) reform can be used to offset the loss in revenue from PPT reform.
See Jason Horwitz & Alex Rosaen, "Personal Property Tax Reform in Michigan: The Fiscal and Economic Impact of SB 1065-SB 1072," Anderson Economic Group, LLC. April 2012.

23. Anderson Economic Group analyzed data provided by the Michigan Department of Treasury in 2012 as part of producing our 2012 study.

TABLE 8. Fiscal Impact of the Proposal 14-1 on State and Local Governments (millions, parentheses reflect a decrease in revenues)

	Fiscal Year	2014[a]	2016	2020	2025
Direct Fiscal Impact of Proposal 14-1	Total	($76)	($181)	($372)	($430)
Reduction in Gov't Compliance Costs	Total	$2	$2	$2	$2
Additional Revenue due to Business Consumption	*Worst Case*	*$0.2*	*$1*	*$7*	*$13*
	Best Case	*$0.4*	*$3*	*$17*	*$31*
Additional Revenue due to Personal Income	*Worst Case*	*$0.4*	*$3*	*$15*	*$27*
	Best Case	*$0.9*	*$7*	*$35*	*$64*
Fiscal Impact w/ Dynamic Effects State & Local Combined	Worst Case	($74)	($174)	($347)	($388)
	Best Case	($73)	($169)	($317)	($334)

Sources: AEG estimates based on data from Michigan Department of Treasury, Senate Fiscal Agency, House Fiscal Agency, Bureau of Economic Analysis, and U.S. Census, Bureau of Labor Statistics
Analysis: Anderson Economic Group, LLC

a. Estimates displayed are for 2014 calendar year.

Comparing Cost Reductions for Business to Fiscal Effects

The total cost savings to business shown in Table 7 on page 24 are larger in magnitude than the fiscal effects on state and local governments shown in Table 8 above. This is due to two factors:

1. Compliance cost savings to businesses, and
2. Dynamic effects to the economy.

V. Proposal 14-1 and Taxing Authority

TAX LIMITATIONS IN THE CONSTITUTION OF THE STATE OF MICHIGAN

Taxes in the State of Michigan are governed, like other operations of government, by the Constitution of the State of Michigan. Michigan's constitution places a series of limits on the taxing powers of local governments. These are expressed most directly in the following sections:

- The legislature's power to create or impose taxes is conditioned on the requirement that any law establishing a tax "shall distinctly state the tax."[16]
- There are certain specific tax limitations, such as the 6% limit on sales taxes (and related limits on use taxes), and the limit on school operating taxes established by Proposal A in 1994, as well as the requirement that voters approve state general obligation bonds.
- The general authorization for counties, and also for cities and villages, to tax is conditioned on the requirement that state law, or a charter, establish tax limits.[17]
- All ad valorem taxation by local units of government, taken as a total, is subject to millage limits.[18]
- Separate millage limits (or limits on the total amount of taxation) are required for specific bonds, authorities, and charter authorities that do not fall under the general millage limits.[19] These separate millages are further subject to the provisions of Article IX, sections 25-32 (the Headlee amendment), which require voter approval of new and increased local taxes.[20]
- Article IX, sections 25-32 (the Headlee amendment, which also amended section 6), establishes tax limitations on both state and local governments. Among these are voter approval requirements for new and increased local taxes and general obligation bonds.

As a result, there is no constitutional authority for local units of government (including "authorities") to levy taxes without specific limits set by charter or general law.[21] In addition, such local taxes (and borrowings that pledge taxing authority) must often be approved by the local voters.

16. Constitution of the State of Michigan, Article IV section 32. For reference, sections of the constitution are also excerpted in "Appendix A. Constitution and Law."
17. Article VII, sections 2, 21.
18. Article IX, section 6.
19. Article IX, section 6.
20. Article IX, section 6.

PROPOSAL 14-1 AND CONSTITUTIONAL TAX LIMITATIONS

Proposal 1 of 2014, and the taxes it authorizes, exempts, and limits, must be considered within the context of the constitution of the state, including its limitations and requirements. We discuss below this question first in the most general terms, and then more specifically.

Proposal 14-1 and General Voter Approval Requirement

Proposal 14-1, by placing the tax policy changes squarely in front of the voters, is consistent with the general statement in Article IX section 25 (added by the Headlee amendment) that places state taxes under direct voter control.

The ballot language explicitly asks the voters to approve a replacement of part of the state use tax with another local tax, require the new local authority to spend the money in a certain way, prevent the new authority from raising taxes, and prohibit the total use tax from exceeding the existing constitutional limit:

EXHIBIT 1. Ballot Description for Proposal 14-1

APPROVAL OR DISAPPROVAL OF AMENDATORY ACT TO REDUCE STATE USE TAX AND REPLACE WITH A LOCAL COMMUNITY STABILIZATION SHARE TO MODERNIZE THE TAX SYSTEM TO HELP SMALL BUSINESSES GROW AND CREATE JOBS

The amendatory act adopted by the Legislature would:

1. Reduce the state use tax and replace with a local community stabilization share of the tax for the purpose of modernizing the tax system to help small businesses grow and create jobs in Michigan.
2. Require Local Community Stabilization Authority to provide revenue to local governments dedicated for local purposes, including police safety, fire protection, and ambulance emergency services.
3. Increase portion of state use tax dedicated for aid to local school districts.
4. Prohibit Authority from increasing taxes.
5. Prohibit total use tax rate from exceeding existing constitutional 6% limitation.

Should this law be approved?

Source: Michigan Public Act 80 of 2014, enacting section 1

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21. The extensive, and overlapping, tax limitations provisions of the Constitution of the State of Michigan have been noted in several past publications, including the following:

> As was detailed in CRC's analysis of Article VII, one way in which the state has weakened the constitutional grant of home rule powers to local governments was by limiting their ability to levy local taxes. Article VII, Section 21 provides that "Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law." Unlike many other states with strong home rule provisions that do not limit their local governments in this way, Michigan laws require an authorizing state law for local governments to levy alternate taxes.
> CRC Report 390-12, *Article IX—Finance and Taxation,* August 2010, citing also CRC Report 360-10, *Article VII—Local Government,* June 2010.

This placement before the voters, and the explicit tax limitation, are clearly within the spirit of the constitution's voter approval requirements for local taxes.

Proposal 14-1 and Headlee Requirements: State Taxes

Proposal 14-1 creates a new Essential Services Assessment (ESA) which is explicitly a "state tax" under Proposal 14-1. This tax is levied on manufacturing personal property annually, on a base set by the purchase price of the property, at a rate that declines over time. Note that such property is exempted from the general property tax under Public Act 401 of 2012 (beginning in calendar year 2016). A companion alternative tax of similar name is levied at half that rate. This alternative tax would be administered at the discretion of the Michigan Strategic Fund. It is labeled as a specific tax, although it would operate in a manner similar to an *ad valorem* property tax.

There are two state limits that must be considered here: the limits on ad valorem taxes stated in Article IX sections 3, 6, and 31; and any specific tax limits.

Limits on Ad Valorem Taxes. The relevant limits on ad valorem taxes stated in Article IX appear to derive from the Article IX section 3 allowance for "alternative" taxes to be levied on real and personal property that is exempt from the general property tax. Because the manufacturing personal property that is the base of this tax was exempted from the general property tax (by Public Act 401 of 2012), the legislature may apply an alternative, specific tax.

There is some question as to how the total millage limit (established under Article IX section 6) would be calculated for property subject to this tax in the future. However, probably in all areas of the state, the reduction in the property tax levied on personal property by operation of Proposal 14-1 would reduce the overall tax burden on such property, not raise it.

State Tax Limit. This state tax would then be subject to the state tax revenue limit, which is expressed as a portion of state income under Article IX section 26. The state government is currently well under this taxing limit.

The state must, if Proposal 14-1 is adopted and the ESA tax collected, apply the revenue from the tax to the state tax revenue limit. However, there is no voter approval requirement for new state taxes.

Proposal 14-1 and the Local Use Tax

Proposal 14-1 also authorizes a local use tax, called the "local community share tax," which is described in section 3 of Public Act 80 of 2014. This tax is levied by the LCSA which was created by Public Act 86 of 2014.

There are at least three sets of limits that must be considered here: the specific limit of 6% on sales taxes (and related limits on use taxes); the limits on taxation levied by local governments, including the voter approval requirements; and the relevant requirements if the tax is, in fact, a "state" rather than a "local" tax.

Specific Tax Limits

First, Proposal 14-1 is explicit that the "total use tax rate" is prohibited from "exceeding existing constitutional 6% limitation."[22] Thus, there is no ambiguity regarding compliance with Article IX section 8 limiting sales taxes to no more than 6%, and implying that a similar limit exists for use taxes.

In fact, the constitution's Article IX section 8 does not explicitly limit use taxes to no more than 6%, although it explicitly does so for sales taxes, and does so by implication for use taxes. The adoption of Proposal 14-1 would establish both a statutory statement that a 6% limit does apply on use taxes, and then stamp this with the additional authority of a vote of the people.

The Metropolitan Authority and the Question of "Local" Tax

The unusual structure of Proposal 14-1 raises the question of whether this is actually a "local" tax, whether it is a "new" tax, and whether it should be, or is being, approved by the electors. This requires some additional review of the authority levying the tax.

The statute creating the authority explicitly invoked Article VII section 27 of the constitution, which allows the state to create "in metropolitan areas" additional forms of government with explicit powers. The same statute allows the authority to operate statewide, even as it refers repeatedly to "metropolitan areas of the state".[23] Both this statute, and 2014 PA 80 (which placed Proposal 14-1 on the ballot), state that the authority is a local entity and the tax it levies is a local tax.[24] It is clear that the intended beneficiary of the tax is local governments, but it is also clear that it operates statewide, and not in "metropolitan areas."

Question Regarding "Local" Authority. The legislature, perhaps anticipating the question of whether a "metropolitan" authority that operates statewide is indeed a local unit of government, included in 2014 PA 86 an unusual statement (in section 7) asserting that "the validity of the creation of the authority is presumed unless held invalid by the court of appeals in an original action filed in the court not later than 60 days after the establishment of the authority under

22. 2014 Public Act 80, enacting section 1; section 7.

23. 2014 Public Act 86, section 7.

24. 2014 Public Act 86, section 12; 2014 PA 80, section 4.

this section." Indeed, the state or local nature of a tax is an important question that has been controversial on several past occasions.[25]

Regardless of whether the characterization of this authority as "local" is challenged, it is clear that the adoption of Public Acts 80 and 83 involve the creation of a "local" authority that geographically spans the entire state.

Tax Limits on Authorities. As noted above, the constitution applies taxing limits to all units of local government, and explicitly requires them for "authorities" that are outside the limits established for counties, townships, cities and villages. The public act creating the local community stabilization authority does state such a limitation on the "local community stabilization share," referring to the use tax act and further stating that the authority cannot increase the rate of this tax, or any other tax.[26] This matches the Proposal 14-1 ballot language excerpted above.

First Constitutional Argument. If, in fact, the local community stabilization share is a "local" tax (as stated in 2014 PA 80 and in 2014 PA 83), then it is clearly a "new" local tax. Furthermore, it is a new tax that raises new revenue. Thus, it requires the approval of the local voters under Article IX section 31.

In this case, the legislature is asserting that the "local" voters are the entire state electorate, as they are the ones being asked to approve Proposal 14-1, and are also the constituents of the Metropolitan Authority. Viewed in this manner, the Headlee requirement for voter approval has been satisfied.

Second Constitutional Argument. The argument can be made, and is made explicitly and implicitly in the statutes, that the legislature can create a statewide local authority, and get the approval of the statewide electorate for its taxing powers. We also consider here whether, if the "authority" created by Proposal 14-1 is a state entity, the constitution's tax limitations would still be respected.

If the LCSA is determined to be a part of the state government, then the local community stabilization share would be a state tax. As such, it appears to be levied in the same way, on the same base, as the prior state tax. Furthermore,

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25. The *Headlee Amendment Blue Ribbon Commission Report (1994)* to Governor John Engler (who created the commission in 1993 by executive order) briefly discusses this issue under the topic of Article IX section 31, and cites *Airlines Parking v. Wayne County,* 452 Mich. 527, 550 N.W.2d 490 (1996)*,* where the Supreme Court held that an airport parking tax was a state excise tax, not a "local" tax.
The Blue Ribbon Commission report's findings on the definition of a local tax were subsequently adopted by the Supreme Court in *Bolt v. City of Lansing,* 459 Mich 152, NW2d 264 (1998) and have been subsequently relied upon in other cases both in Michigan (e.g. *County of Jackson v. City of Jackson,* no. 307685 ___ Mich App ___ [2013]) and in other states.

26. 2014 Public Act 86, section 12.

Proposal 14-1 would establish by statute the 6% limit on use taxes that is implied, but not stated, in the constitution today. Finally, the tax could not exceed the existing maximum rate and the LCSA is granted no authority to raise the rate in the future.

Thus, it appears that, even if the “local” tax was determined to actually be a state tax, the practical application of the tax would not be prevented by the constitution's limit on the sales and use tax rates in Article IX section 8, nor by the overall state tax revenue limit established by Article IX section 26. Indeed, the additional statutory assertion of a 6% use tax limit is, arguably, an improvement in taxpayer protection.

AUTHORIZATION AND EXEMPTION OF TAXES UNDER PROPOSAL 14-1

The following table summarizes the exemptions, and the authorizations, of taxes under Proposal 14-1, and places these under the appropriate constitutional tax limitations and voter approval requirements.

TABLE 9. Exemptions, Authorizations, and Voter Approval Requirements for Taxes Under Proposal 14-1

Exemptions and Authorizations	Tax	Authority	Constitutional Tax Limits	Constitutional Voter Approval Requirements
Exemptions				
Exempt 10-year-old Manufacturing PPT as of 2016 calendar year	Local ad valorem property tax (local PPT)	2012 PA 401; 2013 PA 154	IX §6	IX §6; IX §25, 31 (Headlee) No voter approval required for new exemption
Exempt all PPT if less than $80,000 TCV and exemption certificate filed, beginning 2014 calendar year	Local ad valorem property tax (local PPT)	2012 PA 402; 2013 PA 153	IX §6	IX §6; IX §25, 31 (Headlee) No voter approval required for new exemption
Authorizations				
Authorize new "local community stabilization share tax;" allocate to new LCSA	Argument 1: local use tax as a replacement for existing state use tax, levied (in combination with state use tax) on same base at same rate.	2014 PA 80 (read literally as described in section 4 of the Act); 2014 PA 83	IX §6; IX §8	IX §6; IX §25, 31 (Headlee) Local voter approval required for "new" local tax; Argument: "new" tax does not raise revenue above "old" tax.
	Argument 2: state use tax levied on same base at same rate as former use tax.	2014 PA 80 (read by construction of tax, and ignoring section 4 of the Act); 2014 PA 83	IX §26; IX §8	No requirement if sufficiently under State Revenue Limit; new revenue applies to this limit.
Authorizes new "state essential services assessment"	State tax on manufacturing personal property, levied on acquisition cost of property.	2014 PA 92	IX §3 (alternative tax on exempt base); IX §6; IX §26	No requirement if sufficiently under State Revenue Limit; new revenue applies to this limit.
Authorizes an alternative state essential services assessment	Alternative tax on same base	2014 PA 93		

Source: Anderson Economic Group analysis; Constitution of the State of Michigan; cited public acts.

Appendix A. Constitution and Law

Public Acts of 2014; Ballot Description

The below is excerpted from Public Act number 80:[27]

Act No. 80
Public Acts of 2014
Approved by the Governor
March 28, 2014
Filed with the Secretary of State
March 28, 2014
EFFECTIVE DATE: Pending
STATE OF MICHIGAN
97TH LEGISLATURE
REGULAR SESSION OF 2014
Introduced by Senators
Hildenbrand, Jansen, Warren, Moolenaar and Brandenburg

ENROLLED SENATE BILL No. 822

AN ACT to amend 1937 PA 94, entitled "An act to provide for the levy, assessment, and collection of a specific excise tax on the storage, use, or consumption in this state of tangible personal property and certain services; to appropriate the proceeds of that tax; to prescribe penalties; and to make appropriations," by amending sections 3, 19, and 21 (MCL 205.93, 205.109, and 205.111), section 3 as amended by 2007 PA 103, section 19 as added by 2004 PA 172, and section 21 as amended by 2010 PA 37, and by adding sections 2c and 10a.

The People of the State of Michigan enact:

Sec. 2c. As used in this act:
(a) "Authority" means the local community stabilization authority created under the local community stabilization authority act.

(b) "Basic school operating mills" means school operating mills used to calculate the state portion of a local school district's foundation allowance under section 20 of the state school aid act of 1979, 1979 PA 94, MCL 388.1620, and levied under section 1211 of the revised school code, 1976 PA 451, MCL 380.1211, by a local school district that receives from this state a portion of its foundation allowance, as calculated under section 20(4) of the state school aid act of 1979, 1979 PA 94, MCL 388.1620.

(c) "Local community stabilization share" means the local community stabilization share tax described in section 3(5), authorized by the amendatory act that added this section, and included in the specific tax levied under section 3(1).

(d) "Personal property growth factor" means the average annual growth rate for industrial and commercial personal property taxable value from 1996 through 2012 rounded up to the nearest tenth of a percent, which is 1.0%.

27. Public Acts of 2014, Act No. 80. This act contains the ballot language that will appear on the Michigan ballot August 5, 2014, and is one of 11 Public Acts that will be enacted if Proposal 14-1 is passed. For a full list, please refer back to Table 3.

(e) “State fiscal year” means the annual period fiscal beginning on October 1 of each year and ending on September 30 in the immediately succeeding year.

(f) “State share” means the state share tax described in section 3(5) and included in the specific tax levied under section 3(1).

Sec. 3. (1) There is levied upon and there shall be collected from every person in this state a specific tax, including both the local community stabilization share and the state share, for the privilege of using, storing, or consuming tangible personal property in this state at a total combined rate equal to 6% of the price of the property or services specified in section 3a or 3b. The tax levied under this act applies to a person who acquires tangible personal property or services that are subject to the tax levied under this act for any tax-exempt use who subsequently converts the tangible personal property or service to a taxable use, including an interim taxable use. If tangible personal property or services are converted to a taxable use, the tax levied under this act shall be imposed without regard to any subsequent tax-exempt use. Penalties and interest shall be added to the tax if applicable as provided in this act. For the purpose of the proper administration of this act and to prevent the evasion of the tax, all of the following shall be presumed:

(a) That tangible personal property purchased is subject to the tax if brought into this state within 90 days of the purchase date and is considered as acquired for storage, use, or other consumption in this state.

(b) That tangible personal property used solely for personal, nonbusiness purposes that is purchased outside of this state and that is not an aircraft is exempt from the tax levied under this act if 1 or more of the following conditions are satisfied:

(i) The property is purchased by a person who is not a resident of this state at the time of purchase and is brought into this state more than 90 days after the date of purchase.

(ii) The property is purchased by a person who is a resident of this state at the time of purchase and is brought into this state more than 360 days after the date of purchase.

(2) The tax imposed by this section for the privilege of using, storing, or consuming a vehicle, ORV, manufactured housing, aircraft, snowmobile, or watercraft shall be collected before the transfer of the vehicle, ORV, manufactured housing, aircraft, snowmobile, or watercraft, except a transfer to a licensed dealer or retailer for purposes of resale that arises by reason of a transaction made by a person who does not transfer vehicles, ORVs, manufactured housing, aircraft, snowmobiles, or watercraft in the ordinary course of his or her business done in this state. The tax on a vehicle, ORV, snowmobile, and watercraft shall be collected by the secretary of state before the transfer of the vehicle, ORV, snowmobile, or watercraft registration. The tax on manufactured housing shall be collected by the department of licensing and regulatory affairs, mobile home commission, or its agent before the transfer of the certificate of title. The tax on an aircraft shall be collected by the department of treasury. The price tax base of a new or previously owned car or truck held for resale by a dealer and that is not exempt under section 4(1)(c) is the purchase price of the car or truck multiplied by 2.5% plus $30.00 per month beginning with the month that the dealer uses the car or truck in a nonexempt manner.

(3) The following transfers or purchases are not subject to use tax:
(a) A transaction or a portion of a transaction if the transferee or purchaser is the spouse, mother, father, brother, sister, child, stepparent, stepchild, stepbrother, stepsister, grandparent, grandchild, legal ward, or a legally appointed guardian with a certified letter of guardianship, of the transferor.

(b) A transaction or a portion of a transaction if the transfer is a gift to a beneficiary in the administration of an estate.

(c) If a vehicle, ORV, manufactured housing, aircraft, snowmobile, or watercraft that has once been subjected to the Michigan sales or use tax is transferred in connection with the organization, reorganization, dissolution, or partial liquidation of an incorporated or unincorporated business and the beneficial ownership is not changed.

(d) If an insurance company licensed to conduct business in this state acquires ownership of a late model distressed vehicle as defined in section 12a of the Michigan vehicle code, 1949 PA 300, MCL 257.12a, through payment of damages in response to a claim or when the person who owned the vehicle before the insurance company reacquires ownership from the company as part of the settlement of a claim.

(4) The department may utilize the services, information, or records of any other department or agency of state government or of the authority in the performance of its duties under this act, and other departments or agencies of state government and the authority are required to furnish those services, information, or records upon the request of the department.

(5) Beginning on October 1, 2015, the specific tax levied under subsection (1) includes both a state share tax levied by this state and a local community stabilization share tax authorized by the amendatory act that added section 2c and levied by the authority, which replaces the reduced state share at the following rates in each of the following state fiscal years:

(a) For fiscal year 2015-2016, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $96,100,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(b) For fiscal year 2016-2017, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $380,600,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(c) For fiscal year 2017-2018, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $410,500,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(d) For fiscal year 2018-2019, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $437,700,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(e) For fiscal year 2019-2020, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $465,900,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(f) For fiscal year 2020-2021, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $491,500,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(g) For fiscal year 2021-2022, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $521,300,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(h) For fiscal year 2022-2023, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $548,000,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(i) For fiscal year 2023-2024, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $561,700,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(j) For fiscal year 2024-2025, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $569,800,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(k) For fiscal year 2025-2026, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $571,400,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(l) For fiscal year 2026-2027, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $572,200,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(m) For fiscal year 2027-2028, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate $572,600,000.00 in revenue and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(n) For fiscal year 2028-2029 and each fiscal year thereafter, the local community stabilization share tax rate to be levied by the authority is that rate calculated by the department of treasury on behalf of the authority sufficient to generate the amount distributed under this section in the immediately preceding year adjusted by the personal property growth factor and the state share tax rate is that rate determined by subtracting the local community stabilization share tax rate from 6%.

(6) The state share includes the portion of the use tax imposed at the additional rate of 2% approved by the electors of this state on March 15, 1994 and dedicated for aid to schools under section 21(2). The local community stabilization share does not include the portion of the use tax imposed at the additional rate of 2% approved by the electors of this state on March 15, 1994.

(7) The total combined rate of the tax levied by this state and the authority under this act, including both the state share, as reduced by the amendatory act that added this subsection, and the local community stabilization share, shall not exceed the constitutional limit of 6% under section 8 of article IX of the state constitution of 1963. The authority shall not increase any tax or tax rate, but is authorized to and shall levy the local community stabilization share at the rate provided in subsection (5).

Sec. 10a. The department shall administer under this act and under 1941 PA 122, MCL 205.1 to 205.31, the receipt and collection of the local community stabilization share on behalf of the authority as an agent of the authority. The department may enter into an agreement with the authority relating to the receipt and collection of the local community stabilization share and the payment of authority revenue generated by the local community stabilization share to the authority, which is dedicated to local purposes, including, but not limited to, police safety, fire protection, and ambulance emergency services.

Sec. 19. (1) The tax collected by the seller from the consumer or lessee under this act is for the benefit of this state, the authority, and the metropolitan areas of this state, including, but not limited to, local communities within the metropolitan areas. A person other than this state, the authority, and the metropolitan areas of this state shall not derive a benefit from the collection or payment of this tax.

(2) The legislature finds and declares that the purpose of the amendatory act that added this subsection is modernizing the tax system to help small businesses grow and create jobs in this state.

Sec. 21. (1) Except as provided in subsections (2), (3), and (4), all money received and collected under this act shall be deposited by the department of treasury in the state treasury to the credit of the general fund, to be disbursed only by appropriations by the legislature.

(2) The collections from the use tax imposed at the additional rate of 2% approved by the electors March 15, 1994 shall be deposited in the state school aid fund established in section 11 of article IX of the state constitution of 1963.

(3) From the money received and collected under this act for the state share, an amount equal to all revenue lost under the state education tax act, 1993 PA 331, MCL 211.901 to 211.906, and all revenue lost from basic school operating mills as a result of the exemption of personal property under sections 9m, 9n, and 9o of the general property tax act, 1893 PA 206, MCL 211.9m, 211.9n, and 211.9o, as determined by the department, shall be deposited into the state school aid fund established by section 11 of article IX of the state constitution of 1963. Funds deposited into the state school aid fund under this subsection shall not include the portion of the state share of the use tax imposed at the additional rate of 2% approved by the electors of this state on March 15, 1994 and dedicated for aid to schools under subsection (2).

(4) Money received and collected under this act for the local community stabilization share is not state funds, shall not be credited to the state treasury, and shall be transmitted to the authority for deposit in the treasury of the authority, to be disbursed by the authority only as authorized under the local community stabilization authority act. The local community stabilization share is a local tax, not a state tax, and money received and collected for the local community stabilization share is money of the authority and not money of this state.

Enacting section 1. This amendatory act does not take effect unless approved by a majority of the registered and qualified electors of this state voting on the question at an election to be held on the August regular election date in 2014. Except as otherwise provided in this enacting section, this amendatory act shall be submitted to the registered and qualified electors of this state at that election as provided by the Michigan election law, 1954 PA 116, MCL 168.1 to 168.992, and for the purpose of complying with section 31 of article IX of the state constitution of 1963. Notwithstanding other law, when submitted to the registered and qualified electors of this state, this amendatory act shall be presented with the following question:

"APPROVAL OR DISAPPROVAL OF AMENDATORY ACT TO REDUCE STATE USE TAX AND REPLACE WITH A LOCAL COMMUNITY STABILIZATION SHARE TO MODERNIZE THE TAX SYSTEM TO HELP SMALL BUSINESSES GROW AND CREATE JOBS

The amendatory act adopted by the Legislature would:

1. Reduce the state use tax and replace with a local community stabilization share of the tax for the purpose of modernizing the tax system to help small businesses grow and create jobs in Michigan.
2. Require Local Community Stabilization Authority to provide revenue to local governments dedicated for local purposes, including police safety, fire protection, and ambulance emergency services.
3. Increase portion of state use tax dedicated for aid to local school districts.
4. Prohibit Authority from increasing taxes.
5. Prohibit total use tax rate from exceeding existing constitutional 6% limitation.

Should this law be approved?
YES[ ]
NO[ ]".

Enacting section 2. If approved by the registered and qualified electors of this state as provided in enacting section 1, this amendatory act takes effect January 1, 2015.

This act is ordered to take immediate effect.

Constitution of the State of Michigan 1963: Excerpts

The following excerpts govern taxing authority and tax limits in the Constitution of the State of Michigan as they affect both local and state governments.

Note: Captions by the Legislative Council in **bold** and emphasis by authors of this report in *italics* are editorial comments and not inherent in the constitution.

Article IV: Legislative Branch

§ **32**

Laws imposing taxes.

Sec. 32.

Every law which imposes, continues or revives a tax shall distinctly state the tax.

ARTICLE VII: LOCAL GOVERNMENT

§ 1

Counties; corporate character, powers and immunities.

Sec. 1.

Each organized county shall be a body corporate with powers and immunities provided by law.

§ 2

County charters.

Sec. 2.

Any county may frame, adopt, amend or repeal a county charter in a manner and with powers and

limitations to be provided by general law, which shall among other things provide for the election of a charter commission. *The law may permit the organization of county government in form different from that set forth in this constitution and shall limit the rate of ad valorem property taxation for county purposes, and restrict the powers of charter counties to borrow money and contract debts. Each charter county is hereby granted power to levy other taxes for county purposes subject to limitations and prohibitions set forth in this constitution or law.* Subject to law, a county charter may authorize the county through its regularly constituted authority to adopt resolutions and ordinances relating to its concerns....

§ 21

Cities and villages; incorporation, taxes, indebtedness.

Sec. 21.

The legislature shall provide by general laws for the incorporation of cities and villages. *Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law.*

§ 27

Metropolitan governments and authorities.

Sec. 27. *Notwithstanding any other provision of this constitution the legislature may establish in metropolitan areas additional forms of government or authorities with powers, duties and jurisdictions as the legislature shall provide.* Wherever possible, such additional forms of government or authorities shall be designed to perform multipurpose functions rather than a single function.

Article IX: FINANCE AND TAXATION

§ 3

Property taxation; uniformity; assessments; limitations; classes; approval of legislature.

Sec. 3.

The legislature shall provide for the uniform general ad valorem taxation of real and tangible personal property not exempt by law except for taxes levied for school operating purposes. The legislature shall provide for the determination of true cash value of such property; the proportion of true cash value at which such property shall be uniformly assessed, which shall not, after January 1, 1966, exceed 50 percent; and for a system of equalization of assessments. For taxes levied in 1995 and each year thereafter, the legislature shall provide that the taxable value of each parcel of property adjusted for additions and losses, shall not increase each year by more than the increase in the immediately preceding year in the general price level, as defined in section 33 of this article, or 5 percent, whichever is less until ownership of the parcel of property is transferred. When ownership of the parcel of property is transferred as defined by law, the parcel shall be assessed at the applicable proportion of current true cash value. *The legislature may provide for alternative means of taxation of designated real and tangible personal property in lieu of general ad valorem taxation. Every tax other than the general ad valorem property tax shall be uniform upon the class or classes on which it operates.* A law that increases the statutory limits in effect as of February 1, 1994 on the maximum amount of ad valorem property taxes that may be levied for school district operating purposes requires the approval of 3/4 of the members elected to and serving in the Senate and in the House of Representatives.

§ 6

Real and tangible personal property; limitation on general ad valorem taxes; adoption

and alteration of separate tax limitations; exceptions to limitations; property tax on school

district extending into 2 or more counties.

Section 6.

Except as otherwise provided in this constitution, the total amount of general ad valorem taxes imposed upon real and tangible personal property for all purposes in any one year shall not exceed 15 mills on each dollar of the assessed valuation of property as finally equalized. Under procedures provided by law, which shall guarantee the right of initiative, separate tax limitations for any county and for the townships and for school districts therein, the aggregate of which shall not exceed 18 mills on each dollar of such valuation, may be adopted and thereafter altered by the vote of a majority of the qualified electors of such county voting thereon, in lieu of the limitation hereinbefore established. *These limitations may be increased to an aggregate of not to exceed 50 mills on each dollar of valuation, for a period of not to exceed 20 years at any one time, if approved by a majority of the electors, qualified under Section 6 of Article II of this constitution, voting on the question.*

The foregoing limitations shall not apply to taxes imposed for the payment of principal and interest on bonds approved by the electors or other evidences of indebtedness approved by the electors or for the payment of assessments or contract obligations in anticipation of which bonds are issued approved by the electors, which taxes may be imposed without limitation as to rate or amount; or, *subject to the provisions of Section 25 through 34 of this article, to taxes imposed for any other purpose by any city, village, charter county, charter township, charter authority or other authority, the tax limitations of which are provided by charter or by general law.*

In any school district which extends into two or more counties, property taxes at the highest rate available in the county which contains the greatest part of the area of the district may be imposed and collected for school purposes throughout the district.

§ 8

Sales and use taxes.

Sec. 8.

Except as provided in this section, the Legislature shall not impose a sales tax on retailers at a rate of more than 4% of their gross taxable sales of tangible personal property.

Beginning May 1, 1994, the sales tax shall be imposed on retailers at an additional rate of 2% of their gross taxable sales of tangible personal property not exempt by law and the use tax at an additional rate of 2%. The proceeds of the sales and use taxes imposed at the additional rate of 2% shall be deposited in the state school aid fund established in section 11 of this article. The allocation of sales tax revenue required or authorized by sections 9 and 10 of this article does not apply to the revenue from the sales tax imposed at the additional rate of 2%.

No sales tax or use tax shall be charged or collected from and after January 1, 1975 on the sale or use of prescription drugs for human use, or on the sale or use of food for human consumption except in the case of prepared food intended for immediate consumption as defined by law. This provision shall not apply to alcoholic beverages

§ **25**

Voter approval of increased local taxes; prohibitions; emergency conditions; repayment

of bonded indebtedness guaranteed; implementation of section.

Sec. 25.

Property taxes and other local taxes and state taxation and spending may not be increased above the limitations specified herein without direct voter approval. The state is prohibited from requiring any new or expanded activities by local governments without full state financing, from reducing the proportion of state spending in the form of aid to local governments, or from shifting the tax burden to local government. A provision for emergency conditions is established and the repayment of voter approved bonded indebtedness is guaranteed. Implementation of this section is specified in Sections 26 through 34, inclusive, of this Article.

§ **26**

Limitation on taxes; revenue limit; refunding or transferring excess revenues;

exceptions to revenue limitation; adjustment of state revenue and spending limits.

Sec. 26.

There is hereby established a limit on the total amount of taxes which may be imposed by the legislature in any fiscal year on the taxpayers of this state. This limit shall not be changed without approval of the majority of the qualified electors voting thereon, as provided for in Article 12 of the constitution. Effective with fiscal year 1979-1980, and for each fiscal year thereafter, the legislature shall not impose taxes of any kind which, together with all other revenues of the state, federal aid excluded, exceed the revenue limit established in this section....

§ 31

Levying tax or increasing rate of existing tax; maximum tax rate on new base; increase

in assessed valuation of property; exceptions to limitations.

Sec. 31.

Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon. If the definition of the base of an existing tax is broadened, the maximum authorized rate of taxation on the new base in each unit of Local Government shall be reduced to yield the same estimated gross revenue as on the prior base. If the assessed valuation of property as finally equalized, excluding the value of new construction and improvements, increases by a larger percentage than the increase in the General Price Level from the previous year, the maximum authorized rate applied thereto in each unit of Local Government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the General Price Level, as could have been collected at the existing authorized rate on the prior assessed value.

The limitations of this section shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments on contract obligations in anticipation of which bonds are issued which were authorized prior to the effective date of this amendment.

Notes on other sections

IX section 10 allocates 15% of taxes imposed on retailers on taxable sales at a rate of not more than 4% to revenue sharing with local governments. IX section 11 allocates revenue from sales taxes of up to 4%, and sales and use taxes at the additional rate of 2%, to the state school aid fund.

IX section 34 defines "Local Government" to include authorities created by the state or by other local governments.

Appendix B. Fiscal and Economic Analysis Methodology

In this section, we compare our estimates of the fiscal impacts of Proposal 14-1 to estimates of other government agencies. We also outline the steps we took for a variety of analyses that we present in the preceding report. These include the following estimates:

- The projected change in PPT revenues over time due to Proposal 14-1;
- The static fiscal impact of Proposal 14-1;
- The economic impacts of Proposal 14-1; and
- The dynamic fiscal impact Proposal 14-1.

COMPARISON OF ESTIMATES OF RELATED PROPOSALS

In Table B-1 on page B-2, we compare our estimates of the fiscal effects of Proposal 14-1 to those of related proposals that were performed by government agencies. These related proposals do not exactly correspond to the proposals that would either go into effect or remain in effect if Proposal 14-1 passes. Therefore, it is reasonable to expect that there would be differences between our estimates and those we present for comparison. However, given the similarities between these proposals, we expect that our estimates would be of a similar order of magnitude as the comparison estimates.

We did not make adjustments to any comparison estimates; thus, any number in the Table B-1 on page B-2 can be found in the corresponding source document, unless noted otherwise. If a cell in the table is blank, we were unable to find a corresponding estimate in the analysis source. For more detailed tables of our estimates, see Table B-2 on page B-9 and Table B-3 on page B-11.

TABLE B-1. Comparison of Fiscal Impact Estimates, Various Related Proposals (millions)

	FY 2014			FY 2016			FY 2020		
	AEG Prop. 14-1[a]	HFA 2014 bills[b]	SFA 2012 laws[c]	AEG Prop. 14-1	HFA 2014 bills	SFA 2012 laws	AEG Prop. 14-1	HFA 2014 bills	SFA 2012 laws
Local Personal Property Tax Relief									
Small Business PPT Exemption	$76.5	no est.	no est.	$76.5	no est.	no est.	$76.5	no est.	no est.
Eligible Manufacturing PPT Exemption	n/a	$9.9	no est.	$131.4	$127.2	no est.	$374.3	$496.4	no est.
Total Local Personal Property Tax Relief	**$76.5**		**$75.0[d]**	**$207.9**		**$469.7[e]**	**$450.8**		
State Fiscal Impact									
State Education Tax[f]	$(10.1)	no est.	no est.	$(13.7)	no est.	no est.	$(20.4)	no est.	no est.
SESA and Alternate SESA	n/a	n/a	n/a	$26.8	$20.0	n/a	$79.2	$91.2	n/a
Use Tax to LCSA	n/a	n/a	n/a	$(96.1)	$(76.9)	$(41.7)	$(465.9)	$(465.9)	no est.
Debt Millage Reimbursement[g]	n/a	n/a	$(3.2)	$(11.1)	$(38.5)[h]	n/a	n/a	n/a	n/a
Net State Fiscal Impact[i]	**$(10.1)**	**no est.**	**no est.**	**$(94.1)**	**no est.**	**no est.**	**$(407.1)**	**no est.**	**no est.**

"no est." = No estimate in source analysis
"n/a" = Not applicable to set of laws or to year of analysis

Sources: AEG estimates based on data from Michigan Department of Treasury, Senate Fiscal Agency, House Fiscal Agency, Bureau of Economic Analysis, U.S. Census, Bureau of Labor Statistics; House Fiscal Agency; Senate Fiscal Agency
Analysis: Anderson Economic Group, LLC

a. These estimates can be found in the body of the report on Table 5 on page 20, or in this appendix on Table B-2 on page B-9 and Table B-3 on page B-11. The 2014 estimates are for calendar year, and both 2016 and 2020 estimates are for fiscal year,

b. Mark Wolf, Jim Stansell, and Adam Desrosiers, "A Summary of Senate Bills 821-830 as Reported from the House Tax Policy Committee," House Fiscal Agency, March 2014.
This analyzed bills eventually passed in amended form as Public Acts 80 and 81 of 2014 and Public Acts 86 to 93 of 2014. See Table 4 on page 16 for details on relevant public acts.

c. David Zin, "Personal Property Tax Reform Legislation," Senate Fiscal Agency, State Notes, 2013.
This analyzed Public Acts 397 to 403 of 2012, Public Act 404 of 2012, and Public Acts 406 to 408 of 2012 as passed. See Table 4 on page 16 for details on relevant public acts.

d. Estimate is for calendar year 2014.

e. Estimate is for calendar year 2016. AEG's estimate for the fiscal year is shown in the table; AEG's estimate for the same calendar year is $339.3 million

f. Both comparison analyses assessed the net fiscal impact on the General Fund, whereas the AEG analysis assesses the net fiscal impact on the state budget as a whole. The comparison analyses include an aggregate estimate of the losses from the State Education Tax and transfers from the General Fund to the School Aid Fund for local school mill operating losses.

g. Under the 2012 package of bills the legislature was required to reimburse local governments for debt loss in FY 2014 and FY 2015, while the 2014 package of bills pushed back the debt loss appropriations to FY 2015 and FY 2016.

h. This estimate was not explicitly disclosed in the source fiscal impact analysis. It was calculated based on the narrative of the report and the estimates disclosed in Table 2 of the report.

i. Both comparison analyses assessed only net fiscal impact on the State General Fund, whereas the AEG analysis assesses the net fiscal impact on the state budget as a whole.

CHANGE IN PPT REVENUES

To estimate projected PPT revenues under the proposed reforms, we first assumed a baseline where the amount of PPT revenue remains essentially unchanged over the next 10 years. We estimated the baseline to be the average of commercial and industrial personal property during calendar years 2008, 2010, and 2012.

For commercial personal property, we subtracted 18% of the revenues starting in 2014. This reflects our assumption that 18% of taxable value for commercial personal property is on parcels which will qualify for the $80,000 cash value exemption.[28] For industrial personal property, we subtracted 1% of the revenues starting in 2014 for the same reason.

The phase-out of eligible manufacturing personal property occurs by exempting all industrial personal property that is at least ten years old, starting in the year 2016. All new property, purchased in 2013 or later, is also exempted in that year. In 2016, then, the only eligible manufacturing personal property subject to taxation will be that which has been in use for at least four but less than ten years. Similarly, in 2017, the eligible manufacturing property subject to tax will be that which has been in use for at least *five* but less than ten years. We assume that all industrial personal property and 22% of commercial personal property will be eligible manufacturing property, in line with Treasury estimates.

To determine this amount, we consider the *half-life* of the value of personal property. That is, accounting for replacement and depreciation of remaining property, how long it is before the value of remaining property acquired in a certain year has been reduced by half. Considering all of the personal property put into use in the year 2000, for example, the half-life would tell us in which year the taxable value of property in use is half the taxable value of property that was purchased in the year 2000. Using Treasury figures as a reference, available depreciation tables, and our professional judgment, we determined six years to be a reasonable half-life. Once this half-life is defined, it is straightforward to estimate the share of taxable value of personal property in the state that was purchased during a given year.

STATIC FISCAL IMPACT

In order to measure the static fiscal impact of Proposal 14-1, we utilized our estimates for current distribution of revenues from industrial and commercial personal property to various entities (the School Aid Fund, school operating costs, school debt, and non-school local governments). These estimates were

28. The Michigan Department of Treasury had once estimated that approximately 18% of taxable value for commercial property was on parcels which would have qualified for the $40,000 taxable value exemption under PA 403 of 2012. We assumed that the taxable value of personal property that would qualify for the $80,000 cash value exemption under PA 153 of 2013, which is part of the Proposal 14-1 reforms, also comprised about 18% of the taxable value of commercial property.

based on Senate Fiscal Agency (SFA) estimates from 2010.[29] In addition, we used our estimates for the change in these revenues over time, as outlined in the previous section, "Change in PPT Revenues." This allowed us to determine the amount of lost revenue for various local and state entities due to changes in the PPT.

To account for changes in the distribution of the use tax, we used the local community stabilization share tax levy requirements that are outlined in PA 80 of 2014. Proposal 14-1 mandates that the local community stabilization share tax generate $96.1 million in revenue in fiscal year 2015-16, which increases gradually to $572.6 million in fiscal year 2027-28. This levy requirement equates to use tax revenue that would otherwise go to the State General Fund if Proposal 14-1 does not pass.

Revenues from the State Essential Services Assessment

To estimate revenues from the new state essential services assessment (SESA) and alternative state essential services assessment (alternative SESA), we began with our estimates for the amount of industrial personal property that is exempted from the personal property tax in 2016 and each year thereafter. We then used the average millage rate for industrial personal property in calendar year 2012 (26.5 mills) to estimate the taxable value that corresponds to these estimated foregone tax levies.[30]

The millage and taxable value base we used includes both industrial personal property subject to local ad valorem taxes and personal property that has been abated and subject to the industrial facilities tax. Implicit in our use of this combined tax base and millage rate is the assumption that, going forward, the same share of industrial property that is now subject to the industrial facilities tax and other forms of abatement will be subject to the alternative SESA and other forms of abatement.

The SESA and the alternative SESA will fall on the acquisition cost, rather than taxable value, of personal property. Using depreciation tables from state tax forms, we estimated the average decrease in taxable value of personal property as it ages due to depreciation. We then divided the estimated decrease in taxable value overall by the decrease in taxable value due to depreciation in order to arrive at an estimated decrease in taxable value due to the retirement of personal property (e.g. disposing of it). For example, we estimated that after 10 years,

29. David Zin, "The State and Local Impact of Property Taxes Levied on Michigan Personal Property (Revised)," Senate Fiscal Agency, Issue Paper, September 2011.

30. We estimated average millage rate by dividing the tax levy on industrial personal property in calendar year 2012 (from the Michigan Treasury) by the taxable value of industrial personal property, according to the FY 2013 Michigan Taxable Value Report from the Michigan Treasury.

about a quarter of personal property remains, in terms of taxable value. We also estimated that, due to depreciation alone, any personal property that is still around when it is ten years old would only retain about 31% of its taxable value, on average. Therefore, the amount of personal property that is not disposed of after ten years would be an estimated 25% over 31%, or 81%.

Using these ratios, we were able to estimate the acquisition cost of industrial personal property exempted from the personal property tax in each year, by the approximate age of personal property. We then simply applied the proper millage rates to these amounts: 2.4 mills to items zero to five years old; 1.25 mills to items six to ten years old; and 0.9 mills to items over ten years old. This same operation was performed to our estimates of the exempted taxable value of personal property for each year from 2016 to 2025.

Compliance Costs

To estimate the impact of Proposal 14-1 on compliance costs, we assumed that only businesses that are subject to the exemption on $80,000 in cash value would experience substantial reductions in compliance costs. We assumed that the SESA and the alternative SESA would continue to impose a comparable compliance burden for businesses that would be subject to the manufacturing personal property tax exemptions.

Previous research by Anderson Economic Group revealed that compliance costs for personal property tax often exceed the revenue collected, especially for small businesses.[31] The compliance burden for small businesses ranged from 140% to over 350% of the tax levy. We used a conservative estimate and assumed that the businesses that would qualify for the exemption on $80,000 in cash value incur a compliance cost equal to 100% of its personal property tax levy. We used an assumption lower than the range reported in our 1999 research in order to take into account the adoption of automated accounting software and changes in depreciation schedules.

To estimate the number of businesses that would benefit from the small business exemption, we assumed that the average cash value of personal property of these businesses is about $60,000. We calculated an average millage rate for commercial property. Using the tax levy savings, the average cash value, and average millage rate, we estimated the number of businesses. From this estimate, and the estimated compliance cost savings, we calculated average savings per business.

31. Patrick L. Anderson, “The Personal Property Tax in Michigan? Abolish or Reform,” Anderson Economic Group, LLC, 1999.

To estimate the compliance costs for governments, we assumed that compliance costs were about 3% of the tax levy. In the research to which we refer above, we found that governments incur compliance costs of about 5% of the personal property tax levy. Again, we used a conservative estimate to account for changes since 1999.

COMPLIANCE COSTS AND DYNAMIC EFFECTS

As summarized in Table 7 on page 24 and further described below, we considered both the tax burden and compliance cost savings in our economic analysis. However, our treatment of compliance costs is conservative because we assumed that such cost savings are similar in proportion to the size of the tax reductions as in the research upon which we have based our dynamic effects model. In fact, the relative compliance cost reduction from proposal 14-1's passage would be larger than for many other business tax reductions, as noted in "Michigan Business Tax Climate and Personal Property Tax" on page 9.

DYNAMIC ECONOMIC IMPACT

There were two main sources of direct economic impact due to these reforms: the aggregate tax savings by businesses (and business owners) due to Proposal 14-1, and the aggregate additional personal income for individuals due to additional employment. (There are also compliance cost savings, which are discussed above.)

Dynamic Effect for Businesses

In the past, Anderson Economic Group has investigated the impact that state and local taxes have on business investment and other types of economic activity. This economic research has found the following to be a conservative estimate of the impact of state taxes on business investment in the state: for every 10% decrease in business tax burden, there is approximately a 1.5% to 3.5% increase in business activity.[32] This range of elasticities provided the basis for our calculations of the worst-case and best-case scenarios for each economic effect.

We used estimates from our annual State Business Tax Burden study as a baseline for the aggregate business tax burden in Michigan.[33] We used this and our

32. The report in which we describe this research is proprietary, and draws upon an array of research on business activity, tax burdens, and economic growth. As observed elsewhere in this report, the incentive and signalling effects of tax policy changes depend heavily on the actual changes in costs to businesses and investors, as well as the credibility employers assign to commitments to maintain future policies. Furthermore, national economic conditions, policy changes in other states, and broad societal conditions (such as immigration and technology) also affect relative growth of states.

Some such research on tax policy changes and economic growth is described in Patrick L. Anderson & Caroline Sallee, *Benchmarking for Success: A Comparison of State Business Taxes,* Michigan House of Representatives, August 2006.

estimates of the tax savings to calculate the percent reduction in business tax burden for each year. We multiplied this by the elasticities noted above to arrive at an estimate of the proportional increase in private fixed investment and business consumption. For example, when the Proposal 14-1 reforms are fully phased in, we calculated that there would be a long-term increase of 0.48% to 1.11% in consumption and fixed investment by businesses.

We then multiplied our estimates of the proportional change in economic activity by baseline estimates for private fixed investment and business consumption in Michigan. We used national accounts from the Bureau of Economic Analysis and scaled them down to approximate the amount in Michigan. We multiplied the proportional changes outlined above by our baseline figures in order to arrive at our respective estimates for the impact of the Proposal 14-1 reforms on private fixed investment and business consumption.

The increase in business investments will result in more employment in the state of Michigan. Recent trends suggest that employment growth occurs at about a quarter of the rate of growth in business fixed investment. This is based on a regression of growth in private fixed investment against growth in private employment using Bureau of Economic Analysis data from 2003 to 2013. The regression has a slope of 0.226. After multiplying this figure by the elasticities identified above, we expect that for every 10% decrease in business tax burden, there is approximately a 0.3% to 0.8% increase in business activity. For example, using our estimates for the tax relief when Proposal 14-1 is fully phased in, we calculated that long-term employment would increase by 0.11% to 0.25%. We then multiplied these proportional changes to a baseline measure of private non-farm employment to arrive at our jobs impact. We used data from the Bureau of Economic Analysis, which includes sole proprietors, for this baseline.

We phased in each of the effects over 10 years starting in 2014. For 2024 and each year afterwards, we applied the long-term effects due to Proposal 14-1.

Dynamic Effects for Individuals

The primary change in after-tax income would be due to greater employment, as outlined above. We assumed an average income of $44,540 for each additional job, which is the current average wage among private industry in Michigan, according to the Bureau of Labor Statistics. We assumed a very modest nominal growth rate of 2% in this average wage for future years. (This is in line with recent trends, where wage growth in Michigan has been stagnant, in real terms.)

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33. Our 2014 business tax burden measure will be released in August 2014. Our 2013 report can be found at <http://www.andersoneconomicgroup.com>.

Alex Rosaen and Jason Horwitz, “2013 State Business Tax Burden Rankings,” Anderson Economic Group, May 2013.

DYNAMIC FISCAL IMPACT

We estimated the fiscal impact of increased business consumption and increased personal income on state and local governments.

Based on our estimates, approximately 13.9% of business consumption in the state is taxable by the sales or use taxes (purchases of health care, rent, and financial and business services are exempt from the sales tax). We estimated the fiscal impact of increased consumption as 6% (the state sales tax rate) times 13.9% of the additional consumption by businesses due to Proposal 14-1.

Previous research by Anderson Economic Group has revealed that for every $100 increase in personal income in the state, state and local governments get about $10.80 in additional tax revenue, through all forms of taxes. We assumed in our analysis that changes to individual income will result in 10.8% additional revenue for state and local governments.

Table B-2. Estimated Direct Fiscal Impact of Proposal 14-1 on State and Local Government

(millions, parentheses reflect a decrease in revenues)

FISCAL YEAR	2014 (a)	2015	2016	2017	2018	2019	2020	2021
STATE GOVERNMENT								
Industrial Facilities Tax (state)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
State Education Tax	$ (10.1)	$ (10.1)	$ (13.7)	$ (17.9)	$ (18.8)	$ (19.7)	$ (20.4)	$ (21.1)
SESA and Alternate SESA	$ -	$ -	$ 26.8	$ 58.1	$ 67.1	$ 74.1	$ 79.2	$ 84.1
TOTAL PPT REFORM	**$ (10.1)**	**$ (10.1)**	**$ 13.1**	**$ 40.3**	**$ 48.3**	**$ 54.5**	**$ 58.8**	**$ 63.0**
Reallocation of Use Tax to LCSA	$ -	$ -	$ (96.1)	$ (380.6)	$ (410.5)	$ (437.7)	$ (465.9)	$ (491.5)
Debt Millage Reimbursement	$ -	$ (10.6)	$ (11.1)	$ -	$ -	$ -	$ -	$ -
NET FISCAL IMPACT (STATE)	**$ (10.1)**	**$ (20.7)**	**$ (94.1)**	**$ (340.3)**	**$ (362.2)**	**$ (383.2)**	**$ (407.1)**	**$ (428.5)**
LOCAL GOVERNMENTS								
School Operating	$ (22.2)	$ (22.2)	$ (46.0)	$ (73.2)	$ (79.5)	$ (85.1)	$ (90.1)	$ (94.5)
School Debt	$ (9.0)	$ (9.0)	$ (24.8)	$ (42.9)	$ (47.1)	$ (50.8)	$ (54.1)	$ (57.1)
Non-School Local Governments	$ (34.4)	$ (34.4)	$ (99.2)	$ (173.0)	$ (190.2)	$ (205.4)	$ (219.0)	$ (231.1)
Industrial Facilities Tax (local)	$ (0.8)	$ (0.8)	$ (24.1)	$ (50.7)	$ (56.8)	$ (62.3)	$ (67.2)	$ (71.5)
TOTAL PPT REFORM	**$ (66.3)**	**$ (66.3)**	**$ (194.1)**	**$ (339.8)**	**$ (373.5)**	**$ (403.6)**	**$ (430.4)**	**$ (454.2)**
Reallocation of Use Tax to LCSA	$ -	$ -	$ 96.1	$ 380.6	$ 410.5	$ 437.7	$ 465.9	$ 491.5
State Appropriations for Debt Loss	$ -	$ 10.6	$ 11.1	$ -	$ -	$ -	$ -	$ -
NET FISCAL IMPACT (LOCAL)	**$ (66.3)**	**$ (55.7)**	**$ (87.0)**	**$ 40.8**	**$ 37.0**	**$ 34.1**	**$ 35.5**	**$ 37.3**
Net Change in Compliance Costs	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3
NET FISCAL IMPACT (STATE + LOCAL)	**$ (74.2)**	**$ (74.2)**	**$ (178.8)**	**$ (297.2)**	**$ (322.9)**	**$ (346.8)**	**$ (369.3)**	**$ (389.0)**

Source: AEG Estimates based on data from Senate Fiscal Agency, House Fiscal Agency, Michigan Department of Treasury

Analysis: Anderson Economic Group, LLC

Note: This analysis does not account for increased revenues that we expect due to increased business activity under these reforms.

(a) *Estimates are for calendar year 2014, which includes a portion of FY 2014 and a portion of FY 2015.*

Table B-2. Estimated Direct Fiscal Impact of Proposal 14-1 on State and Local Government

(millions, parentheses reflect a decrease in revenues)

FISCAL YEAR	2022	2023	2024	2025	2026	2027	2028
STATE GOVERNMENT							
Industrial Facilities Tax (state)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
State Education Tax	$ (21.7)	$ (22.2)	$ (22.5)	$ (22.5)	$ (22.5)	$ (22.5)	$ (22.5)
SESA and Alternate SESA	$ 88.8	$ 93.3	$ 95.5	$ 95.5	$ 95.5	$ 95.5	$ 95.5
TOTAL PPT REFORM	**$ 67.1**	**$ 71.0**	**$ 73.0**	**$ 73.0**	**$ 73.0**	**$ 73.0**	**$ 73.0**
Reallocation of Use Tax to LCSA	$ (521.3)	$ (548.0)	$ (561.7)	$ (569.8)	$ (571.4)	$ (572.2)	$ (572.6)
Debt Millage Reimbursement	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NET FISCAL IMPACT (STATE)	**$ (454.2)**	**$ (477.0)**	**$ (488.7)**	**$ (496.8)**	**$ (498.4)**	**$ (499.2)**	**$ (499.6)**
LOCAL GOVERNMENTS							
School Operating	$ (98.5)	$ (102.0)	$ (103.7)	$ (103.7)	$ (103.7)	$ (103.7)	$ (103.7)
School Debt	$ (59.7)	$ (62.1)	$ (63.2)	$ (63.2)	$ (63.2)	$ (63.2)	$ (63.2)
Non-School Local Governments	$ (241.9)	$ (251.5)	$ (256.0)	$ (256.0)	$ (256.0)	$ (256.0)	$ (256.0)
Industrial Facilities Tax (local)	$ (75.4)	$ (78.9)	$ (80.5)	$ (80.5)	$ (80.5)	$ (80.5)	$ (80.5)
TOTAL PPT REFORM	**$ (475.5)**	**$ (494.5)**	**$ (503.4)**	**$ (503.4)**	**$ (503.4)**	**$ (503.4)**	**$ (503.4)**
Reallocation of Use Tax to LCSA	$ 521.3	$ 548.0	$ 561.7	$ 569.8	$ 571.4	$ 572.2	$ 572.6
State Appropriations for Debt Loss	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NET FISCAL IMPACT (LOCAL)	**$ 45.8**	**$ 53.5**	**$ 58.3**	**$ 66.4**	**$ 68.0**	**$ 68.8**	**$ 69.2**
Net Change in Compliance Costs	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3	$ 2.3
NET FISCAL IMPACT (STATE + LOCAL)	**$ (406.1)**	**$ (421.1)**	**$ (428.1)**	**$ (428.1)**	**$ (428.1)**	**$ (428.1)**	**$ (428.1)**

Source: AEG Estimates based on data from Senate Fiscal Agency, House Fiscal Agency, Michigan Department of Treasury

Analysis: Anderson Economic Group, LLC

Note: This analysis does not account for increased revenues that we expect due to increased business activity under these reforms.

[a] *Estimates are for calendar year 2014, which includes a portion of FY 2014 and a portion of FY 2015.*

Table B-3. Estimated Direct Impact of Proposal 14-1 on Business Costs

(millions, parentheses reflect a decrease in costs for businesses)

FISCAL YEAR	2014 (a)	2015	2016	2017	2018	2019	2020	2021
Exemption on <\$80,000 Cash Value	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)
Exemption on Commercial R&D	$ -	$ -	$ (26.0)	$ (55.7)	$ (62.6)	$ (68.7)	$ (74.1)	$ (79.0)
Exemption on Industrial Personal Property	$ -	$ -	$ (105.4)	$ (225.5)	$ (253.3)	$ (278.1)	$ (300.2)	$ (319.9)
SESA and Alternate SESA	$ -	$ -	$ 26.8	$ 58.1	$ 67.1	$ 74.1	$ 79.2	$ 84.1
NET TAX IMPACT	**$ (76.5)**	**$ (76.5)**	**$ (181.0)**	**$ (299.5)**	**$ (325.2)**	**$ (349.1)**	**$ (371.6)**	**$ (391.3)**
Reallocation of Use Tax to LCSA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Change in Compliance Costs	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)
TOTAL IMPACT ON BUSINESSES	**$ (152.9)**	**$ (152.9)**	**$ (257.5)**	**$ (376.0)**	**$ (401.7)**	**$ (425.6)**	**$ (448.1)**	**$ (467.7)**

Source: AEG Estimates based on data from Senate Fiscal Agency, House Fiscal Agency, Michigan Department of Treasury

Analysis: Anderson Economic Group, LLC

Note: This analysis does not account for increased revenues that we expect due to increased business activity under these reforms.

(a) *Estimates are for calendar year 2014, which includes a portion of FY 2014 and a portion of FY 2015.*

Table B-3. Estimated Direct Impact of Proposal 14-1 on Business Costs

(millions, parentheses reflect a decrease in costs for businesses)

FISCAL YEAR	2021	2022	2023	2024	2025	2026	2027	2028
Exemption on <$80,000 Cash Value	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)
Exemption on Commercial R&D	$ (79.0)	$ (83.3)	$ (87.2)	$ (89.0)	$ (89.0)	$ (89.0)	$ (89.0)	$ (89.0)
Exemption on Industrial Personal Property	$ (319.9)	$ (337.4)	$ (353.0)	$ (360.4)	$ (360.4)	$ (360.4)	$ (360.4)	$ (360.4)
SESA and Alternate SESA	$ 84.1	$ 88.8	$ 93.3	$ 95.5	$ 95.5	$ 95.5	$ 95.5	$ 95.5
NET TAX IMPACT	**$ (391.3)**	**$ (408.4)**	**$ (423.4)**	**$ (430.4)**	**$ (430.4)**	**$ (430.4)**	**$ (430.4)**	**$ (430.4)**
Reallocation of Use Tax to LCSA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Change in Compliance Costs	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)	$ (76.5)
TOTAL IMPACT ON BUSINESSES	**$ (467.7)**	**$ (484.9)**	**$ (499.9)**	**$ (506.9)**	**$ (506.9)**	**$ (506.9)**	**$ (506.9)**	**$ (506.9)**

Source: AEG Estimates based on data from Senate Fiscal Agency, House Fiscal Agency, Michigan Department of Treasury

Analysis: Anderson Economic Group, LLC

Note: This analysis does not account for increased revenues that we expect due to increased business activity under these reforms.

(a) *Estimates are for calendar year 2014, which includes a portion of FY 2014 and a portion of FY 2015.*

Appendix C. About Anderson Economic Group

ANDERSON ECONOMIC GROUP

Anderson Economic Group, LLC was founded in 1996 and today has offices in East Lansing, Michigan and Chicago, Illinois. AEG is a research and consulting firm that specializes in economics, public policy, financial valuation, and market research. AEG's past clients include:

- *Governments* such as the states of Michigan, North Carolina, and Wisconsin; the cities of Detroit, Cincinnati, Norfolk, and Fort Wayne; counties such as Oakland County, Michigan, and Collier County, Florida; and authorities such as the Detroit-Wayne County Port Authority.
- *Corporations* such as GM, Ford, Delphi, Honda, Taubman Centers, The Detroit Lions, PG&E Generating; SBC, Gambrinus, Labatt USA, and InBev USA; Spartan Stores, Nestle, automobile dealers and dealership groups representing Toyota, Honda, Chrysler, Mercedes-Benz, and other brands.
- *Nonprofit organizations* such as Michigan State University, Wayne State University, University of Michigan, Van Andel Institute, the Michigan Manufacturers Association, United Ways of Michigan, Service Employees International Union, Automation Alley, the Michigan Chamber of Commerce, and Detroit Renaissance.

Please visit www.AndersonEconomicGroup.com for more information.

AUTHORS

Patrick L. Anderson

Mr. Anderson founded Anderson Economic Group in 1996, and serves as a Principal and Chief Executive Officer in the company.

Mr. Anderson has written over 100 published works, including the just-released *Economics of Business Valuation* from Stanford University Press. Three of his articles, "Pocketbook Issues and the Presidency," "The Value of Private Businesses in the United States," "Policy Uncertainty and Persistent Unemployment" have each been awarded for outstanding writing from the National Association of Business Economics. Mr. Anderson's views on the economy are often cited by national news media including *The Wall Street Journal, New York Times, National Public Radio,* and *Fox Business News.*

Mr. Anderson has taken a leading role in several major public policy initiatives in his home state. He was the author of the 1992 Term Limit Amendment to the Constitution of the State of Michigan, and also the author of the 2006 initiated law that repealed the state's 4-decade-old Single Business Tax. His firm's work resulted in a wage increase for Home Help workers in 2006, the creation of a Michigan EITC in 2008, and the repeal of the item pricing law in 2011. Before founding Anderson Economic Group, Mr. Anderson was the deputy budget director for the State of Michigan under Governor John Engler, and Chief of Staff for the Michigan Department of State.

Mr. Anderson is a graduate of the University of Michigan, where he earned a Master of Public Policy degree and a Bachelor of Arts degree in political science. He is a member of the National Association for Business Economics and the National Association of Forensic Economists. The Michigan Chamber of Commerce awarded Mr. Anderson its 2006 Leadership Michigan Distinguished Alumni award for his civic and professional accomplishments.

Alexander L. Rosaen

Mr. Rosaen is a Senior Consultant at Anderson Economic Group, and the Director of Public Policy and Economic Analysis. Mr. Rosaen's background is in applied economics and public finance.

Mr. Rosaen's recent work includes several economic and fiscal impact analyses, including of proposed real estate developments, power plants, and infrastructure projects; analysis of tax incentives; an analysis of the impact of federal tax incentives on the freight rail industry; and an analysis of the economic contribution that research universities make in the State of Michigan.

Mr. Rosaen holds a Masters in Public Policy from the Gerald R. Ford School of Public Policy at the University of Michigan. He also has a Masters of Science and a Bachelors of Science in mechanical engineering from the University of Michigan.

Jason Horwitz

Mr. Horwitz is a Consultant at Anderson Economic Group, working in the Public Policy and Economic Analysis practice area. Mr. Horwitz' work includes research and analyses for a range of AEG clients representing both the public and private sectors.

Mr. Horwitz's recent work includes an assessment of the effects of personal property tax reform in Michigan, an assessment of the effects of proposed reforms to state pension and retiree health care systems, analyses of the fiscal condition and tax policies of Michigan's state and local governments, and a review of tax incentive programs administered by the states of Michigan and Kentucky, respectively.

Prior to joining AEG, Mr. Horwitz was the Coordinator of Distribution for the Community Center of St. Bernard near New Orleans, where he oversaw the distribution of donated food, clothes, and household supplies to low-income residents of St. Bernard Parish and New Orleans' Lower Ninth Ward.

Mr. Horwitz holds a Master of Public Policy from the Harris School of Public Policy at the University of Chicago and a Bachelor of Arts in Physics and Philosophy from Swarthmore College.

CONTRIBUTORS

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Ms. Taylor is a Senior Analyst with Anderson Economic Group, working in the Public Policy and Economic Analysis practice area.

Prior to joining AEG, Ms. Taylor was a graduate assistant at Michigan State University, where her research focused on local governments facing fiscal stress. She has also worked as a chemical engineer for Motiva Enterprises, LLC in Norco, Louisiana and volunteered as an AmeriCorps VISTA for HandsOn New Orleans.

Ms. Taylor is working on her M.S. in Agricultural, Food, and Resource Economics and has earned a B.S. in Chemical Engineering, both from Michigan State University.

Marissa Perry

Ms. Perry is a Research Associate at Anderson Economic Group, working in the Public Policy and Economic Analysis practice area.

Prior to joining Anderson Economic Group, Ms. Perry conducted research in Freiburg, Germany on a Fulbright scholarship. Her project examined the successes and shortcomings of the post-World War II trials that extended attempts of achieving justice beyond what was accomplished at Nuremberg. Ms. Perry also served as an intern for U.S. Senator Carl Levin.

Ms. Perry is a graduate of Michigan State University, James Madison College. She holds a Bachelor of Arts in international relations and German.

PAST REPORTS ON PERSONAL PROPERTY TAX AND THE MICHIGAN BUSINESS CLIMATE

The personal property tax has been the subject of Anderson Economic Group analyses several times in previous years, including 1999, 2005, 2006, 2011, and 2012. We also include the PPT in our annual business tax burdens analysis, in which we rank all 50 states.

- Patrick L. Anderson, "The Personal Property Tax in Michigan? Abolish or Reform," 1999.
- Patrick L. Anderson and Ilhan K. Geckil, "The Tax Burdens of Michigan's Single Business Tax," 2005.
- Alex L. Rosaen, Jason Horwitz, and Greg Chojnacki, "The Michigan Personal Property Tax: Effects of Repeal on Michigan's Economy and Tax Revenues," November 2011.

- Jason Horwitz and Alex Rosaen, “Personal Property Tax Reform in Michigan: The Fiscal and Economic Impact of SB 1065-SB 1072,” April 2012.

A significant effort to reform the Personal Property Tax began in late 2011. Around that time, Anderson Economic Group was commissioned by the Michigan Manufacturers Association to analyze the eight-bill package that was before the Senate in April 2012. We estimated the economic and fiscal impact of that Personal Property Tax reform package, in combination with the corporate income tax (CIT) that went into effect at the beginning of that year (2012). AEG found that the reforms proposed in the 2012 bills would increase investment by up to $450 million and employment by up to 15,000. The bills we analyzed were amended before their passage in 2012; were amended again by public acts enacted in 2013; and finally amended again in 2014 by the public act that created Proposal 14-1. Given the changes in the Michigan economy and the differences in the legislation, the effects of Proposal 14-1 are different than those published for the bills in 2012.