State Treasurer Comments

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State Treasurer

House Appropriations Committee
And House Tax Policy Committee
March 25, 2009

Federal Tax Impact of Stimulus on Michigan Individuals

Federal Tax Impact on Michigan Individuals				
Provision	**FY 2009**	**FY 2010**	**FY 2011**	**Total**
Making Work Pay Credit	-$646.8	-$2,149.3	-$980.4	-$3,776.5
Expanded EITC	$0.0	-$71.0	-$79.0	-$150.0
Refundable Child Tax Credit	$0.0	-$239.6	-$234.9	-$474.6
American Opportunity Tax Credit	$0.0	-$232.7	-$212.3	-$445.0
Extension of first-time homebuyer credit	-$16.7	-$114.6	$7.1	-$107.5
Excluding $2,400 of unemployment benefits	$0.0	-$189.6	$0.0	-$189.6
Deduction for sales tax on auto purchases	$0.0	-$55.0	$0.0	-$55.0
Temporary fix for Alternative Minimum Tax	$0.0	-$1,695.5	$300.3	-$1,395.2
Impact on individuals	-$663.5	-$4,747.3	-$1,199.3	-$6,593.4

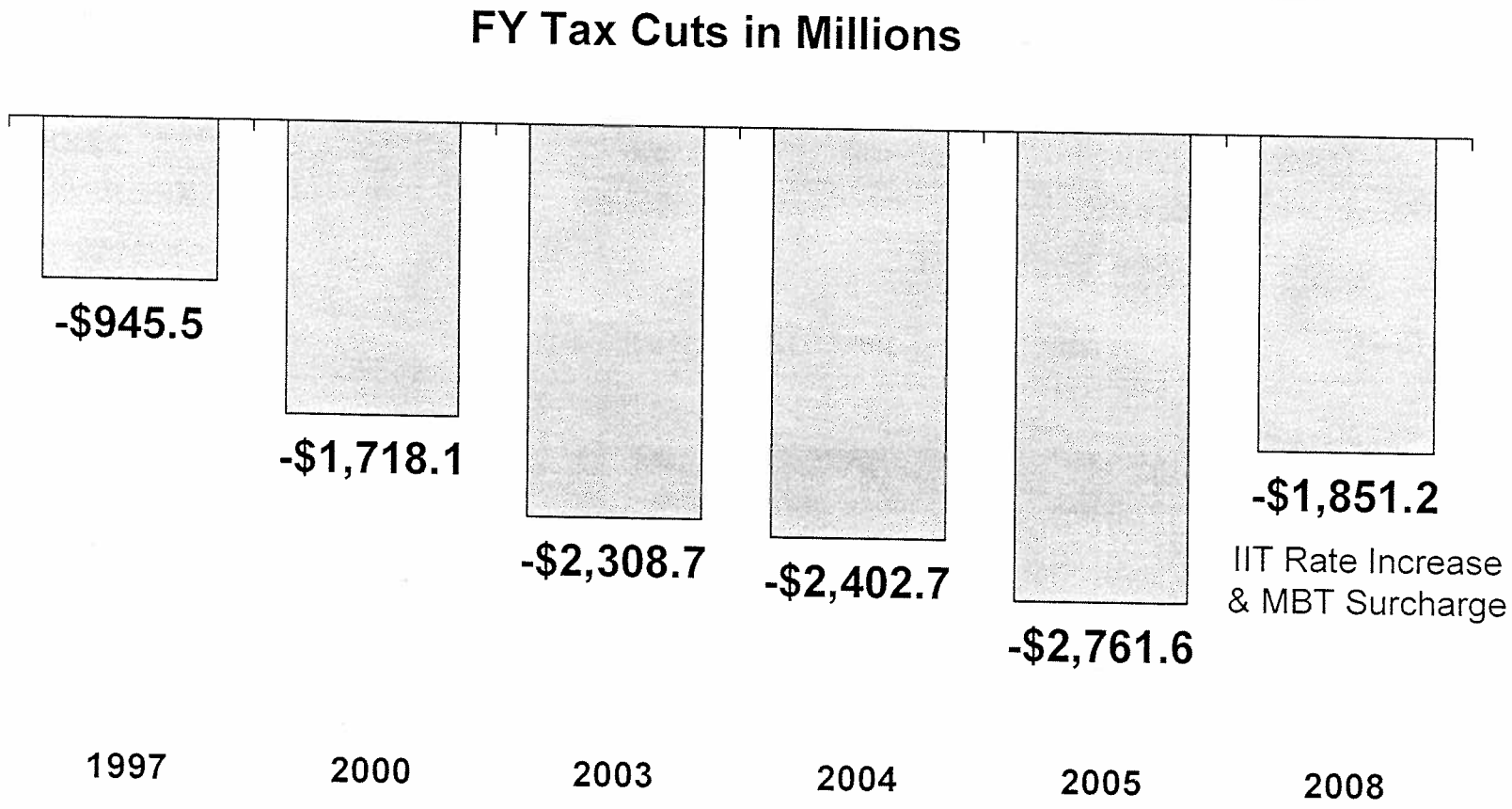
Federal Tax Impact of Stimulus on Michigan Businesses

Federal Tax Impact on Michigan Businesses				
Provision	**FY 2009**	**FY 2010**	**FY 2011**	**Total**
Bonus depreciation	-$705.0	-$456.0	$240.0	-$921.0
Increase in expensing limitation	-$19.3	-$12.8	$10.6	-$21.5
5-year carryback of NOLs	-$142.2	$21.2	$22.6	-$98.4
Deferral of income arising from business indebtedness discharged by reacquisition	-$100.9	-$190.0	-$62.3	-$353.3
Subtotal for businesses	-$967.4	-$637.5	$210.8	-$1,394.1

Impact of Federal Stimulus on Michigan Tax Revenue

Impact on Michigan Tax Revenues				
Provision	**FY 2009**	**FY 2010**	**FY 2011**	**Total**
Expansion of federal EITC	$0.0	-$14.2	-$15.8	-$30.0
Bonus depreciation	-$1.5	-$4.5	$1.0	-$5.0
Section 179 expensing	-$1.6	-$4.8	$1.1	-$5.3
Additional unemployment benefits	$24.9	$49.9	$8.3	$83.2
Exclusion of unemployment from gross income	-$20.0	-$24.0	$0.0	-$44.0
5-year carryback of NOLs	-$25.0	$4.0	$4.0	-$17.0
Deferral of income arising from business indebtedness discharged by reacquisition	-$20.2	-$38.0	-$12.5	-$70.7
Revenue Impact of Major Provisions	-$43.3	-$31.6	-$13.9	-$88.8

Michigan Cut Taxes Significantly from 1995 to 2005



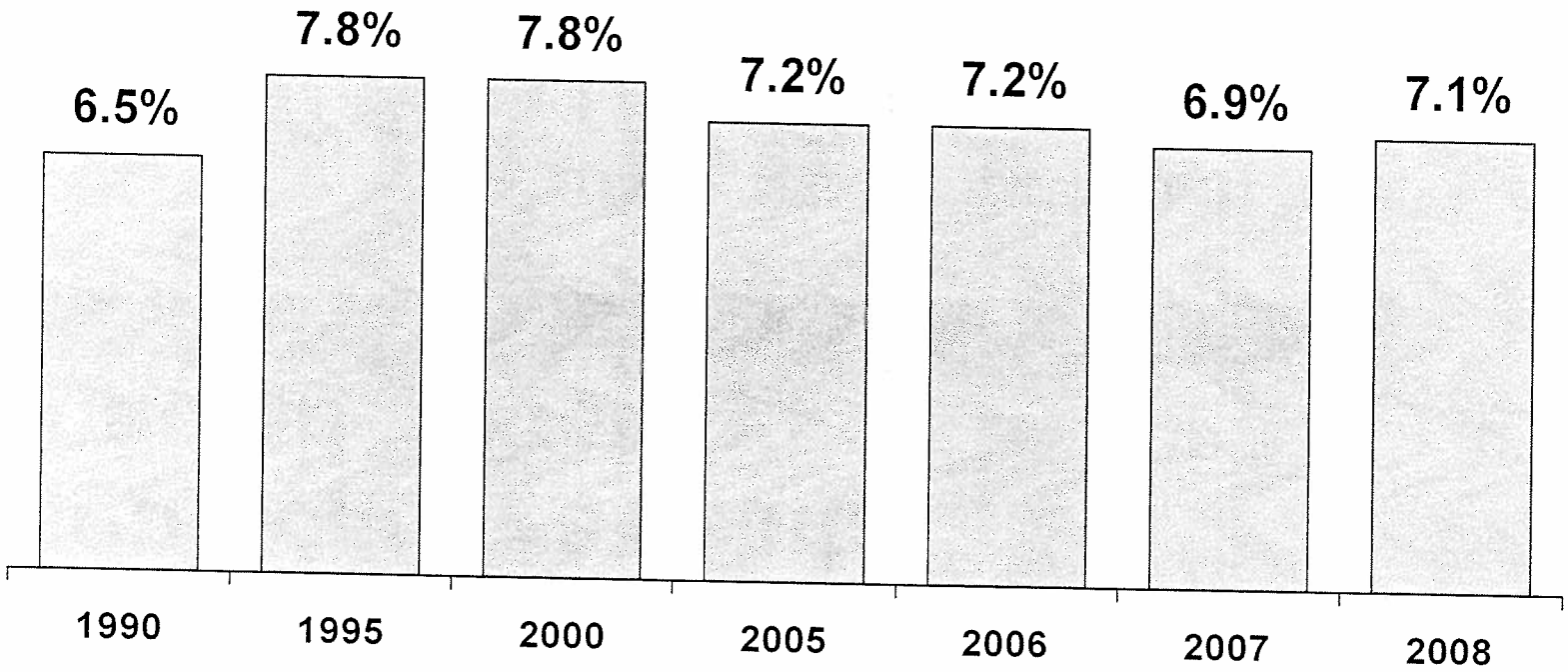
Source: Michigan Department of Treasury; does not include Proposal A property tax cut.

Significant Tax Cuts Enacted Recently

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Reducing Michigan IIT Rate	$0.0	$0.0	$0.0	($176.5)	($391.9)	($625.8)
Alternative Energy Credits IIT	($16.0)	($46.0)	($55.3)	($42.0)	$0.0	$0.0
Michigan EITC	($140.0)	($315.0)	($333.9)	($353.9)	($375.2)	($397.7)
Eliminating MBT Surcharge	Eliminated in Tax Year 2017 ($715 million)					
MBT Battery Credits(1)	$0.0	$0.0	$0.0	($40.0)	($108.0)	($103.0)
MBT Film Credits & Infrastructure(2)	($107.5)	($160.0)	($160.0)	($160.0)	($160.0)	($160.0)
Polycrystalline Manufacturing Credit	$0.0	$0.0	$0.0	$0.0	($25.0)	($25.0)
MEGA Legislative Changes	NA	NA	NA	NA	NA	NA
MBT Gross Receipt Changes	($115.8)	($80.5)	($93.4)	($117.8)	($129.9)	($132.7)
Decouple from depr/prod activities	$172.5	$23.4	$19.2	$45.3	$52.3	$60.0
Historic preservation credits	$0.0	$0.0	($5.0)	($8.6)	($9.6)	($10.6)
Use Tax Bad Debt Deduction Change	$0.0	($25.5)	($16.6)	($17.1)	($17.7)	($18.4)
Exempt supplies for Cobo Center	$0.0	$0.0	($2.5)	($2.5)	($3.5)	($1.5)
Totals	($206.8)	($603.6)	($647.5)	($873.1)	($1,168.5)	($1,414.7)

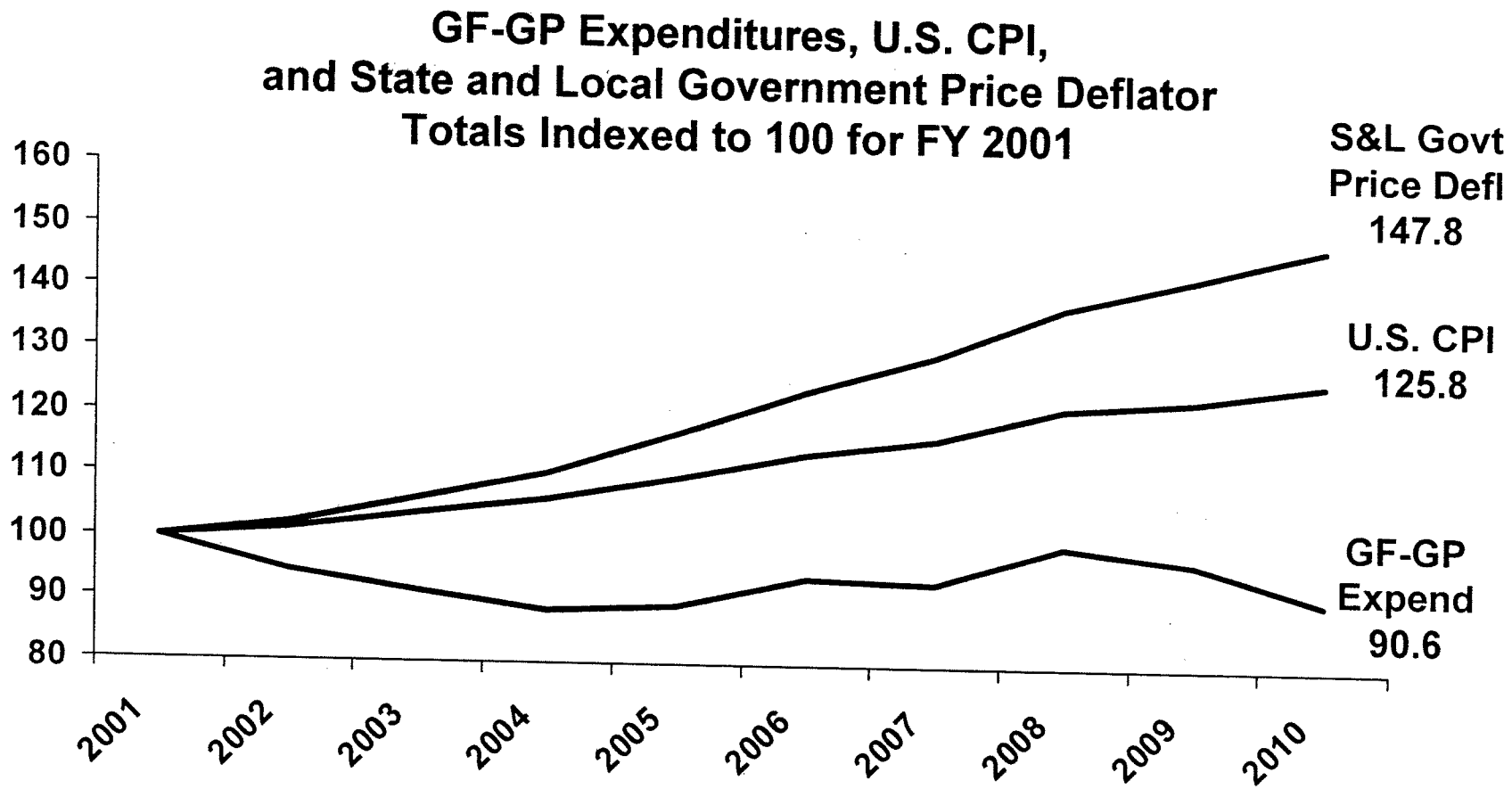
Michigan State Tax Burden

FY State Taxes as a % of Personal Income
Decline from 2000 to 2008 Represents over $2 billion

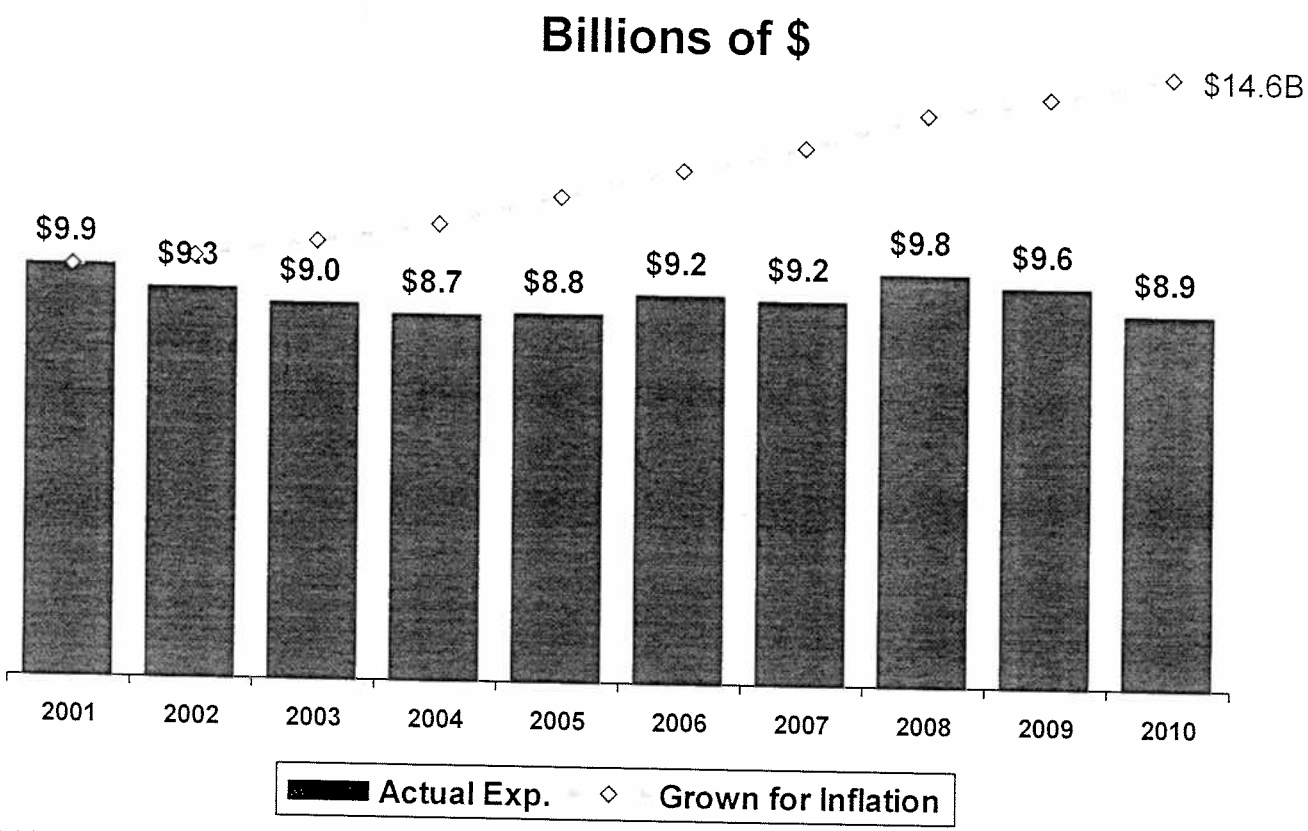


Source: US Department of Commerce

GF-GP Expenditure Growth Well Below Inflation



Actual GF Expenditure Growth Well Below Inflation



Notes: FY 2010 GF expenditure amount is the Governor's rec. Inflation adjusting done using The State and Local Government Price Deflator.

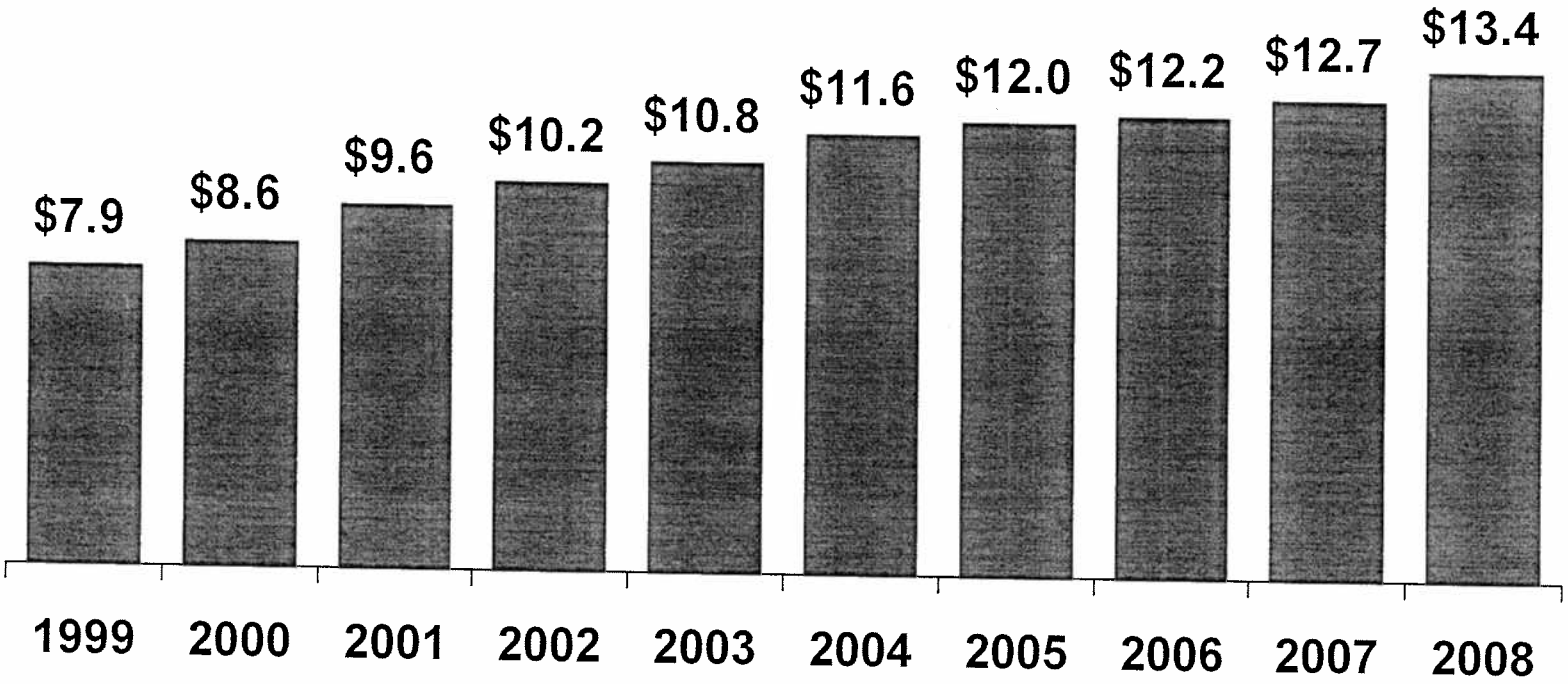
Michigan Expenditure Growth Lowest Among States

	GF Growth 2001 to 2007	GF-Growth Rank	Total Expnd. Growth 2001 to 2007	Total Expnd. Growth Rank
Illinois	18%	42	23%	45
Indiana	20%	40	28%	41
Michigan	**-7%**	**50**	**12%**	**50**
Ohio	12%	46	26%	44
Wisconsin	18%	43	22%	47
Missouri	3%	49	26%	42
U.S. Avg.	33%		40%	

Source: NASBO State Expenditure Surveys 2001 & 2007

Importance of Federal Aid Growing

Federal Aid Totaled $13.4 Billion in FY 2008
Up 70 Percent over the Past 10 Years



State Government is Smaller

Fiscal Year	Governor	Number State Employees	Non-Corrections State Employees	Corrections Employees
1973	Milliken	52,673	50,316	2,357
1978	Milliken	64,456	59,990	4,466
1989	Blanchard	64,560	52,038	12,522
2000	Engler	61,493	43,841	17,652
2008	Granholm	50,799	34,855	15,944
% Change 1978-2008		-21%	-42%	257%
% Change 2000-2008		-17%	-20%	-10%

Source: Department of Civil Service State Workforce Reports

Government Not Large Compared to Other States

State	State and Local Govt. Employees Per 10,000 of Population	Rank
Ohio	541	28
Minnesota	525	38
Indiana	531	33
Wisconsin	531	34
Illinois	499	42
Michigan	**489**	**45**
U.S. Average	537	

Source: CQ's State Fact Finder 2007

State Workforce

- 55% of the State workforce has a college degree compared with 27% of the private sector workforce.
- State employees with Master's degrees make an average of 38% less than equivalent private sector employees; State employees with a Bachelor's degree make an average of 28% less than private sector employees.
- Michigan is one of only 2 states to offer a DC retirement plan to new employees (since 1996).
- In FY 2009, the State employee share of healthcare premiums doubled from 5% to 10%.
- State employees are scheduled to receive no raise in FY 2009, a 1% raise in FY 2010, and a 3% raise in FY 2011.
- The Governor's FY 2010 Budget Recommendation calls for $50 million in state employee concessions and anticipates as many as 1,500 layoffs by the end of 2010.

Recent Tax Growth Has Been Weak

	FY 2008	FY 2009 YTD	Jan Cons. FY 2009	Jan Cons. FY 2010
Sales Tax	3.4%	-8.6%	-4.2%	0.2%
Use Tax	-0.3%	-6.2%	-3.1%	-1.2%
IIT Withholding	10.4%	-2.3%	-3.9%	-1.3%
Real Estate Transfer	-28.5%	-40.0%	-15.0%	-2.5%

Notes: YTD growth rates are for Nov to Feb. Sales and use tax growth rates for 09 YTD have been adjusted for the timing of payment dates. Use tax growth rates have been adjusted for a large refund paid in Dec.