Tim Anderson

Tax policy quickly emerged as a high-priority issue this year in many of the Midwest’s states, with a mix of proposed tax hikes and cuts making their way into governors’ State of the State addresses and proposed budgets, as well as some of the first bills introduced in legislatures.

On the first session day of the new year in Michigan, for example, a bill was filed to cut and eventually get rid of the state’s income tax. Under HB 4001, the state’s flat rate of 4.25 would fall to 3.9 percent in 2018. Then, in every subsequent year, the rate would decline one-tenth of 1 percent until reaching zero.

Nebraska Gov. Pete Ricketts is calling for reductions in his state’s income tax as well, but his legislative proposal takes a different approach: Tie those cuts to increases in state revenue collections. If our revenue doesn’t grow fast enough, the tax rate doesn’t come down,” Ricketts said in his State of the State address. He believes this approach would shield Nebraska from some of the budget problems seen in other states after taxes got cut before spending was reduced.

Under Ricketts’ plan (introduced as LB 337), starting in 2020, the top tax rate in Nebraska’s graduated income tax system would fall one-tenth of 1 percent every year in which projected state revenue growth exceeds 3.5 percent. The current top rate is 6.84 percent, and it would keep being cut until falling below 6 percent.

Ohio Gov. John Kasich, on the other hand, wants a tax swap: Cut income tax rates and make up the difference with revenue increases from other sources.

“’The governor believes that it is generally preferable to tax consumption rather than income, because taxing consumption provides greater incentives for saving and investment,’’ Tim Keen, Ohio’s budget director, told a legislative committee few days after the January release of Kasich’s plan.

If the legislature agrees, Ohio’s sales tax rate would increase from 5.75 percent to 6.25 percent. In addition, more services (from cable television and cosmetic procedures, to interior and landscape design) would be subject to the sales tax. In exchange, income tax rates would fall in all of the state’s income brackets, the “equivalence to a 17 percent rate cut for all taxpayers,” Keen said.

Proposals would raise excise taxes

Kasich’s plan also calls for higher oil and gas severance taxes and alcohol and tobacco taxes. Ohio’s cigarette tax, for example, would increase from $1.60 per pack to $2.25. Kansas Gov. Sam Brownback is proposing a steeper hike: $1.29 per pack to $2.29. He also wants to double Kansas’ tax on drinks sold by stores and distributors, from 8 percent to 16 percent.

In Indiana, meanwhile, one of the biggest policy questions facing lawmakers is whether to raise transportation-related taxes and fees in order to better fund the state’s roads and bridges. Indiana currently levies a tax of 18 cents per gallon of gasoline sold; HB 1002 calls for an immediate 10-cent increase as well as an indexing of all of the state’s motor-fuel tax rates to a formula based on changes in inflation and personal income growth.

As part of this legislation, too, Indiana would gradually move all revenue from the state’s sales tax on gasoline into the highway fund (a portion of it now goes to the general fund). HB 1002 also calls for increases in vehicle registration fees.

“The bill’s purpose is to provide a sustainable infrastructure funding plan without creating debt for the next generation,” says Indiana Rep. Ed Soliday, chair of the House Roads and Transportation Committee, noting that the
state has estimated that it needs an additional $24 billion in road and bridge funding over the next 20 years.

Similar concerns about long-term road-funding shortfalls have led legislatures in Iowa, Michigan, Nebraska and South Dakota to raise taxes on motor fuels in recent years.

‘Grand bargain’ in Illinois?

In Illinois, much of the talk in the state capital during the month of January was about a so-called “grand bargain”: an attempt by a bipartisan group of leaders in the state Senate to reach an elusive budget agreement. The state has been operating without a full budget since July 1, 2015, (many programs and services have instead been funded by temporary spending bills or court orders), and in his State of the State address, Gov. Bruce Rauner noted that the state has “more than $11 billion in unpaid bills.”

According to the Peoria Journal Star, the “grand bargain” was likely to include an increase in the income tax, an expansion of the sales tax to include services, and a tax on employers based on the size of their payrolls.

By:
Tuesday, February 28, 2017 at 04:55 PM

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