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Editorial: Business tax hike would hurt

Detroit has too many other negatives to add a counterproductive tax increase on business

THE DETROIT NEWS

Perhaps the most disappointing aspect of Detroit Mayor Dave Bing's address on the city's dire fiscal plight this week was his call for an increase in taxes on corporations within the city. Grasping for higher taxes is, as the spin doctors say, bad optics. It just looks bad and sends the wrong message.

What the tax hike tells prospective investors is that if Detroit hits a bump in the road, it will come knocking on their door for more money if they set up shop in Detroit.

The money the city hopes to raise from the increase in the city's corporate income tax rate is about $5 million. But the city could lose significantly more in lost opportunities because of those bad optics. Yes, the city can offer very nice deals to win a new business, but eventually, those deals run out and a business is no longer new. It then is vulnerable to this type of ploy.

The tax hike also tells investors that the city is incapable of making tough fiscal decisions without adding to business costs. City administrations have known for decades that Detroit's municipal cost structure — particularly in terms of such benefits as pensions and retiree health care coverage — is unsustainable.

Businesses, looking at the city's long refusal to bring its own costs under control, cannot be happy at the prospect of being asked to pay more in taxes with the risk that they might be asked to pay yet more in the future.

Detroit's schools are in crisis. Only about one in eight of its residents have a college degree. Close to half of its residents have difficulty with complex reading material. And it is still notorious for its homicide rate. The mayor himself spoke this week of the poor services available to city residents.

All of these add costs to businesses that aren't captured in rates of taxation. And despite these drawbacks, Detroit is still a relatively expensive place in which to do business. According to one business location firm, BizCosts.com, it would be more expensive — in terms of annual operating costs — to locate a hypothetical corporate headquarters in Detroit than in such comparable cities as Cleveland, Milwaukee, St. Louis or Pittsburgh.

Using 2008 figures analyzed by KPMG, the Windsor-Essex Economic Development Corp. website contends that would it would be less expensive to locate a hypothetical manufacturing firm in the Windsor area, Toronto, or Chicago than in Detroit.

These figures are, no doubt, subject to dispute. But the key is that Detroit's many other problems make increasing its business cost burden counterproductive.

The tax hike suggestion also contradicts the message Gov. Rick Snyder and state lawmakers are attempting to send with their revision and reduction of the state's business tax. Sandy K. Baruah, president of the Detroit Regional Chamber, said he much preferred Snyder's approach, and that a tax hike would make business attraction harder, but the chamber is willing to work with Bing on the tax hike "if that's what it takes." The problem, however, is that unless there's radical change, tax hikes will *always*be what it takes. David Littmann, a retired Detroit bank economist now consulting with the Mackinac Center, was more blunt. He called the tax hike proposal "the same old stuff. There's just no discipline on spending."

Littmann is right. The city just can't afford to raise taxes on private-sector job providers unless it wants to see its tax base shrink even more.
