

# KAROUB

ASSOCIATES

## KAROUB REPORT

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### Governor Whitmer Delivers Final State of the State: Building a Michigan for All

On Feb. 25, Governor Gretchen Whitmer delivered her eighth and final State of the State address before a joint session of the Michigan Legislature.

In a speech that balanced reflection on seven years of progress with a forward-looking agenda, the term-limited governor outlined three core priorities for 2026: literacy, housing, and health care affordability. With an eye toward national economic headwinds and Washington policy uncertainty, the Governor urged lawmakers from both parties to remain focused on the kitchen-table issues that matter most to Michigan families.

#### Improving Literacy

The Governor opened her policy agenda with a frank assessment of Michigan's reading performance, noting that the state ranks 44th nationally in fourth-grade reading.

She described illiteracy as a challenge that compounds over time—affecting students' confidence, engagement, and long-term economic prospects. She highlighted a persistent gender gap, with boys falling behind girls in reading at every grade level. Her 2026 literacy push calls for continued investment in evidence-based reading instruction, early intervention programs, and after-school programming. Her plans build on prior budget commitments for free PreK and universal school meals.

#### Expanding Housing Access

With affordability a growing concern for young residents and working families alike, the Governor called for an accelerated push to build more housing across Michigan. She pledged to align state resources under the Michigan State Housing Development Authority to improve efficiency and reduce red tape hampering new construction.

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Notably, the Governor also highlighted bipartisan momentum on housing reform, pointing to conversations with Republican legislators on zoning changes and land division reform as proof that progress is achievable across the aisle. Her vision centers on making Michigan's cities and towns more vibrant, affordable, and safe—and giving first-time homebuyers a genuine path to ownership.

### **Protecting Health Care Access & Affordability**

Health care took center stage as Whitmer shared her priorities amid federal policy uncertainty. With roughly 2.5 million Michiganders enrolled in Medicaid, she warned that proposed federal cuts could devastate coverage and destabilize rural and underserved hospitals.

Her FY2026-27 executive budget recommendation includes a significant investment to stabilize Medicaid funding regardless of what happens in Washington.

She also announced plans to help residents reduce medical debt and called on Congress to restore Affordable Care Act subsidies that have lapsed, leaving many families facing sharply higher premiums for the same coverage they previously held.

### **Seven Years of Progress**

The Governor used her final address to highlight the arc of her administration's accomplishments. She cited a record 1,575 bipartisan bills signed into law, seven consecutive balanced and bipartisan budgets, a \$1 billion tax cut for seniors and working families, free school meals for all students, free community college, and the elimination of state taxes on retirement income, tips, overtime, and Social Security.

On infrastructure, she pointed to record-level road repairs, the replacement of more lead pipes than ever before in state history, and the construction of thousands of new homes. Notably, she highlighted that for the first time since the early 1990s, more people moved into Michigan than left—a sign, she argued, of restored confidence in the state's future.



### **Economic Context & Federal Uncertainty**

Whitmer struck a candid tone on the economy, acknowledging that while wages and GDP are up, many middle-class families still struggle to get ahead. She noted that tariffs cost Michigan families an average of \$1,000 last year, while businesses of all sizes face elevated costs and significant uncertainty.

She referenced last year's record U.S. manufacturing trade deficit and expressed hope that recent judicial action would pressure Congress toward a more strategic trade policy. Throughout, she framed Michigan's bipartisan, results-oriented approach as a deliberate counter to national political division—urging Michiganders to stay focused on tangible progress.

### **Budget & Legislative Outlook**

The Governor opened the address with a direct appeal to legislative leaders to deliver a final balanced, bipartisan budget on time by June 30. She acknowledged the divided government dynamic—with both a split legislature and a charged national environment—but expressed willingness to work with any partner willing to focus on Michiganders' needs.

With the Legislature expected to present formal FY2026-27 budget proposals in the coming months, the priorities outlined in the State of the State will serve as the Governor's negotiating foundation for her final budget cycle.

# Michigan Tax Proposals: A Field Guide

Michigan's 2026 fiscal and political calendar has produced an unusually crowded tax landscape. In the span of just a few weeks, the state has seen Governor Whitmer propose roughly \$780 million in new revenue measures to help stabilize Medicaid funding, House Speaker Matt Hall float what he describes as the most sweeping property tax and service tax restructuring proposal in modern Michigan history, and a citizen-led ballot initiative begin gathering support to place a 5% income surtax on high earners before voters in November.

Each proposal is driven by a different political logic, targets different taxpayers, and faces a different path to enactment. What they share is that they are all live and consequential as of early March 2026.

## Governor Whitmer's Medicaid Revenue Package

As part of her FY2027 executive budget recommendation submitted February 11, 2026, Governor Whitmer proposed a package of revenue measures expected to generate approximately \$780 million annually to help stabilize Medicaid funding.

The administration has cited potential reductions in federal Medicaid support under various federal budget proposals as a key concern driving the search for new state revenue sources. House Republican leadership declared the package a nonstarter shortly after its release.

## Digital Advertising Services Tax

- New 4.7% excise tax on digital advertising revenues attributable to Michigan users
- Estimated Revenue: \$282 million annually
- Introduced as: HB 4142 (also proposed in previous budget cycles)
- Proposed in executive budget; opposed by House Republicans and business groups

This proposal would make Michigan one of a small number of states attempting to tax digital advertising revenues.

Maryland enacted the first such tax in 2021, though it has been the subject of ongoing litigation in both state and federal courts.

Proponents argue large technology platforms generate significant advertising revenue from Michigan users without paying proportional state taxes. Opponents—including the Mackinac Center for Public Policy and several business organizations—argue the tax would raise advertising costs for small businesses, create constitutional challenges related to interstate commerce, and potentially harm the state's economic competitiveness.

Because Maryland's law remains tied up in litigation, Michigan's proposal would likely face similar legal scrutiny if enacted.

## Tobacco Tax Increase

- Increase Michigan's cigarette excise tax by \$1.00 per pack (from \$2.00 to \$3.00)
- Estimated Revenue: \$232 million annually
- Proposed in executive budget; has drawn mixed bipartisan reactions

Michigan currently levies a \$2.00-per-pack cigarette excise tax. Increasing the rate to \$3.00 would move Michigan closer to several neighboring Great Lakes states, many of which have higher tobacco tax rates.

Public health organizations generally support tobacco tax increases as both revenue tools and health interventions. The Michigan Council for Maternal & Child Health has noted that tobacco-related illness contributes significantly to Medicaid costs.

Some legislators from both parties have historically been open to tobacco tax increases, though House leadership has expressed opposition to broader tax increases this cycle.

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### Vaping and Nicotine Product Tax

- 57% wholesale tax on vaping products and nicotine pouches
- Estimated Revenue: \$95 million annually (including roughly \$21 million for youth prevention programs)
- Proposed in the executive budget; a similar proposal was offered in prior budget cycles

Michigan currently does not impose a dedicated excise tax on vaping products or nicotine pouches, though these products are subject to the state's general sales tax. The proposal would create a new wholesale excise tax on these products, with a portion of revenue directed toward youth prevention and mental health initiatives.

Supporters frame the tax as closing a policy gap and discouraging youth nicotine use, while industry groups representing vape retailers and manufacturers have opposed the measure.

### Online Casino Gaming Tax Increase

- Increase the tax rate on internet casino gaming revenue above \$185 million
- Estimated Revenue: \$136 million annually
- Proposed in the executive budget, the gaming industry has raised concerns

Michigan launched legal internet gaming in 2021 and has since grown into one of the largest iGaming markets in the United States, alongside states such as New Jersey and Pennsylvania.

The Governor's proposal would increase the tax rate applied to revenue above the existing threshold. Gaming operators have cautioned that significant tax increases could affect Michigan's competitiveness relative to other regulated markets.

### Sports Betting Tax Changes

- New per-wager fee on sports bets placed through online platforms
- Structure: \$0.25 per wager for the first 20 million bets annually; \$0.50 per wager above that threshold

- Estimated Revenue: \$39 million annually
- Additional Change: Eliminate promotional bet deduction (~\$21 million)
- Proposed in the executive budget

These two sports betting measures—a per-wager fee and elimination of promotional bet deductions—would affect major sports betting platforms operating in Michigan, including DraftKings, FanDuel, and BetMGM.

Several states have recently moved to limit promotional bet deductions, making this aspect of the proposal part of a broader national trend in gaming taxation.

### **Speaker Hall's Tax Restructuring Plan**

House Speaker Matt Hall (R-Richland Township) unveiled what he described as “the biggest tax reform in Michigan history” in a series of announcements between February 19 and February 25, 2026.

The framework proposed by Hall's office combines major property tax reductions—estimated at roughly \$5 billion—with a new sales tax on certain discretionary services expected to generate approximately \$4.7 billion, producing a projected net tax reduction of roughly \$275 million.

Full legislative language and a comprehensive list of affected services have not yet been released.

### Sales Tax on Discretionary Services

- Extend Michigan's 6% sales tax to selected discretionary services
- Estimated Revenue: ~\$4.73 billion annually
- Revenue Use: Offset property tax reductions
- Proposal announced; details pending

Hall argues Michigan's tax structure has not kept pace with the economy's shift toward service-based activity.

Expanding the sales tax base to selected discretionary services could capture revenue from sectors that currently fall outside the tax system.

*continued on page five*

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Examples of services discussed publicly by proponents include certain luxury recreation activities, tourism services, and other discretionary consumer expenditures. Essential services such as health care and child care would remain exempt under the concept framework.

Business organizations, including the Michigan Chamber of Commerce, have expressed concerns about the potential for business-to-business taxation and “tax pyramiding,” while Senate Democrats have responded cautiously to the proposal.

Michigan briefly enacted a services tax in 2007, but it was repealed almost immediately following strong public and business opposition.

#### Companion Property Tax Changes

- Repeal the 6-mill State Education Tax
- Real estate transfer tax repeal
- Elimination of remaining business personal property taxes
- Changes to the taxable value “uncapping” rules on home sales
- Utility rate reductions tied to tax relief

These provisions represent the property-tax-reduction side of Hall's restructuring proposal. His office estimates that eliminating the State Education Tax alone could save the average homeowner roughly \$900 per year.

Because many local governments and school districts depend on property tax revenue, Hall has indicated the plan would include mechanisms to hold those entities harmless. The details of how replacement revenue would be distributed depend heavily on the success of the proposed services tax.

#### **The “Invest in MI Kids” Ballot Initiative**

Operating on a separate track from the legislative debate is a citizen-initiated constitutional amendment known as “Invest in MI Kids.”

The proposal would impose a 5% surcharge on taxable income above \$500,000 for single filers and \$1 million for joint filers, in addition to Michigan's existing 4.25% flat income tax rate.

- Citizen-initiated constitutional amendment
- Signature Requirement: 446,198 valid signatures by July 6, 2026
- Estimated Revenue: \$1.5–\$1.7 billion annually
- Destination of Revenue: Michigan School Aid Fund
- Estimated Affected Filers: Roughly 2% of Michigan taxpayers (campaign estimate)
- Status: Signature validation underway

Supporters include several education advocacy organizations and labor groups. The campaign reports submitting roughly 700,000 signatures to account for invalid or duplicate entries during the verification process.

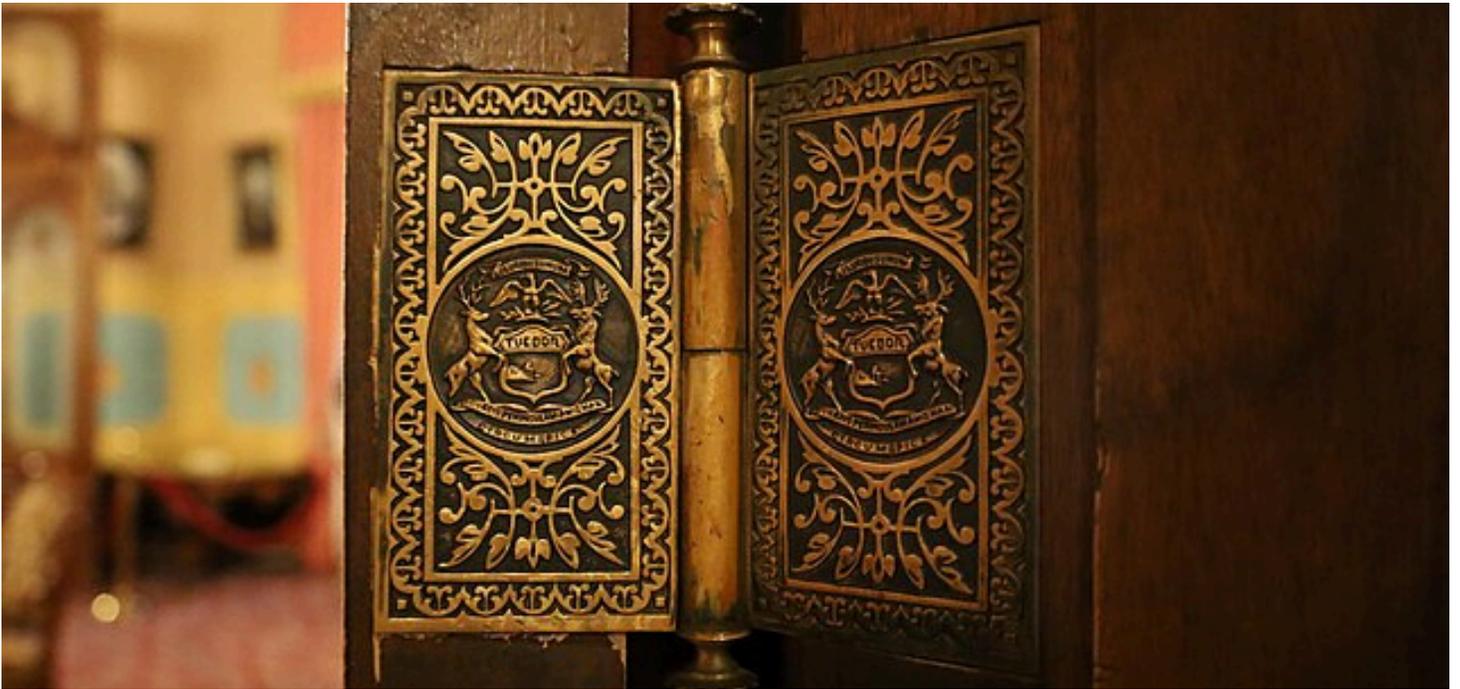
Opponents—including the Michigan Chamber of Commerce, the Small Business Association of Michigan, and national tax policy organizations—argue the surtax could affect pass-through business income for many small and mid-sized firms.

If enacted, the resulting top marginal rate would be 9.25%, placing Michigan among the higher top marginal income tax rates in the Midwest.

#### **Political Dynamics**

The complexity of Michigan's 2026 tax debate stems from the fact that the state's three major political actors—the Governor's office, House Republicans, and Senate Democrats—have competing priorities and limited alignment on revenue policy.

House Republicans have strongly opposed new taxes included in the Governor's budget. Senate Democrats have expressed skepticism toward the scale and structure of Hall's proposed services tax. Meanwhile, the Invest in MI Kids ballot initiative could reshape the conversation entirely if it qualifies for the November ballot.



## Michigan's Periodic Constitutional Convention Question Returns to the Ballot

Every 16 years, Michigan voters are asked a deceptively simple question: Should the state hold a constitutional convention? In November 2026, that question will appear again on the statewide ballot, reviving a debate that touches the foundations of Michigan government—how laws are made, how power is distributed, and whether the state's governing document still reflects the needs of the moment.

The requirement is written directly into Michigan's current constitution. Under Article XII, voters must periodically be asked whether they want to convene a convention to revise or replace the constitution. If a majority votes yes, delegates are elected the following year, who then gather to draft proposed changes. Any revisions they produce do not automatically take effect; the final document must still be approved by voters in a statewide referendum.

Michigan's current constitution dates to 1963, when voters approved the state's fourth constitution after a convention convened in Lansing two years earlier. That convention modernized state government by restructuring the executive branch, strengthening the governor's administrative authority, and reorganizing the judiciary.

The constitution has been amended dozens of times since then through ballot proposals, but the core framework established in the early 1960s remains largely intact.

The upcoming vote is not the first time Michigan voters have faced the question. In 1978, 1994, and 2010, voters were asked whether to hold a constitutional convention and declined each time. The 2010 vote was the most recent test, coming amid frustration over state finances and political gridlock during the recession. Even then, voters rejected the idea by a wide margin, with concerns about cost, uncertainty, and potential unintended consequences playing a major role.

Still, the question often resurfaces during periods of political tension or structural debate about how the state operates. Advocates for a convention argue that Michigan's constitution has grown increasingly complex after decades of amendments layered onto the original document. They say a convention could allow the state to reconsider issues ranging from tax structure and education funding to the balance of authority between the Legislature and the executive branch.

*continued on page seven*

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Others see the convention mechanism as an opportunity to revisit structural questions that rarely gain traction through ordinary legislation. Discussions sometimes include changes to legislative term limits, adjustments to the initiative and referendum process, or clarifying the roles of state and local governments. Supporters argue that only a convention offers the flexibility to address multiple structural issues at once.

Opponents of a convention tend to focus on the risks of opening the constitution to sweeping changes. Once convened, delegates would have broad authority to propose revisions across virtually any part of the document. Critics argue that such a process could create uncertainty for public institutions, businesses, and taxpayers while the convention deliberates. They also note that the existing amendment process already allows voters to make targeted changes without reopening the entire constitution.

Cost is another frequently cited concern. A constitutional convention requires the election of delegates, months of deliberations, and administrative support. While exact estimates vary depending on the scope of the convention, the process would likely cost tens of millions of dollars. Supporters counter that the price is modest compared to the potential long-term benefits of modernizing state governance.

For now, the issue remains largely procedural rather than partisan. Because the vote simply asks whether to hold a convention, political coalitions often form around the idea of institutional reform rather than traditional party alignments. Historically, support has come from a mix of civic groups, legal scholars, and reform advocates, while opposition has tended to unite a wide range of interests wary of unpredictable constitutional changes.

The timing of the 2026 vote also adds another layer of political intrigue. Michigan will already be in the middle of a major election cycle, with the entire House of Representatives and the entire Senate on the ballot. The constitutional convention question could become part of a broader conversation about the future direction of state government.

Even if voters approve a convention, the process would unfold gradually. Delegates would first be elected—typically from existing legislative districts—and would then meet to debate potential changes. Only after a draft constitution is completed would voters see the final product, deciding in a second statewide vote whether to accept or reject it.

For most voters, the constitutional convention question appears only once or twice in a lifetime. Yet the decision carries lasting implications. Whether voters see a similar need for structural change in 2026 will determine whether Michigan again undertakes the rare task of rewriting the rules of its government.

