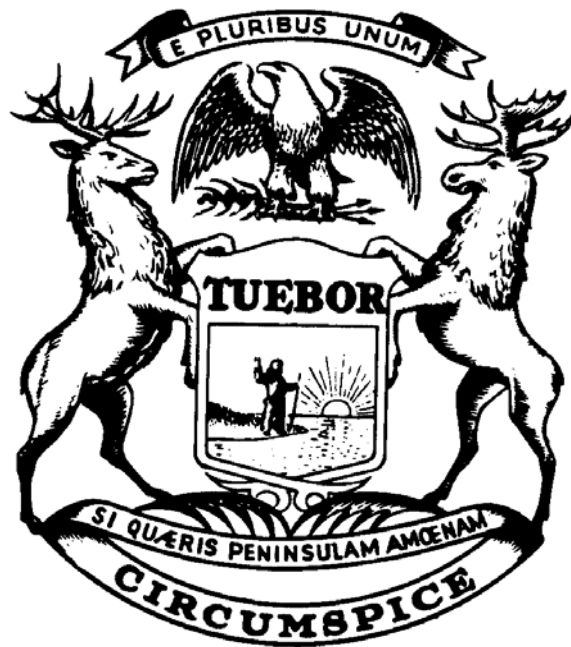


**Executive Budget  
Appendix on Tax Credits,  
Deductions, and  
Exemptions  
Fiscal Year 2006**



**State of Michigan  
Jennifer M. Granholm, Governor**

**Executive Budget  
Appendix on Tax Credits,  
Deductions, and Exemptions  
Fiscal Year 2006**



**State of Michigan  
Michigan Department of Treasury  
Jennifer M. Granholm, Governor**

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This report is available on the Internet at <http://www.michigan.gov/treasury>, and copies of this report are available from the Tax Analysis Division, Michigan Department of Treasury.

Jay B. Rising  
State Treasurer  
Department of Treasury

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**APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS  
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<u>Fiscal Year</u>	<u>Date of Release</u>	<u>Lead Department</u>
1979 - 1980	January 1980	Management and Budget
1981 - 1982	March 1981	Management and Budget
1982 - 1983	April 1982	Management and Budget
1983 - 1984	July 1983	Management and Budget
1984 - 1985	July 1984	Management and Budget
1985 - 1986	December 1985	Management and Budget
1986 - 1987	October 1986	Management and Budget
1987 - 1988	November 1988	Management and Budget
1988 - 1989		
1989 - 1990	February 1991	Treasury
1990 - 1991		
1991 - 1992	March 1993	Treasury
1992 - 1993		
1993 - 1994	June 1994	Treasury
1994 - 1995		
1995 - 1996	April 1995	Treasury
1996 - 1997	March 1996	Treasury
1997 - 1998	June 1997	Treasury
1998 - 1999	May 1998	Treasury
1999 - 2000	February 2000	Treasury
2000 - 2001	April 2000	Treasury
2001 - 2002	July 2001	Treasury
2002 - 2003	April 2002	Treasury
2003 – 2004	March 2003	Treasury
2004 – 2005	August 2004	Treasury
2005 – 2006	May 2005	Treasury





**APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS**  
**EXECUTIVE SUMMARY**  
**FY 2006**

The *Appendix on Tax Credits, Deductions, and Exemptions* (formerly entitled the *Tax Expenditure Appendix*) is a compilation of the revenue cost of the various tax credits, deductions, and exemptions contained in Michigan tax law. Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax credits, deductions, and exemptions along with the annual presentation of the *Executive Budget* to the Legislature. Throughout this report, credits, deductions, and exemptions will often be referred to as tax expenditures.

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as credits, deductions, exemptions, deferrals, exclusions, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system.

Total tax expenditures are projected to increase 4.2 percent between fiscal year (FY) 2005 and FY 2006, from \$29.1 billion to \$30.3 billion. Tax expenditures are divided into five broad categories: business privilege, consumption, individual income, local property, and transportation.

Business privilege tax expenditures are predicted to increase 3.1 percent from \$1,366.0 million to \$1,408.7 million. The single business tax (SBT) rate has fallen from 2.3 percent in tax year 1998 to 1.9 percent in tax year 2002 as part of the SBT phase out contained in Public Act 115 of 1999. The decline in the SBT rate was paused beginning in tax year 2003 at 1.9 percent. The deduction for health insurance was the fastest growing business tax expenditure.

Consumption tax expenditures are predicted to increase 6.0 percent between FY 2005 and FY 2006, from \$12,275.6 million to \$13,010.7 million. Growth in tax expenditures related to health care, construction, and professional, scientific, and technical services account for most of the increase. Comparisons between the estimates for consumption tax expenditures contained in this report and those in prior editions of the *Tax Expenditure Appendix* are not valid due to changes in the methodology and data sources used to calculate tax expenditures related to services.

Individual income tax expenditures are predicted to rise from \$5,814.5 million in FY 2005 to \$5,902.7 million in FY 2006, a 1.5 percent increase. The tax rate fell to 4.0 percent in 2003, and was then reduced to 3.9 percent on July 1, 2004. The reduction in the income tax rate reduces the size of most income tax expenditures, especially exemptions and deductions.

Local tax expenditures are predicted to increase 3.6 percent between FY 2005 and FY 2006, rising from \$9,611.4 million to \$9,958.0 million, as property values rise and new construction adds to the property tax base.

Transportation tax expenditures are predicted to increase 1.4 percent between FY 2005 and FY 2006, from \$53.0 million to \$53.7 million.

## CHAPTER 1

### INTRODUCTION TO TAX EXPENDITURES

Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax credits, deductions, and exemptions along with the annual presentation of the *Executive Budget* to the Legislature:

The governor, with the annual budget message to the legislature, shall report, at a minimum, the tax credits, deductions, and exemptions enumerated in this act. The message shall include tax credits, deductions, and exemptions by budget and also shall contain a separate report on tax credits, deductions, and exemptions in total, which may be printed as an appendix to the budget. The department of treasury shall furnish these items to the governor for inclusion in the report as required by this act.

The *Appendix on Tax Credits, Deductions, and Exemptions* is a compilation of the revenue cost of the various tax credits, deductions, and exemptions contained within the Michigan state and local tax structure. These provisions are more commonly known as tax expenditures and will be referred to as tax expenditures in this report. When known, the number of taxpaying units taking advantage of a given tax expenditure is also included.

This *Appendix* is divided into eight chapters. Chapter 1 discusses the definition and measurement of tax expenditures. Chapter 2 presents a summary of tax expenditures by type of tax. Chapter 3 lists tax expenditures by budget category. Chapters 4 through 8 examine the five main tax expenditure categories in greater detail: business privilege, consumption, individual income, transportation, and local property. Chapters 4 through 8 discuss changes in tax laws and the reliability of tax expenditure estimates, in addition to providing a brief description of each tax expenditure.

#### Defining Tax Expenditures

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as credits, deductions, exemptions, deferrals, exclusions, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system. For economic purposes, it makes no difference whether a policy objective is pursued through direct spending or through the tax code. For example, a tax credit of 50 percent of the amount spent on health care by individuals is exactly the same as a spending program that pays 50 percent of health care expenses. Either way, the individual receives a 50 percent reduction in the effective cost of health care.

Classifying items as tax expenditures is a subjective process. Some argue that the tax expenditure definition should be as broad as possible, encompassing all deductions or credits that

reduce the taxable base from 100 percent of income or wealth. Others recommend a more narrow definition that includes only those tax deductions or credits that are adjustments to the “normal” or appropriate tax structure. The narrow tax expenditure definition reserves the term tax expenditure for items that are true substitutes for direct spending. This report does not make any assumptions regarding the correct definition of the term tax expenditure but rather reports all exemptions, deductions, and credits that are explicitly outlined in statute.

Changes in law can affect revenues and not involve a tax expenditure. For example, recent changes to the single business tax (SBT) that cut revenue but are not tax expenditures include rate cuts; apportionment formula changes; shifting the tax on certain royalties from the payer to the recipient; and Public Act 603 of 2002, which transfers officer compensation from the tax base of a client to the tax base of the professional employer organization that employs the client’s officers.

Traditionally, tax expenditures have served two purposes. First, they redistribute the tax burden. Tax expenditures such as personal income tax exemptions, sales tax exemptions for food and prescription drug purchases, and SBT credits for small, low-profit firms all shift the relative tax burden. These tax expenditures are designed to reduce the tax burden on low-income individuals and businesses. Second, tax expenditures create an incentive for individuals or firms to change their behavior. The college contribution credit, intended to increase contributions to colleges and universities, is an example of a tax expenditure designed to influence taxpayer behavior.

Tax expenditures are so named because they can be viewed as alternatives to direct government appropriations or regulation. In fact, tax expenditures are very similar to direct appropriations in many respects. The main difference is that while appropriations achieve policy goals directly, tax expenditures achieve policy goals indirectly by changing relative prices or reducing costs. For example, the government may help the poor directly by providing food stamps. Alternatively, the government can exempt food from the sales tax, which lowers the cost of food purchases relative to other goods. This will aid poorer residents because they spend a greater percentage of their income on basic needs such as food, which is not taxed.

However, the allocation of government resources through the tax system suffers from some drawbacks. First, because tax expenditures accomplish their goals indirectly, they provide a less efficient means of targeting benefits than direct expenditures. Sometimes, the targeted group may not receive the benefits, or other groups who were not targeted originally may benefit. Second, policymakers tend to ignore tax expenditures during the budgeting process. Instead, they focus their attention almost strictly upon actual revenue and spending. They may spend less time considering potential new tax expenditures and revenue that might be collected by eliminating or reducing current tax expenditures. Finally, providing resources via tax expenditures may be more costly than through direct appropriation. Centralized purchasing of certain items such as prescription drugs or diabetic supplies by the state may result in a lower cost than if individuals purchase the items and then apply for a tax credit. On the other hand, the cost to governments of administering most tax expenditures is usually a fraction of the cost of administering direct spending programs.

Annual review of tax expenditures would encourage policymakers to rank all policy goals before deciding which should be funded, by how much, and by what means. Ideally, this review process would use three criteria in order to evaluate which tax expenditures are retained. First, the effectiveness of the specific tax expenditure should be evaluated. Does it accomplish its objective at the lowest cost without unintended outcomes? Second, the tax expenditure should be more effective relative to alternatives such as direct spending or regulation. Finally, the relative importance of the tax expenditure and its goals should be examined and compared to direct spending actions. This report does not attempt to evaluate each tax expenditure according to these criteria. It is designed to aid policymakers in evaluating the efficiency, effectiveness, and relative importance of each tax expenditure.

## **Technical Issues**

### **State Versus Federal Tax Expenditures**

The starting point in calculating Michigan taxable income is the federal Internal Revenue Code definition of adjusted gross income (AGI). As a result, the exclusions and deductions used in the calculation of federal AGI also reduce state income tax liability. Exclusions or deductions from federal AGI that Michigan does not disallow specifically are classified as federal tax expenditures. This classification does not mean that federal tax expenditures are outside the control of state government. Michigan could require that specific federal tax expenditures be added back to AGI in calculating Michigan taxable income.

### **State Versus Local Tax Expenditures**

This report also distinguishes between state tax expenditures (associated with taxes collected by the state government) and local tax expenditures (associated with taxes collected by local governments). For the purposes of this report, the distinction between state and local government tax expenditures rests on which level of government collects the tax, not the level of government affected by the tax expenditure. In fact, some state tax expenditures have implications for local government budgets, while some local government tax expenditures have ramifications for the state government budget. For example, property tax exemptions granted for industrial or commercial development are classified as local tax expenditures. These local property tax exemptions also have state budget implications because they reduce state education tax revenue and reduce taxable value per pupil and thus increase state aid payments to local school districts through the state's formula for providing funds to K-12 education.

### **Income Tax Personal Exemption**

For tax year 2004, individual Michigan taxpayers could claim a \$3,100 personal exemption for themselves and each of their dependents. The personal exemption is classified as a tax expenditure in this report. Some contend that the exemption is essential for determining an appropriate income tax base and should not be considered a tax expenditure. Yet even using a

narrow definition of tax expenditures, the personal exemption would be considered a tax expenditure because it changes the distribution of the tax burden based on family size.

### **Industrial Processing Exemption From Sales Tax**

The levy of a “pure” retail sales tax takes place only at the retail level, that is, sales to the final consumer. Goods or services used in the production of consumer goods are exempt from this pure retail sales tax. States differ as to the business purchases they exempt from the sales tax. In Michigan, sales of goods used in industrial processing are exempt, although sales of goods used in business, but not in the actual manufacturing process, are subject to taxation. In this sense, the exclusion of non-retail sales from a pure retail sales tax base is not a tax expenditure. However, Michigan’s sales tax is not a pure retail sales tax because many final consumer goods, such as services, are not subject to taxation. Hence, this report includes the business purchase exemption as a tax expenditure to the state sales tax.

### **Measuring Tax Expenditures**

The estimates in this report for fiscal year (FY) 2005 and FY 2006 are based on the most recent data available. Tax year 2003 income tax data (returns processed in the spring of 2004) are used, as are 2003 property and sales tax data, and tax year 2000-2001 SBT data. Most estimates of the cost (in terms of foregone revenue) of credits, deductions, exemptions, and other reductions are based on actual tax return data. However, many exemptions are not reported on tax returns. In these instances, tax expenditure estimates were derived from other sources.

The tax expenditure estimates *do not* necessarily reflect the amount of actual revenue that would be gained through the repeal of specific provisions. This is attributable to three economic assumptions (listed below) which have been made to ease the task of estimation. (These assumptions are consistent with those made at the federal level and used by other states.)

**Assumption 1: The elimination of a tax expenditure does not alter economic behavior.**

In many instances, tax expenditures are specifically designed to provide incentives for people and businesses to behave in a certain manner. Elimination of tax expenditures would most likely alter their behavior. For example, if the sales tax exemption for food were eliminated, the final price that consumers pay for food would increase and food purchases would decline. In this case, the elimination of the tax expenditure would be similar to a price increase. This drop in food purchases offsets some of the revenue gain from eliminating the exemption.

**Assumption 2: Each tax expenditure is independent.**

The repeal of certain tax expenditure provisions can increase or decrease the revenue losses associated with other provisions that are kept in place. For example, reducing or

removing one SBT deduction or credit may allow firms to take greater advantage of other deductions or credits, offsetting the original revenue impact.

**Assumption 3: The elimination of tax expenditures does not affect overall macroeconomic conditions.**

In principle, repeal or enactment of major tax expenditure provisions would have some impact on the economy. For example, imposing the sales tax on services or repealing the personal income tax exemption may significantly reduce income levels and affect taxpayers' spending which would affect the macro economy. However, marginal changes in particular provisions are unlikely to have a significant impact on overall income levels and rates of economic growth.

In essence, the reported estimate for each tax expenditure is an isolated estimate. That is, estimates assume implicitly that no other tax expenditures exist (i.e., there is no interaction) and that all other factors remain constant (i.e., taxpayers do not change their behavior and the repeal of the provision does not affect the economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would generally fall short of the estimates.

**Cautionary Notes and the Reliability of Estimates**

In many instances, this report aggregates individual tax expenditure estimates. However, due to the simplifying assumptions that have been made, aggregating various tax expenditure estimates in order to measure the cost of changing all of them simultaneously will not be accurate. The estimated revenue gain from simultaneously eliminating two tax expenditures will be less than the sum of the cost of the two measured separately. Therefore, the reader is cautioned regarding interactions between tax expenditures.

The reader is also cautioned about comparing tax expenditure estimates across years. Substantial federal, state, and local changes in tax laws occur each year that affect the number, type, and magnitude of tax expenditures. In addition, measurement techniques may also vary from year to year, depending on available data.

Tax expenditure estimates that appear in this report have different levels of reliability depending on the accuracy of the data and the estimation procedure employed. Chapters 4 through 8 denote the reliability of tax expenditure estimates included in the respective chapters. High reliability implies that the estimate should be relatively accurate. If the estimate does not approximate closely the actual value of the tax expenditure, it is most likely incorrect by a relatively small margin. Conversely, low reliability implies that the actual value could be much greater or smaller and that the range of possible values is large. Reliability indicators are as follows:

### **1. High reliability level.**

This category is reserved for estimates that were derived using actual recent tax return data. The higher education tax expenditure, which is based on recent income tax return data, is an example of an estimate that is accurate and highly reliable.

### **2. Average reliability level.**

Tax expenditure estimates in this category were also based on tax return data. However, specific economic assumptions were necessary to derive these estimates because less recent data or sample data were used. The personal exemption from city income taxes is an example of an estimate with average reliability. Estimates were based on a recent survey of city treasurers. Some city estimates were carried forward from last year, while other estimates were based on rounded figures. While this will affect the precision of the total estimate, the impact should be relatively small.

### **3. Low reliability level.**

This category is reserved for estimates that are imprecise. Estimates in this category were based on highly aggregated (national) data, required restrictive assumptions, or used poor non-tax data sources. For example, federal income tax expenditure estimates have a low degree of reliability because they were based on national tax expenditure data apportioned to Michigan.

## **Why Report Tax Expenditures?**

Some economists argue that a regular periodic evaluation of tax expenditures should become common practice. Unlike fixed appropriations, tax expenditures are open-ended entitlements: if people or firms qualify for an exemption, they receive it. In periods of recession, tax expenditures are rarely re-examined as budget cuts are typically focused around direct spending. When the economy improves, both direct spending and tax expenditures tend to increase as legislators can afford to be more generous.

According to the Advisory Commission on Intergovernmental Relations (ACIR), there are at least three reasons why tax expenditures should be reviewed periodically:

### **1. Tax Equity.**

Reviewing tax expenditures helps to ensure both vertical and horizontal equity in the tax structure. Horizontal equity refers to taxpayers in similar income groups, while vertical equity refers to taxpayers in different income groups. If a tax system that relies on voluntary compliance is to work, people must regard that system as equitable.

## **2. Fiscal Discipline.**

Adopting regular tax expenditure reporting gives policymakers more information regarding available resources and how these resources are being used. All state programs, whether they are funded through direct or indirect spending, should work in unison so that particular policy objectives can be attained.

## **3. Political Accountability.**

By mandating a periodic review of the tax code, state lawmakers would foster a public discussion about how the tax system should be designed. In addition, lawmakers would indicate publicly whether they support or oppose certain tax expenditures, much like the appropriations process.

The Michigan Legislature has recognized these potential problems and regularly places sunset dates on new tax expenditures, and often requires a report on the activity related to the tax break. In addition, the annual publication of this report provides an itemization of each tax expenditure along with its cost.

Finally, the inclusion of any item as a tax expenditure should not be viewed as an expression of support for or objection to any particular tax policy. As noted above, tax expenditures represent spending done outside of the annual appropriation process. While a periodic review of tax expenditures is encouraged as a way to better conduct public policy, the inclusion of an item as a tax expenditure does not signify any conclusion regarding its merit as public policy.



## CHAPTER 2

### SUMMARY OF TAX EXPENDITURES

Chapter 2 lists tax expenditures by tax category. Categories include business privilege, consumption, individual income, transportation, local property, and other local tax expenditures. Chapter 2 also includes aggregated tax expenditures. As noted earlier, aggregated measures of tax expenditures should be viewed with caution. The independence assumption underlying individual tax expenditure estimates is unrealistic and, if relaxed, aggregated figures would likely decrease.

Total tax expenditures are projected to increase from \$29.121 billion in FY 2005 to \$30.334 billion in FY 2006, a 4.2 percent increase (see Exhibit 1). Most of the increase in total tax expenditures is due to growth in consumption tax expenditures, specifically the exemption of most service industries from the sales and use taxes.

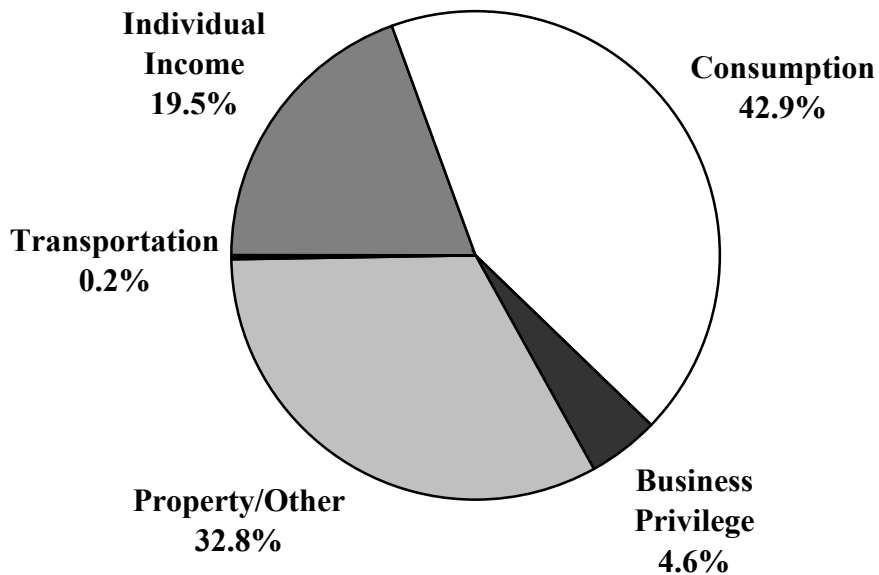
**Exhibit 1**  
**Total Tax Expenditures, FY 2005 and FY 2006**

<u>Tax Category</u>	<u>FY 2005 (000)</u>	<u>FY 2006 (000)</u>	<u>Change</u>
Business Privilege	\$1,366,007	\$1,408,659	\$42,652
Consumption	12,275,617	13,010,689	735,072
Individual Income	5,814,522	5,902,732	88,210
Property	9,422,520	9,768,240	345,720
Other Local (City Income)	188,900	189,800	900
Transportation	<u>53,008</u>	<u>53,737</u>	<u>729</u>
<b>TOTAL</b>	<b>\$29,120,574</b>	<b>\$30,333,857</b>	<b>\$1,213,283</b>

Totals may differ slightly due to rounding.

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2006, consumption tax expenditures comprised 42.9 percent of total tax expenditures, while income tax expenditures comprised 19.5 percent and property and other local taxes comprised 32.8 percent. Not surprisingly, taxes that generate significant revenue are also associated with large tax expenditures (see Exhibit 3). Most notable are consumption tax expenditures resulting from the exemptions for food, services, and industrial processing.

**Exhibit 2**  
**FY 2006 Distribution of Tax Expenditures**



Total may not equal 100 percent due to rounding.

**Exhibit 3**  
**FY 2006 Tax Expenditures and Projected Revenue**  
**(millions of dollars)**

<u>Tax Category</u>	<u>Tax Expenditure</u>	<u>Projected Revenues*</u>	<u>Percent of Revenues</u>
Business Privilege			
Oil and Gas Severance	\$5.6	\$49.0	11.4%
Single Business	1,402.5	1,905.2	73.6%
Consumption			
Total Alcohol	0.1	168.0	0.1%
Cigarette and Tobacco	28.9	1,177.9	2.5%
Sales and Use	12,981.7	8,435.5	153.9%
Individual Income Tax	3,511.4	6,111.3	57.5%
Transportation			
Aviation Fuel	3.6	8.2	44.5%
Gasoline	29.6	963.9	3.1%
Diesel Fuel	5.3	151.7	3.5%
Motor Vehicle Registration	14.5	899.3	1.6%
City Income Tax	<u>189.8</u>	<u>502.1</u>	<u>37.8%</u>
<b>TOTAL</b>	<b>\$18,173.0</b>	<b>\$20,372.1</b>	<b>89.2%</b>

\*From Consensus Revenue Estimating Conference, January 2005.

Exhibits 4 through 8 provide a breakdown of individual tax expenditures across the five tax categories. An asterisk denotes a new tax expenditure or one that has been modified by legislation since the publication of the previous report. For more detailed information regarding these changes, consult the specific chapter relating to the tax expenditure.

**Exhibit 4  
Business Privilege Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2005 (000)</u>	<u>FY 2006 (000)</u>
Insurance Company Retaliatory		
Supplemental Workers' Compensation	\$609	\$561
Oil and Gas Severance Tax		
Marginal Wells	2,467	2,541
Public Land	2,975	3,064
<b>SUBTOTAL</b>	<b>\$5,442</b>	<b>\$5,605</b>
Single Business Tax Expenditure		
Agricultural Producers	\$11,076	\$11,297
Apprenticeship Tax Credit	809	825
Brownfield Zone Credit	64,526	60,348
Business Loss Deduction	50,663	51,268
Community Foundation Credit	733	770
Compensation Exemption	146,868	151,274
Corporate Farm Property Tax Credit	1,364	1,405
Donated Vehicle Credit*	330	473
Enterprise Zone Credit	877	903
Excess Compensation Reduction	215,717	218,293
Floor Plan Interest Deduction	1,500	1,500
Government Utilities Exemption	14,525	15,219
Gross Receipts Reduction	158,618	160,512
Gross Receipts Threshold	77,926	80,034
Health Insurance Deduction*	9,900	22,200
Higher Education Contributions Credit	1,969	2,008
Historic Preservation Credits	1,664	1,830
Homeless/Food Bank Credit	529	556
Insurer's Exemption From Gross Receipts	1,230	1,267
Insurer's Facility Assessment Credit	75,261	81,282
Investment Tax Credit	129,275	131,575
Iron Ore Credit	1,400	1,400
Minority Venture Capital Credit	0	0
Michigan Economic Growth Authority	35,171	41,657
Multiple Employer Welfare Arrangement	26	25
New Hire Credit*	\$2,649	\$883

**Exhibit 4 (Continued)**

<u>Tax or Tax Expenditure</u>	<u>FY 2005</u> <u>(000)</u>	<u>FY 2006</u> <u>(000)</u>
Next Energy Credit	8,645	8,749
Nonprofit Organizations	114,888	116,260
Officer Compensation	3,188	3,226
Pharmaceutical Research Credit	8,373	8,861
Renaissance Zones	8,345	8,762
Research Funds Exclusion*	73	76
Small Business Credit	100,213	101,409
Start-up Business Credit*	900	1,200
Statutory Exemption	9,070	9,178
Supplemental Workers' Compensation	3,743	3,443
Tribal Tax Agreement	n.a.	n.a.
Unincorporated Business Credit	90,497	95,022
Utility Property Tax Credit	7,415	7,504
<b>SUBTOTAL</b>	<b>\$1,359,956</b>	<b>\$1,402,493</b>
<b>TOTAL</b>	<b>\$1,366,007</b>	<b>\$1,408,659</b>

\* Indicates tax expenditure was created, expanded, or otherwise modified.

**Exhibit 5**  
**Consumption Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2005</u> <u>(000)</u>	<u>FY 2006</u> <u>(000)</u>
<b>Alcoholic Beverages Taxes</b>		
Beer Shipped Out-of-State	n.a.	n.a.
Homemade Wine	n.a.	n.a.
Small Brewer's Credit	\$100	\$100
<b>SUBTOTAL</b>	<b>\$100</b>	<b>\$100</b>
<b>Cigarette Tax</b>		
Bad Debt Deduction	\$800	\$800
Licensee Expenses	17,800	17,500
Sales on Military Bases and Reservations	10,781	10,566
<b>SUBTOTAL</b>	<b>\$29,381</b>	<b>\$28,866</b>
<b>Sales and Use Tax Expenditures</b>		
Air and Water Pollution	\$44,000	\$46,000
Aircraft Parts	8,321	8,570
Bad Debts	60,477	63,161
Cargo Aircraft	30,000	30,000
Church Construction	3,200	3,200
Church Cars	4,147	4,331
Collection Fee	15,845	16,548
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Damaged Beer	n.a.	n.a.
Delayed Payment on Construction Materials	2,943	3,073
Donated Property	n.a.	n.a.
Donated Vehicles*	400	500
Driver Training	661	674
Employee Meals	7,874	8,223
Enterprise Zone Credit	n.a.	n.a.
Food	926,840	967,966
Food for Students	31,903	32,139
Government or Red Cross	178,651	186,578
Gratuity and Tips	58,357	60,946
Horticultural and Agricultural Products	130,275	130,275
Imported Property from Other States	3,200	3,200

## Exhibit 5 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2005 (000)</u>	<u>FY 2006 (000)</u>
Industrial Processing	\$914,364	\$954,937
Inmate Purchases	618	638
Interstate Communications	20,926	21,855
Interstate Trucks and Trailers	38,580	40,292
Investment Coins	400	400
Isolated Sales	n.a.	n.a.
Military PX Sales	1,756	1,833
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	100,857	105,332
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	10,427	10,890
Nonprofit Organizations	176,340	184,164
Nonprofits Sales under \$5,000	n.a.	n.a.
Nonresident Merchandise Transfer	n.a.	n.a.
Nonresident Property	n.a.	n.a.
Ophthalmic and Orthopedic Products	50,145	52,248
Prescription Drugs	537,254	599,272
Radio and TV	4,400	4,400
Rail Rolling Stock	1,619	1,690
Residential Utilities	117,000	119,500
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	67,408	68,454
Services (Including Nonprofits)	8,573,072	9,123,577
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	17,578	17,929
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	38,900	40,626
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	24,300	25,200
<b>SUBTOTAL</b>	<b>\$12,246,138</b>	<b>\$12,981,721</b>
<b>TOTAL</b>	<b>\$12,275,619</b>	<b>\$13,010,687</b>

\* Indicates tax expenditure was created, expanded, or otherwise modified.

**Exhibit 6  
Individual Income Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2005 (000)</u>	<u>FY 2006 (000)</u>
State Income Tax		
Adjustments to Income	\$1,439,368	\$1,473,537
Adoption Credit	1,200	1,200
Child Deduction	51,968	52,321
City Income Tax Credit	33,566	33,794
College Savings Accounts	14,843	18,116
Community Foundation Credit	3,195	3,409
Dependent Exemption	20,635	20,776
Donated Vehicle Credit*	83	118
Farmland Credit	29,023	30,474
Higher Education/Public Contributions Credit	27,143	28,500
Historic Preservation Credit	459	551
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	26	26
Homeless/Food Bank Credit	18,982	20,880
Homestead Property Tax Credit	756,564	794,392
Income Tax Paid to Other State Credit	33,932	35,518
Military Pay and Pensions	23,299	24,475
Personal Exemption	920,917	927,176
Renaissance Zones	300	300
Special Exemption	38,169	39,955
Tribal Tax Agreements	n.a.	n.a.
Tuition Credit	5,665	5,892
<b>TOTAL STATE</b>	<b>\$3,419,337</b>	<b>\$3,511,410</b>
Federal Adjustments		
Accelerated Depreciation*	-\$14,206	-\$38,046
Employer Contributions to Insurance	750,785	755,845
Employer Pension Plans	786,987	784,030
Federal Adjustments to Income	20,798	21,616
Fellowships and Scholarships	8,724	9,085
Gain on Sale of Primary Residence	155,208	156,990
Income Maintenance Benefits	4,033	4,208



**Exhibit 6 (Continued)**

<u>Tax or Tax Expenditure</u>	<u>FY 2005</u> <u>(000)</u>	<u>FY 2006</u> <u>(000)</u>
Federal Adjustments (continued)		
Individual Retirement Accounts	\$203,771	\$209,848
Interest on Life Insurance Savings	140,851	144,684
Medical Savings Account	3,036	5,074
Railroad Retirement Benefits	1,929	1,928
Social Security Benefits	223,488	223,628
Student Loan Deduction	5,078	5,192
Veterans' Benefits	40,495	43,048
Workers' Compensation	64,208	64,192
<b>TOTAL FEDERAL</b>	<b>\$2,395,185</b>	<b>\$2,391,322</b>
<b>TOTAL STATE AND FEDERAL</b>	<b>\$5,814,522</b>	<b>\$5,902,732</b>

\* Indicates a tax expenditure was created, expanded, or otherwise modified.

**Exhibit 7  
Transportation Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2005 (000)</u>	<u>FY 2006 (000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$261	\$266
Interstate Flight Refund	3,290	3,380
Marine Vessel Exemption	710	720
<b>SUBTOTAL</b>	<u>\$4,261</u>	<u>\$4,366</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$5,164	\$5,268
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,400	14,680
Fuel for Off-Road Use	954	973
Municipal Franchise Vehicles	405	413
Public Vehicles	13,300	13,500
Tribal Tax Agreements	n.a.	n.a.
<b>SUBTOTAL</b>	<u>\$34,223</u>	<u>\$34,834</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$210	\$223
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	14,300	14,300
<b>SUBTOTAL</b>	<u>\$14,510</u>	<u>\$14,523</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	<u>\$14</u>	<u>\$14</u>
<b>TOTAL</b>	<b>\$53,008</b>	<b>\$53,737</b>

**Exhibit 8**  
**Local Property and Other Local Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2005</u> <u>(000)</u>	<u>FY 2006</u> <u>(000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$24,100	\$30,400
Air and Water Pollution Control	140,000	140,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	530	480
Enterprise Zone Credit	1,200	1,200
Fairground Property	n.a.	n.a.
Homestead Exemption	2,890,000	2,960,000
Homestead Exemption for Farm Property	140,000	140,000
Industrial Facilities Development	320,000	330,000
Mobile Homes	52,100	53,400
Neighborhood Enterprise Zones	6,200	7,100
Next Energy Exemption	500	800
Obsolete Property Rehabilitation	1,700	2,300
Poverty Exemption	2,400	2,500
Railroad Right-of-Way/Broadband Credit	36,300	43,900
Renaissance Zones*	63,360	80,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	2,043,000	2,085,000
Tax Increment Financing	290,000	300,000
Taxable Value Cap	3,410,000	3,590,000
Water Softeners	1,130	1,160
<b>SUBTOTAL</b>	<u>\$9,422,520</u>	<u>\$9,768,240</u>
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$167,000	\$167,700
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	21,900	22,100
Supplemental Unemployment Benefits	n.a.	n.a.
<b>SUBTOTAL</b>	<u>\$188,900</u>	<u>\$189,800</u>
<b>TOTAL</b>	<b>\$9,611,420</b>	<b>\$9,958,040</b>

\* Indicates a tax expenditure was created, expanded, or otherwise modified.

## CHAPTER 3

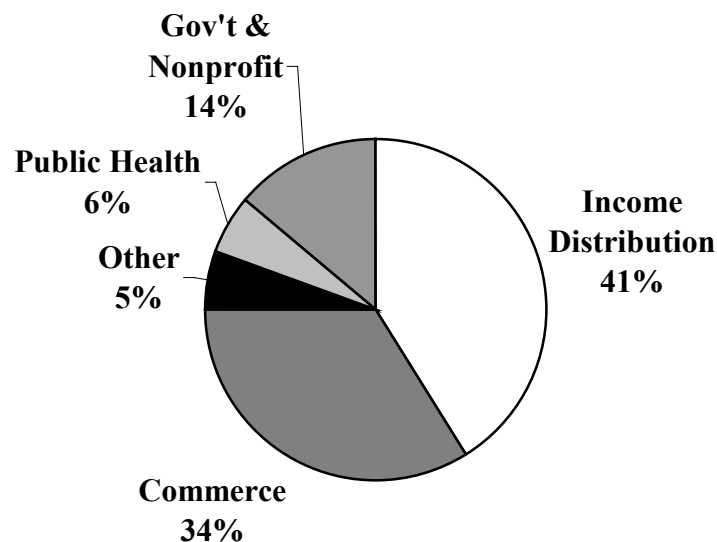
### TAX EXPENDITURE BUDGET

Chapter 3 illustrates the concept of a tax expenditure budget. This presentation organizes tax expenditures by the spending category that benefits from the expenditure rather than by the revenue source that finances it. Tax expenditures are grouped in categories similar to direct expenditures in the *Executive Budget* such as commerce, education, transportation, and natural resources. This allows for a comparison of funding between direct appropriations and tax expenditures for selected spending categories.

By a wide margin, the commerce and income distribution budget categories tend to receive most funding from tax expenditures (see Exhibit 9). Relative to direct spending, tax expenditures appear to be a preferred method to fund these objectives. In contrast, transportation and higher education are funded much more intensively via direct appropriations (see Exhibit 10).

Exhibits 11 and 12 provide an itemized breakdown of tax expenditures by spending category. These exhibits are a simple reorganization of the summary tables provided in Chapter 2; only the groupings are different.

**Exhibit 9**  
**Tax Expenditure Budget, FY 2006**



**Exhibit 10**  
**Comparison of State Tax and Direct Expenditures (From State Resources)**  
**for Selected Spending Categories, FY 2005**

<u>Spending Category</u>	<u>Tax Expenditure (000)</u>	<u>Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$171,738	\$81,685	\$253,423	67.8%
Commerce (DLEG)	8,233,527	385,039	8,618,565	95.5%
Higher Education	87,195	1,685,651	1,772,846	4.9%
Income Distribution (FIA)	6,937,666	1,180,004	8,117,670	85.5%
Military Affairs	77,941	62,971	140,912	55.3%
Natural Resources	44,000	221,587	265,587	16.6%
Public (Community) Health	1,559,071	4,021,705	5,580,777	27.9%
Transportation	46,403	2,140,557	2,186,960	2.1%
<b>TOTAL</b>	<b>\$17,157,541</b>	<b>\$9,779,198</b>	<b>\$26,936,739</b>	<b>63.7%</b>

Note: FY 2005 expenditure figures from *FY 2004-2005 Appropriations Report*, Senate Fiscal Agency.

Note that Exhibit 10: (1) compares *own* state resources to tax expenditures (i.e., it ignores federal grants), and (2) *does not* include local tax expenditures and local direct expenditures. For example, the income distribution budget category does not include tax expenditures associated with the city income tax. Tax expenditures associated with the government and nonprofit budget category are also not included, because there is no comparable direct expenditure category.

**Exhibit 11**  
**Fiscal Summary, Tax Expenditure Budget**

<u>Budget Category</u>	<u>FY 2005</u> <u>(000)</u>	<u>FY 2006</u> <u>(000)</u>
Agriculture	\$642,738	\$666,951
Commerce	9,788,117	10,309,739
Education	639,195	656,712
Government and Nonprofit Organizations	4,067,814	4,243,258
Income Distribution	12,114,766	12,449,826
Military Affairs	77,941	81,545
Natural Resources	184,530	186,480
Public Health	1,559,071	1,691,546
Transportation	46,403	47,798
<b>TOTAL</b>	<b>\$29,120,575</b>	<b>\$30,333,855</b>

Note: Total may differ from Exhibit 1 due to rounding.

See Exhibit 12 for a detailed list of tax expenditures.

**Exhibit 12  
Tax Expenditure Budget Detail**

Tax/Tax Expenditure	FY 2005 (000)	FY 2006 (000)
<b>Agriculture</b>		
General Property Tax		
Agriculture Transfer	\$24,100	\$30,400
Homestead Exemption for Farm Property	140,000	140,000
Taxable Value Cap	306,900	323,100
Income Tax		
Farmland Development Credit (PA 116)	29,023	30,474
Sales and Use Taxes		
Horticultural or Agricultural Products	130,275	130,275
Single Business Tax		
Agricultural Producers	11,076	11,297
Corporate Farm Property Tax Credit	1,364	1,405
<b>TOTAL</b>	<b>\$642,738</b>	<b>\$666,951</b>
<b>Commerce</b>		
Alcoholic Beverage Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Small Brewer's Credit	\$100	\$100
Cigarette Tax		
Bad Debt Deduction	800	800
Licensee Expenses	17,800	17,500
Income Tax		
Accelerated Depreciation	-14,206	-38,046
Renaissance Zone Credit	300	300
Insurance Company Retaliatory Tax		
Supplemental Workers' Compensation Credits	609	561
Motor Vehicle Registration Tax		
Intercity Commercial Buses	n.a.	n.a.
Oil and Gas Severance Tax		
Marginal Wells	2,467	2,541
Property Tax		
Broadband Investment Credit	\$17,100	\$23,900
Enterprise Zone	1,200	1,200
Industrial Facilities Development	320,000	330,000
Mobile Homes	52,100	53,400

<b>Tax/Tax Expenditure</b>	<b>FY 2005 (000)</b>	<b>FY 2006 (000)</b>
<b>Commerce (Continued)</b>		
Neighborhood Enterprise Zones	6,200	7,100
Next Energy Exemption	500	800
Obsolete Property Rehabilitation	1,700	2,300
Renaissance Zones	63,360	80,000
Tax Increment Financing	290,000	300,000
Taxable Value Cap	818,400	861,600
Water Softeners	1,130	1,160
Sales and Use Taxes		
Aircraft Parts	8,321	8,570
Bad Debts	60,477	63,161
Cargo Aircraft	30,000	30,000
Collection Fee	15,845	16,548
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Delayed Payment on Construction Materials	2,943	3,073
Employee Meals	7,874	8,223
Enterprise Zone	n.a.	n.a.
Gratuities and Tips	58,357	60,946
Imported Property from Other States	3,200	3,200
Industrial Processing	914,364	954,937
Interstate Telecommunications	20,926	21,855
Interstate Trucks and Trailers	38,580	40,292
Investment Coins	400	400
Newspapers, Periodicals, and Films	100,857	105,332
Nonresident Merchandise Transfer	n.a.	n.a.
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Business	n.a.	n.a.
Sale of Water	67,408	68,454
Services (except education, health, and nonprofits)	5,538,658	5,896,427
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	\$17,578	\$17,929
Vehicle and Aircraft Transfers	38,900	40,626
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines	24,300	25,200



<b>Tax/Tax Expenditure</b>	<b>FY 2005 (000)</b>	<b>FY 2006 (000)</b>
<b>Commerce (Continued)</b>		
Single Business Tax		
Brownfield Zone Credit	64,526	60,348
Business Loss Deduction	50,663	51,268
Compensation Exemption	146,868	151,274
Enterprise Zone Credit	877	903
Excess Compensation Reduction	215,717	218,293
Floor Plan Internal Expense	1,500	1,500
Gross Receipts Reduction	158,618	160,512
Gross Receipts Threshold	77,926	80,034
Health Insurance Deduction	9,900	22,200
Insurer's Exemption From Gross Receipts	1,230	1,267
Insurer's Facility Assessment Credit	75,261	81,282
Investment Tax Credit	129,275	131,575
Iron Ore Credit	1,400	1,400
MEGA	35,171	41,657
Minority Venture Capital Credit	0	0
Multiple Employer Welfare Arrangement	26	25
New Hire Credit	2,649	883
Next Energy Credit	8,645	8,749
Officer Compensation	3,188	3,226
Pharmaceutical Research Credit	8,373	8,861
Renaissance Zone Credit	8,345	8,762
Research Funds Exclusion	73	76
Small Business Low-Profit Credit	100,213	101,409
Start-up Business Credit	900	1,200
Statutory Exemption	9,070	9,178
Supplemental Workers' Compensation Credit	3,743	3,443
Unincorporated Business Credit	90,497	95,022
Utility Property Tax Credit	7,415	7,504
<b>TOTAL</b>	<b>\$9,788,117</b>	<b>\$10,309,739</b>

**Education**

Income Tax		
College Savings Account	\$14,843	\$18,116
Fellowships and Scholarships	8,724	9,085
Higher Education/Public Contribution Credit	\$27,143	\$28,500
Tuition Credit	5,665	5,892

<b>Tax/Tax Expenditure</b>	<b>FY 2005 (000)</b>	<b>FY 2006 (000)</b>
<b>Education (Continued)</b>		
Property Tax		
Exempt Public Education Property	552,000	563,000
Sales Tax		
Services	28,042	29,286
Textbooks Sold by Schools	n.a.	n.a.
Single Business Tax		
Apprenticeship Tax Credit	\$809	\$825
Higher Education and Library Credit	1,969	2,008
<b>TOTAL</b>	<b>\$639,195</b>	<b>\$656,712</b>
<b>Government and Nonprofit Organizations</b>		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$261	\$266
Income Tax		
Community Foundation	3,195	3,409
Historic Preservation Credit	459	551
Motor Fuel Taxes		
Public Vehicles	13,300	13,500
Motor Vehicle Weight Tax		
Handicapper Vans	n.a.	n.a.
Public and Nonprofit Vehicles	14,300	14,300
Oil and Gas Severance Tax		
Public Land	2,975	3,064
Property Tax		
Church Transfers	n.a.	n.a.
Tax Exempt Property	1,491,000	1,522,000
Sales and Use Taxes		
Church Cars	4,147	4,331
Church Construction	3,200	3,200
Donated Property	n.a.	n.a.
Government or Red Cross	178,651	186,578
Nonprofit Organizations	176,340	184,164
Nonprofit Sales	n.a.	n.a.
Services	2,048,162	2,173,802
Single Business Tax		
Community Foundation Credit	\$733	\$770
Government Utilities	14,525	15,219

<b>Tax/Tax Expenditure</b>	<b>FY 2005 (000)</b>	<b>FY 2006 (000)</b>
<b>Government and Nonprofit Organizations (Continued)</b>		
Historic Preservation Credit	1,664	1,830
Nonprofit Organizations	114,888	116,260
Watercraft Registration Fee		
Publicly Owned Watercraft	14	14
<b>TOTAL</b>	<b>\$4,067,814</b>	<b>\$4,243,258</b>
<b>Income Distribution</b>		
City Income Tax		
Nonresident Reduced Rate	\$167,000	\$167,700
Personal Exemption	21,900	22,100
General Property Tax		
Homestead Exemption	2,890,000	2,960,000
Poverty Exemption	2,400	2,500
Taxable Value Cap	2,284,700	2,405,300
Income Tax		
Adjustments to Income (except military)	1,439,368	1,473,537
Adjustments to Income (federal)	20,798	21,616
Adoption Credit	1,200	1,200
Child Deduction	51,968	52,321
City Income Tax Credit	33,566	33,794
Dependent Exemption	20,635	20,776
Donated Vehicle Credit	83	118
Employer Contributions to Health and Life Insurance	750,785	755,845
Employer Pension Plans	786,987	784,030
Gain on Sale of Primary Residence	155,208	156,990
Holocaust Survivor	n.a.	n.a.
Home Heating Assistance Credit	26	26
Homeless Credit	18,982	20,880
Homestead Property Tax Credit (excluding veterans)	755,164	792,992
Income Maintenance Benefits	4,033	4,208
Individual Retirement Account	203,771	209,848
Interest on Life Insurance Savings	140,851	144,684
Other State Tax Credit	33,932	35,518
Personal Exemption	920,917	927,176
Railroad Retirement Benefits	\$1,929	\$1,928
Social Security Benefits	223,488	223,628

<b>Tax/Tax Expenditure</b>	<b>FY 2005 (000)</b>	<b>FY 2006 (000)</b>
<b>Income Distribution (Continued)</b>		
Special Exemption	38,169	39,955
Student Loan Deduction	5,078	5,192
Workers' Compensation	64,208	64,192
Sales and Use Taxes		
Donated Vehicles	400	500
Food	926,840	967,966
Food for Students	31,903	32,139
Inmate Purchases	618	638
Residential Utilities	117,000	119,500
Single Business Tax		
Donated Vehicle Credit	330	473
Homeless Shelter Food Bank Credit	529	556
<b>TOTAL</b>	<b>\$12,114,766</b>	<b>\$12,449,826</b>
<b>Military Affairs</b>		
Cigarette Tax		
Sales on Military Bases and Reservations	\$10,781	\$10,566
Income Tax		
Military Pay and Pension	23,299	24,475
Veterans' Benefits	40,495	43,048
Veterans' Property Tax Credit	1,400	1,400
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	210	223
Sales and Use Taxes		
Military Post-Exchange Sales	1,756	1,833
Military Vehicle Sales (nonresident)	n.a.	n.a.
Military Vehicle Sales (resident out-of-state)	n.a.	n.a.
<b>TOTAL</b>	<b>\$77,941</b>	<b>\$81,545</b>
<b>Natural Resources</b>		
Property Tax		
Air and Water Pollution	\$140,000	\$140,000
Energy Conservation Devices	530	480
Sales and Use Taxes		
Air and Water Pollution	44,000	46,000
<b>TOTAL</b>	<b>\$184,530</b>	<b>\$186,480</b>

<b>Tax/Tax Expenditure</b>	<b>FY 2005 (000)</b>	<b>FY 2006 (000)</b>
<b>Public Health</b>		
Income Tax		
Medical Care Savings - Federal	\$3,036	\$5,074
Sales and Use Taxes		
Medical Services	958,209	1,024,062
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital Construction	10,427	10,890
Ophthalmic and Orthopedic Products	50,145	52,248
Prescription Drugs	537,254	599,272
<b>TOTAL</b>	<b>\$1,559,071</b>	<b>\$1,691,546</b>
<b>Transportation</b>		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,290	\$3,380
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,164	5,268
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,400	14,680
Fuel for Off-Road Use	954	973
Marine Vessel Fuel	710	720
Municipal Franchise Vehicles	405	413
Sales and Use Taxes		
Driver Training	661	674
Rail Rolling Stock	1,619	1,690
Utility Property Tax		
Railroad Right-of-Way	19,200	20,000
<b>TOTAL</b>	<b>\$46,403</b>	<b>\$47,798</b>

## CHAPTER 4

### BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and SBT expenditures. Business privilege tax expenditures are projected to increase 3.1 percent from \$1,366.0 million in FY 2005 to \$1,408.7 million in FY 2006. As discussed above, the SBT phase out was paused for 2003 since the budget stabilization fund dropped below \$250 million. Data from FY 2001 were used to derive SBT tax expenditure estimates. Other tax expenditure estimates from business privilege taxes were based on 2002 data.

- Estimate Reliability**
- (1) Community Foundation Credit  
Higher Education Credit  
Homeless/Food Bank Credit  
Oil and Gas Severance Tax  
Supplemental Worker's Compensation Credit  
Unincorporated Credit  
Utility Property Tax Credit
  - (2) Business Loss Deduction  
Excess Compensation Reduction  
Gross Receipts Reduction  
Insurers' Facility Assessment Credit  
Small Business Credit/Alternate Tax Rate  
Statutory Exemption
  - (3) Other SBT Tax Expenditures

Most of the tax expenditure estimates for business privilege taxes are fairly accurate. SBT expenditure estimates were based on the entire population of 2000-2001 SBT returns. These returns represent the most recent 12-month period where at least 99 percent of returns have been cleared. Because the SBT base is relatively stable, it is possible to adjust these data in a reliable fashion in order to derive estimates for FY 2005 and FY 2006. Additionally, many SBT expenditures are credits or deductions that filers must claim, as opposed to unreported exemptions, which are much more difficult to estimate. Insurance company retaliatory and oil and gas severance tax expenditure estimates are also reliable because they were based on recent data collected by the state.

#### Business Privilege Tax Expenditure Changes

Public Act 80 of 2004 amends the Single Business Tax Act to require the Michigan Economic Growth Authority (MEGA) to provide to the Legislature a report on the SBT credit for qualified jobs with a distressed business. A distressed business is one that has experienced significant employment declines and meets the criteria laid out in the MEGA Act.

Public Act 126 of 2004 amends the Single Business Tax Act to create a tax credit for qualified start-up businesses. The credit is equal to the SBT liability of the business in tax years in which the qualified business has no business income. The tax credit can only be claimed for a total of five tax years. For the purposes of this credit, a qualified start-up business is defined in this Act.

Public Act 258 of 2004 amends the Single Business Tax Act to allow taxpayers to deduct income, to the extent included in federal taxable income, that was due to grants received from certain funds established to aid the development of small businesses involved in technology industries.

Public Act 302 of 2004 amends the Single Business Tax Act to create a nonrefundable tax credit equal to 50 percent of the fair market value of certain automobile donations to qualified organizations. The credit would be capped at \$100 per vehicle and is subject to restrictions outlined in the Act. The credit will expire after tax years beginning in 2009.

Public Act 319 of 2004 amends the Single Business Tax Act to create a tax credit that is equal to a percentage of compensation paid to employees in “created jobs” in technology and manufacturing industries. The applicable percentage is tied to new capital investments made by the business within Michigan during the tax year. The credit is available for tax years beginning during 2005.

### **Insurance Company Retaliatory Tax**

Effective August 3, 1987, the Michigan tax on insurance premiums was replaced with a tax on gross receipts. The tax is levied on all insurers under the SBT and the rate is 1.0735 percent for tax year 2004. Foreign companies are also subject to a retaliatory tax, which requires them to pay the same tax that a Michigan-based insurer would have to pay in the firm’s home state. Foreign insurers pay the SBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$243.0 million for FY 2006; revenue goes to the State General Fund.

### **FY 2006 Estimate**

#### **Supplemental Workers Compensation Credit**

\$561,000

Provides a credit to out-of-state insurers for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Other firms claim an SBT credit. Previously, firms were reimbursed for these costs through the appropriations process.

### **Oil and Gas Severance Tax**

Enacted in 1929, the oil and gas severance tax is levied on the privilege of producing oil and gas. The base is the gross cash market value of oil and gas that is severed from the ground. The tax rate is 6.6 percent for normal oil production, 5.0 percent for natural gas production, and 4.0

percent for stripper wells and marginal properties. The estimated yield is \$49.0 million for FY 2006; revenue goes to the State General Fund.

**FY 2006 Estimate**

**Marginal Wells** \$2,541,000  
Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.

**Public Land** \$3,064,000  
Exempts oil and gas severed from publicly-owned lands from taxation.

**SBT Expenditures**

Enacted in 1976, the SBT was enacted as a consumption-type, value-added tax that has numerous adjustments to provide tax relief to businesses. A value-added tax is a levy on the value firms add to goods and services purchased from other firms. The SBT base is equal to the sum of business income, labor compensation, net interest, and depreciation. Deductions and credits are then applied to determine final tax liability. Public Act 531 of 2002 repealed the SBT for tax years beginning after 2009. The estimated yield for FY 2006 is \$1,905.2 million; revenue goes to the State General Fund.

SBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the gross receipts reduction and the excess compensation reduction. Because most estimates were derived assuming no interaction between tax expenditures, most estimates should not be interpreted as the tax revenue that would be realized if a particular exemption were eliminated. Exhibit 13 presents a breakdown for certain SBT tax expenditures based on calendar year returns for 2000 and returns for fiscal years ending in December 1999 through November 2000.

**FY 2006 Estimate**

**Agricultural Producers** \$11,297,000  
Exempts agricultural production from the SBT.

**Apprenticeship Tax Credit** \$825,000  
Provides an SBT credit equal to 50 percent of the salary, wage and fringe benefits, plus 100 percent of classroom and related expenses for apprentices employed by businesses. The credit may not exceed \$4,000 per apprentice per year for apprentices in the tool and die industry or \$2,000 per apprentice per year for other industries.



**FY 2006 Estimate**

<b>Brownfield Zone Credit</b>	\$60,348,000
Permits firms to claim an SBT credit equal to 10 percent of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in brownfield development zones.	
<b>Business Loss Deduction</b>	\$51,268,000
Permits a business that had a negative adjusted tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted tax bases may be carried forward for up to 10 years.	
<b>Community Foundation Credit</b>	\$770,000
Provides a 50 percent credit for contributions made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to 5 percent of tax liability before credits or \$5,000, whichever is less.	
<b>Compensation Exemption</b>	\$151,274,000
Removes unemployment insurance, workers' compensation, and social security payments from the SBT tax base.	
<b>Corporate Farm Property Tax Credit</b>	\$1,405,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Part 361 of Public Act 451 of 1994.	
<b>Donated Vehicle Credit</b>	\$473,000
Provides a credit equal to 50 percent of the fair market value up to \$100 per vehicle of vehicles donated to qualified organizations.	
<b>Enterprise Zone Credit</b>	\$903,000
Provides a credit for tax liability attributable to qualified business activity in an enterprise zone established before 1994. The city of Benton Harbor is the only enterprise zone under the Enterprise Zone Act (Public Act 224 of 1985) established before 1994. The Benton Harbor Enterprise Zone program ceased to enlist new businesses after December 31, 1996.	

	<b><u>FY 2006 Estimate</u></b>
<b>Excess Compensation Reduction</b>	\$218,293,000
<p>Reduces the adjusted tax base by the percentage that labor compensation exceeds 63 percent of the total tax base, providing relief for labor-intensive businesses. This estimate accounts for interaction with the gross receipts deduction. In FY 2001, 49,396 firms used this provision. (See Exhibit 13.)</p>	
<b>Floor Plan Interest Deduction</b>	\$1,500,000
<p>Provides a deduction for interest payments on credits made by a motor vehicle manufacturer to a retailer to defray the retailer's expense of maintaining inventory of cars.</p>	
<b>Government Utilities Exemption</b>	\$15,219,000
<p>Exempts the value added of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.</p>	
<b>Gross Receipts Reduction</b>	\$160,512,000
<p>Reduces the adjusted tax base by the amount the tax base exceeds 50 percent of adjusted (apportioned) gross receipts. This estimate accounts for interaction with the excess compensation deduction. In FY 2001, 19,735 taxpayers used this filing method. (See Exhibit 13.)</p>	
<b>Gross Receipts Threshold</b>	\$80,034,000
<p>Exempts from the SBT firms with adjusted (apportioned) gross receipts less than \$250,000, and \$350,000 for tax years beginning after 2002.</p>	
<b>Health Insurance Deduction</b>	\$22,200,000
<p>Provides a deduction for payments made to health benefit plans that provide benefits to Michigan residents. For tax years beginning in 2004, 5 percent of payments are deductible. The deductible percentage increases to 20 percent for 2005, 40 percent for 2006, and 50 percent for tax years beginning after 2006.</p>	
<b>Higher Education Contribution Credit</b>	\$2,008,000
<p>Provides a 50 percent credit for contributions made to Michigan colleges, libraries, public broadcasting stations, and other educational institutions. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less. In FY 2001, 1,709 taxpayers used this credit. (See Exhibit 13.)</p>	

**Exhibit 13**  
**Single Business Tax Expenditures by Liability Class, 2000-2001\***  
 (Amounts in thousands)

Tax Liability Class (in thousands)	Excess Compensation Reduction		Gross Receipts Reduction		Investment Tax Credit	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Less than \$0.1	7,717	\$12,107.7	476	\$1,725.0	15,578	\$114,172.5
\$0.1 - \$0.5	3,956	1,829.9	220	588.1	4,219	2,012.6
\$0.5 - \$1.0	2,945	2,068.4	306	582.3	4,619	2,121.5
\$1.0 - \$5.0	12,608	18,076.1	8,092	28,145.4	14,875	7,574.3
\$5.0 - \$10.0	7,337	21,220.3	4,608	22,780.0	5,251	3,904.9
\$10.0 - \$50.0	11,169	83,453.4	4,687	60,469.8	8,579	11,406.5
\$50.0 - \$100.0	1,961	40,859.6	710	26,476.7	1,668	6,292.7
\$100.0 - \$500.0	1,481	77,985.1	542	63,747.8	1,392	24,250.2
\$500.0 - \$1,000.0	139	23,283.2	57	21,193.4	156	11,557.4
Over \$1,000	83	45,616.2	37	51,939.9	116	137,554.9
<b>TOTAL</b>	<b>49,396</b>	<b>\$326,500.1</b>	<b>19,735</b>	<b>\$277,648.5</b>	<b>56,453</b>	<b>\$320,847.6</b>

Tax Liability Class (in thousands)	Small Business Credit		Unincorporated Business Credit		Higher Education Contribution Credit	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Less than \$0.1	10,636	\$25,346.8	2,500	\$401.4	n.a.	n.a.
\$0.1 - \$0.5	6,399	11,081.6	7,152	\$446.4	32	\$0.6
\$0.5 - \$1.0	7,054	14,453.8	7,204	\$982.7	n.a.	n.a.
\$1.0 - \$5.0	17,044	44,038.4	23,991	\$8,081.9	266	32.0
\$5.0 - \$10.0	302	2,087.7	7,009	\$6,441.5	189	56.1
\$10.0 - \$50.0	27	615.0	7,443	\$21,083.3	581	413.4
\$50.0 - \$100.0	n.a.	n.a.	1,177	\$10,838.9	265	358.7
\$100.0 - \$500.0	n.a.	n.a.	789	\$18,571.1	247	737.8
\$500.0 - \$1,000.0	n.a.	n.a.	57	\$4,875.3	44	145.3
Over \$1,000	n.a.	n.a.	27	\$7,592.7	51	231.5
<b>TOTAL</b>	<b>41,463</b>	<b>\$97,626.9</b>	<b>57,349</b>	<b>\$79,315.2</b>	<b>1,709</b>	<b>\$1,980.8</b>

\*Data are from returns for firms with tax year ending in December 2000 through November 2001.

**FY 2006 Estimate**

**Historic Preservation Credit**

\$1,830,000

Public Act 534 of 1998 provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. Tax year 1999 was the first year the credit was available.

**Homeless Shelter/Food Bank Credit**

\$556,000

Provides a 50 percent credit for contributions made to a qualified homeless shelter, food bank, or food kitchen. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less.

**Insurers' Exemption From Gross Receipts**

\$1,267,000

Provides that the SBT base and adjusted tax base of an insurance company is equal to one quarter of the company's apportioned adjusted receipts. Formerly, the base was equal to one quarter of apportioned gross receipts, excluding receipts on the sale of annuities and on reinsurance transactions. The calculation of adjusted receipts also excludes interest, dividends, proceeds from the sale of assets, and certain other receipts from affiliated insurers, nonprofit corporations, or agents or employees of a company. The provision is retroactive to January 1, 1991.

**Insurers' Facility Assessment Credit**

\$81,282,000

Provides a credit for payments made to the Michigan workers' compensation placement facility, the Michigan basic property insurance association, the Michigan automobile insurance placement facility, the property and casualty guaranty association, and the life and health guaranty association.

**Investment Tax Credit**

\$131,575,000

For tax years beginning after 1999, Public Act 115 of 1999 replaces the capital acquisition deduction (CAD) with an investment tax credit (ITC). Public Act 44 of 2000 increased the ITC rate for smaller firms: 1.0 percent for firms with adjusted gross receipts (AGR) between \$2.5 and \$5 million, 1.5 percent for firms with AGR between \$1 and \$2.5 million, and 2.3 percent for firms with AGR of \$1 million or less. The ITC rate is reduced proportionally to the SBT rate cut. Under the ITC, taxpayers receive a credit for investment in tangible real and personal property located in Michigan and apportioned investment in mobile property wherever it is located. The switch from the CAD in effect for 1997-1999 with a 0.85 percent ITC was expected to be revenue neutral. This estimate takes account of interactions with other SBT provisions. In FY 2001, 56,453 firms claimed the ITC. (See Exhibit 13.)

	<b><u>FY 2006 Estimate</u></b>
<b>Iron Ore Credit</b> Provides a credit for taxpayers that consume qualified low-grade hematite in an industrial or manufacturing process.	\$1,400,000
<b>Michigan Economic Growth Authority (MEGA)</b> Provides a credit for new or expanding firms based on additional payroll costs or additional business activity costs associated with an expansion or new location.	\$41,657,000
<b>Minority Venture Capital Credit</b> Provides a 50 percent credit for investments in a minority venture capital company or federally-licensed small business investment company, if the company is certified as eligible by the Michigan Strategic Fund.	\$0
<b>Multiple Employer Welfare Arrangement</b> For tax years beginning after 2000, the portion of the SBT tax base attributable to a Multiple Employer Welfare Arrangement (MEWA) that provides only dental benefits and that is registered at the Michigan Office of Financial and Insurance Services is exempt from the SBT.	\$25,000
<b>New Hire Credit</b> Provides a credit equal to a percentage of compensation paid to new employees as a result of investment in technology and manufacturing industries. The applicable percentage is tied to new capital investments made by the business within Michigan during the tax year.	\$883,000
<b>Next Energy Credit</b> Allows an eligible taxpayer certified under the Michigan Next Energy Authority Act to claim both a nonrefundable and a refundable SBT credit for tax years beginning after December 31, 2002. The nonrefundable credit is based on the increase in qualified business activity realized since tax year 2001. The refundable credit is based on the taxpayer's qualified payroll amount.	\$8,749,000
<b>Nonprofit Organizations</b> Exempts the value added of most firms exempt from the federal corporate income tax.	\$116,260,000

	<b><u>FY 2006 Estimate</u></b>
<b>Officer Compensation</b>	\$3,226,000
Officer compensation paid by professional employer organizations (PEOs) is considered compensation of the PEO rather than compensation of the firm hiring the PEO.	
<b>Pharmaceutical Research Credit</b>	\$8,861,000
Taxpayers engaged in pharmaceutical research in Michigan may claim a credit equal to 6.5 percent of the taxpayer's increase in qualified expenses from pharmaceutical research activity in Michigan compared with their average qualified expenses from the same activity in the three preceding tax years.	
<b>Renaissance Zones</b>	\$8,762,000
Provides a credit for the portion of tax attributable to business activity in a renaissance zone.	
<b>Research Funds Exclusion</b>	\$76,000
Provides a deduction for certain research grants, to the extent the grant is included in federal taxable income.	
<b>Small Business-Low Profit Credit (Alternate Tax Rate)</b>	\$101,409,000
For qualifying firms, provides an SBT reduction when adjusted business income is less than 45 percent of the adjusted tax base. In FY 2001, 7,037 SBT filers claimed a small business-low profit credit. An additional 33,048 firms used the alternate tax rate method, paying tax on 2 percent of adjusted business income. (See Exhibit 13.)	
<b>Start-up Business Credit</b>	\$1,200,000
Provides a credit equal to the SBT liability for certain new businesses for up to five years if the business has no business income.	
<b>Statutory Exemption</b>	\$9,178,000
Provides an exemption of up to \$45,000. Partnerships receive an additional exemption of \$12,000 per partner up to a limit of \$48,000. This exemption is reduced by \$2 for every \$1 that modified business income exceeds these amounts.	

**FY 2006 Estimate**

**Supplemental Workers Compensation Credit**

\$3,443,000

Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Previously, firms were reimbursed through the appropriations process for these payments.

**Tribal Tax Agreements**

n.a.

Agreements between the State of Michigan and seven American Indian tribes clarify how the SBT will be applied to tribes, and resident tribal members within the specific areas of the state that are covered by the agreements.

**Unincorporated Business Credit**

\$95,022,000

Provides a credit with a ceiling of 20 percent of the SBT liability for business income up to \$20,000 and a floor of 10 percent for business income over \$40,000. This credit exists to provide a more equal treatment of business income.

In a corporation, business income may be divided into salaries, dividends, and retained earnings. While retained earnings are subject to the SBT, they are not subject to the individual income tax. However, the business income of an unincorporated business is subject to both single business and individual income taxes. This provision was used by 57,349 taxpayers in FY 2001. (See Exhibit 13.)

**Utility Property Tax Credit**

\$7,504,000

Provides a tax credit equal to 5 percent of the state utility property tax for telegraph and telephone companies.

## CHAPTER 5

### CONSUMPTION TAX EXPENDITURES

Consumption tax expenditures include tax expenditures associated with alcohol, cigarette, and sales and use taxes. Total consumption tax expenditures are projected to increase to \$13,010.7 million in FY 2006, a 6.0 percent increase over the FY 2005 level of \$12,275.6 million. The growth in sales and use tax expenditures associated with health care, construction, and professional, scientific, and technical services account for most of the growth between FY 2005 and FY 2006. Readers are cautioned that changes in the estimation methodology make comparisons between this version and previous versions of this report difficult. Sales and use tax expenditure estimates are based on FY 1999 through FY 2003 data. Alcohol and cigarette tax expenditure estimates were based on FY 2004 data.

- Estimate Reliability**
- (1) Alcohol and Cigarette Taxes  
Residential Utilities Exemption
  - (3) Other Sales and Use Tax Expenditures

Because firms' sales tax returns provide no information regarding most sales of exempt goods or services, sales and use tax expenditures are difficult to estimate. For example, because restaurants do not report the actual gratuities and tips their workers receive, it is not possible to accurately gauge the revenue lost from excluding these payments from the sales tax base. In this and many other instances, it was necessary to base estimates on restrictive assumptions. In addition, many estimates were based on national sales data apportioned to Michigan.

Cigarette tax expenditure estimates were based on recent wholesaler tax return data. These estimates are reliable.

#### Consumption Tax Expenditure Changes

Public Act 164 of 2004 amends the Tobacco Products Tax Act to raise the tax on cigarettes to \$2.00 per pack of 20 cigarettes and raise the tax on other tobacco products to 32 percent of the wholesale price, effective July 1, 2004. The Act also imposed an additional tax on inventory held for sale as of July 1.

Public Acts 172 through 175 of 2004 amend the General Sales and Use Tax Acts to establish Michigan's status as a conforming state in the Streamlined Sales Tax Project (SSTP). The SSTP attempts to simplify the administration of sales and use taxes across interstate jurisdictions while maintaining each state's autonomy to determine which items will be subject to tax. These Acts resulted in adopting the SSTP's uniform definitions and standards for interstate retailers desiring to participate under the SSTP. The Acts also maintained, to the extent possible, Michigan's existing tax structure.

Public Act 301 of 2004 amends the General Sales Tax Act to allow a qualified organization to exclude from its sales tax base proceeds from the sale of qualified automobiles to qualified



recipients. The qualifications for eligibility are referenced in the Act. The Act is designed to allow certain charitable organizations to sell automobiles to low-income families to assist them in finding and maintaining employment.

Public Act 312 of 2004 amends the Use Tax Act to exempt a qualified automobile that is provided to a qualified recipient from the use tax. The Act, along with Public Act 301 above, is designed to remove any sales or use tax liability from the sale or transfer of vehicles that will enable families that are eligible for public assistance to find and maintain employment.

Public Act 435 of 2004 amends the Use Tax Act to exempt the transfer of a vehicle from a church or house of religious worship to a qualified recipient. The Act is similar to Public Acts 301 and 312 in that it creates an exemption for transfers of vehicles to low-income individuals or families.

Public Act 544 of 2004 amends the General Sales Tax Act to reduce the amount of sales tax revenue from auto-related sales that is transferred to the Comprehensive Transportation Fund (CTF) for FY 2005. Under current law, not less than 4 percent of sales tax revenue collected at the 4 percent rate on sales of motor fuel, motor vehicles, and parts during FY 2005 is earmarked to the CTF. The Act reduces that amount by an additional \$10 million for 2005 only.

### Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2006 (millions of dollars).

<b>Alcohol Beverage Taxes (millions)</b>		
<b><u>Tax</u></b>	<b><u>Location of Deposit</u></b>	<b><u>FY 2006 Revenue</u></b>
Beer and Wine Excise	General Fund	\$52.5
4.0 Percent Liquor Excise	School Aid Fund	\$34.0
4.0 Percent Liquor Specific	General Fund	\$34.0
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	\$13.5
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$34.0

**FY 2006 Estimate**

<b>Beer Shipped Out-of-State</b>	n.a.
Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state.	
<b>Homemade Wine</b>	n.a.
Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.	
<b>Small Brewer's Credit</b>	\$100,000
Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced.	

**Tobacco Products Tax**

In 1947, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers. The tax rate is currently \$2.00 per pack of 20 cigarettes. Cigarette tax revenues are mainly distributed to the School Aid Fund, the Medicaid Benefits Trust Fund, and the General Fund-General Purpose account. In FY 2006, the tax on cigarettes will yield an estimated \$1,145.2 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$32.7 million.

**FY 2006 Estimate**

<b>Bad Debt Deduction</b>	\$800,000
Allows cigarette wholesalers to deduct any losses from bad debts.	
<b>Licensee Expenses</b>	\$17,500,000
Exempts 1.5 percent of the total tax due from licensees to cover their expenses in administering the tax.	
<b>Sales on Military Bases and Reservations</b>	\$10,566,000
Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.	
<b>Tribal Tax Agreements</b>	n.a.
Establishes the number of cigarettes that each tribe may obtain tax-free for the tribe's resident members, while requiring retailers in each tribal agreement area to limit tax-free sales to resident members.	

### State Convention Facility Development Tax

Public Act 106 of 1985 is known as the State Convention Facility Development Act. The Act levies a tax of 1.5 percent of the room charge on hotels with 81 to 160 rooms located in Wayne (excluding Detroit), Oakland, and Macomb Counties, and 5 percent on hotels with over 160 rooms. For Detroit, the tax rates are 3 and 6 percent. The Act became effective October 1, 1985. Revenue is dedicated to pay for qualified convention facilities, with excess revenue returned to Michigan counties.

#### FY 2006 Estimate

##### **Small Hotel Exemption**

n.a.

Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.

### Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield \$7,010.0 million in FY 2006. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. For fiscal years 2004 and 2005 only, the CTF will receive 4.0 percent of the sales tax collected on transportation-related items. For FY 2006 and following, the earmarking percentage reverts to 4.65 percent of the sales tax collected on transportation-related items. The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total \$1,425.5 million in FY 2006. Due to their complementary nature, sales and use tax expenditures are reported together.

#### FY 2006 Estimate

##### **Air and Water Pollution**

\$46,000,000

Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.

##### **Aircraft Parts**

\$8,570,000

Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.

	<b><u>FY 2006 Estimate</u></b>
<b>Bad Debts</b>	\$63,161,000
Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible.	
<b>Cargo Aircraft</b>	\$30,000,000
Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.	
<b>Church Construction</b>	\$3,200,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
<b>Church Cars</b>	\$4,331,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	
<b>Collection Fee</b>	\$16,548,000
Sales and use tax returns are due by the 15th of the month for sales made the previous month. A seller may retain 0.75 percent of the tax (not to exceed \$20,000) if proceeds are remitted by the 7th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 8th through the 15th of the month.	
<b>Commercial Domestic Aircraft</b>	\$5,000,000
Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	
<b>Commercial Vessels</b>	n.a.
Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce.	
<b>Communication and Telephone Exemption</b>	\$37,000,000
Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds.	
<b>Damaged Beer</b>	n.a.
Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale.	

**FY 2006 Estimate**

<b>Delayed Payment</b>	\$3,073,000
<p>Allows a delayed payment of the sales tax on certain construction materials that are purchased on credit. The cost of this exemption is an interest cost to the state resulting from the delayed receipt of the revenue. This exemption was created by Public Act 453 of 1998.</p>	
<b>Donated Property</b>	n.a.
<p>Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations.</p>	
<b>Donated Vehicles</b>	\$500,000
<p>Exempts certain vehicle transfers from the sales or use taxes when the vehicle is transferred from a qualifying organization to certain low-income families.</p>	
<b>Driver Training</b>	\$674,000
<p>Exempts property used for demonstration or driver training programs.</p>	
<b>Employee Meals</b>	\$8,223,000
<p>Exempts meals provided by employers to their employees starting in 2002.</p>	
<b>Enterprise Zone Credit</b>	n.a.
<p>Upon certification by the Enterprise Zone Authority, exempts qualified businesses from sales and use tax on property used in a qualified business activity in an enterprise zone.</p>	
<b>Food</b>	\$967,966,000
<p>Exempts food for human consumption, except prepared food intended for immediate consumption.</p>	
<b>Food for Students</b>	\$32,139,000
<p>Exempts sales of food by nonprofit schools or other similar educational institutions to students.</p>	
<b>Government or Red Cross</b>	\$186,578,000
<p>Exempts sales to the United States or agencies or instrumentalities wholly owned by the U.S.; the American Red Cross; and the State of Michigan, its departments, institutions, and political subdivisions.</p>	
<b>Gratuity and Tips</b>	\$60,946,000
<p>Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.</p>	

	<b><u>FY 2006 Estimate</u></b>
<b>Horticultural and Agricultural Products</b>	\$130,275,000
Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	
<b>Imported Property</b>	\$3,200,000
Exempts property that is not an aircraft purchased by a nonresident and brought into Michigan more than 90 days after purchase from the use tax. Property purchased by a resident and brought into the state more than 360 days after purchase receives a similar exemption.	
<b>Industrial Processing</b>	\$954,937,000
Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate only includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	
<b>Inmate Purchases</b>	\$638,000
Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	
<b>International Telecommunications</b>	\$21,855,000
Exempts international and WATTS calls from the use tax.	
<b>Interstate Trucks and Trailers</b>	\$40,292,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax. An exemption based on out-of-state usage would lower the tax expenditure to \$17,000,000.	
<b>Investment Coins</b>	\$400,000
Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins.	
<b>Isolated Sales</b>	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
<b>Military PX Sales</b>	\$1,833,000
Exempts military post-exchange sales.	

	<b><u>FY 2006 Estimate</u></b>
<b>Military Vehicle Sales</b> Exempts vehicle sales to nonresidents serving in the U.S. armed forces.	n.a.
<b>Military Vehicle Sales (Resident-Out-of-State)</b> Exempts an automobile purchased in another state by a Michigan resident in the military service who pays a sales tax in the state where the automobile is purchased.	n.a.
<b>Newspapers, Periodicals, and Films</b> Exempts sales of copyrighted motion picture films, newspapers, and periodicals.	\$105,332,000
<b>Nonprofit Ambulance and Fire Service</b> Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	n.a.
<b>Nonprofit Hospital or Housing Construction</b> Exempts tangible personal property used by contractors where the property is affixed to and made a structural part of the real estate of a nonprofit hospital or nonprofit housing.	\$10,890,000
<b>Nonprofit Organizations</b> Exempts sales to nonprofit schools, hospitals, homes for the care of children or aged persons, and other benevolent institutions operated by an entity of government, a regularly-organized church, a religious or fraternal organization, a veteran's organization, a nonprofit corporation, or a parent-cooperative preschool.	\$184,164,000
<b>Nonprofit Sales Under \$5,000</b> Exempts aggregate calendar year sales under \$5,000 for qualified nonprofit organizations.	n.a.
<b>Nonresident Merchandise Transfer</b> Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	n.a.
<b>Nonresident Property</b> Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	n.a.
<b>Ophthalmic and Orthopedic Products</b> Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	\$52,248,000

	<b><u>FY 2006 Estimate</u></b>
<b>Prescription Drugs</b> Exempts prescription drugs for human consumption.	\$599,272,000
<b>Radio and TV</b> Exempts sales to persons licensed to operate commercial radio or television stations when the property is used as a component of a film, tape, or recording produced for resale or transmission.	\$4,400,000
<b>Rail Rolling Stock</b> Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	\$1,690,000
<b>Residential Utilities</b> Exempts the residential use of electricity, natural gas, and home heating fuels from the two percent increase (May 1994) in the sales and use tax rate.	\$119,500,000
<b>Returned Vehicles</b> Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	\$1,100,000
<b>Sale of Business</b> Excludes from the use tax non-inventoried property purchased as part of a business.	n.a.
<b>Sale of Water</b> Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	\$68,454,000
<b>Services</b> Exempts services for items listed in the following table:	\$9,123,577,000



**Service Tax Expenditures, FY 2006  
(millions)**

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$5.0	\$0.0	\$5.0
Admin., Support, and Waste Mgmt.	896.3	9.3	905.6
Arts, Entertainment, and Recreation	183.4	37.5	220.9
Construction	2,181.6	0.0	2,181.6
Educational Services	29.3	221.3	250.6
Health Care and Social Assistance	1,024.0	1,719.6	2,743.6
Information	429.7	0.0	429.7
Other Services (except Public Admin.)	299.8	90.2	390.0
Professional, Scientific, and Technical	1,469.3	18.4	1,487.7
Real Estate and Rental and Leasing	390.4	0.0	390.4
Transportation and Warehousing	40.8	8.2	49.0
Utilities	<u>0.0</u>	<u>69.3</u>	<u>69.3</u>
<b>TOTAL</b>	<b>\$6,949.6</b>	<b>\$2,173.8</b>	<b>\$9,123.4</b>

Source: Calculations by the Tax Analysis Division using the *1997 Economic Census: Geographic Area Series, Michigan*, U.S. Department of Commerce. Totals may not equal other exhibits due to rounding.

**FY 2006 Estimate**

<b>Small Out-of-State Purchases</b>	n.a.
Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.	
<b>Telephone Services</b>	\$17,929,000
Exempts tangible personal property located on the premises of the subscriber and central office equipment or wireless equipment directly used in transmitting, receiving, or switching, or in the monitoring or switching or a two-way interactive device.	
<b>Textbooks Sold by Schools</b>	n.a.
Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program.	
<b>Tribal Tax Agreements</b>	n.a.
Exempts certain sales of tangible personal property to tribes and tribal members for use within a designated agreement area, while providing for increased collections on sales to non-members.	

**FY 2006 Estimate**

**Vehicle and Aircraft Transfers**

\$40,626,000

Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft.

**Vehicles Purchased for Use in Another State**

n.a.

Provides for an adjusted tax on the vehicles purchased in Michigan for use in another state. The sales tax is equal to what would have been paid if the vehicle had been purchased in the other state.

**Vending Machines and Mobile Facilities**

\$25,200,000

Exempts the portion of gross proceeds representing commissions paid to an entity otherwise exempt from the sales tax where the gross proceeds are from certain non-electric vending machines where consideration is 10 cents or less. Also exempts sales of nonalcoholic beverages, and items sold near room temperature from a mobile facility or vending machine.

## CHAPTER 6

### INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 2.7 percent from \$3,419.3 million in FY 2005 to \$3,511.4 million in FY 2006. Federal income tax expenditures are projected to decrease 0.2 percent from \$2,395.2 million in FY 2005 to \$2,391.3 million in FY 2006. Individual income tax expenditure estimates were based on tax year 2003 data.

- Estimate Reliability**
- (1) State Income Tax Expenditures
  - (3) Federal Income Tax Expenditures

State income tax expenditure estimates are reliable because they are based on actual individual tax returns for tax year 2003. In addition, most state income tax expenditures are credits that are relatively stable from year to year.

In contrast, federal income tax expenditure estimates are less reliable. Federal income tax expenditures are estimated by apportioning total (national) federal tax expenditure estimates to Michigan using a three-step formula (outlined later). Thus, Michigan federal income tax expenditure estimates will only be as reliable as federal government (national) estimates and the assumptions used to apportion those estimates to Michigan.

#### Individual Income Tax Expenditure Changes

Public Act 199 of 2004 amends the Income Tax Act to allow an automatic extension to file a Michigan income tax return and pay any liability due if the taxpayer was eligible for an automatic extension to file a federal return due to service in a combat zone.

Public Act 313 of 2004 creates a nonrefundable income tax credit within the Income Tax Act equal to 50 percent of the fair market value of certain automobile donations to qualified organizations. The amount of the credit is further limited to a maximum of \$50, or \$100 in the case of a married couple filing a joint return. The credit will sunset after tax year 2009.

Public Acts 363 and 364 of 2004 create the Military Family Relief Fund. This new fund will assist the families of Michigan residents serving in the armed forces who meet certain criteria of need established in the Acts. Each year the fund will receive contributions from a checkoff box on the Michigan income tax return.

Public Act 387 of 2004 amends the Michigan Education Savings Program (MESP) Act to allow trusts and estates to establish MESP accounts and to allow an account owner to transfer

ownership of an MESP account under certain circumstances. The Act also removes certain documentation requirements for withdrawals.

Public Act 394 of 2004 amends the Income Tax Act to make technical changes in the tax treatment of withdrawals from MESP accounts. Among the changes, the Act replaces the provision that prevented an income tax deduction for contributions to an MESP account once a qualified withdrawal had been made from the account with a new provision limiting the income tax deduction in any year to the amount contributed less any qualified withdrawal from the account.

### **State Income Tax Expenditures**

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. The tax rate was 4.1 percent for tax year 2002. The tax rate fell to 4.0 percent on January 1, 2003, and fell to 3.9 percent on July 1, 2004, completing the enacted rate reductions. For FY 2005, the State of Michigan will collect an estimated \$6,111.3 million in net income tax revenue. Income tax revenue goes to the School Aid Fund and General Fund.

State income tax expenditures include the state personal exemption, subtractions from income, and various state tax credits. In tax year 2003, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.0 percent to an average effective rate of 2.4 percent. (See Exhibits 14 through 18.)

#### **FY 2006 Estimate**

##### **Adjustments to Income**

\$1,498,012,000

Subtractions from income include interest on U.S. Government bonds and obligations, military pay and retirement benefits, income attributable to another state, most retirement and pension benefits, the portion of Social Security benefits included in AGI, income eligible for the federal elderly and disabled credit, and a portion of interest and dividend income of senior citizens not claiming a pension subtraction. Additions to income include interest on bonds or obligations issued by states other than Michigan and their political subdivisions. The net amount of additions and subtractions reduced taxable income by \$43.1 billion in calendar year 2003. This reduced 2003 income taxes by \$1,722.9 million.

##### **Adoption Credit**

\$1,200,000

Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. The federal credit is equal to 00 percent of the first \$10,000 dollars of adoption expenses. The Michigan adoption credit applies to the first \$1,200 in adoption expenses over the \$10,000 federal credit.

	<b><u>FY 2006 Estimate</u></b>
<b>Child Deduction</b> The child deduction, which was expanded by Public Act 42 of 2000, provides a deduction from AGI of \$600 for each dependent child 18 years or younger.	\$52,321,000
<b>City Income Tax Credit</b> Provides a credit to individuals for income taxes paid to cities. In the 2003 tax year, city income tax credits totaled \$34.1 million (see Exhibit 14).	\$33,794,000
<b>College Savings Account</b> Provides a deduction of up to \$10,000 for contributions to a Michigan Education Savings Program account. Earnings on an account and withdrawals made to pay qualified educational expenses are also exempt from taxation.	\$18,116,000
<b>Community Foundation Credit</b> Provides a credit for 50 percent of the contribution made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to \$100 for a single return or \$200 for a joint return.	\$3,409,000
<b>Dependent Exemption</b> Taxpayers claimed as a dependent on another taxpayer's return may not claim the full personal exemption for themselves when filing their own tax return. However, they may claim a dependent exemption equal to \$1,500. Public Act 301 of 2000 increased the dependent exemption from \$1,000 to \$1,500.	\$20,776,000
<b>Donated Vehicle Credit</b> Provides a credit to individuals equal to 50 percent of the fair market value of automobiles donated during the tax year to qualified organizations. The credit is limited to \$50 on a single return or \$100 on a joint return.	\$118,300
<b>Farmland Development Credit</b> Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses (see Exhibit 18 on page 61). This credit was expanded by Public Act 421 of 2000.	\$30,474,000

**FY 2006 Estimate**

**Higher Education/Public Contributions Tax Credit** \$28,500,000

Provides a credit against income tax liability for contributions to Michigan colleges and universities, public libraries, public broadcasting stations, the State Art in Public Places Fund, municipal art institutes, and the State of Michigan Museum. The credit is equal to 50 percent of these contributions, not to exceed \$100 for a single return or \$200 on a joint return. Credit for resident estates or trusts cannot exceed 10 percent of tax liability or \$5,000, whichever is less. For tax year 2003, the higher education/public contributions tax credit totaled \$25.1 million (see Exhibit 14).

**Historic Preservation Credit** \$551,000

Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.

**Holocaust Survivor Asset Recovery Deduction** n.a.

Public Act 181 of 1999 allows Holocaust survivors to subtract any income received as a result of a settlement of claims against any entity or individual for any recovered asset pursuant to the German act regulating unresolved property claims.

**Home Heating Assistance Credit** \$26,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2002, these credits totaled an estimated \$61.5 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$37,000 in FY 2004.

**Exhibit 14  
Selected Individual Income Tax Expenditures, CY 2003**

<b>Adjusted Gross Income</b>	<b>MI - 1040s</b>		<b>City Income Tax Credit</b>		<b>Education Tax Credit</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
Less Than \$2,000*	422,390	9.2%	12,249	\$97,872	2,180	\$119,724
2,001 - 4,000	186,632	4.1%	24,635	193,978	2,171	81,253
4,001 - 6,000	177,862	3.9%	27,313	303,563	2,674	116,834
6,001 - 8,000	170,228	3.7%	28,007	382,608	2,889	141,871
8,001 - 10,000	157,055	3.4%	26,723	435,049	2,919	149,997
10,001 - 12,000	155,213	3.4%	26,832	491,707	3,347	180,766
12,001 - 14,000	145,722	3.2%	26,572	553,779	3,389	200,854
14,001 - 16,000	140,510	3.1%	26,262	590,076	3,645	215,985
16,001 - 18,000	133,509	2.9%	26,145	645,681	3,804	234,285
18,001 - 20,000	126,754	2.8%	26,477	722,723	3,812	238,106
20,001 - 25,000	288,993	6.3%	65,307	1,956,454	9,871	639,731
25,001 - 30,000	258,454	5.6%	59,780	1,994,988	10,448	695,045
30,001 - 35,000	227,906	5.0%	51,232	1,821,165	11,105	759,808
35,001 - 40,000	200,658	4.4%	46,289	1,726,486	11,135	792,069
40,001 - 45,000	181,506	4.0%	43,468	1,717,212	11,620	844,221
45,001 - 50,000	162,907	3.6%	38,997	1,591,824	11,568	862,891
50,001 - 55,000	150,904	3.3%	36,464	1,515,459	11,803	892,990
55,001 - 60,000	141,495	3.1%	35,277	1,532,315	11,854	924,837
60,001 - 70,000	248,923	5.4%	63,730	2,858,201	23,138	1,880,077
70,001 - 80,000	202,833	4.4%	52,269	2,413,482	21,796	1,897,754
80,001 - 90,000	158,879	3.5%	42,101	2,023,474	19,761	1,753,948
90,001 - 100,000	120,681	2.6%	32,463	1,617,941	16,857	1,568,971
Over 100,000	<u>415,821</u>	<u>9.1%</u>	<u>103,716</u>	<u>6,934,197</u>	<u>87,321</u>	<u>9,858,648</u>
<b>TOTAL</b>	<b>4,575,835</b>	<b>100.0%</b>	<b>922,308</b>	<b>\$34,120,233</b>	<b>289,107</b>	<b>\$25,050,665</b>

\*Includes 205,840 credit-only returns (zero income).

**FY 2006 Estimate**

**Homestead Property Tax Credit**

\$794,392,000

Provides a refundable credit against income tax liability for property tax paid. In most cases, this credit is 60 percent of the amount by which property taxes exceed 3.5 percent of household income. Renters may use 20 percent of the rent paid to approximate their property tax, and then calculate their credit as above.

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2003, homestead credits, excluding the farmland credit itemized separately, totaled \$719.3 million (Exhibit 18). Of the homestead credits, 55.2 percent went to general taxpayers, 40.4 percent went to senior citizens, and the remaining 4.4 percent went to veterans and blind and disabled persons.

**Homeless/Food Bank Credit**

\$20,880,000

Provides a credit for 50 percent of the donations made to homeless shelters, food banks, and food kitchens. The credit is limited to \$100 for a single return or \$200 for a joint return.

**Other State Tax Credit**

\$35,518,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2003, taxpayers claimed \$32.9 million in credits.

**Personal Exemption**

\$927,176,000

Exempts \$3,100 (tax year 2003) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption increases in \$100 increments based on the rate of inflation. For tax year 2004, the personal exemption will be \$3,100. The personal exemption reduced tax year 2003 revenue by approximately \$980.3 million.

The distribution of effective exemptions across AGI classes is outlined in Exhibit 15. Effective exemptions are exemptions that offset actual income.



**FY 2006 Estimate**

**Renaissance Zones**

\$300,000

Public Act 376 of 1996 establishes Renaissance Zones. Public Act 98 of 1999 allows for the designation of 10 additional zones. Public Act 139 of 1999 lets the communities with zones designated in 1996 establish new subzones and extend the tax cuts in their subzones. The Income Tax Act exempts residents of the zones from tax on most types of income. Special provisions apply to capital gains, interest, dividend, and lottery income.

**Special Exemption**

\$39,955,000

Allows a taxpayer and his or her spouse to each claim a \$2,000 exemption for tax year 2004 if they are seniors or disabled. Taxpayers who are both a senior and a disabled person may claim two exemptions. Taxpayers may also claim an exemption for disabled or senior dependents. These exemptions are adjusted periodically for inflation.

**Tribal Tax Agreements**

n.a.

Exempts all non-business income of resident tribal members from the income tax. Business income will be allocated based on the percentage of business activity that takes place within tribal and trust lands.

**Tuition Credit**

\$5,892,000

Provides a credit equal to eight percent of college tuition costs for residents who earn less than \$200,000 annually provided the host college or university increases tuition and fees no more than the rate of inflation. The maximum credit is \$375 per student.

**Exhibit 15**  
**Selected Individual Income Tax Expenditures by Income Class, CY 2003**

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions <sup>(1)</sup>	
	Number	Percent	Number	Amount	Number	Amount
Zero Income <sup>(2)</sup>	255,520	5.6%	26,483	\$16,083,169	0	\$0
\$0 - 2,000	166,870	3.6%	17,913	8,437,081	22,797	2,826,831
2,001 - 4,000	186,632	4.1%	23,728	9,870,037	67,593	8,381,533
4,001 - 6,000	177,862	3.9%	30,375	12,571,622	86,596	10,737,917
6,001 - 8,000	170,228	3.7%	38,135	16,272,967	120,650	14,960,601
8,001 - 10,000	157,055	3.4%	39,016	16,916,433	133,078	16,501,731
10,001 - 12,000	155,213	3.4%	43,192	18,876,701	162,063	20,095,770
12,001 - 14,000	145,722	3.2%	41,248	17,694,525	164,052	20,342,487
14,001 - 16,000	140,510	3.1%	41,230	17,264,586	170,481	21,139,660
16,001 - 18,000	133,509	2.9%	40,353	16,421,852	173,645	21,531,997
18,001 - 20,000	126,754	2.8%	40,429	16,217,669	180,434	22,373,810
20,001 - 25,000	288,993	6.3%	95,370	37,742,702	452,543	56,115,390
25,001 - 30,000	258,454	5.6%	83,822	33,025,467	403,141	49,989,448
30,001 - 35,000	227,906	5.0%	69,744	28,047,093	395,077	48,989,499
35,001 - 40,000	200,658	4.4%	57,671	23,967,884	375,366	46,545,328
40,001 - 45,000	181,506	4.0%	48,719	21,098,224	368,671	45,715,165
45,001 - 50,000	162,907	3.6%	39,991	17,904,759	352,535	43,714,346
50,001 - 55,000	150,904	3.3%	33,901	15,767,910	347,231	43,056,683
55,001 - 60,000	141,495	3.1%	29,358	14,022,697	339,761	42,130,318
60,001 - 70,000	248,923	5.4%	46,283	22,985,778	630,472	78,178,528
70,001 - 80,000	202,833	4.4%	32,801	14,218,457	545,632	67,658,421
80,001 - 90,000	158,879	3.5%	8,219	1,398,816	445,145	55,197,938
90,001 - 100,000	120,681	2.6%	234	113,003	348,898	43,263,363
Over 100,000	<u>415,821</u>	<u>9.1%</u>	<u>477</u>	<u>281,449</u>	<u>1,619,578</u>	<u>200,827,642</u>
<b>TOTAL</b>	4,575,835	100.0%	928,692	\$397,200,881	7,905,439	\$980,274,407

<sup>(1)</sup> Effective exemptions in this exhibit are personal exemptions that offset exemptions.

This number does not include disabled and other special exemptions.

<sup>(2)</sup> Includes 205,840 credit-only returns.

**Exhibit 16**  
**Effective Income Tax Rates by Income Class, CY 2003<sup>(1)</sup>**

<u>Adjusted Gross Income</u>	<u>Total Adjusted Gross Income</u>	<u>Total Income Tax Paid</u>	<u>Effective Tax Rate</u>
Zero Income <sup>(2)</sup>	(\$2,442,385,845)	(\$102,651,079)	
\$0 - 2,000	171,566,820	(38,416,826)	-22.39%
2,001 - 4,000	559,101,329	(26,323,260)	-4.71%
4,001 - 6,000	887,391,406	(23,142,741)	-2.61%
6,001 - 8,000	1,191,391,903	(24,003,017)	-2.01%
8,001 - 10,000	1,412,829,184	(19,957,184)	-1.41%
10,001 - 12,000	1,705,471,630	(16,528,012)	-0.97%
12,001 - 14,000	1,893,785,825	(7,107,299)	-0.38%
14,001 - 16,000	2,107,392,450	1,745,895	0.08%
16,001 - 18,000	2,268,677,191	11,298,449	0.50%
18,001 - 20,000	2,407,167,775	20,658,045	0.86%
20,001 - 25,000	6,487,644,758	87,275,502	1.35%
25,001 - 30,000	7,099,285,807	124,504,254	1.75%
30,001 - 35,000	7,396,884,783	147,859,149	2.00%
35,001 - 40,000	7,515,961,958	164,940,138	2.19%
40,001 - 45,000	7,705,348,766	180,817,258	2.35%
45,001 - 50,000	7,734,076,302	189,551,615	2.45%
50,001 - 55,000	7,918,425,042	200,652,011	2.53%
55,001 - 60,000	8,133,248,513	213,752,813	2.63%
60,001 - 70,000	16,143,900,133	440,445,253	2.73%
70,001 - 80,000	15,174,422,152	435,770,616	2.87%
80,001 - 90,000	13,472,019,754	411,126,067	3.05%
90,001 - 100,000	11,431,210,232	357,939,930	3.13%
Over 100,000	<u>94,696,077,021</u>	<u>2,531,924,201</u>	<u>2.67%</u>
<b>TOTAL</b>	<b>\$223,070,894,889</b>	<b>\$5,262,131,778</b>	<b>2.36%</b>
Effective rate excluding zero income AGI and Taxes Paid			2.38%
Effective rate excluding zero income AGI			2.33%

(1) Values in this table are based on a sample of the 4,369,995 MI-1040 and MI-1040CR returns.

(2) Includes 205,840 credit-only returns (zero income).

**Exhibit 17**  
**Tax Expenditures as a Percent of Adjusted Gross Income, CY 2003**

<b>Adjusted Gross Income</b>	<b>Effective Exemptions<sup>(1)</sup></b>	<b>Adjustments to Income</b>	<b>Nonrefundable Credits<sup>(2)</sup></b>	<b>Prop. Tax Credits</b>
Less Than \$2,000	346.1%	24.1%	-3.5%	449.7%
2,001 - 4,000	118.4%	15.1%	-0.8%	115.4%
4,001 - 6,000	81.7%	20.9%	0.2%	82.5%
6,001 - 8,000	67.7%	21.3%	0.2%	73.0%
8,001 - 10,000	59.1%	24.8%	0.8%	61.9%
10,001 - 12,000	54.0%	25.2%	0.9%	53.2%
12,001 - 14,000	46.9%	25.7%	1.0%	44.3%
14,001 - 16,000	42.0%	25.7%	1.0%	37.0%
16,001 - 18,000	37.9%	24.0%	1.0%	31.3%
18,001 - 20,000	34.6%	21.0%	1.2%	26.8%
20,001 - 25,000	29.6%	17.8%	1.2%	20.9%
25,001 - 30,000	24.4%	18.5%	1.1%	15.7%
30,001 - 35,000	21.0%	17.3%	1.1%	12.4%
35,001 - 40,000	19.0%	16.0%	1.1%	10.2%
40,001 - 45,000	17.7%	14.8%	1.1%	8.5%
45,001 - 50,000	16.7%	14.4%	1.1%	7.2%
50,001 - 55,000	15.8%	14.1%	1.1%	6.2%
55,001 - 60,000	14.9%	13.3%	1.1%	5.3%
60,001 - 70,000	13.9%	12.8%	1.2%	4.3%
70,001 - 80,000	12.7%	11.9%	1.2%	2.7%
80,001 - 90,000	11.6%	10.9%	1.3%	0.3%
90,001 - 100,000	10.6%	10.1%	1.2%	0.0%
Over 100,000	4.5%	26.4%	0.9%	0.0%

- (1) The effective exemption number includes special exemptions (e.g., disabled exemption).
- (2) Income tax credits were divided by the tax rate (4.0%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, and the homeless food bank credit.

**Exhibit 18**  
**Property Tax Credits by County, CY 2003**

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	600	\$171,000	400	\$196,600	100	\$5,000
ALGER	400	124,800	300	133,200	< 50	4,200
ALLEGAN	7,200	2,709,800	3,300	2,083,400	100	11,500
ALPENA	1,900	516,400	1,600	762,700	100	11,500
ANTRIM	1,600	607,300	1,100	741,200	< 50	5,100
ARENAC	1,000	331,600	700	383,800	< 50	3,700
BARAGA	300	79,000	200	100,800	< 50	5,100
BARRY	3,100	1,145,500	1,700	998,900	100	5,100
BAY	8,500	2,714,800	5,900	3,422,000	200	29,100
BENZIE	1,000	362,300	600	356,500	< 50	3,700
BERRIEN	12,000	3,833,900	6,700	3,669,200	200	17,500
BRANCH	2,900	981,000	1,500	868,800	100	6,800
CALHOUN	11,900	4,173,400	6,000	3,781,400	200	27,500
CASS	2,200	762,200	1,500	819,200	100	5,400
CHARLEVOIX	2,200	807,200	1,200	734,600	< 50	3,600
CHEBOYGAN	1,500	447,900	800	412,300	100	7,800
CHIPPEWA	3,500	793,900	1,000	452,600	200	17,000
CLARE	1,700	469,700	900	380,300	100	6,200
CLINTON	4,100	1,737,600	2,200	1,467,200	< 50	3,200
CRAWFORD	600	167,000	300	133,200	< 50	3,500
DELTA	2,200	652,400	1,400	647,600	200	23,700
DICKINSON	1,600	463,100	1,300	729,600	100	16,800
EATON	10,500	4,123,600	5,100	3,405,600	100	12,500
EMMET	2,900	1,058,600	1,400	896,300	< 50	3,800
GENESEE	36,700	12,314,000	14,400	8,080,000	400	50,000
GLADWIN	1,400	454,700	1,100	534,700	100	6,200
GOGEBIC	600	148,400	600	226,400	100	21,100
GRAND TRAVERSE	8,400	3,247,300	3,900	2,699,900	100	10,600
GRATIOT	2,100	741,000	1,400	743,800	100	7,000
HILLSDALE	2,800	998,400	1,500	813,000	100	7,100
HOUGHTON	1,300	379,100	900	398,600	100	16,300
HURON	2,600	1,237,100	2,600	1,719,100	100	6,200
INGHAM	33,600	13,934,800	10,200	7,434,600	200	22,000
IONIA	3,700	1,343,400	1,800	1,037,900	100	5,900
IOSCO	1,500	411,500	1,100	488,100	200	14,900
IRON	500	131,400	500	190,500	100	12,200
ISABELLA	5,000	1,863,500	1,900	1,241,400	100	6,100
JACKSON	11,100	3,847,900	5,100	2,842,600	200	22,300
KALAMAZOO	23,500	8,302,600	8,900	5,764,500	200	25,500
KALKASKA	1,000	296,800	500	239,600	< 50	3,200
KENT	53,700	19,323,000	20,300	12,709,800	400	43,000
KEWEENAW	100	22,900	0	17,000	< 50	1,400

**Exhibit 18 (Continued)**

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	600	\$153,300	400	\$154,800	< 50	\$5,000
LAPEER	5,400	2,174,900	2,400	1,389,200	100	5,600
LEELANAU	1,100	496,600	900	660,200	< 50	1,800
LENAWEE	7,300	2,812,800	4,200	2,715,900	100	9,600
LIVINGSTON	600	153,300	400	154,800	< 50	5,000
LUCE	300	60,900	100	24,600	< 50	3,600
MACKINAC	1,200	304,300	400	192,900	< 50	3,000
MACOMB	89,100	42,847,300	48,500	37,964,900	400	55,100
MANISTEE	1,400	480,400	1,200	605,900	100	9,200
MARQUETTE	3,300	831,700	1,700	777,100	300	35,100
MASON	2,000	647,900	1,400	785,300	100	6,600
MECOSTA	2,000	684,700	1,200	607,900	100	6,000
MENOMINEE	1,100	300,200	800	340,300	100	9,900
MIDLAND	5,500	1,936,800	2,700	1,679,100	100	12,900
MISSAUKEE	800	297,600	500	246,900	< 50	3,500
MONROE	9,200	3,524,500	5,400	3,312,500	100	13,700
MONTCALM	3,900	1,266,300	2,200	1,221,000	100	10,100
MONTMORENCY	500	131,800	300	126,400	100	4,200
MUSKEGON	13,400	4,288,600	6,800	3,846,700	300	30,500
NEWAYGO	2,700	979,100	1,500	874,500	100	6,400
OAKLAND	119,200	66,593,500	51,400	44,354,200	400	44,500
OCEANA	1,600	551,400	1,100	588,300	100	6,300
OGEMAW	1,200	366,700	900	395,500	100	7,400
ONTONAGON	300	64,100	200	77,300	< 50	5,800
OSCEOLA	1,300	408,200	800	403,700	100	7,700
OSCODA	300	91,300	200	59,500	< 50	1,900
OTSEGO	1,300	385,700	600	283,900	100	3,700
OTTAWA	18,800	6,912,100	9,600	6,227,900	100	14,700
PRESQUE ISLE	700	190,200	600	304,300	100	5,500
ROSCOMMON	1,600	486,100	1,200	521,300	100	7,200
SAGINAW	14,800	4,441,500	7,600	4,127,600	300	38,200
ST. CLAIR	14,600	5,631,500	7,500	4,952,400	200	24,100
ST. JOSEPH	3,700	1,177,100	2,000	1,030,400	100	8,800
SANILAC	3,100	1,266,700	2,100	1,296,900	100	8,800
SCHOOLCRAFT	500	102,800	200	61,200	< 50	4,800
SHIAWASSEE	5,600	1,873,100	3,000	1,673,600	100	11,200
TUSCOLA	3,800	1,360,500	2,400	1,485,300	100	13,600
VAN BUREN	6,100	2,203,500	3,200	2,079,900	100	8,500
WASHTENAW	37,100	19,785,300	10,300	9,046,500	100	14,500
WAYNE LESS DETROIT	111,800	56,133,500	56,300	47,134,800	500	70,600
WEXFORD	2,600	836,700	1,300	676,600	100	10,100
OUTSIDE OF MICHIGAN	16,300	7,301,300	9,000	6,731,800	200	19,300
DETROIT	127,200	52,210,200	31,700	21,918,600	500	125,600
<b>TOTAL</b>	<b>928,700</b>	<b>\$397,200,900</b>	<b>413,100</b>	<b>\$290,546,300</b>	<b>10,000</b>	<b>\$1,221,900</b>

**Exhibit 18 (Continued)**

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	100	\$19,300	< 50	\$13,200	1,100	\$405,200
ALGER	< 50	9,700	< 50	2,500	800	274,400
ALLEGAN	400	205,600	200	663,700	11,200	5,674,000
ALPENA	300	121,600	< 50	11,400	3,900	1,423,600
ANTRIM	100	57,500	< 50	29,400	2,800	1,440,400
ARENAC	100	45,400	100	210,200	1,900	974,700
BARAGA	< 50	15,000	< 50	0	600	200,000
BARRY	100	62,900	< 50	171,200	5,000	2,383,600
BAY	800	346,700	300	980,300	15,700	7,492,800
BENZIE	100	34,500	< 50	2,700	1,800	759,800
BERRIEN	1,100	491,800	100	298,100	19,900	8,310,600
BRANCH	200	81,900	200	615,600	4,800	2,554,200
CALHOUN	1,000	524,700	200	528,200	19,300	9,035,100
CASS	200	89,700	100	616,100	4,000	2,292,500
CHARLEVOIX	100	52,000	< 50	22,100	3,500	1,619,500
CHEBOYGAN	100	51,800	< 50	8,100	2,500	927,800
CHIPPEWA	200	59,100	< 50	17,500	4,800	1,340,100
CLARE	200	74,500	< 50	59,300	2,900	989,900
CLINTON	200	87,700	200	555,200	6,700	3,851,000
CRAWFORD	100	20,300	< 50	0	1,000	324,000
DELTA	300	100,200	< 50	63,000	4,100	1,487,000
DICKINSON	100	41,600	< 50	10,600	3,100	1,261,700
EATON	400	243,300	200	468,100	16,200	8,253,100
EMMET	100	63,200	< 50	5,200	4,400	2,027,000
GENESEE	3,100	1,535,600	100	189,000	54,700	22,168,500
GLADWIN	200	81,600	< 50	40,500	2,900	1,117,600
GOGEBIC	100	30,300	< 50	0	1,500	426,200
GRAND TRAVERSE	400	193,400	< 50	40,000	12,900	6,191,200
GRATIOT	200	60,700	500	1,186,400	4,200	2,738,900
HILLSDALE	200	112,200	200	505,300	4,800	2,436,000
HOUGHTON	100	44,300	< 50	0	2,500	838,400
HURON	200	91,300	1,000	4,008,800	6,500	7,062,500
INGHAM	1,800	1,009,000	200	836,100	45,900	23,236,500
IONIA	200	103,400	200	474,200	6,000	2,964,800
IOSCO	200	68,700	< 50	30,000	3,000	1,013,200
IRON	100	24,100	< 50	2,700	1,200	360,700
ISABELLA	300	118,700	100	351,600	7,400	3,581,300
JACKSON	800	383,700	100	248,700	17,200	7,345,200
KALAMAZOO	1,200	647,500	100	471,300	33,900	15,211,400
KALKASKA	100	24,300	< 50	100	1,600	564,000
KENT	2,300	1,272,800	100	413,400	76,900	33,761,900
KEWEENAW	< 50	4,400	< 50	0	100	45,800

**Exhibit 18 (Continued)**

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	100	\$35,400	< 50	\$4,700	1,100	\$353,200
LAPEER	300	135,300	100	184,600	8,200	3,889,500
LEELANAU	< 50	23,200	< 50	42,600	2,100	1,224,400
LENAWEE	500	248,000	500	1,688,800	12,600	7,475,200
LIVINGSTON	300	211,600	< 50	4,700	13,600	7,569,400
LUCE	< 50	5,200	< 50	0	400	94,300
MACKINAC	100	26,300	< 50	5,000	1,600	531,600
MACOMB	3,700	2,553,200	< 50	54,500	141,900	83,475,100
MANISTEE	200	61,800	< 50	7,800	2,900	1,165,200
MARQUETTE	300	119,200	< 50	7,600	5,600	1,770,800
MASON	200	66,000	< 50	127,200	3,700	1,632,900
MECOSTA	100	61,500	< 50	118,000	3,400	1,478,100
MENOMINEE	100	26,900	< 50	77,900	2,100	755,200
MIDLAND	400	162,200	100	146,500	8,800	3,937,500
MISSAUKEE	100	24,500	100	288,700	1,400	861,200
MONROE	700	341,000	200	514,600	15,500	7,706,400
MONTCALM	300	122,600	200	534,200	6,700	3,154,300
MONTMORENCY	100	22,800	< 50	5,300	1,000	290,500
MUSKOGON	1,400	634,900	100	204,500	21,800	9,005,200
NEWAYGO	300	133,200	100	222,500	4,700	2,215,600
OAKLAND	4,000	2,839,200	< 50	85,400	175,000	113,916,900
OCEANA	100	59,400	100	211,800	3,000	1,417,200
OGEMAW	200	63,800	< 50	81,300	2,400	914,800
ONTONAGON	< 50	10,800	< 50	1,600	500	159,700
OSCEOLA	100	54,000	100	126,000	2,400	999,700
OSCODA	100	16,200	< 50	1,200	600	170,100
OTSEGO	100	43,900	< 50	0	2,100	717,300
OTTAWA	800	380,200	200	885,500	29,500	14,420,500
PRESQUE ISLE	100	31,600	< 50	31,100	1,500	562,700
ROSCOMMON	200	83,100	< 50	9,200	3,100	1,106,900
SAGINAW	1,700	756,100	600	1,606,400	25,000	10,969,900
ST. CLAIR	900	466,100	100	126,600	23,200	11,200,700
ST. JOSEPH	300	118,100	200	611,400	6,200	2,945,900
SANILAC	200	110,900	500	1,360,000	6,100	4,043,300
SCHOOLCRAFT	< 50	9,700	< 50	4,000	700	182,500
SHIAWASSEE	400	199,800	200	556,600	9,500	4,314,300
TUSCOLA	300	146,500	700	2,652,900	7,400	5,658,800
VAN BUREN	500	234,500	100	431,000	10,000	4,957,500
WASHTENAW	1,200	799,400	100	574,400	48,800	30,220,100
WAYNE LESS DETROIT	5,500	3,894,900	< 50	85,000	174,000	107,318,800
WEXFORD	200	102,700	< 50	32,500	4,200	1,658,700
OUTSIDE OF MICHIGAN	1,200	672,400	100	219,600	26,700	14,944,300
DETROIT	9,200	5,486,800	< 50	4,000	168,600	79,745,200
<b>TOTAL</b>	<b>54,300</b>	<b>\$30,300,900</b>	<b>8,600</b>	<b>\$28,227,200</b>	<b>1,414,800</b>	<b>\$747,497,100</b>



## Federal Income Tax Expenditures

Michigan's income tax uses the federal definition of AGI as the starting point in calculating taxable income. Therefore, income sources excluded from AGI at the federal level are excluded automatically from state income taxation unless the state explicitly adds these items back. This section lists income sources that are not included in the federal definition of AGI and are not added back to Michigan taxable income.

Federal income tax expenditure estimates were derived using a three-step formula:

1. Federal (national) government tax expenditure estimate times Michigan's apportionment factor equals Michigan's share of federal government revenue loss.
2. Michigan's share of federal revenue loss divided by the average marginal tax rate for federal taxpayers equals Michigan income excluded from federal taxation.
3. Michigan income excluded from federal taxation times the state income tax rate equals Michigan's tax expenditure due to federal deductions or exemptions.

Federal government estimates are from the *Budget of the United States Government Fiscal Year 2005*. Previous editions of the *Tax Expenditure Report* have used tax expenditure estimates generated by the Joint Committee on Taxation. Generally, the estimates in the *Budget of the United States Government* are slightly larger than the estimates produced by the Joint Committee.

The apportionment factors for the various expenditures are based on relevant statistics from the Bureau of Economic Analysis, the U.S. Census Bureau, and other sources. Federal marginal tax rates are from the U.S. Department of Treasury.

The reader is again cautioned regarding the reliability of federal income tax expenditure estimates. The accuracy of these estimates is dependent upon the accuracy of federal estimates, apportionment factor estimates, and marginal tax rate estimates.

### **FY 2006 Estimate**

#### **Accelerated Depreciation**

- \$38,046,000

When a person buys property to be used in a business or to earn rent and the property has a useful life of more than one year, the cost of the property is typically depreciated over its expected life. For tax purposes, a person may deduct depreciation at an accelerated rate. Changes in federal tax law further increased deductions for depreciation into 2003 and 2004. Higher deductions in earlier years result in smaller future deductions, hence the negative estimate here.

**FY 2006 Estimate**

<b>Employer Contributions to Health and Life Insurance</b>	\$755,845,000
Exempts employer payments for employee medical insurance from taxation. Also exempts employer payments for life insurance premiums on the first \$50,000 of life insurance.	
<b>Employer Pension Plans</b>	\$784,030,000
Exempts employer payments into qualified employee pension plans from taxation.	
<b>Federal Adjustments to Income</b>	\$21,616,000
Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	
<b>Fellowships and Scholarships</b>	\$9,085,000
Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	
<b>Gain on Sale of Primary Residence</b>	\$156,990,000
Excludes from AGI a gain from the sale of a primary residence. To qualify for the full exemption, the taxpayer must have owned and lived in the home for at least two of the past five years and not claimed a similar exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.	
<b>Income Maintenance Benefits</b>	\$4,208,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
<b>Individual Retirement Accounts</b>	\$209,848,000
Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. In 1987, this deduction was reduced or eliminated for some taxpayers. Federal tax legislation enacted in 2001 increased the maximum contribution limit to \$3,000 for 2004. Only persons with an AGI below \$65,000 on a joint return (\$45,000 on a single return) or not covered by an employer retirement plan can take the full \$3,000 deduction. A partial deduction, phased out according to income, is available between \$65,000-\$75,000 for joint filers and \$45,000-\$55,000 for single filers.	
<b>Interest on Life Insurance Savings</b>	\$144,684,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	

	<b><u>FY 2006 Estimate</u></b>
<b>Medical Care Savings Account</b> Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	\$5,074,000
<b>Railroad Retirement Benefits</b> Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).	\$1,928,000
<b>Social Security Benefits</b> Exempts most social security benefits. Federal social security benefits are not taxable under federal law unless half of these benefits plus modified AGI exceed \$32,000 on a joint return or \$25,000 on an individual return. If benefits exceed this amount, a portion (generally no more than 50 percent but potentially up to 85 percent of social security benefits) is taxable under federal law.	\$223,628,000
<b>Student Loan Deduction</b> Allows a deduction for interest paid on qualified education loans. The Federal Taxpayer Relief Act of 1997 provides a maximum deduction of \$2,500 for tax year 2001 and following.	\$5,192,000
<b>Veterans' Benefits</b> Excludes veterans' benefits administered by the Veterans' Administration from AGI.	\$43,048,000
<b>Workers' Compensation</b> Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.	\$64,192,000

## CHAPTER 7

### TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 1.3 percent from \$53.0 million in FY 2005 to \$53.7 million in FY 2006. Transportation tax expenditure estimates were based on FY 2003 and FY 2004 data.

<b>Estimate Reliability</b>	(1)	Aviation Fuel Tax
		Motor Vehicle Registration Fee
		Watercraft Registration Fee
	(2)	Marine Vessel Fuel
		Motor Fuel Tax

Because most transportation tax expenditures require taxpayers to claim a refund from the state, transportation tax expenditure estimates have a relatively high degree of reliability. In addition, most of the estimates were based on recent data.

#### Transportation Tax Expenditure Changes

Public Act 472 of 2004 amends the Motor Carrier Fuel Tax Act to suspend for two years the provision that provides that a lessee and lessor of qualified commercial motor vehicles are jointly and severally liable for the payment of any tax due under the Act.

#### Aircraft Registration and Transfer Fee

In lieu of general or local property taxes on aircraft, the state levies an aircraft registration fee. The tax base is either the maximum gross weight or maximum take-off weight, whichever is greater. The registration fee is assessed at one cent per pound. The transfer fee is \$1. These fees will yield an estimated \$297,000 to the state's Aeronautics Fund in FY 2006.

#### Aviation Fuel Tax Expenditures

Enacted in 1929, the aviation fuel tax is a tax on fuel sold for propelling aircraft. It is levied on the privilege of using aviation facilities, and the rate is three cents per gallon. In FY 2006, the aviation fuel tax is projected to yield \$8.2 million, which is deposited into the state's Aeronautics Fund.

**FY 2006 Estimate**

**Federally-Owned Aircraft** \$266,000

Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.

**Interstate Flight Refund** \$3,380,000

Airlines that operate scheduled interstate flights receive a refund of 1.5 cents per gallon of aviation fuel used.

**Marine Vessel Fuel Tax Expenditures**

Enacted in 1947, the marine vessel fuel tax is levied on the privilege of operating vessels on navigable streams. The rate is 15 cents per gallon on diesel fuel. Two percent of gasoline sales is assumed to be for off-road use and is earmarked to the Recreation Improvement Fund. Not less than 80 percent of this amount is transferred to the Waterways Fund.

**FY 2006 Estimate**

**Marine Vessel Exemption** \$720,000

Exempts watercraft used: by federal, state, or local governments; for commercial fishing; by the Sea Scouts; in interstate or foreign commerce; by a railroad company; and in connection with an activity providing a person's chief means of livelihood from the tax on marine fuels.

**Motor Carrier Privilege Fee**

A \$100 fee is assessed on most vehicles operating on highways as common and contract carriers. Buses, trucks, or tractors used solely for the transportation of household goods pay a \$50 fee. The fee was enacted in 1929 for the privilege of using highways. Revenue is deposited into the Michigan Transportation Fund. There are no tax expenditures associated with this fee.

**Motor Fuel Taxes**

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum gas taxes. The tax rate on gasoline is 19 cents per gallon. The diesel fuel tax rate is 15 cents per gallon. Revenue is earmarked to the Michigan Transportation Fund, and distributed to the state, counties, and cities to maintain roads, and to the Comprehensive Transportation Fund to help finance public transportation. In FY 2006, motor fuel taxes will yield an estimated \$1,115.6 million.

	<b><u>FY 2006 Estimate</u></b>
<b>Diesel Fuel for Railroads</b> Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	n.a.
<b>Evaporation and Loss Allowance</b> The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.	\$14,680,000
<b>Fuel for Job Sites and Charter Firms</b> Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.	\$5,268,000
<b>Fuel for Off-Road Use</b> Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	\$973,000
<b>Municipal Franchise Vehicles</b> Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	\$413,000
<b>Public Vehicles</b> Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	\$13,500,000
<b>Tribal Tax Agreements</b> Provides for tribes to obtain tax-free motor fuel for use by the tribe, tribal entities, and resident tribal members. Sales to other parties made by tribal retailers will be fully taxed.	n.a.

### Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, passenger vehicles became taxable on their value instead of their weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2006, the motor vehicle registration fee is projected to yield \$899.3 million.

#### FY 2006 Estimate

<b>Disabled Veterans' Vehicles</b>	\$223,000
Provides totally disabled veterans free vehicle license plates.	
<b>Handicapper Vans</b>	n.a.
Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	
<b>Intercity Commercial Buses</b>	n.a.
Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.	
<b>Public and Nonprofit Vehicles</b>	\$14,300,000
Motor vehicles owned and operated by the state, a state institution, a municipality, a nonprofit college or university, or other nonprofit organization pay a lower rate of \$5 for license plates with a five-year registration period.	

### Watercraft Registration Fee

A fee is assessed on motorboats and other vessels operating in Michigan waters based on boat type and length. The fee was enacted in 1967. The Marine Safety Fund receives 49 percent of the revenue, the Waterways Fund receives 17.5 percent, and the Harbor Development Fund receives the remaining 33.5 percent. Registrations are valid for three years.

#### FY 2006 Estimate

<b>Publicly-Owned Watercraft</b>	\$14,100
Levies a special fee of \$1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.	

## CHAPTER 8

### PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 3.7 percent from \$9,422.5 million in FY 2005 to \$9,768.2 million in FY 2006. Estimates were based on FY 2003 and FY 2004 data.

<b>Estimate Reliability</b>	(1)	Railroad Right-of-Way
	(3)	Tax-Exempt Property
	(1-2)	Homestead Exemption for Farm and Homestead Property
		Other Local Taxes
		Technology Parks

Tax expenditure estimates attributable to tax-exempt property are not reliable due to the inherent difficulty of estimating values of tax-exempt properties within each of Michigan's 83 counties. County equalization directors provide these estimates based on their own estimates or surveys of local units. Estimates are somewhat arbitrary because equalization directors use different methods to derive estimates. In many cases, equalization directors did not provide estimates, and estimates from previous years were used. These latter cases are noted in the exhibits.

Other local tax expenditures include accommodations, city income, and city utility users' tax. For most of these categories, data were not available to estimate the statewide value of tax expenditures associated with these taxes. The two exceptions are the Nonresident Reduced Rate and Personal Exemption tax expenditures associated with the city income tax. These estimates were based on a survey of city treasurers and are relatively stable from year to year.

#### Property and Other Local Tax Expenditure Changes

Public Act 16 of 2004 amends the Renaissance Zone Act to allow a qualified local government to modify the boundaries of a rural renaissance zone to include an additional parcel of property. The Act previously allowed local governments to revise zone boundaries, but the provision expired after 2002. This public act would extend the deadline to June 30, 2004. Property inside a renaissance zone is exempt from local property taxes and the state education tax, and residents of the zone are exempt from the single business and individual income taxes.

Public Act 17 of 2004 amends the Local Development Financing Act to expand the definition of an urban township.

Public Act 79 of 2004 amends the General Property Tax Act to expand the criteria for local government bodies eligible to exempt any new personal property placed within certain districts within the state. Under the Act, an eligible distressed area would include an area that contains a



business that maintains 150 jobs at a facility, maintains 1,000 or more full-time jobs within Michigan, and makes new capital investment within Michigan.

Public Act 118 of 2004 amends the Accommodations Tax Act to allow a county to continue to collect the accommodations tax after the county ceases to meet the eligibility criteria contained in the Act as long as the county met those criteria when the ordinance was initially enacted.

Public Acts 244 and 245 of 2004 amend the General Property Tax Act to exempt real and certain personal property of an innovations center located in a certified technology park from property taxes. The exemptions apply to taxes levied after 2004 and must be approved by the governing body of the local tax unit.

Public Act 251 of 2004 amends the Obsolete Property Rehabilitation Act to exempt the real and personal property of a qualified start-up business from the obsolete property specific tax. The governing body of the local tax unit would need to approve the exemption each year and the exemption could be granted for up to 5 years.

Public Act 252 of 2004 amends the General Property Tax Act to exempt the real and personal property of a qualified start-up business from general property taxes. The governing body of the local tax unit would need to approve the exemption each year and the exemption could be granted for up to 5 years.

Public Act 321 of 2004 amends the Technology Park Development Act to provide an exemption from the technology park facilities tax for qualified start-up businesses. The exemption would need to be approved by the local governing body.

Public Act 322 of 2004 amends the City Utility Users Tax Act to exempt a qualified start-up business from the tax on intrastate telecommunications services, electrical energy, steam, and natural or artificial gas. To qualify for the exemption, a business would have to file an affidavit with the city treasurer confirming that the business meets the eligibility criteria. The exemption would then need to be approved by the local governing body. Detroit is the only city to levy the utility users tax.

Public Act 323 of 2004 amends the Plant Development and Industrial Development Act to exempt a speculative building, new facility, or replacement facility owned or operated by a qualified start-up business from the industrial facility tax. The exemption would need to be approved by the local governing body.

Public Act 324 of 2004 amends Public Act 189 of 1953 to exempt the real and personal property of a qualified start-up business from the tax levied on lessees and users of tax-exempt property used in a for-profit business. The exemption is subject to the approval of the local governing body and is part of a package designed to foster business development.

Public Act 530 of 2004 creates the Historical Neighborhood Tax Increment Finance Authority Act. Under the Act, a city or township in which a historic district is located may, under certain circumstances, create by ordinance a historic neighborhood tax increment finance authority. The

authority would be able to use tax revenue generated by increased property values to further economic development within the historic district.

Public Act 566 of 2004 amends the Neighborhood Enterprise Zone Act to allow an exception under certain circumstances to the Act's requirement that the application for a neighborhood enterprise zone certificate be filed prior to a building permit being issued.

### **Utility Property Tax Expenditures**

The State of Michigan levies a utility property tax on certain public utilities doing business in Michigan. The tax base is equal to 50 percent of the true cash value of all property owned by railroad, railroad car, and telephone and telegraph companies. Enacted in 1905, the utility property tax rate equals the average statewide general property tax rate in the preceding year on commercial and industrial property. Revenue is deposited into the General Fund, and FY 2006 collections are projected to total \$79.3 million.

#### **FY 2006 Estimate**

<b>Broadband Investment Credit</b>	\$23,900,000
Public Act 50 of 2002 provides a credit for the state utility property tax for a company that installs telecommunications equipment with information carrying capability exceeding 200 kilobits per second in both directions. This credit was intended to accelerate the introduction of broadband Internet access to Michigan.	
<b>Railroad Right-of-Way</b>	\$20,000,000
Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan.	

### **General Property Tax**

Enacted in 1893, Michigan's general property tax is the main source of revenue for local governments. The property tax is levied on a base of taxable value. Taxable value cannot increase in any one year by more than 5 percent or the rate of inflation, whichever is less (excluding transfers, new construction, and additions). Rates may vary by local unit, though each local unit's rate is subject to the State Constitution (Article IX, Sec. 6) and various statutes. The following table lists average statewide millage rates since 1990. The one-year reduction in the State Education Tax to 5 mills is responsible for the decline in average millage rates for 2003.

**Average Statewide Millage Rates**

<b>Calendar Year</b>	<b>Homestead Property</b>	<b>Nonhomestead Property</b>	<b>All Property</b>
1990	n.a.	n.a.	57.17
1991	n.a.	n.a.	57.34
1992	n.a.	n.a.	58.09
1993	n.a.	n.a.	56.64
1994	30.22	48.17	38.19
1995	31.00	48.79	38.88
1996	31.36	49.54	39.32
1997	31.36	49.63	39.25
1998	31.43	49.68	39.27
1999	31.40	49.76	39.16
2000	31.54	50.10	39.32
2001	32.12	50.72	39.78
2002	32.60	51.00	40.17
2003	31.81 (est)	49.74 (est)	39.00

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Nonhomestead millage rates from the Tax Analysis Division, Michigan Department of Treasury.

**FY 2006 Estimate**

**Agricultural Transfers**

\$30,400,000

Increases in the taxable value of property are capped at 5 percent or the rate of inflation, whichever is less. When ownership in property is transferred, the taxable value is set equal to the state equalized value, which is 50 percent of the true cash value. This provision exempts transfers of agricultural property from the “pop up” in taxable value when the new owner certifies that the property will continue to be used in agriculture.

**Air and Water Pollution Control**

\$140,000,000

Exempts air and water pollution control equipment from the property tax after approval and certification by the State Tax Commission.

**FY 2006 Estimate**

**Cultural Organizations**

n.a.

Exempts from the property tax real property owned and occupied by a nonprofit organization meeting specific requirements. Some of the requirements are that the organization must be: incorporated under state law; devoted exclusively to the development of literature, music, painting or sculpture; and available to the general public on a regular basis. The cost of this provision has not been estimated due to lack of data.

**Energy Conservation Devices**

\$480,000

Exempts energy conservation devices from property tax. This exemption must be approved and certified by the State Tax Commission.

**Enterprise Zone**

\$1,200,000

Exempts property owned by a qualified business in an Enterprise Zone established before 1994 (Benton Harbor) from ad valorem property tax and subjects it to a specific tax for a 10-year period. The Benton Harbor Enterprise Zone program ceased enlisting new businesses into the abatement program after December 31, 1996. Property located in a federally-designated zone is eligible for a five-year, 50 percent tax abatement on any increase in value, if authorized by the local government.

**Fairground Property**

n.a.

Exempts property owned by an agricultural society and used primarily for fair purposes.

**Homestead Exemption**

\$2,960,000,000

Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills. For most school districts 18 mills are assessed locally for school operations.

**Homestead Exemption for Farm Property**

\$140,000,000

Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses.

**FY 2006 Estimate**

**Industrial Facilities Development**

\$330,000,000

Allows local governments to grant property tax exemptions for up to 12 years to encourage the establishment of new industrial facilities and the creation, restoration, or replacement of obsolete facilities. In lieu of property tax, an industrial facilities tax is levied on industrial property (building, machinery, and equipment, but not land).

For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility, except that the full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 20 displays a partial estimate of the revenue foregone by local units due to industrial facilities development.

**Neighborhood Enterprise Zones**

\$7,100,000

Allows local units of government that participate in this program to grant property tax abatements. For new housing, the property tax rate is equal to one-half the statewide average millage rate. For rehabilitated housing, assessments are frozen so that the value of improvements is not taxed. Currently, eight cities participate in this program.

**Next Energy Exemption**

\$800,000

Provides an exemption for alternative energy personal property certified by the Michigan Next Energy Authority from personal property taxes. The exemption is intended to help promote the research, development, and manufacturing of alternative energy technologies in Michigan.

**Obsolete Property Rehabilitation Exemption**

\$2,300,000

Under the Obsolete Property Rehabilitation Act (OPRA), commercial buildings in qualified local governmental units may be granted an OPRA abatement certificate, which results in reduced property taxes on the increased value of renovated and redeveloped facilities. Estimate assumes that most proposed investments for certificates issued before 2004, takes place by the end of 2004.

**FY 2006 Estimate**

**Poverty Exemption** \$2,500,000

Provides an exemption for impoverished individuals who, in the judgement of the township supervisor and board of review, are unable to contribute towards the provision of public services.

**Renaissance Zones** \$80,000,000

Exempts individuals who are residents of a Renaissance Zone or a business that is located and conducts business activity within a Renaissance Zone from most property taxes.

**Tax-Exempt Property** \$2,085,000,000

Exhibit 20 reports the results from the 2004 County Survey of Tax-Exempt Property. The survey includes seven categories of tax-exempt property reported by county. These estimates of the taxable value of exempt property were provided by county equalization departments, as required by Public Act 155 of 1925. Exhibit 19 contains a map of Michigan's counties.

The total estimated taxable value of exempt property (not including tax-exempt property for industrial facility development) reported was \$39.3 billion. If taxed at the 2003 average nonhomestead statewide rate of 49.74 mills, tax-exempt property would have yielded \$1.95 billion in property tax revenue. The decline in the average statewide millage rate is due to the one-mill reduction in the State Education Tax for 2003.

Note: Tax-exempt property for Ingham and Wayne counties is not included in estimates. Both counties contain *substantial* tax-exempt property used for public education, state and federal government, municipal and personal purposes. Estimates for the various classifications of tax-exempt property are presented below.

**Tax-Exempt Acreage** n.a.

Exhibit 21 shows exempt nonprofit religious or educational property by county. Properties are exempt under Article IX, Sec. 4, of the State Constitution. Tax-exempt acreage totaled 371,803 acres in 2003.

**Tax-Exempt County and Municipal Property** \$314,000,000

Exempts real property owned by counties, townships, cities, villages, and school districts.

**Tax-Exempt Federal Property** \$386,000,000

Exempts real property belonging to the United States government.

**FY 2006 Estimate**

**Tax-Exempt Other Real Tax Exempt Property**

\$179,000,000

Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.

**Tax-Exempt Personal Property**

\$444,000,000

Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment.

Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, insurance companies, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.

**Tax-Exempt Public Education Property**

\$563,000,000

Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.

**Tax-Exempt Specifically-Taxed Property**

n.a.

Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure.

**Tax-Exempt State Property**

\$199,000,000

Exempts real property owned by the State of Michigan.

**FY 2006 Estimate**

**Tax Increment Financing**

\$300,000,000

Allows municipalities to create tax increment finance plans under the Downtown Development Authority Act, P.A. 197 of 1975; the Tax Increment Finance Authority Act, P.A. 450 of 1980; the Local Development Finance Authority Act, P.A. 281 of 1986; and the Brownfield Redevelopment Act, P.A. 381 of 1996. Each authority may capture millage from the general property tax and industrial and commercial facilities taxes. The captured revenue, which would normally accrue to the city, county, and school district, is diverted to finance commercial and industrial costs.

Estimates of the cost of tax increment financing assume that local units would have invested in projects without assistance from tax increment finance plans. To the extent these investments would not have occurred without funding through the tax increment finance plan, the tax expenditure estimates are overstated.

**Taxable Value Cap**

\$3,590,000,000

Limits the rate of increase in property tax assessments to 5 percent or the rate of inflation, whichever is less. Taxable value becomes 50 percent of true cash value when ownership is transferred.

**Veterans' Organizations**

n.a.

Exempts real and personal property owned and occupied by veterans' organizations. Previously, exemptions were limited to those buildings used as residences. Some revenue will be lost through the exemption, but only a few headquarters are currently on the tax rolls.

**Water Softeners and Water Coolers**

\$1,160,000

Exempts rented or leased water softener equipment and leased bottled water coolers from the personal property tax.

**Iron Ore Specific Tax**

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$3.4 million in FY 2004, \$0.7 million of which was remitted to the state. The state's share of the iron ore specific tax is deposited into the School Aid Fund. Public Act 443 of 2002 reduced the tax rate for five years to 0.75 percent.



### Exhibit 19 Counties of Michigan



**Exhibit 20**  
**Estimated Taxable Value of Exempt Real and Personal Property by County, 2004**  
**(Taxable Value in Thousands)**

County	Industrial	County			Public
	Facilities	Federal	State	and Municipal	Education
	Tax				
ALCONA	\$0	\$88,677	\$13,815	\$21,619	\$14,059
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN*	205,645	0	0	0	0
ALPENA	8,873	7,612	57,882	86,775	57,290
ANTRIM*	0	0	0	0	0
ARENAC	1,540	517	32,700	2,420	1,150
BARAGA	0	18,050	36,060	19,230	21,640
BARRY *	7,707	0	6,389	20,684	48,976
BAY*	144,357	15,669	13,958	19,377	212,856
BENZIE	0	33,116	85,394	20,320	5,463
BERRIEN	102,585	51,930	95,328	522,778	560,485
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN *	330,553	35,000	4,200	68,500	100,000
CASS *	23,121	0	46,075	116,775	116,813
CHARLEVOIX*	101,829	979	22,066	24,426	44,643
CHEBOYGAN	0	2,298	5,660	38,808	22,407
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE	5,783	827	22,313	3,071	33,102
CLINTON*	18,343	15	3,200	15,000	25,000
CRAWFORD *	2,775	28,545	230,000	6,233	21,150
DELTA	21,504	51,380	12,440	11,160	24,814
DICKINSON	3,969	7,800	9,100	7,900	28,000
EATON	106,513	474	173,576	132,415	130,585
EMMET	4,596	0	9,000	353	3
GENESEE	136,313	14,817	49,542	423,961	494,390
GLADWIN	3,888	50,000	22,000	11,500	30,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	7,909	2,750	15,000	85,000	66,800
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	56,214	272	650	20,505	71,500
HOUGHTON	5,075	12,720	80,160	7,925	94,700
HURON	56,841	39,400	10,542	85,700	0
INGHAM	236,263	n.a.	n.a.	n.a.	n.a.
IONIA	30,690	0	158,294	15,286	19,309
IOSCO	660,000	112,812	37,240	59,770	28,619
IRON	165	21,800	13,500	6,500	526
ISABELLA*	11,982	0	0	0	0
JACKSON*	166,939	2,000	201,000	38,000	98,000
KALAMAZOO	116,824	31,347	318,681	673,059	1,255,442
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	614,658	24,450	23,766	174,895	484,900
KEWEENAW	0	60,607	6,881	9,630	1,497

**Exhibit 20 (Continued)**

County	Industrial Facilities	County and			Public
	Tax	Federal	State	Municipal	Education
LAKE	\$237	\$83,899	\$42,655	\$6,862	\$10,581
LAPEER*	57,151	3,272	16,794	140,854	98,456
LEELANAU	0	898	84	575	36
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON **	60,420	48	7,349	40,749	47,125
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB	1,091,791	3,162,924	87,361	780,767	1,281,131
MANISTEE	13,181	16,900	32,800	29,100	30,400
MARQUETTE *	14,988	59,000	40,100	18,750	185,000
MASON	57,630	124,669	30,483	84,334	161,158
MECOSTA *	26,678	884,000	74,100	58,500	520,800
MENOMINEE	324	0	74,966	94	705
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	5,242	80	1,971	4,227	19,681
MONROE	262,609	131	10,139	76,452	168,395
MONTCALM	16,193	500	36,950	4,000	7,500
MONTMORENCY *	414	60	30,000	10,000	11,000
MUSKEGON	179,722	17,004	84,852	142,806	258,281
NEWAYGO*	19,589	n.a.	n.a.	n.a.	n.a.
OAKLAND *	828,118	216,940	66,562	781,432	944,339
OCEANA *	7,218	16,500	6,100	2,200	15,000
OGEMAW *	533	6,230	12,830	8,171	6,256
ONTONAGON	2,175	175,740	22,264	3,563	10,151
OSCEOLA	36,607	0	3,701	4,405	18,392
OSCODA	96	123,333	109,383	2,320	6,054
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	658,053	14,454	29,934	123,662	840,365
PRESQUE ISLE*	42,273	0	0	0	0
ROSCOMMON	1,595	100	202,405	5,042	28,297
SAGINAW	203,508	22,000	132,500	185,700	587,200
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH *	126,315	0	7,759	14,389	38,754
SANILAC *	8,922	109	4,610	6,064	48,510
SCHOOLCRAFT	2,820	289,870	376,345	31,058	31,677
SHIAWASSEE	13,716	700	19,000	70,000	97,000
TUSCOLA*	13,292	0	0	0	0
VAN BUREN	54,876	0	0	0	0
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD*	<u>36,940</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	<b>\$7,488,259</b>	<b>\$7,272,038</b>	<b>\$3,756,341</b>	<b>\$5,911,573</b>	<b>\$10,609,017</b>

Note: Wayne and Ingham Counties are not in totals. 2004 taxable value for Wayne County was \$45.9 billion.

\* Based on surveys from current and prior years as counties did not provide estimates.

\*\* Numbers are for a subset of the local units in the county.

## Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
ALCONA	\$0	\$776	\$138,944	\$618,654	18.3 %
ALGER*	55,000	0	88,568	249,736	26.2 %
ALLEGAN*	0	0	0	3,407,614	0.0 %
ALPENA	146,699	0	356,258	791,329	31.0 %
ANTRIM*	0	0	0	1,390,866	0.0 %
ARENAC	0	612	37,399	454,387	7.6 %
BARAGA	48,080	120,200	263,260	176,007	59.9 %
BARRY *	63,780	34,396	174,225	1,512,668	10.3 %
BAY*	255,154	2,593	519,607	2,651,999	16.4 %
BENZIE	0	15,503	159,796	805,938	16.5 %
BERRIEN	372,915	0	1,603,435	5,091,433	24.0 %
BRANCH *	0	6,500	22,304	1,060,279	2.1 %
CALHOUN *	725,000	28,000	960,700	3,228,413	22.9 %
CASS *	253,589	0	533,252	1,365,560	28.1 %
CHARLEVOIX*	3,526	13	95,653	1,587,021	5.7 %
CHEBOYGAN	0	0	69,173	1,072,943	6.1 %
CHIPPEWA *	21,200	3,500	1,374,928	802,650	63.1 %
CLARE	97,893	0	157,206	816,510	16.1 %
CLINTON*	0	0	43,215	1,921,281	2.2 %
CRAWFORD *	89,130	20,000	395,058	488,360	44.7 %
DELTA	5,830	0	105,624	915,014	10.3 %
DICKINSON	2,050	8,400	63,250	776,882	7.5 %
EATON	183,080	289,052	909,182	2,868,821	24.1 %
EMMET	0	0	9,357	2,259,870	0.4 %
GENESEE	404,358	0	1,387,068	10,108,084	12.1 %
GLADWIN	0	0	113,500	754,410	13.1 %
GOGEBIC *	330	302	44,759	366,069	10.9 %
GRAND TRAVERSE *	118,200	51,400	339,150	3,322,297	9.3 %
GRATIOT *	135,000	10,000	349,600	746,190	31.9 %
HILLSDALE	59,300	45,500	197,727	1,129,767	14.9 %
HOUGHTON	2,180	9,460	207,145	533,131	28.0 %
HURON	0	0	135,642	1,354,384	9.1 %
INGHAM	n.a.	n.a.	n.a.	6,847,863	n.a.
IONIA	3,909	58	196,856	1,209,828	14.0 %
IOSCO	4,210	43,614	286,265	935,386	23.4 %
IRON	0	0	42,326	339,554	11.1 %
ISABELLA*	0	0	0	1,224,690	0.0 %
JACKSON*	200,000	5,000	544,000	3,790,558	12.6 %
KALAMAZOO	11,162	91,213	2,380,904	6,757,516	26.1 %
KALKASKA *	100,000	55,000	451,000	614,379	42.3 %
KENT *	1,840,872	158,010	2,706,893	18,015,374	13.1 %
KEWEENAW	1,104	48,333	128,052	93,967	57.7 %

**Exhibit 20 (Continued)**

<b>County</b>	<b>Personal Property</b>	<b>Other</b>	<b>Exempt Total</b>	<b>Total Taxable Value Real and Personal Property</b>	<b>Exempt as a Percent of Taxable</b>
LAKE	\$6,900	\$4,500	\$155,397	\$394,665	28.3 %
LAPEER*	184,151	0	443,527	2,632,810	14.4 %
LEELANAU	0	325	1,918	1,700,930	0.1 %
LENAWEE *	0	21,000	362,400	2,779,704	11.5 %
LIVINGSTON **	1,200	5,839	102,310	7,155,612	1.4 %
LUCE *	650	1,749	17,321	145,403	10.6 %
MACKINAC *	7,817	2,164	131,295	719,672	15.4 %
MACOMB	351,682	476,644	6,140,509	26,980,530	18.5 %
MANISTEE	36,000	23,500	168,700	838,770	16.7 %
MARQUETTE *	0	230,000	532,850	1,401,609	27.5 %
MASON	26,705	47,860	475,209	1,177,623	28.8 %
MECOSTA *	15,400	13,440	1,566,240	1,002,098	61.0 %
MENOMINEE	0	4,431	80,196	479,202	14.3 %
MIDLAND *	154,540	110,240	439,605	3,416,287	11.4 %
MISSAUKEE	72,582	23,617	122,158	420,785	22.5 %
MONROE	0	8,234	263,351	5,334,377	4.7 %
MONTCALM	0	0	48,950	1,444,154	3.3 %
MONTMORENCY *	5,000	150	56,210	400,645	12.3 %
MUSKEGON	559,627	0	1,062,570	3,795,562	21.9 %
NEWAYGO*	0	0	0	1,112,019	0.0 %
OAKLAND *	113,876	11,835	2,134,984	55,986,491	3.7 %
OCEANA *	4,100	0	43,900	810,470	5.1 %
OGEMAW *	0	2,844	36,331	665,492	5.2 %
ONTONAGON	27,441	112,881	352,040	189,609	65.0 %
OSCEOLA	148,490	5,234	180,222	566,650	24.1 %
OSCODA	1,801	5,564	248,455	301,086	45.2 %
OTSEGO *	45,800	3,665	160,066	1,083,027	12.9 %
OTTAWA	122,707	764,802	1,895,924	8,017,867	19.1 %
PRESQUE ISLE*	0	0	0	507,034	0.0 %
ROSCOMMON	6,990	8,390	251,224	1,090,097	18.7 %
SAGINAW	1,028,829	222,700	2,178,929	4,621,922	32.0 %
SAINT CLAIR*	129,346	178,053	850,371	5,571,093	13.2 %
SAINT JOSEPH *	4,185	4,695	69,782	1,475,311	4.5 %
SANILAC *	66,701	7,277	133,271	1,192,406	10.1 %
SCHOOLCRAFT	19,610	19,080	767,640	261,370	74.6 %
SHIAWASSEE	12,000	0	198,700	1,524,102	11.5 %
TUSCOLA*	0	0	0	1,212,155	0.0 %
VAN BUREN	0	0	0	2,296,161	0.0 %
WASHTENAW *	774	647	12,384	12,821,033	0.1 %
WEXFORD*	<u>0</u>	<u>0</u>	<u>0</u>	<u>796,007</u>	0.0 %
<b>TOTAL</b>	<b>\$8,358,455</b>	<b>\$3,368,795</b>	<b>\$39,276,219</b>	<b>\$251,931,663</b>	<b>13.5 %</b>

Note: Wayne and Ingham Counties are not in totals. 2004 taxable value for Wayne County was \$45.9 billion.

\* Based on surveys from current and prior years as counties did not provide estimates.

\*\* Numbers are for a subset of the local units in the county.

**Exhibit 21**  
**General Property Tax – Estimated Exempt Acreage by County, 2003**

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA	318	LAKE	1,001
ALGER*	14,000	LAPEER*	4,600
ALLEGAN *	1,000	LEELANAU	2,117
ALPENA	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	1,338
ARENAC	195	LUCE *	2,300
BARAGA	7,680	MACKINAC *	240
BARRY *	7,000	MACOMB	7,127
BAY*	3,650	MANISTEE	2,000
BENZIE	554	MARQUETTE *	390
BERRIEN	6,812	MASON	600
BRANCH *	425	MECOSTA *	2,500
CALHOUN *	5,670	MENOMINEE	141
CASS *	60	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	1,514
CHEBOYGAN	7,800	MONROE	3,200
CHIPPEWA *	1,500	MONTCALM	33
CLARE	164	MONTMORENCY *	200
CLINTON *	100	MUSKEGON	2,100
CRAWFORD *	1,619	NEWAYGO *	6,800
DELTA	700	OAKLAND *	12,871
DICKINSON	400	OCEANA *	500
EATON	3,047	OGEMAW *	693
EMMET	1,100	ONTONAGON	200
GENESEE	11,990	OSCEOLA	1,285
GLADWIN	1,000	OSCODA	529
GOGEBIC *	2,300	OTSEGO *	735
GRAND TRAVERSE *	10,500	OTTAWA	2,324
GRATIOT *	300	PRESQUE ISLE *	85,136
HILLSDALE	1,975	ROSCOMMON	1,398
HOUGHTON*	2,215	SAGINAW	4,100
HURON*	341	SAINT CLAIR *	11,972
INGHAM *	1,200	SAINT JOSEPH *	2,600
IONIA	544	SANILAC *	28,500
IOSCO	4,488	SCHOOLCRAFT *	370
IRON *	580	SHIAWASSEE	300
ISABELLA *	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN	6,312
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA *	340	WEXFORD *	500
KENT *	3,200		
KEWEENAW	3,583	<b>TOTAL</b>	<b>371,803</b>

\* Based on a previous year's survey.

\*\* Numbers are for a subset of the local units in the county.

Notes: Many estimates are rounded to the nearest hundred. Wayne County is not included. Total may differ due to rounding.

### Mobile Home Tax

Enacted in 1959, the mobile home tax is levied on mobile homes in lieu of property tax. The tax rate is \$3 per month per occupied mobile home located in licensed mobile home parks. Township or city treasurers administer the mobile home tax. Counties and municipalities keep 50 cents each, while the remaining \$2 is remitted to the state and deposited into the School Aid Fund. The 2004 state share of this tax totaled \$3.8 million indicating \$5.7 million in total state and local collections. Exhibit 22, only shows the county share of the tax.

### FY 2006 Estimate

#### Mobile Home Tax Expenditure

\$53,400,000

The tax burden on mobile home occupants (\$36 per year) is small compared with the tax burden on homeowners. The reported figure is an estimate of the difference between the amount of property taxes that would be paid on mobile homes if they were not exempt and the amount collected from the mobile home tax.

#### Out-of-State Coaches

n.a.

Exempts out-of-state coaches when accompanied by an out-of-state auto for an accumulated period of up to 90 days during any 12-month period if the occupants are tourists and not engaged in business in Michigan.

### Real Estate Property Transfer Tax

Enacted in 1966, the county real estate property transfer tax is a tax on the transfer of an interest in real property. The tax is levied at a rate of 55 cents per \$500 (0.11 percent), or fraction thereof, on the fair market value of the property being transferred. The treasurer of the county in which the transfer takes place collects the tax, and the revenue goes to the county general fund. The estimated statewide revenue yield was approximately \$45.5 million in 2003. (See Exhibit 22.)

The School Finance Reform Package of 1994 created a state real estate property transfer tax in addition to the county tax. The rate is \$3.75 per \$500 (0.75 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the county treasurer and forwarded to the state. Revenue is deposited into the School Aid Fund. The state real estate transfer tax is projected to yield \$312 million in FY 2006.

Although several exemptions from the state and county transfer tax are permitted, they are designed to define which real estate transfers are subject to the tax. The act does not define real estate transfers explicitly, but by exclusion. Exempt transfers include transfers involving federal, state and local units of governments, certain conveyances between spouses, instruments used to straighten boundary lines when no money is paid, and land contracts in which the title passes to

the grantee only when the contract has been paid. Public Act 203 of 2000 added churches and church property to the list of exempt transfers. Transfers of less than \$100 are also exempt. There are no estimates regarding these tax expenditures due to an absence of data.

### **Accommodations Tax**

Under Public Act 263 of 1974, owners of businesses providing rooms to transient guests are subject to the accommodations tax which is collected by the county treasurer. Housing and nursing homes are excluded from the tax. Only counties with a population of less than 600,000 that have a city with a population of at least 40,000 may levy the tax. Counties currently imposing the tax include: Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, and Washtenaw. The tax is levied on the amount transient guests pay for lodging. The maximum rate is 5 percent and is determined by the county. Revenues (less administrative costs) are dedicated to convention facilities and the promotion of conventions and tourism. The tax yielded approximately \$12.8 million in 2003 (see Exhibit 22).

### **City Income Tax**

A city income tax is levied by adoption of a city ordinance subject to referendum upon petition by the voters. Income earned and received by city residents, income earned in the city by nonresidents, and corporate income earned in the city are subject to city income taxes. In CY 2003, city income taxes totaled \$459.5 million. (See Exhibit 24.) Currently, 22 cities levy a city income tax. While rates vary, most cities levy a 1.0 percent tax on residents and corporations and a 0.5 percent tax on nonresidents. Revenue collections go to the general fund of the taxing city, and most revenue comes from city residents.

### **FY 2006 Estimate**

#### **Federal Deductions**

n.a.

Tax expenditures for city income taxes are similar to those for state and federal income taxes. However, most city income taxes are based on gross income from salaries, bonuses, wages, commissions, interest, and dividends rather than on federal AGI.

#### **Net Profits of Financial Institutions**

n.a.

Exempts net profits of financial institutions and insurance companies from the city income tax. No statewide estimate is available.



**Exhibit 22  
Miscellaneous Local Taxes Kept by Local Units, 2003**

<b>County</b>	<b>Accommodations</b>	<b>Mobile Home (County Share)</b>	<b>Real Estate Prop. Trans.</b>
ALCONA*	\$0	\$84	\$59,175
ALGER	0	274	64,032
ALLEGAN*	0	28,297	431,745
ALPENA	0	1,096	94,053
ANTRIM	0	351	185,308
ARENAC	0	1,055	41,784
BARAGA	0	113	37,383
BARRY	0	6,331	227,345
BAY	0	12,453	301,973
BENZIE	0	539	85,333
BERRIEN	0	19,401	728,434
BRANCH	0	3,363	134,120
CALHOUN	86,716	16,333	439,063
CASS	0	4,672	172,407
CHARLEVOIX	0	3,408	294,818
CHEBOYGAN	0	1,632	135,495
CHIPPEWA	0	2,230	108,013
CLARE*	0	920	95,951
CLINTON	0	12,264	280,431
CRAWFORD	0	260	71,298
DELTA	0	3,987	86,589
DICKINSON	0	2,430	57,498
EATON*	0	10,514	381,483
EMMET*	0	2,436	324,860
GENESEE	1,218,157	80,769	1,472,730
GLADWIN	0	1,554	118,071
GOGEBIC	0	151	58,106
GRAND TRAVERSE	0	10,216	610,553
GRATIOT	0	4,613	87,464
HILLSDALE*	0	1,816	126,541
HOUGHTON	0	0	444
HURON	0	2,468	125,079
INGHAM	1,891,110	18,601	1,107,283
IONIA	0	5,853	59,978
IOSCO	0	1,038	124,535
IRON	0	116	38,209
ISABELLA	0	5,908	162,090
JACKSON	0	20,922	505,461
KALAMAZOO	1,628,610	24,855	1,089,260
KALKASKA	0	0	77,556
KENT	4,061,318	55,438	3,148,499
KEWEENAW	0	0	22,645

**Exhibit 22 (Continued)**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$53,535
LAPEER	0	14,048	363,865
LEELANAU	0	366	239,462
LENAWEE	0	11,925	360,920
LIVINGSTON	0	17,750	1,275,260
LUCE	0	84	54,380
MACKINAC*	0	124	66,245
MACOMB	0	86,057	4,504,856
MANISTEE	0	866	107,685
MARQUETTE	0	2,812	191,846
MASON	0	2,624	107,034
MECOSTA	0	2,839	143,520
MENOMINEE*	0	900	46,939
MIDLAND*	0	5,566	276,331
MISSAUKEE	0	23	39,256
MONROE	0	204,045	661,969
MONTCALM	0	3,810	190,929
MONTMORENCY	0	86	42,560
MUSKEGON	771,818	19,376	526,279
NEWAYGO	0	5,951	158,990
OAKLAND	0	99,787	8,565,076
OCEANA	0	2,211	101,677
OGEMAW	0	1,197	82,370
ONTONAGON	0	20	31,703
OSCEOLA	0	382	67,454
OSCODA	0	0	41,305
OTSEGO	0	1,802	130,324
OTTAWA	0	30,823	1,352,322
PRESQUE ISLE	0	354	53,690
ROSCOMMON	0	1,390	177,383
SAGINAW	1,760,878	15,719	549,446
SAINT CLAIR	0	35,840	143,358
SAINT JOSEPH	0	4,932	188,877
SANILAC	0	7,798	140,410
SCHOOLCRAFT	0	55	45,682
SHIAWASSEE	0	11,921	188,313
TUSCOLA	0	18,932	129,182
VAN BUREN	0	7,955	303,916
WASHTENAW	1,205,356	38,340	2,238,318
WAYNE	0	65,592	7,655,006
WEXFORD	126,825	2,637	114,677
<b>TOTAL</b>	<b>\$12,750,787</b>	<b>\$1,095,686</b>	<b>\$45,485,443</b>

\* Figures carried forward from a previous year.

**FY 2006 Estimate**

**Nonresident Reduced Rate**

\$167,700,000

Nonresidents' income is taxed at half the rate paid by residents.

**Pensions, Annuities, and Retirement Plans**

n.a.

Exempts proceeds of pensions, annuities, and retirement plans from the city income tax. Although no statewide estimate is available, this tax expenditure is likely to be substantial.

**Personal Exemption**

\$22,100,000

Exempts a certain amount of income for each person claimed on the federal form. The exemption amounts for the various cities are listed in Exhibit 24. While most cities record the number of personal exemptions provided, some do not. In these cases, personal exemptions are estimated based on the number of tax returns multiplied by a weighted average number of exemptions.

**Supplemental Unemployment Benefits**

n.a.

Exempts supplemental unemployment benefits from the city income tax. A statewide estimate is not available.

**City Utility Users' Tax**

The uniform city utility users' tax is based on the privilege of consuming public telephone, electric, steam, or gas services in a city of one million or more. Currently, Detroit is the only Michigan city eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled \$51.3 million in 2003.

**Exhibit 23**  
**Estimated Tax Expenditures From**  
**City Income Tax Personal Exemptions, 2003**

<u>City</u>	<u>Resident</u>		<u>Nonresident and Partial-Year Resident</u>	
	<u>Quantity</u>	<u>Amount</u>	<u>Quantity</u>	<u>Amount</u>
Albion	4,633	\$27,798	3,810	\$11,430
Battle Creek	37,048	555,720	42,061	315,458
Big Rapids	3,439	20,634	14,433	43,299
Detroit	488,103	9,334,970	353,453	3,379,894
Flint	53,453	320,718	90,090	270,270
Grand Rapids	158,524	2,060,812	173,732	1,129,258
Grayling	1,001	30,030	4,400	66,000
Hamtramck	15,848	95,088	8,522	25,566
Highland Park*	12,000	144,000	18,000	108,000
Hudson	3,500	35,000	3,000	15,000
Ionia	3,928	27,496	19,576	68,516
Jackson	20,352	122,112	33,280	99,840
Lansing	70,479	422,874	106,848	320,544
Lapeer	6,981	41,886	17,294	51,882
Muskegon	17,496	104,976	37,117	111,351
Muskegon Heights	2,669	16,014	7,229	21,687
Pontiac*	26,500	159,000	83,000	249,000
Port Huron	21,149	253,788	27,831	166,986
Portland	3,164	31,640	2,247	11,235
Saginaw	31,474	472,110	49,969	374,768
Springfield	3,036	45,540	4,794	35,955
Walker	17,603	132,023	39,181	146,929
<b>TOTAL</b>	<b>1,002,380</b>	<b>\$14,454,228</b>	<b>1,139,867</b>	<b>\$7,022,867</b>

\* Based on a previous year's survey.

**Exhibit 24  
City Tax Rates and Exemption Allowances, 2003**

<u>City</u>	<u>City Income Tax Rate</u>			<u>Personal Exemption</u>	<u>Collections (000s)</u>
	<u>Resident</u>	<u>Non-Resident</u>	<u>Corporation</u>		
Albion	1.00 %	0.50 %	1.00 %	\$600	\$1,120
Battle Creek	1.00 %	0.50 %	1.00 %	1,500	11,664
Big Rapids	1.00 %	0.50 %	1.00 %	600	1,836
Detroit	2.55 %	1.275 %	1.20 %	750	279,025
Flint	1.00 %	0.50 %	1.00 %	600	21,585
Grand Rapids	1.30 %	0.65 %	1.30 %	1,000	48,779
Grayling	1.00 %	0.50 %	1.00 %	3,000	288
Hamtramck	1.00 %	0.50 %	1.00 %	600	2,911
Highland Park	2.00 %	1.00 %	2.00 %	600	2,073
Hudson	1.00 %	0.50 %	1.00 %	1,000	367
Ionia	1.00 %	0.50 %	1.00 %	700	1,441
Jackson	1.00 %	0.50 %	1.00 %	600	6,651
Lansing	1.00 %	0.50 %	1.00 %	600	29,159
Lapeer	1.00 %	0.50 %	1.00 %	600	2,147
Muskegon	1.00 %	0.50 %	1.00 %	600	6,645
Muskegon Heights	1.00 %	0.50 %	1.00 %	600	899
Pontiac	1.00 %	0.50 %	1.00 %	600	14,573
Port Huron	1.00 %	0.50 %	1.00 %	1,200	5,631
Portland	1.00 %	0.50 %	1.00 %	1,000	595
Saginaw	1.50 %	0.75 %	1.50 %	1,000	14,645
Springfield	1.00 %	0.50 %	1.00 %	1,500	659
Walker	1.00 %	0.50 %	1.00 %	750	6,805
<b>TOTAL</b>					<b>\$459,498</b>