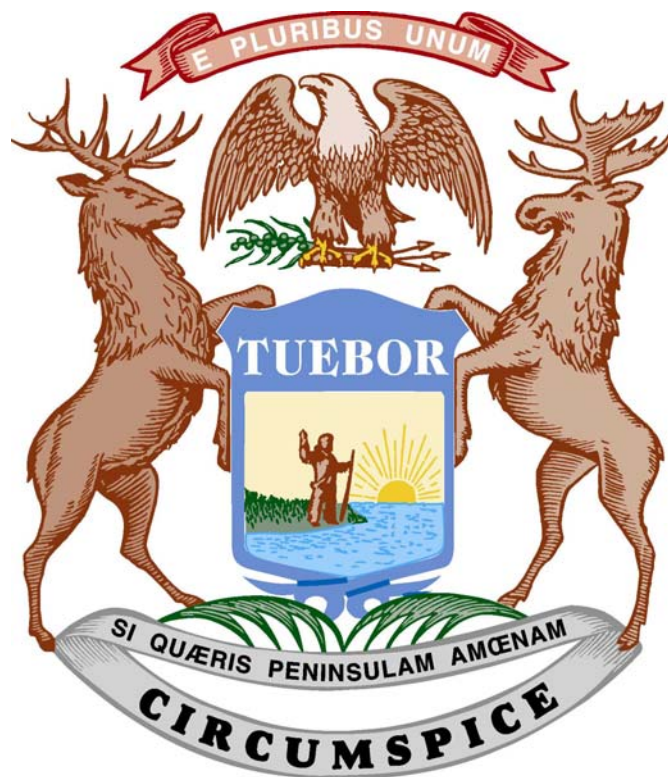


**Executive Budget
Appendix on Tax Credits,
Deductions, and
Exemptions
Fiscal Year 2011**



**State of Michigan
Rick Snyder, Governor**

**Executive Budget
Appendix on Tax Credits,
Deductions, and Exemptions
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**State of Michigan
Michigan Department of Treasury
Rick Snyder, Governor**

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This report is available on the Internet at <http://www.michigan.gov/treasury>.

Andy Dillon
State Treasurer
Department of Treasury

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**APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS
(formerly TAX EXPENDITURE REPORT) PUBLICATION HISTORY**

<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
2006 - 2007	May 2006	Treasury
2007 - 2008	September 2007	Treasury
2008 - 2009	November 2008	Treasury
2009 - 2010	December 2009	Treasury
2010 - 2011	January 2011	Treasury

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

EXECUTIVE SUMMARY

FY 2011

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 0.3 percent between fiscal year (FY) 2010 and FY 2011, from \$33.72 billion to \$33.81 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 from \$2,316.9 million to \$2,639.2 million from FY 2010 to FY 2011. The estimates under the business privilege tax category reflect the implementation of the new Michigan Business Tax.

Consumption tax expenditures are predicted to increase 3.1 percent between FY 2010 and FY 2011, from \$13,846.6 million to \$14,275.6 million. Growth in tax expenditures related to health care, professional, scientific, and technical services, and food for home use 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 fall from \$8,801.2 million in FY 2010 to \$8,645.1 million in FY 2011, a 1.8 percent decrease. In recent tax years the income tax adjustment for income attributable to another state has been volatile, resulting in volatility of the estimated income tax expenditure.

Local tax expenditures are predicted to decrease 5.8 percent between FY 2010 and FY 2011, dropping from \$8,710.6 million to \$8,203.7 million. The decrease for 2011 is due to falling taxable values which reduce the value of many tax exemptions.

Transportation tax expenditures are predicted to decrease 0.3 percent between FY 2010 and FY 2011, from \$48.0 million to \$47.8 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, a brief description of each tax expenditure is provided.

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, reductions in tax rates would generally reduce tax revenues but do not fit the definition of a tax expenditure. Changes in the way the tax law apportions income between states would also not qualify as a tax expenditure. Finally, a tax change that requires a change in the recognition of income between subsidiaries (perhaps through unitary or separate reporting) or the recognition of expenses between a client and an employment agency would not be tax expenditures.

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 Michigan business tax (MBT) 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 may 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 2009, individual Michigan taxpayers could claim a \$3,600 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 for the state sales tax.

Measuring Tax Expenditures

The estimates in this report for fiscal year (FY) 2010 and FY 2011 are based on the most recent data available. Tax year 2008 income tax data (returns processed in the spring of 2009) are used, as are 2008 property and sales tax data, and tax year 2008 MBT data (the first year available). 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 particular 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 MBT deduction or credit may allow firms to take greater advantage of other deductions or credits, offsetting at least some of 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, each tax expenditure estimate is an isolated estimate. That is, each estimate assumes 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 overall 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 changes in federal, state, and local 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 the 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, or requires a report on the activity related to the tax break. In addition, the annual publication of this report provides an itemization of tax expenditures along with their 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 a particular credit, deduction, or exemption in this report does not signify any conclusion regarding the public policy merit of that particular tax expenditure.

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 \$33.722 billion in FY 2010 to \$33.811 billion in FY 2011, a 0.3 percent increase (see Exhibit 1). Most of the decrease in total tax expenditures is from a decline in property tax expenditures due to falling property values.

Exhibit 1
Total Tax Expenditures, FY 2010 and FY 2011

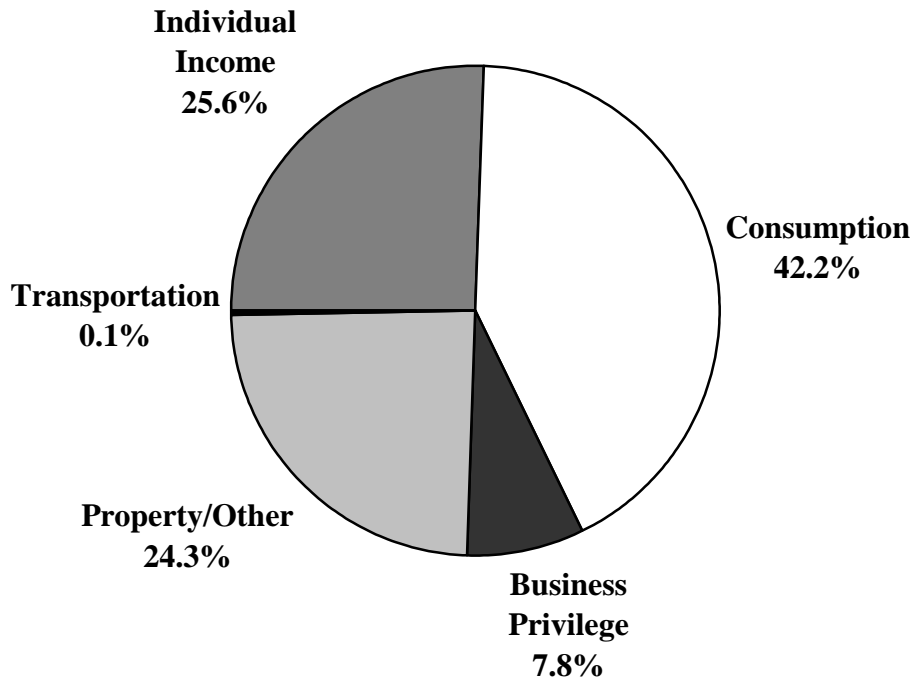
<u>Tax Category</u>	<u>FY 2010</u> <u>(000)</u>	<u>FY 2011</u> <u>(000)</u>	<u>Change</u> <u>(000)</u>
Business Privilege	\$2,316,860	\$2,639,180	\$322,320
Consumption	13,846,634	14,275,574	428,940
Individual Income	8,801,209	8,645,147	-156,062
Property	8,546,320	8,035,690	-510,630
Other Local (City Income)	164,300	168,000	3,700
Transportation	<u>47,966</u>	<u>47,826</u>	<u>-140</u>
TOTAL	\$33,723,289	\$33,811,416	\$88,128

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 2011, consumption tax expenditures comprise 42.2 percent of total tax expenditures, while income tax expenditures comprise 25.6 percent and property and other local taxes comprise 24.3 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 2011 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2011 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	\$7.6	\$64.0	11.9%
Michigan Business	2,592.1	2,191.4	118.3%
Consumption			
Total Alcohol	0.1	182.9	0.0%
Cigarette and Tobacco	24.2	955.0	2.5%
Sales and Use	14,251.3	7,430.8	191.8%
Individual Income Tax	6,337.8	5,538.0	114.4%
Transportation			
Aviation Fuel	3.3	5.5	59.9%
Gasoline	27.5	826.0	3.3%
Diesel Fuel	5.1	115.4	4.4%
Motor Vehicle Registration	11.1	831.0	1.3%
City Income Tax	<u>168.0</u>	<u>450.0</u>	<u>37.3%</u>
TOTAL	\$23,428.2	\$18,590.0	126.0%

*From Consensus Revenue Estimating Conference, May 2010. City income taxes are not a consensus estimate.

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 2010</u> <u>(000)</u>	<u>FY 2011</u> <u>(000)</u>
Insurance Company		
Disability Insurance Exclusion	\$4,700	\$5,000
Michigan Association and Facilities Credit	29,000	\$30,500
Michigan Examination Fees Credit	2,700	2,900
Supplemental Workers' Compensation	1,100	1,100
SUBTOTAL	\$37,500	\$39,500
Oil and Gas Severance Tax		
Marginal Wells	\$4,200	\$4,600
Public Land	2,200	3,000
SUBTOTAL	\$6,400	\$7,600
Michigan Business Tax Expenditure		
Affordable Housing	\$3,600	\$5,400
Agricultural Producers	43,400	45,600
Arts and Culture Credit	1,200	1,300
Bad Debts Gross Receipts Exclusion	5,500	6,900
Biodiesel Infrastructure Credit	250	250
Bottle Deposit Administration Credit	9,400	9,600
Bottle Deposit Gross Receipts Exclusion	4,500	4,600
Brownfield Redevelopment Credit	69,700	73,200
Business Loss Deduction	97,700	107,400
Certain Taxes/Fees Gross Receipts Exclusion	54,200	64,100
Community/Education Foundation Credit	330	350
Compensation Credit	252,900	299,000
Construction Subcontractor Payments Exemption	24,700	26,000
Entrepreneurial Credit	220	240
Farmland Preservation Credit	1,400	1,500
Film Credits	61,900	100,000
Floor Plan Interest Deduction	2,700	3,100
Flow-Through Entity Business Income Deduction	107,100	126,600
Food Retailer Credits	8,400	8,800
Foreign Dividends Gross Receipts Exclusion	139,600	168,700
Foreign Persons	6,100	6,100
Government Securities' Income Exclusion	3,700	3,800

Exhibit 4 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2010</u> <u>(000)</u>	<u>FY 2011</u> <u>(000)</u>
Government Utilities Exemption	\$28,900	\$30,000
Gross Receipts Filing Threshold	31,500	37,200
Gross Receipts Filing Threshold Credit	33,200	39,200
Historic Preservation Credit	4,200	4,500
Homeless Shelter/Food Bank Credit	530	560
Hybrid Technology R & D Credit	1,300	1,400
International Auto Show Credit	500	250
Investment Tax Credit	203,100	240,100
Low-Grade Hematite Credit	1,100	1,100
Michigan Economic Growth Authority (MEGA)	99,200	104,200
Motion Picture Gross Receipts Exclusion	2,100	2,100
Multiple Employer Welfare Arrangement	30	30
NASCAR Safety Credit	3,100	6,200
NASCAR Speedway Credit	1,100	1,200
New Motor Vehicle Dealer Inventory Credit	22,700	23,800
Nonprofit Organizations	150,000	157,500
Pass-Through Entity Gross Receipts Exclusion	12,400	12,900
Personal Property Tax Credit	153,600	137,300
Public Contribution Credit	1,000	1,100
Renaissance Zone Credit	20,200	21,200
Research and Development Credit	21,900	25,900
Self-Employment Net Earnings Deduction	142,900	168,900
Small Business Alternate Tax Credit	391,700	463,100
Stadium Credit	3,400	2,800
Staffing Company/PEO Gross Receipts Reduction	42,200	44,300
Workers' Disability Supplemental Benefit Credit	2,600	2,700
SUBTOTAL	\$2,272,960	\$2,592,080
TOTAL	\$2,316,860	\$2,639,180

Exhibit 5
Consumption Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2010</u> <u>(000)</u>	<u>FY 2011</u> <u>(000)</u>
Alcoholic Beverages Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Damaged Beer	n.a.	n.a.
Homemade Wine	n.a.	n.a.
Small Brewer's Credit	\$90	\$90
SUBTOTAL	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	\$400	\$400
Licensee Expenses	14,778	14,210
Sales on Military Bases and Reservations	9,746	9,551
SUBTOTAL	\$24,924	\$24,161
Sales and Use Tax Expenditures		
Air and Water Pollution	\$48,000	\$51,000
Aircraft Parts	8,063	8,144
Bad Debts	55,962	56,812
Cargo Aircraft	30,000	30,000
Church Construction	3,600	3,600
Church Cars	2,969	3,015
Collection Fee	32,408	32,902
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Donated Property	n.a.	n.a.
Donated Vehicles	125	125
Driver Training	375	366
Employee Meals	13,417	13,622
Enterprise Zone Credit	n.a.	n.a.
Food	1,113,696	1,130,690
Food for Students	19,460	19,760
Government or Red Cross	164,427	166,923
Gratuity and Tips	52,170	52,966
Horticultural and Agricultural Products	252,880	256,738
Imported Property from Other States	3,200	3,200

Exhibit 5 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2010</u> <u>(000)</u>	<u>FY 2011</u> <u>(000)</u>
Industrial Processing	\$828,011	\$840,219
Inmate Purchases	518	505
Interstate Communications	11,593	11,013
Interstate Trucks and Trailers	23,073	23,423
Investment Coins	2,500	2,540
Isolated Sales	n.a.	n.a.
Military PX Sales	835	848
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	94,212	95,649
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	1,138	1,155
Nonprofit Organizations	164,285	166,792
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	51,810	53,364
Prescription Drugs	510,316	535,275
Radio and TV	4,400	4,400
Rail Rolling Stock	1,544	1,568
Residential Utilities	153,000	153,500
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	62,733	63,706
Services (Including Nonprofits)	10,005,893	10,361,644
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	13,109	13,371
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	33,245	33,749
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	15,555	15,640
SUBTOTAL	\$13,821,620	\$14,251,324
TOTAL	\$13,846,634	\$14,275,574

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

Exhibit 6
Individual Income Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2010</u> <u>(000)</u>	<u>FY 2011</u> <u>(000)</u>
State Income Tax		
Adjustments to Income (except military)	\$3,274,665	\$3,432,249
Adoption Credit	785	814
Child Deduction	53,815	54,353
City Income Tax Credit	31,604	31,920
College Savings Accounts	17,569	23,091
Community Foundation Credit	3,356	3,403
Dependent Exemption	18,351	18,534
Donated Vehicle Credit	135	141
Earned Income Credit	338,000	353,800
Farmland Credit	37,357	38,852
Higher Education/Public Contributions Credit	24,740	24,763
Historic Preservation Credit	1,428	1,497
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	312	318
Homeless/Food Bank Credit	20,278	21,025
Homestead Property Tax Credit	967,883	1,006,599
Income Tax Paid to Other State Credit	47,830	49,911
Military Pay and Pensions	40,577	44,127
Personal Exemption	1,158,741	1,170,329
Renaissance Zones	300	300
Special Exemption	54,838	57,032
Stillbirth Credit	39	39
Tribal Tax Agreements	n.a.	n.a.
Tuition Credit	7,125	4,750
TOTAL STATE	\$6,099,728	\$6,337,845
Federal Adjustments		
Accelerated Depreciation	\$146,536	\$14,437
Employer Contributions to Insurance	1,049,355	870,230
Employer Pension Plans	555,035	541,595
Federal Adjustments to Income	34,290	48,316
Fellowships and Scholarships	11,439	9,116
Gain on Sale of Primary Residence	212,811	198,170
Income Maintenance Benefits	5,231	5,618

Exhibit 6 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2010 (000)</u>	<u>FY 2011 (000)</u>
Federal Adjustments (continued)		
Individual Retirement Accounts	\$187,785	\$199,017
Interest on Life Insurance Savings	143,253	97,848
Medical Savings Account	7,463	9,366
Railroad Retirement Benefits	1,734	1,350
Social Security Benefits	252,472	231,602
Student Loan Deduction	4,469	4,578
Veterans' Benefits	42,083	38,487
Workers' Compensation	47,521	37,573
TOTAL FEDERAL	\$2,701,481	\$2,307,302
TOTAL STATE AND FEDERAL	\$8,801,209	\$8,645,147

Exhibit 7
Transportation Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2010 (000)</u>	<u>FY 2011 (000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$288	\$295
Interstate Flight Refund	3,000	3,000
Marine Vessel Exemption	740	740
SUBTOTAL	<u>\$4,028</u>	<u>\$4,035</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$5,130	\$5,130
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	12,650	12,580
Fuel for Off-Road Use	1,000	1,000
Municipal Franchise Vehicles	460	460
Public Vehicles	13,620	13,480
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	<u>\$32,860</u>	<u>\$32,650</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$378	\$378
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	10,687	10,750
SUBTOTAL	<u>\$11,065</u>	<u>\$11,128</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	\$13	\$13
TOTAL	<u>\$47,966</u>	<u>\$47,826</u>

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

<u>Tax or Tax Expenditure</u>	<u>FY 2010 (000)</u>	<u>FY 2011 (000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$33,200	\$34,100
Air and Water Pollution Control	120,000	130,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	200	160
Enterprise Zone Credit	0	0
Fairground Property	n.a.	n.a.
Homestead Exemption	3,360,000	3,220,000
Homestead Exemption for Farm Property	160,000	160,000
Industrial Facilities Development	236,000	231,000
Mobile Homes	48,500	49,900
Neighborhood Enterprise Zones	19,500	20,500
Next Energy Exemption	2,600	3,000
Obsolete Property Rehabilitation	10,000	10,500
Personal Property - Indust./Commercial Ad Valorem	371,000	369,000
Personal Property - Industrial Facilities	61,600	61,800
Poverty Exemption	7,000	7,500
Railroad Right-of-Way/Broadband Credit	49,500	50,500
Renaissance Zones	84,000	81,500
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,527,000	1,550,000
Tax Increment Financing	275,000	275,000
Taxable Value Cap	2,180,000	1,780,000
Water Softeners	1,220	1,230
SUBTOTAL	\$8,546,320	\$8,035,690
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$148,800	\$152,000
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	15,500	16,000
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	\$164,300	\$168,000
TOTAL	\$8,710,620	\$8,203,690

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 2011

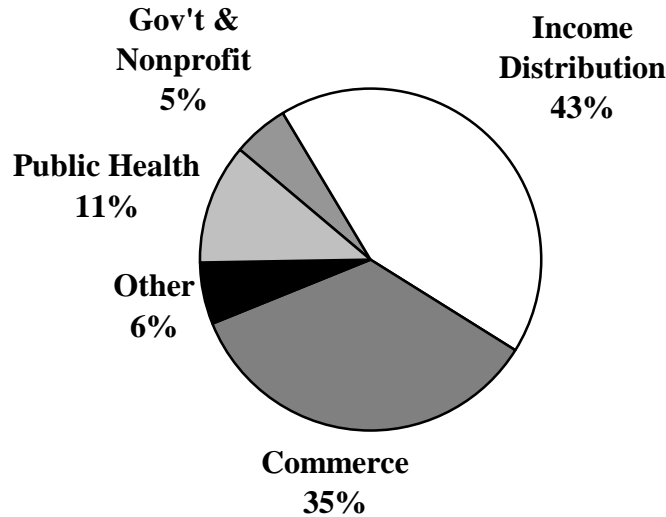


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2010

<u>Spending Category</u>	<u>Tax Expenditure (000)</u>	<u>Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$335,037	\$56,772	\$391,809	85.5%
Commerce (DELEG)	10,033,907	455,006	10,488,912	95.7%
Higher Education	477,059	1,538,105	2,015,165	23.7%
Income Distribution (DHS)	9,915,239	909,313	10,824,552	91.6%
Military Affairs	94,844	64,350	159,194	59.6%
Natural Resources	48,000	233,528	281,528	17.0%
Public (Community) Health	3,628,296	3,791,666	7,419,962	48.9%
Transportation	50,199	1,973,770	2,023,970	2.5%
TOTAL	\$24,582,581	\$9,022,509	\$33,605,090	73.2%

Note: FY 2010 expenditure figures from *FY 2009-2010 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 2010</u> <u>(000)</u>	<u>FY 2011</u> <u>(000)</u>
Agriculture	\$724,437	\$696,990
Commerce	11,666,527	11,907,845
Education	905,059	948,926
Government and Nonprofit Organizations	1,742,887	1,778,744
Income Distribution	14,742,839	14,330,365
Military Affairs	94,844	94,625
Natural Resources	168,200	181,160
Public Health	3,628,296	3,822,018
Transportation	50,199	50,743
TOTAL	\$33,723,289	\$33,811,416

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 2010 (000)	FY 2011 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	\$33,200	\$34,100
Homestead Exemption for Farm Property	160,000	160,000
Taxable Value Cap	196,200	160,200
Income Tax		
Farmland Development Credit (PA 116)	37,357	38,852
Michigan Business Tax		
Agricultural Producers	43,400	45,600
Corporate Farm Preservation Credit	1,400	1,500
Sales and Use Taxes		
Horticultural or Agricultural Products	252,880	256,738
TOTAL	\$724,437	\$696,990
Commerce		
Alcoholic Beverage Taxes		
Small Brewer's Credit	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	400	400
Licensee Expenses	14,778	14,210
Income Tax		
Accelerated Depreciation	146,536	14,437
Renaissance Zone Credit	300	300
Insurance Company Retaliatory Tax		
Disability Insurance Exclusion	4,700	5,000
Michigan Association and Facilities Credit	29,000	30,500
Michigan Examination Fees Credit	2,700	2,900
Supplemental Workers' Compensation Credits	1,100	1,100
Michigan Business Tax		
Bad Debts Gross Receipts Exclusion	5,500	6,900
Biodiesel Infrastructure Credit	250	250
Bottle Deposit Administration Credit	9,400	9,600
Bottle Deposit Gross Receipts Exclusion	4,500	4,600
Brownfield Redevelopment Credit	69,700	73,200
Business Loss Deduction	97,700	107,400
Certain Taxes/Fees Gross Receipts Exclusion	54,200	64,100

Tax/Tax Expenditure	FY 2010 (000)	FY 2011 (000)
Commerce (Continued)		
Compensation Credit	\$252,900	\$299,000
Construction Subcontractor Payments Exemption	24,700	26,000
Entrepreneurial Credit	220	240
Film Credits	61,900	100,000
Floor Plan Interest Deduction	2,700	3,100
Flow-Through Entity Business Income Deduction	107,100	126,600
Food Retailer Credits	8,400	8,800
Foreign Dividends Gross Receipts Exclusion	139,600	168,700
Foreign Persons	6,100	6,100
Government Securities' Income Exclusion	3,700	3,800
Gross Receipts Filing Threshold	31,500	37,200
Gross Receipts Filing Threshold Credit	33,200	39,200
International Auto Show Credit	500	250
Investment Tax Credit	203,100	240,100
Low-Grade Hematite Credit	1,100	1,100
Michigan Economic Growth Authority (MEGA)	99,200	104,200
Motion Picture Gross Receipts Exclusion	2,100	2,100
Multiple Employer Welfare Arrangement	30	30
NASCAR Safety Credit	3,100	6,200
NASCAR Speedway Credit	1,100	1,200
New Motor Vehicle Dealer Inventory Credit	22,700	23,800
Pass-Through Entity Gross Receipts Exclusion	12,400	12,900
Personal Property Tax Credit	153,600	137,300
Renaissance Zone Credit	20,200	21,200
Research and Development Credit	21,900	25,900
Self-Employment Net Earnings Deduction	142,900	168,900
Small Business Alternate Tax Credit	391,700	463,100
Stadium Credit	3,400	2,800
Staffing Company/PEO Gross Receipts Reduction	42,200	44,300
Workers' Disability Supplemental Benefit Credit	2,600	2,700
Oil and Gas Severance Tax		
Marginal Wells	4,200	4,600
Property Tax		
Broadband Investment Credit	25,500	26,000
Enterprise Zone	0	0
Industrial Facilities Development	236,000	231,000
Mobile Homes	48,500	49,900
Neighborhood Enterprise Zones	19,500	20,500
Next Energy Exemption	2,600	3,000

Tax/Tax Expenditure	FY 2010 (000)	FY 2011 (000)
Commerce (Continued)		
Obsolete Property Rehabilitation	\$10,000	\$10,500
Personal Property - Indust./Commercial Ad Valorem	371,000	369,000
Personal Property - Industrial Facilities	61,600	61,800
Renaissance Zones	84,000	81,500
Tax Increment Financing	275,000	275,000
Taxable Value Cap	523,200	427,200
Water Softeners	1,220	1,230
Sales and Use Taxes		
Aircraft Parts	8,063	8,144
Bad Debts	55,962	56,812
Cargo Aircraft	30,000	30,000
Collection Fee	32,408	32,902
Commercial Domestic Aircraft	5,000	5,000
Communication and Telephone Exemption	37,000	37,000
Employee Meals	13,417	13,622
Gratuities and Tips	52,170	52,966
Imported Property from Other States	3,200	3,200
Industrial Processing	828,011	840,219
Interstate Telecommunications	11,593	11,013
Interstate Trucks and Trailers	23,073	23,423
Investment Coins	2,500	2,540
Newspapers, Periodicals, and Films	94,212	95,649
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Water	62,733	63,706
Services (except education, health, and nonprofits)	6,440,754	6,590,352
Telephone Services	13,109	13,371
Vehicle and Aircraft Transfers	33,245	33,749
Vending Machines	15,555	15,640
TOTAL	\$11,666,527	\$11,907,845

Education

Income Tax		
College Savings Account	\$17,569	\$23,091
Fellowships and Scholarships	11,439	9,116
Higher Education/Public Contribution Credit	24,740	24,763
Tuition Credit	7,125	4,750

Tax/Tax Expenditure	FY 2010 (000)	FY 2011 (000)
Education (Continued)		
Michigan Business Tax		
Community/Education Foundation Credit	\$330	\$350
Public Contribution Credit	1,000	1,100
Property Tax		
Exempt Public Education Property	428,000	435,000
Sales Tax		
Services	414,856	450,756
TOTAL	\$905,059	\$948,926
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$288	\$295
Income Tax		
Community Foundation	3,356	3,403
Historic Preservation Credit	1,428	1,497
Michigan Business Tax		
Arts and Culture Credit	1,200	1,300
Government Utilities Exemption	28,900	30,000
Historic Preservation Credit	4,200	4,500
Nonprofit Organizations	150,000	157,500
Motor Fuel Taxes		
Public Vehicles	13,620	13,480
Motor Vehicle Weight Tax		
Public and Nonprofit Vehicles	10,687	10,750
Oil and Gas Severance Tax		
Public Land	2,200	3,000
Property Tax		
Tax Exempt Property	1,099,000	1,115,000
Sales and Use Taxes		
Church Cars	2,969	3,015
Church Construction	3,600	3,600
Government or Red Cross	164,427	166,923
Nonprofit Organizations	164,285	166,792
Services	92,714	97,677
Watercraft Registration Fee		
Publicly Owned Watercraft	13	13
TOTAL	\$1,742,887	\$1,778,744

Tax/Tax Expenditure	FY 2010 (000)	FY 2011 (000)
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	\$148,800	\$152,000
Personal Exemption	15,500	16,000
General Property Tax		
Homestead Exemption	3,360,000	3,220,000
Poverty Exemption	7,000	7,500
Taxable Value Cap	1,460,600	1,192,600
Income Tax		
Adjustments to Income (except military)	3,274,665	3,432,249
Adjustments to Income (federal)	34,290	48,316
Adoption Credit	785	814
Child Deduction	53,815	54,353
City Income Tax Credit	31,604	31,920
Dependent Exemption	18,351	18,534
Donated Vehicle Credit	135	141
Earned Income Tax Credit	338,000	353,800
Employer Contributions to Health and Life Insurance	1,049,355	870,230
Employer Pension Plans	555,035	541,595
Gain on Sale of Primary Residence	212,811	198,170
Home Heating Assistance Credit	312	318
Homeless Credit	20,278	21,025
Homestead Property Tax Credit (excluding veterans)	966,658	1,005,364
Income Maintenance Benefits	5,231	5,618
Individual Retirement Account	187,785	199,017
Interest on Life Insurance Savings	143,253	97,848
Other State Tax Credit	47,830	49,911
Personal Exemption	1,158,741	1,170,329
Railroad Retirement Benefits	1,734	1,350
Social Security Benefits	252,472	231,602
Special Exemption	54,838	57,032
Stillbirth Credit	39	39
Student Loan Deduction	4,469	4,578
Workers' Compensation	47,521	37,573
Michigan Business Tax		
Affordable Housing	3,600	5,400
Homeless Shelter Food Bank Credit	530	560
Sales and Use Taxes		
Donated Vehicles	125	125

Tax/Tax Expenditure	FY 2010 (000)	FY 2011 (000)
Income Distribution (Continued)		
Food	\$1,113,696	\$1,130,690
Food for Students	19,460	19,760
Inmate Purchases	518	505
Residential Utilities	<u>153,000</u>	<u>153,500</u>
TOTAL	\$14,742,839	\$14,330,365
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	\$9,746	\$9,551
Income Tax		
Military Pay and Pension	40,577	44,127
Veterans' Benefits	42,083	38,487
Veterans' Property Tax Credit	1,225	1,235
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	378	378
Sales and Use Taxes		
Military Post-Exchange Sales	<u>835</u>	<u>848</u>
TOTAL	\$94,844	\$94,625
Natural Resources		
Property Tax		
Air and Water Pollution	\$120,000	\$130,000
Energy Conservation Devices	200	160
Sales and Use Taxes		
Air and Water Pollution	<u>48,000</u>	<u>51,000</u>
TOTAL	\$168,200	\$181,160
Public Health		
Income Tax		
Medical Care Savings	\$7,463	\$9,366
Sales and Use Taxes		
Medical Services	3,057,569	3,222,858
Nonprofit Hospital Construction	1,138	1,155
Ophthalmic and Orthopedic Products	51,810	53,364
Prescription Drugs	<u>510,316</u>	<u>535,275</u>
TOTAL	\$3,628,296	\$3,822,018

Tax/Tax Expenditure	FY 2010 (000)	FY 2010 (000)
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,000	\$3,000
Michigan Business Tax		
Hybrid Technology R & D Credit	1,300	1,400
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,130	5,130
Evaporation and Loss Allowance	12,650	12,580
Fuel for Off-Road Use	1,000	1,000
Marine Vessel Fuel	740	740
Municipal Franchise Vehicles	460	460
Sales and Use Taxes		
Driver Training	375	366
Rail Rolling Stock	1,544	1,568
Utility Property Tax		
Railroad Right-of-Way	24,000	24,500
TOTAL	\$50,199	\$50,743

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and MBT expenditures. Business privilege tax expenditures are projected to increase from \$2,316.9 million in FY 2010 to \$2,639.2 million in FY 2011.

- Estimate Reliability**
- (1) Arts and Culture Credit
 - Farmland Preservation Credit
 - Homeless/Food Bank & Public Contribution Credits
 - Low-Grade Hematite Credit
 - NASCAR Speedway Credit
 - Workers' Disability Supplemental Benefit Credit
 - (2) Affordable Housing
 - Bottle Deposit Administration Credit
 - Bottle Deposit Gross Receipts Exclusion
 - Brownfield Redevelopment Credit
 - Business Loss Deduction
 - Community or Education Foundation Credit
 - Compensation Credit
 - Disability Insurance Exclusion
 - Flow-Through Entity Business Income Deduction
 - Food Retailer Credits
 - Foreign Dividends Gross Receipts Exclusion
 - Gross Receipts Filing Threshold
 - Gross Receipts Filing Threshold Credit
 - Historic Preservation Credit
 - Insurers' Examination Fee Credit
 - Investment Tax Credit
 - Michigan Association and Facilities Credit
 - Michigan Economic Growth Authority (MEGA)
 - Oil and Gas Severance Tax
 - Personal Property Tax Credit
 - Research and Development Credit
 - Small Business Alternative Tax Rate Credit
 - Stadium Credit
 - (3) Other MBT Tax Expenditures

This year's report is the first to incorporate actual MBT return data in computing the estimates. The MBT took effect on January 1, 2008. Calendar year businesses began filing annual returns in early 2009, but many companies made use of filing extensions and filed their tax return later in 2009. In order to provide tax expenditure estimates based on actual experience with the MBT, it was necessary to wait until well into 2010 for the first year's worth of MBT returns to be

processed. Other tax expenditure estimates from business privilege taxes were based on 2009 data. Insurance 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 Acts 5 and 6 of 2009 amended the Michigan Business Tax Act to expand the credits related to the development, manufacture, and commercialization of advanced automotive battery technology. Public Acts 5 and 6 increased the maximum credit amount that may be authorized by the Michigan Economic Growth Authority (MEGA) for qualified expenses for integrating battery packs into motor vehicles from \$70 million to \$90 million; increased the number of agreements MEGA may authorize for the construction of an integrative cell manufacturing facility from 1 to 3; and extended the deadline to authorize agreements until October 1, 2009.

Public Acts 8 and 9 of 2009 amended the Michigan Business Tax Act to provide an exception to the payment schedule for estimated tax under the MBT. Certain taxpayers may calculate the required estimated payment of MBT using the same method used to calculate federal estimated payments. In addition, the Acts eliminated penalty for underpayment of tax for a tax year that ends prior to December 1, 2009, if the taxpayer paid 75 percent of the tax due for the tax year.

Public Act 26 of 2009 amended the Michigan Business Tax Act to increase the credits related to the development, manufacture, and commercialization of advanced automotive battery technology expanded earlier in 2009 by Public Acts 5 and 6. P.A. 26 raised the total credits that may be authorized for integrating battery packs from \$90 million to \$135 million, and increased the number of agreements that may be authorized by MEGA from 3 to 4.

Public Act 90 of 2009 amended the Michigan Business Tax Act to extend the sunset on the tax credit for the construction and operation a new facility for the development and manufacture of photovoltaic energy, photovoltaic systems, or other photovoltaic technology. P.A. 90 also increased the total amount of credits that may be approved by MEGA from \$25 million to \$75 million, and would allow MEGA to approve a credit for a single taxpayer for up to \$25 million.

Public Act 105 of 2009 amended the Michigan Business Tax Act to exclude from business income royalty and interest payments to a person organized under the laws of a foreign nation that has a comprehensive tax treaty with the United States.

Public Act 106 of 2009 amended the Michigan Business Tax Act to reduce the earmark of revenue from the Michigan Business Tax to the School Aid Fund by the amount of revenue earmarked to the School Aid Fund as a result of the expansion of the use tax to include medical services provided by Medicaid managed care organizations. The reduction applies to each fiscal year after the 2007-2008 fiscal year.

Public Act 110 of 2009 amended the Michigan Business Tax Act to create a tax credit equal to 25 percent of the capital investment expenses for the construction of a facility that would

produce large-scale batteries and manufacture certain energy storage systems. MEGA could authorize 1 agreement under this Act by March 1, 2010. The tax credit is limited to \$25 million per year for no more than 4 years.

Public Act 123 of 2009 amended the Michigan Economic Growth Authority Act to increase the number of MEGA credits that may be awarded for certain businesses each year from 400 to 500, and to increase the number of new agreements that may be written each year for qualified high-technology or rural businesses from 50 to 75.

Public Act 126 of 2009 amended the Michigan Business Tax Act to require the total amount of all MEGA employment credits claimed in the first year of all new agreements to not exceed the sum of the credits claimed during the immediately preceding calendar year plus \$95 million.

Public Act 135 of 2009 amended the Michigan Business Tax Act to provide for a deduction equal to the amount contributed to the Advanced Tuition Payment Fund created under the Michigan Education Trust Act to the extent the contribution amount is included in federal taxable income. The deduction applies to tax years beginning after December 31, 2009.

Public Act 157 of 2009 amended the Michigan Business Tax Act to allow a taxpayer that restructured as a financial institution on or after January 1, 2008, to continue to apportion its tax base using the MBT sales factor. The bill apparently addresses circumstances unique to GMAC.

Public Act 159 of 2009 amended the Michigan Business Tax Act to expand the potential tax benefit from the anchor company payroll credit through a number of technical amendments. Under P.A. 159, MEGA may designate 5 new anchor companies in each calendar year, whereas previously MEGA could only have a total of 5 companies designated for each year.

Public Act 160 of 2009 amended the Michigan Business Tax Act to expand the potential tax benefit from the anchor company property credit by expanding the geographical area surrounding the anchor company in which a qualified supplier or customer may be located.

Public Act 184 of 2009 amended the Michigan Business Tax Act to make a technical change to the next energy payroll credit to correct the legal reference to the individual income tax rate in section 51 of the Income Tax Act.

Public Act 185 of 2009 amended the Michigan Business Tax Act to change to the calculation of the MBT for a taxpayer whose first tax year under the Act is less than 12 months.

Public Act 192 of 2009 amended the Michigan Business Tax Act to allow for an expansion of the historic preservation credit. P.A. 192 allows additional credits to be approved by the Michigan State Housing Development Authority during 2009 and transfers some of the 2010 credit allotment to 2009.

Public Act 240 of 2009 amended the Michigan Business Tax Act to create two new tax credits related to the development, manufacture, and commercialization of advanced automotive battery technology. The first credit is available for tax years that begin on or after January 1, 2012, and

end before January 1, 2017, and is available to a taxpayer that has entered into an agreement with MEGA to manufacture advanced lithium ion battery packs in Michigan. The second credit would be available for tax years that begin on or after January 1, 2015, and end before January 1, 2017, and may be authorized only if MEGA determines that certain credits issued previously become available.

Public Act 241 of 2009 amended the Michigan Business Tax Act to extend the cut-off date for when a taxpayer may qualify for a brownfield credit with a pre-approval letter from January 1, 2013, to January 1, 2014. P.A. 241 also adjusts the eligibility amounts for brownfield credits and caps the number of projects that MEGA may approve in the future.

Insurance Company Tax

Effective January 1, 2008, the SBT tax on insurance company gross receipts was replaced by the MBT 1.25 percent tax on Michigan insurance premiums. 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 MBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$286.6 million for FY 2011; revenue goes to the State General Fund.

FY 2011 Estimate

Captive Insurance Companies

Exempts companies authorized under the Insurance Code as captive insurance companies or special purpose financial captives from the MBT and its gross premiums tax. n.a.

Disability Insurance Exclusion

Exempts the first \$190,000,000 of disability insurance premiums written in Michigan. \$5,000,000

Michigan Association and Facilities Credit

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. \$30,500,000

Michigan Examination Fees Credit

Allows an insurance company to claim a credit equal to 50 percent of the examination fees paid by the company during the year under section 224 of the insurance code. \$2,900,000

FY 2011 Estimate

Workers' Disability Supplemental Benefit (WDSB) Credit \$1,100,000

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

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 projected yield is \$64.0 million for FY 2011; revenue goes to the State General Fund.

FY 2011 Estimate

Marginal Wells \$4,600,000

Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.

Public Land \$3,000,000

Exempts oil and gas severed from publicly-owned lands from taxation.

MBT Tax Expenditures

Enacted in 1976, the SBT was enacted as a consumption-type, value-added tax that had numerous adjustments to provide tax relief to businesses. Public Act 325 of 2006 repealed the SBT after December 31, 2007. Much of the legislative activity for the first six months of 2007 was devoted to adopting a replacement business tax. Public Act 36 of 2007 created the Michigan Business Tax Act, which took effect on January 1, 2008.

The MBT levies a tax on the privilege of doing business in Michigan using two separate tax calculations. The first tax is levied on business income at a rate of 4.95 percent, while the second tax is levied on modified gross receipts at a rate of 0.80 percent. A taxpayer's overall tax liability is the sum of the two taxes. Several tax credits from the SBT were retained with the new tax, in addition to the creation of several new credits. Among the new credits is a tax credit for personal property taxes paid on industrial, telephone, or natural gas pipeline personal property. Financial institutions are not taxed on business income or gross receipts, but are subject to a tax of 0.235 percent on their net capital.

Public Act 145 of 2007 amended the Michigan Business Tax Act to impose a surcharge on a taxpayer's liability. The surcharge rate for most taxpayers is 21.99 percent. Financial institutions paid a surcharge rate of 27.7 percent for tax year 2008, and will pay 23.4 percent for

tax years after 2008. The maximum surcharge any taxpayer will pay is \$6.0 million. The revenue from the surcharge was designed to replace the revenue projected to be raised by the expanded list of services subject to the use tax under Public Act 93 of 2007. Public Act 145 repealed the expansion to the use tax and also made numerous changes to the MBT.

Revenues from the MBT are estimated to be \$1,861.4 million in FY 2010 and \$2,191.4 million in FY 2011. Each year, the School Aid Fund receives a portion of those revenues to cover the cost of the new personal property tax exemptions tied to the MBT. In FY 2011, the SAF receives \$742.0 million in MBT revenues. The remaining revenues are earmarked to the State General Fund.

MBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the compensation, investment, research and development, and alternate tax credits. The estimates for these credits were derived assuming an interaction between tax expenditures, and may be interpreted as the tax revenue that would be realized if one of these four credits were eliminated. This is not the case for the deductions and other credits.

FY 2011 Estimate

Advertising Gross Receipts Exclusions	n.a.
Excluded from gross receipts: (a) Amounts received by an advertising agency used to acquire advertising media time, space, production, or talent on behalf of another person; (b) Amounts received by a newspaper to acquire advertising space not owned by that newspaper in another newspaper on behalf of another person.	
Affordable Housing	\$5,400,000
Allows eligible taxpayers deductions from their MBT tax bases for certain affordable housing projects.	
Agricultural Producers	\$45,600,000
Exempts agricultural production from the MBT.	
Anchor Company Credit	n.a.
Provides credits to a qualified taxpayer that was designated by the Michigan Economic Growth Authority (MEGA) as an “anchor company” within the past five years and that has influenced a new qualified supplier or customer to open, locate, or expand in this state. There are two credits: one based on the anchor company’s supplier’s/customer’s taxable value and one based on a supplier’s/customer’s payroll.	

	<u>FY 2011 Estimate</u>
Arts and Culture Credit	\$1,300,000
Provides a partial credit for donations made to a municipality (or a non-profit corporation affiliated with a municipality) for the purpose of benefiting the art institute, historical institute or zoo.	
Bad Debts Gross Receipts Exclusion	\$6,900,000
Provides a gross receipts exclusion for amounts deducted as bad debt for federal income tax purposes.	
Biodiesel Infrastructure Credit	\$250,000
Provides a credit to service station owners to cover a portion of the costs of converting to or creating new fuel delivery systems to provide E85 fuel or qualified biodiesel blends.	
Bottle Deposit Administration Credit	\$9,600,000
Provides a credit equal to 30.5 percent of a taxpayer's expenses incurred to comply with the Michigan bottle deposit program statute.	
Bottle Deposit Gross Receipts Exclusion	\$4,600,000
Excludes any deposit required under the bottle deposit program from the gross receipts tax base.	
Brownfield Redevelopment Credit	\$73,200,000
Provides credit for a portion of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in Brownfield development zones.	
Business Loss Deduction	\$107,400,000
Beginning with the 2009 tax year, permits a business that had a negative business income tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted business income tax bases may be carried forward for up to 10 years. The MBT also allows for taxpayers to claim 65 percent of their remaining SBT business loss deduction against the gross receipts tax base in tax year 2008.	

FY 2011 Estimate

Certain Financial Activities Gross Receipts Exclusions	n.a.
In addition to the financial activities gross receipts exclusions listed elsewhere, the MBT also provides for reductions to (modified) gross receipts for the following: payments by a licensed real estate broker; proceeds from equity issued by a regulated investment company; investment activity receipts of an individual that exclusively conducts investment for a person related to that individual; receipts of an individual, estate, or partnership or trust organized exclusively for estate or gift planning purposes.	
Certain Taxes and Fees Gross Receipts Exclusions	\$64,100,000
Excludes a portion of certain taxes and fees from the gross receipts tax base including: sales and use taxes; motor fuel excise taxes; beer, wine and liquor excise taxes; and cigarette and tobacco taxes; airport parking tax along with certain taxes and fees from the sale of communication, video, internet access and certain taxes and fees on the sale of energy sources.	
Community or Education Foundation Credit	\$350,000
Provides a 50 percent credit for contributions made to a qualified community or education 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.	
Compensation Credit	\$299,000,000
Provides a credit for the taxpayer's compensation in Michigan. The credit percentage is equal to 0.296 percent of Michigan compensation in 2008 and to 0.370 percent of Michigan compensation in following years. For 2008, the sum of the credit and the Investment Tax Credit cannot exceed 50 percent of MBT liability (before the MBT surcharge). For 2009 and following, the combined credit cannot exceed 52 percent of MBT liability (before the MBT surcharge).	
Construction Subcontractor Payments Exemption	\$26,000,000
Excludes payments to a subcontractor from the gross receipts tax base for a construction contractor not eligible for the alternate tax credit.	
Deferred Liability Business Income Deduction	\$0
Deducts an increasing percentage of the total book-tax difference for each qualifying asset, for each of the successive 15 tax years beginning with the 2015 tax year.	

FY 2011 Estimate

Entrepreneurial Credit	\$240,000
<p>For 2008, 2009 and 2010 tax years, an eligible taxpayer may claim a credit equal to the entire portion of its MBT liability attributable to increased employment. The taxpayer must have less than \$25 million in gross receipts the year before claiming the credit (the amount will be adjusted for inflation); created or transferred into Michigan at least 20 new jobs in the prior year, and made at least \$1.25 million in new capital investment in Michigan.</p>	
Estate Planning Gross Receipts Exclusion	n.a.
<p>For an individual, estate, or other person organized for estate or gift planning purposes, excludes from gross receipts, amounts received other than those from transactions, activities, and sources in the regular course of the taxpayer's trade or business.</p>	
Farmland Preservation Credit	\$1,500,000
<p>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.</p>	
Film Credits	\$100,000,000
<p>Provides credits for film production expenditures made after February 2008. To be eligible for the credit, companies must enter into an agreement with the Michigan film office. The MBT provides a 40 to 42 percent direct production expenditure and 30 percent qualified personnel expenditures film production credit; a 25 percent investment film infrastructure credit and 50 percent qualified job training expenditures credit.</p>	
Floor Plan Assistance Gross Receipts Exclusion	n.a.
<p>Excludes from gross receipts any invoiced items used to provide more favorable floor plan assistance to a person subject to the tax imposed under this act than to a person not subject to this tax and paid by a manufacturer, distributor, or supplier.</p>	
Floor Plan Interest Deduction	\$3,100,000
<p>Allows a taxpayer to include as inventory, floor plan interest expenses for new motor vehicles. Purchases from other firms (which are excluded from the modified gross receipts tax base) include inventories.</p>	

FY 2011 Estimate

Flow-Through Entity Business Income Deduction	\$126,600,000
Subtracts from the business income tax base income attributable to other entities whose business activities are taxable under the MBT or would be subject to the MBT if the business activities were in Michigan.	
Food Retailer Credits	\$8,800,000
Provides for two size and sales-line based Michigan-headquartered food retailer credits. The first credit is limited to firms that operate in Michigan at least 17 million square feet of enclosed retail space and 2 million square feet of enclosed warehouse space. The second credit is limited to firms that operate in Michigan at least 2.5 million square feet of enclosed retail space and 1.4 million square feet of enclosed warehouse, headquarters and transportation services.	
Foreign Dividends Gross Receipts Exclusion	\$168,700,000
Excludes dividends and royalties received from a foreign entity or person from gross receipts.	
Foreign Persons	\$6,100,000
Exempts a foreign person domiciled in a subnational jurisdiction that does not impose an income tax on a similarly situated person domiciled in Michigan.	
Government Obligations and Securities Gross Receipts Exclusion	\$3,800,000
Excludes interest income and dividends of obligations or securities of the federal government, State of Michigan or Michigan governmental unit from gross receipts.	
Government Utilities Exemption	\$30,000,000
Exempts the receipts of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.	
Gross Receipts Filing Threshold	\$37,200,000
Exempts from the MBT firms with adjusted (apportioned) gross receipts less than \$350,000.	
Gross Receipts Filing Threshold Credit	\$39,200,000
Provides a credit for firms with adjusted (apportioned) gross receipts between \$350,000 and \$700,000. The credit provides for a gradual phase-out of the gross receipts filing threshold -- rather than a cliff.	

FY 2011 Estimate

Health Care Management Gross Receipts Exclusion	n.a.
For a taxpayer that provides health care management consulting services, excludes from gross receipts, client fee amounts to reimburse those clients for services that are paid by the client and reimbursed to the client pursuant to a services agreement.	
Historic Preservation Credit	\$4,500,000
Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site.	
Homeless Shelter/Food Bank Credit	\$560,000
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.	
Hybrid Technology Research and Development Credit	\$1,400,000
A taxpayer that is engaged in research and development of motor vehicle hybrid systems at a qualified facility may claim a credit against the MBT equal to 3.9 percent of the compensation for work at the facility.	
Individual or Family Development Account Credit	n.a.
Allows a qualified financial institution or taxpayer to claim a credit equal to 75 percent of an entity's contributions to the reserve fund of a fiduciary organization to the Individual or Family Development Account Program Act.	
Insurance Policy/Judgment Proceeds Gross Receipts Exclusion	n.a.
Excludes from gross receipts, a portion of the proceeds from a policy of insurance, a settlement of a claim, or a judgment in a civil action.	
International Aircraft Operations Gross Receipts Exclusion	n.a.
Excludes from gross receipts, amounts that are excluded from gross income of a foreign corporation engaged in the international operation of aircraft under the internal revenue code.	
International Auto Show Credit	\$250,000
Provides a credit for an owner or operator of certain qualifying exhibitions. The qualifying exhibition must exhibit products made in Michigan for sale to the general public, use more than 100,000 square feet, run for at least seven consecutive days, have attendance exceeding 500,000 and have more than 3,000 journalists attending the exhibition.	

FY 2011 Estimate

Investment Tax Credit	\$240,100,000
Provides a credit for Michigan investment. The credit is equal to 2.32 percent of Michigan investment in 2008 and 2.90 percent of Michigan investment in following years. The taxpayer cannot claim an ITC and a research and development credit on the same expenses.	
Low-Grade Hematite Credit	\$1,100,000
Provides a credit for taxpayers that consume qualified low-grade hematite (iron ore) in an industrial or manufacturing process.	
Medicaid Reimbursements and Premiums Gross Receipts Exclusion	n.a.
Excludes from gross receipts amounts received from Medicaid premiums or Medicaid reimbursements.	
Michigan Early Stage Venture Capital Voucher	n.a.
Taxpayers issued a voucher certificate under the Michigan early state venture investment act, may use the voucher to pay their MBT liability. Vouchers may be transferred.	
Michigan Economic Growth Authority (MEGA) Credits	\$104,200,000
Provides numerous credits for new or expanding firms based on additional payroll and health care costs or additional business activity costs associated with an expansion or new location.	
MEGA Federal Government Credit	n.a.
Provides for a credit up to 100 percent of a taxpayer's payroll attributable to new jobs that result from a federal procurement contract by the United States department of defense, department of energy, or department of homeland security.	
MEGA Photovoltaic Technology Credit	n.a.
Provides for MEGA credits for the construction and operation of a new facility in Michigan for the development and manufacturing of photovoltaic energy, photovoltaic systems, or other photovoltaic technology. The total amount of credits under this provision, for all years, may not exceed \$75,000,000.	
MEGA Polycrystalline Silicon Manufacturing Credit	n.a.
Provides for a single twelve-year MEGA credit for the manufacture of polycrystalline silicon to be used for solar cells and semiconductor microchips beginning with a tax year that begins after December 31, 2011. The credit's MEGA agreement must have been entered into by December 31, 2008.	

FY 2011 Estimate

Michigan Education Trust Contribution Business Income Deduction	n.a.
Deducts from business income the amount of a charitable contribution made to the Michigan Education Trust tuition payment fund.	
Mortgage Company Proceeds Gross Receipts Exclusion	n.a.
Excludes proceeds representing the principal balance of loans transferred or sold in the tax year for a mortgage company whose residential mortgage loan business accounts for more than 90 percent of its revenues.	
Motion Picture Gross Receipts Exclusion	\$2,100,000
Excludes film rental or royalty payments paid by a theater owner to a film distributor, a film producer, or a film distributor and producer.	
Motor Vehicle Sales Finance Company Gross Receipts Exclusion	n.a.
For a motor vehicle sales finance company directly or indirectly owned in whole or in part by a motor vehicle manufacturer as of January 1, 2008, excludes from gross receipts (a) amounts realized from the repayment, maturity, sale, or redemption of certain marketable instruments and (b) the principal amount received under a repurchase agreement or loan.	
Multiple Employer Welfare Arrangement	\$30,000
For tax years beginning after 2000, the portion of the MBT tax base attributable to a Multiple Employer Welfare Arrangement that provides only dental benefits and that is registered at the Michigan Office of Financial and Insurance Services is exempt from the MBT.	
NASCAR Safety Credit	\$6,200,000
Provides a credit for traffic control costs for a motorsports event at an eligible motorsports stadium (50 percent for 2009 and 100 percent thereafter).	
NASCAR Speedway Credit	\$1,200,000
Provides a credit for tax years 2008 through 2012 for capital expenditures on an eligible motorsports stadium and its grounds.	
New Motor Vehicle Dealer Inventory Credit	\$23,800,000
Provides for a credit to a new Michigan licensed motor vehicle dealer equal to 0.25 percent of the amount paid to acquire new motor vehicle inventory in the tax year.	

	<u>FY 2011 Estimate</u>
Nonprofit Organizations	\$157,500,000
Exempts the gross receipts of most firms exempt from the federal corporate income tax.	
Pass-Through Entity Gross Receipts Exclusion	\$12,900,000
Excludes from gross receipts amounts attributable to an ownership interest in a pass-through entity, regulated investment company, real estate investment trust, or cooperative corporation whose business activities are or would be taxable under section 203.	
Personal Property Tax Credit	\$137,300,000
Provides three credits for personal property taxes paid in the tax year: The first is equal to 35 percent of industrial personal property taxes. The second is equal to 23 percent of State Utility Tax Act taxes paid on telephone equipment in 2008 with a 13.5 percent credit in subsequent years. The third provides a 10 percent credit for natural gas pipeline personal property taxes paid.	
Private Equity Fund Credit	n.a.
Provides a credit for private equity fund activities in Michigan.	
Public Contribution Credit	\$1,100,000
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.	
Related Persons Interest Gross Receipts Exclusion	n.a.
Excludes from gross receipts, receipts derived from investment activity by a person that conducts investment activity only for a person related to that individual or by a common trust fund established under the collective investment funds act.	
Renaissance Zone Credit	\$21,200,000
Provides a credit for the portion of tax attributable to business activity in a renaissance zone.	
Research and Development Credit	\$25,900,000
Provides a credit for research and development in Michigan. In 2008, the credit is equal to 1.52 percent of the taxpayer's research and development expenses in Michigan. In following years, the credit percentage is 1.90 percent. The sum of the credit, the compensation credit, and the ITC cannot exceed 65 percent of the taxpayer's MBT liability (before the MBT surcharge).	

	<u>FY 2011 Estimate</u>
Self Employment Net Earnings Deduction Net earnings from self-employment as defined in IRC section 1402 are deducted from the MBT business income tax base.	\$168,900,000
Small Business Alternative Tax Credit For qualifying smaller firms, provides a credit that effectively lowers the taxpayer's tax to 1.8 percent of adjusted business income. Qualifications include: Gross receipts must be less than or equal to \$20 million (the credit is phased out for firms with gross receipts between \$19 million and \$20 million). Total adjusted business income may not exceed \$1.3 million. Allocated business income limit for any one owner may not exceed \$180,000 (with a credit phase-out between \$160,000 and \$180,000).	\$463,100,000
Stadium Credit Provides two credits to owners, operators, licensees and tenants of more than one stadium with an occupancy of at least 14,000 people that meet certain criteria.	\$2,800,000
Staffing Company/ PEO Gross Receipts Reduction For staffing companies and professional employer organizations, excludes from their gross receipts tax base, the compensation of personnel supplied to their customers.	\$44,300,000
Start-Up Business Credit Provides a credit equal to the MBT liability for certain new businesses for up to five years if the business has no business income.	n.a.
Tribal Tax Agreements Agreements between the State of Michigan and seven American Indian tribes clarify how the MBT will be applied to tribes, and resident tribal members within the specific areas of the state that are covered by the agreements.	n.a.
Workers' Disability Supplemental Benefit (WDSB) Credit Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Prior to the identical SBT credit, firms were reimbursed through the appropriations process for these payments.	\$2,700,000

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 \$14,275.6 million in FY 2011, a 3.1 percent increase over the FY 2010 level of \$13,846.6 million. The growth in sales and use tax expenditures associated with health care and professional, scientific, and technical services account for most of the growth between FY 2010 and FY 2011. Sales and use tax expenditure estimates are based on FY 2005 through FY 2009 data. Alcohol and cigarette tax expenditure estimates were based on FY 2009 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 tax collections. These estimates are reliable.

Consumption Tax Expenditure Changes

Public Acts 53 and 54 of 2009 amended the General Sales Tax Act and the Use Tax Act, respectively, to revise tax exemptions for the sale of aircraft that are temporarily in Michigan. The broader exemptions now apply to aircraft temporarily in Michigan for the purpose of a sale and pre-purchase evaluation, customization, improvement, maintenance, or repair.

Public Act 61 of 2009 amended the State Convention Facility Development Act to expand the definition of a convention facility to continue to include Cobo Hall after ownership is transferred to an authority. The Act was included in a package of legislation designed to allow for the expansion of Cobo Hall and allow the International Auto Show to remain in Detroit.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2011 (millions of dollars).

Alcoholic Beverage Taxes (millions)		FY 2011 Revenue
<u>Tax</u>	<u>Location of Deposit</u>	
Beer and Wine Excise	General Fund	\$53.0
4.0 Percent Liquor Excise	School Aid Fund	\$38.5
4.0 Percent Liquor Specific	General Fund	\$38.5
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	\$14.4
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$38.5
		<u>FY 2011 Estimate</u>
Beer Shipped Out-of-State		n.a.
Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state.		
Damaged Beer		n.a.
Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale.		
Homemade Wine		n.a.
Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.		
Small Brewer's Credit		\$90,000
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 2011, the tax on cigarettes will yield an estimated \$890.8 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$64.2 million.

	<u>FY 2011 Estimate</u>
<p>Bad Debt Deduction Allows cigarette wholesalers to deduct any losses from bad debts.</p>	\$400,000
<p>Licensee Expenses Exempts 1.5 percent of the cigarette tax due from licensees, and 1.0 percent of the tax on other tobacco products, to cover their expenses in administering the tax.</p>	\$14,210,000
<p>Sales on Military Bases and Reservations Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.</p>	\$9,551,000
<p>Tribal Tax Agreements 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.</p>	n.a.

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.

	<u>FY 2011 Estimate</u>
<p>Small Hotel Exemption Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.</p>	n.a.

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 \$6,260.8 million in FY 2011. 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. State law earmarks 4.65 percent of the sales tax on transportation-related items to the Comprehensive Transportation Fund (CTF). 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 \$1,170.0 million in FY 2011. Due to their complementary nature, sales and use tax expenditures are reported together.

FY 2011 Estimate

Air and Water Pollution	\$51,000,000
Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	
Aircraft Parts	\$8,144,000
Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	
Bad Debts	\$56,812,000
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.	
Cargo Aircraft	\$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.	
Church Construction	\$3,600,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
Church Cars	\$3,015,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	

	<u>FY 2011 Estimate</u>
Collection Fee	\$32,902,000
Sales and use tax returns are due by the 20th 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 12th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 13th through the 20th of the month.	
Commercial Domestic Aircraft	\$5,000,000
Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	
Commercial Vessels	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.	
Communication and Telephone Exemption	\$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.	
Donated Property	n.a.
Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations.	
Donated Vehicles	\$125,000
Exempts certain vehicle transfers from the sales or use taxes when the vehicle is transferred from a qualifying organization to certain low-income families.	
Driver Training	\$366,000
Exempts property used for demonstration or driver training programs.	
Employee Meals	\$13,622,000
Exempts meals provided by employers to their employees starting in 2002.	
Food	\$1,130,690,000
Exempts food for human consumption, except prepared food intended for immediate consumption.	

	<u>FY 2011 Estimate</u>
Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students.	\$19,760,000
Government or Red Cross 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.	\$166,923,000
Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	\$52,966,000
Horticultural and Agricultural Products Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	\$256,738,000
Imported Property 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.	\$3,200,000
Industrial Processing 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.	\$840,219,000
Inmate Purchases Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	\$505,000
International Telecommunications Exempts international and WATS calls from the use tax.	\$11,013,000
Interstate Trucks and Trailers 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 \$12,000,000.	\$23,423,000

FY 2011 Estimate

Investment Coins	\$2,540,000
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.	
Isolated Sales	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
Military PX Sales	\$848,000
Exempts military post-exchange sales.	
Military Vehicle Sales	n.a.
Exempts vehicle sales to nonresidents serving in the U.S. armed forces, or when purchased by a Michigan resident in military service when sales tax is paid to another state.	
Motion Picture Credit	\$0
Provided a credit for expenditures on a motion picture. The credit was replaced by the credit under the Michigan Business Tax.	
Newspapers, Periodicals, and Films	\$95,649,000
Exempts sales of copyrighted films, newspapers, and periodicals.	
Nonprofit Ambulance and Fire Service	n.a.
Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	
Nonprofit Hospital or Housing Construction	\$1,155,000
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.	
Nonprofit Organizations	\$166,792,000
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.	
Nonprofit Sales Under \$5,000	n.a.
Exempts aggregate sales under \$5,000 for qualified nonprofit organizations.	

	<u>FY 2011 Estimate</u>
Nonresident Merchandise Transfer Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	n.a.
Nonresident Property Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	n.a.
Ophthalmic and Orthopedic Products Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	\$53,364,000
Prescription Drugs Exempts prescription drugs for human consumption.	\$535,275,000
Radio and TV 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
Rail Rolling Stock Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	\$1,568,000
Residential Utilities Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	\$153,500,000
Returned Vehicles Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	\$1,100,000
Sale of Business Excludes from the use tax non-inventoried property purchased as part of a business.	n.a.
Sale of Water Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	\$63,706,000

FY 2011 Estimate**Services**

\$10,361,600,000

Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately \$3.38 billion of the total represents services purchased by consumers.

**Service Tax Expenditures, FY 2011
(millions)**

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$9.5	\$0.0	\$9.5
Admin., Support, and Waste Mgmt.	843.3	22.3	865.6
Arts, Entertainment, and Recreation	202.0	39.4	241.4
Construction	869.4	0.0	869.4
Educational Services	68.4	382.4	450.8
Health Care and Social Assistance	1,327.6	1,895.3	3,222.9
Information	297.1	0.0	297.1
Other Services (except Public Admin.)	534.8	121.5	656.3
Professional, Scientific, and Technical	2,049.9	14.8	2,064.7
Real Estate and Rental and Leasing	558.3	0.0	558.3
Transportation and Warehousing	1,019.0	9.0	1,028.0
Utilities	<u>0.0</u>	<u>97.7</u>	<u>97.7</u>
TOTAL	\$7,779.1	\$2,582.5	\$10,361.6

Source: Calculations by the Office of Revenue and Tax Analysis using the *2002 Economic Census: Geographic Area Series, Michigan*, U.S. Department of Commerce. Totals may differ from other exhibits and may not add due to rounding.

FY 2011 Estimate

Small Out-of-State Purchases	n.a.
Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.	
Telephone Services	\$13,371,000
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 of a two-way interactive device.	
Textbooks Sold by Schools	n.a.
Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program.	
Tribal Tax Agreements	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.	
Vehicle and Aircraft Transfers	\$33,749,000
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	\$15,640,000
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 3.9 percent from \$6,099.7 million in FY 2010 to \$6,337.8 million in FY 2011. Federal income tax expenditures are projected to decrease 14.6 percent from \$2,701.5 million in FY 2010 to \$2,307.3 million in FY 2011. Individual income tax expenditure estimates were based on tax year 2008 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 2008. 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 134 of 2009 amended the Income Tax Act to provide for a deduction equal to the amount contributed to the Advanced Tuition Payment Fund created under the Michigan Education Trust Act, beginning with the 2010 tax year.

Public Act 195 of 2009 amended the Income Tax Act to eliminate the sunset on the vehicle donation credit. The credit was previously scheduled to expire for tax years that begin after December 31, 2009.

State Income Tax Expenditures

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. For FY 2011, the State of Michigan will collect an estimated \$5,538.0 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 2008, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.35 percent to an average effective rate of 2.24 percent. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.

FY 2011 Estimate

Adjustments to Income

\$3,432,249,000

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 \$70.3 billion in calendar year 2008. This reduced 2008 income taxes by \$3,059.7 million. Additional detail on the adjustments to income is reported in the Treasury report *Michigan's Individual Income Tax 2008*, available on the Treasury Web site, www.michigan.gov/treasury.

Adoption Credit

\$814,000

Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. The federal credit is equal to 100 percent of the first \$12,170 dollars of adoption expenses for tax year 2010. The Michigan adoption credit applies to the first \$1,200 in adoption expenses over the \$12,170 federal credit.

Child Deduction

\$54,353,000

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.

City Income Tax Credit

\$31,920,000

Provides a credit to individuals for income taxes paid to cities. For tax year 2008, city income tax credits totaled \$31.1 million (see Exhibit 13).

FY 2011 Estimate

College Savings Account	\$23,091,000
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.	
Community Foundation Credit	\$3,403,000
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.	
Dependent Exemption	\$18,534,000
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.	
Disabled Veterans Exemption	n.a.
Allows a taxpayer to claim an additional exemption of \$250 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.	
Donated Vehicle Credit	\$141,000
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.	
Earned Income Tax Credit	\$353,800,000
Provides a refundable income tax credit equal to 20 percent of any federal earned income tax credit for which a taxpayer is eligible.	
Farmland Development Credit	\$38,852,000
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 17). This credit was expanded by Public Act 421 of 2000.	

FY 2011 Estimate

Higher Education/Public Contributions Tax Credit

\$24,763,000

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 2008, the higher education/public contributions tax credit totaled \$24.7 million (see Exhibit 13).

Historic Preservation Credit

\$1,497,000

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

\$318,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2009, these credits totaled an estimated \$106.0 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$306,000 in FY 2009.

Homestead Property Tax Credit

\$1,006,599,000

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 2008, homestead credits, excluding the farmland credit itemized separately, totaled \$930.7 million (Exhibit 17). Of the homestead credits, 56.7 percent went to general taxpayers, 37.5 percent went to senior citizens, and the remaining 5.8 percent went to veterans and blind and disabled persons.

Exhibit 13
Selected Individual Income Tax Expenditures, CY 2008

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Higher Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than \$2,000*	420,594	9.0%	9,891	\$112,012	2,370	\$177,134
2,001 - 4,000	176,092	3.8%	17,381	137,462	1,627	83,840
4,001 - 6,000	169,889	3.6%	20,258	224,337	2,047	111,173
6,001 - 8,000	162,788	3.5%	22,203	316,078	2,220	128,789
8,001 - 10,000	160,301	3.4%	23,653	378,089	2,496	151,891
10,001 - 12,000	156,028	3.3%	24,420	452,307	2,646	162,092
12,001 - 14,000	155,776	3.3%	25,600	535,715	2,956	187,236
14,001 - 16,000	147,580	3.2%	25,156	564,696	3,044	195,534
16,001 - 18,000	134,202	2.9%	23,483	575,924	3,099	204,001
18,001 - 20,000	125,379	2.7%	22,981	600,932	3,061	208,801
20,001 - 25,000	282,157	6.0%	54,370	1,588,052	7,764	529,410
25,001 - 30,000	249,870	5.3%	50,195	1,641,869	8,333	583,705
30,001 - 35,000	219,714	4.7%	43,981	1,534,067	8,499	606,128
35,001 - 40,000	197,727	4.2%	38,858	1,418,068	8,684	626,779
40,001 - 45,000	172,886	3.7%	34,940	1,313,465	8,718	631,896
45,001 - 50,000	156,275	3.3%	32,308	1,278,050	9,167	687,576
50,001 - 55,000	147,102	3.1%	31,374	1,307,468	9,722	737,142
55,001 - 60,000	136,100	2.9%	29,658	1,252,179	9,781	759,308
60,001 - 70,000	243,772	5.2%	54,018	2,379,835	19,608	1,580,051
70,001 - 80,000	205,948	4.4%	45,264	2,061,743	19,151	1,616,972
80,001 - 90,000	168,107	3.6%	37,380	1,711,242	18,370	1,603,567
90,001 - 100,000	134,723	2.9%	31,156	1,481,366	16,525	1,511,794
Over 100,000	<u>547,458</u>	<u>11.7%</u>	<u>125,084</u>	<u>8,192,990</u>	<u>103,424</u>	<u>11,614,807</u>
TOTAL	4,670,468	100.0%	823,612	\$31,057,945	273,312	\$24,699,626

*Includes 188,957 credit-only returns (zero income).

Prepared by Office of Revenue and Tax Analysis, Michigan Department of Treasury

FY 2011 Estimate

Homeless/Food Bank Credit \$21,025,000

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.

Military Pay and Pensions \$44,127,000

Exempts compensation received while on active duty in the U.S. Armed Forces and military retirement pay from taxable income.

Other State Tax Credit \$49,911,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2008, taxpayers claimed \$44.4 million in credits.

Personal Exemption \$1,170,329,000

Exempts \$3,500 (tax year 2008) 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 2010, the personal exemption is \$3,600. The personal exemption reduced tax year 2008 revenue by approximately \$1,112.4 million.

The distribution of effective exemptions across AGI classes is outlined in Exhibit 14. Effective exemptions are exemptions that offset actual income.

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 \$57,032,000

Allows a taxpayer and his or her spouse to each claim a \$2,300 exemption for tax year 2010 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.

FY 2011 Estimate

Stillbirth Credit

\$39,000

Allows a taxpayer who has been issued a Certificate of Stillbirth to claim an income tax credit equal to 4.5 percent of the personal exemption amount, rounded up to the nearest \$10 increment.

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

\$4,750,000

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 14
Selected Individual Income Tax Expenditures by Income Class, CY 2008

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions ⁽¹⁾	
	Number	Percent	Number	Amount	Number	Amount
Zero Income ⁽²⁾	264,214	5.7%	29,909	\$21,685,908	0	\$0
\$0 - 2,000	156,380	3.3%	14,267	7,768,268	19,950	2,950,632
2,001 - 4,000	176,092	3.8%	19,466	9,190,112	59,915	8,861,380
4,001 - 6,000	169,889	3.6%	25,327	11,777,159	86,180	12,745,984
6,001 - 8,000	162,788	3.5%	31,919	15,171,407	109,157	16,144,386
8,001 - 10,000	160,301	3.4%	40,208	19,811,862	139,016	20,560,413
10,001 - 12,000	156,028	3.3%	43,375	21,659,303	160,889	23,795,411
12,001 - 14,000	155,776	3.3%	48,381	24,461,779	179,631	26,567,471
14,001 - 16,000	147,580	3.2%	46,407	23,299,594	187,285	27,699,480
16,001 - 18,000	134,202	2.9%	42,836	21,066,491	175,417	25,944,175
18,001 - 20,000	125,379	2.7%	41,953	20,434,106	174,902	25,867,981
20,001 - 25,000	282,157	6.0%	99,725	47,742,250	423,167	62,586,325
25,001 - 30,000	249,870	5.3%	90,436	43,387,281	386,851	57,215,260
30,001 - 35,000	219,714	4.7%	79,102	38,425,452	365,021	53,986,675
35,001 - 40,000	197,727	4.2%	70,859	34,784,647	334,388	49,455,966
40,001 - 45,000	172,886	3.7%	60,007	30,404,617	312,086	46,157,470
45,001 - 50,000	156,275	3.3%	52,531	27,172,644	300,520	44,446,919
50,001 - 55,000	147,102	3.1%	47,142	24,816,256	296,633	43,872,049
55,001 - 60,000	136,100	2.9%	41,157	21,645,655	286,491	42,371,993
60,001 - 70,000	243,772	5.2%	68,110	36,455,260	528,991	78,237,807
70,001 - 80,000	205,948	4.4%	51,073	23,265,484	495,109	73,226,589
80,001 - 90,000	168,107	3.6%	13,114	2,387,977	425,724	62,964,651
90,001 - 100,000	134,723	2.9%	411	224,278	355,738	52,613,592
Over 100,000	<u>547,458</u>	<u>11.7%</u>	<u>761</u>	<u>551,454</u>	<u>1,502,917</u>	<u>222,281,474</u>
TOTAL	4,670,468	100.0%	1,058,476	\$527,589,244	7,305,978	\$1,080,554,083

⁽¹⁾ Effective exemptions in this exhibit are personal exemptions that offset exemptions. This number does not include disabled and other special exemptions.

⁽²⁾ Includes 188,957 credit-only returns.

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 15
Effective Income Tax Rates by Income Class, CY 2008⁽¹⁾

<u>Adjusted Gross Income</u>	<u>Total Adjusted Gross Income</u>	<u>Total Income Tax Paid</u>	<u>Effective Tax Rate</u>
Zero Income ⁽²⁾	(\$7,739,812,818)	(\$127,071,685)	
\$0 - 2,000	160,430,280	(43,167,463)	-26.91%
2,001 - 4,000	529,542,126	(33,156,920)	-6.26%
4,001 - 6,000	848,151,611	(32,376,939)	-3.82%
6,001 - 8,000	1,139,081,315	(34,930,116)	-3.07%
8,001 - 10,000	1,440,727,682	(39,965,731)	-2.77%
10,001 - 12,000	1,717,418,005	(39,373,658)	-2.29%
12,001 - 14,000	2,021,718,424	(37,582,758)	-1.86%
14,001 - 16,000	2,213,430,359	(23,702,439)	-1.07%
16,001 - 18,000	2,280,040,627	(10,665,152)	-0.47%
18,001 - 20,000	2,380,821,366	524,545	0.02%
20,001 - 25,000	6,331,770,245	42,940,795	0.68%
25,001 - 30,000	6,862,148,804	88,741,372	1.29%
30,001 - 35,000	7,128,129,284	120,690,345	1.69%
35,001 - 40,000	7,409,204,613	141,603,728	1.91%
40,001 - 45,000	7,337,931,157	155,444,156	2.12%
45,001 - 50,000	7,419,366,708	167,239,139	2.25%
50,001 - 55,000	7,718,299,202	181,805,020	2.36%
55,001 - 60,000	7,822,060,003	193,238,440	2.47%
60,001 - 70,000	15,818,296,521	411,007,576	2.60%
70,001 - 80,000	15,413,720,437	427,483,977	2.77%
80,001 - 90,000	14,259,724,433	430,125,988	3.02%
90,001 - 100,000	12,775,347,772	397,755,342	3.11%
Over 100,000	<u>134,188,942,387</u>	<u>3,457,089,872</u>	<u>2.58%</u>
TOTAL	\$257,476,490,543	\$5,793,697,434	2.25%

Effective rate excluding zero income AGI and Taxes Paid 2.23%

Effective rate excluding zero income AGI 2.18%

(1) Values in this table are based on a sample of the 4,481,511 MI-1040 and MI-1040CR returns.

(2) Includes 188,957 credit-only returns (zero income).

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 16
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2008

Adjusted Gross Income	Effective Exemptions⁽¹⁾	Adjustments to Income	Nonrefundable Credits⁽²⁾	Prop. Tax Credits
Less Than \$2,000	397.6%	26.9%	-3.1%	484.2%
2,001 - 4,000	132.5%	18.2%	0.4%	122.0%
4,001 - 6,000	90.7%	18.0%	1.1%	84.9%
6,001 - 8,000	74.3%	20.9%	1.3%	72.8%
8,001 - 10,000	65.6%	21.6%	1.3%	65.3%
10,001 - 12,000	59.5%	23.6%	1.2%	57.7%
12,001 - 14,000	54.8%	24.8%	1.3%	50.8%
14,001 - 16,000	47.8%	23.3%	1.4%	43.3%
16,001 - 18,000	42.9%	23.7%	1.4%	37.5%
18,001 - 20,000	39.2%	22.0%	1.3%	32.7%
20,001 - 25,000	33.5%	20.2%	1.3%	26.8%
25,001 - 30,000	27.8%	20.2%	1.3%	21.5%
30,001 - 35,000	23.9%	19.7%	1.2%	17.8%
35,001 - 40,000	20.9%	21.6%	1.1%	15.0%
40,001 - 45,000	19.0%	20.4%	1.1%	13.1%
45,001 - 50,000	17.7%	19.7%	1.1%	11.5%
50,001 - 55,000	16.6%	19.6%	1.1%	10.1%
55,001 - 60,000	15.7%	19.1%	1.1%	8.7%
60,001 - 70,000	14.6%	19.0%	1.1%	7.1%
70,001 - 80,000	13.4%	18.2%	1.1%	4.5%
80,001 - 90,000	12.4%	17.5%	1.1%	0.5%
90,001 - 100,000	11.5%	16.5%	1.2%	0.1%
Over 100,000	4.7%	35.5%	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 (4.35%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, the homeless food bank credit, and the vehicle donation credit.

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 17
Property Tax Credits by County, CY 2008

<u>County</u>	<u>General</u>		<u>Seniors</u>		<u>Veterans</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
ALCONA	500	\$193,100	500	\$284,300	100	\$6,100
ALGER	500	172,100	300	133,300	< 50	4,700
ALLEGAN	9,300	4,000,900	4,000	2,845,300	100	11,600
ALPENA	2,000	662,600	1,700	929,800	100	10,200
ANTRIM	1,900	816,000	1,300	937,900	100	6,900
ARENAC	1,000	390,900	800	501,200	< 50	4,400
BARAGA	300	100,800	300	133,000	< 50	5,600
BARRY	4,200	1,819,900	2,100	1,427,100	100	7,100
BAY	9,500	3,488,600	6,200	3,992,200	200	27,000
BENZIE	1,400	552,200	800	480,400	< 50	4,500
BERRIEN	13,300	4,855,600	7,300	4,628,800	100	17,600
BRANCH	3,200	1,243,400	1,700	1,069,300	100	7,300
CALHOUN	11,900	5,145,100	6,200	4,567,100	200	23,700
CASS	2,800	1,063,800	1,700	1,050,200	< 50	4,700
CHARLEVOIX	2,500	1,109,600	1,500	1,047,100	< 50	2,100
CHEBOYGAN	1,800	608,500	1,100	621,500	100	9,600
CHIPPEWA	4,000	1,122,000	1,100	601,800	100	15,500
CLARE	2,100	657,600	1,200	566,700	100	6,700
CLINTON	5,200	2,612,800	2,600	1,937,600	< 50	3,300
CRAWFORD	900	271,600	500	236,400	< 50	4,900
DELTA	2,600	861,600	1,600	889,300	200	26,700
DICKINSON	1,700	582,100	1,400	866,500	100	14,800
EATON	12,600	5,992,100	5,800	4,340,600	100	16,200
EMMET	3,700	1,564,300	1,600	1,178,900	100	4,600
GENESEE	44,800	18,633,700	18,300	12,119,100	400	56,500
GLADWIN	1,700	616,800	1,400	794,400	100	8,000
GOGEBIC	700	208,800	600	294,300	100	17,800
GRAND TRAVERSE	10,700	4,970,300	4,700	3,563,900	100	12,300
GRATIOT	2,800	1,021,600	1,600	950,300	100	9,600
HILLSDALE	3,400	1,340,700	1,800	1,106,000	100	10,600
HOUGHTON	1,600	526,300	900	484,800	100	17,200
HURON	2,800	1,344,600	2,600	1,884,400	100	6,700
INGHAM	36,200	18,478,700	11,300	9,220,000	100	21,900
IONIA	4,900	2,021,000	2,000	1,319,100	< 50	5,000
IOSCO	1,600	516,500	1,400	687,700	200	14,200
IRON	600	190,600	500	248,000	100	12,400
ISABELLA	6,200	2,610,300	2,400	1,658,600	< 50	5,800
JACKSON	13,700	5,482,900	6,400	4,062,800	200	22,300
KALAMAZOO	27,800	12,262,300	10,400	8,033,700	200	24,700
KALKASKA	1,300	439,400	600	336,600	< 50	2,700
KENT	69,200	30,108,000	23,900	17,696,600	300	47,600
KEWEENAW	100	23,000	0	29,500	< 50	1,800

Exhibit 17 (Continued)

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	600	\$224,200	400	\$215,000	< 50	\$4,800
LAPEER	6,600	2,971,800	3,100	2,006,600	100	7,700
LEELANAU	1,500	714,000	1,100	900,900	< 50	1,600
LENAWEE	9,100	4,086,900	4,800	3,477,600	100	13,000
LIVINGSTON	600	224,200	400	215,000	< 50	4,800
LUCE	300	74,200	100	25,100	< 50	3,400
MACKINAC	1,400	423,600	500	285,000	< 50	2,500
MACOMB	106,400	60,830,900	52,700	45,793,200	300	51,200
MANISTEE	1,900	729,100	1,400	815,600	100	8,900
MARQUETTE	4,100	1,285,600	1,800	989,500	300	38,300
MASON	2,600	960,400	1,600	1,083,200	100	6,500
MECOSTA	2,500	1,010,100	1,500	904,700	100	7,500
MENOMINEE	1,300	418,100	800	397,600	100	13,400
MIDLAND	5,800	2,134,500	3,100	2,008,100	100	14,000
MISSAUKEE	900	352,600	600	324,000	< 50	2,200
MONROE	11,300	5,155,800	6,200	4,222,800	100	11,200
MONTCALM	5,200	1,969,000	2,600	1,610,700	100	8,900
MONTMORENCY	600	182,600	400	167,300	100	4,500
MUSKEGON	16,700	6,449,500	7,900	5,268,600	200	29,300
NEWAYGO	3,400	1,433,200	1,900	1,218,500	100	8,800
OAKLAND	124,100	76,784,400	54,200	48,772,100	300	48,500
OCEANA	2,100	817,100	1,300	817,800	100	6,500
OGEMAW	1,500	501,600	1,100	561,700	100	8,500
ONTONAGON	300	87,100	200	107,500	< 50	5,700
OSCEOLA	1,600	567,300	1,000	576,200	100	7,100
OSCODA	300	101,800	200	78,400	< 50	1,900
OTSEGO	1,600	527,400	800	398,200	100	4,300
OTTAWA	25,600	11,233,900	11,500	8,542,700	100	17,600
PRESQUE ISLE	800	256,400	800	427,100	100	6,100
ROSCOMMON	1,800	629,100	1,500	822,400	100	9,100
SAGINAW	15,700	5,458,800	7,800	4,746,700	300	39,900
ST. CLAIR	16,900	7,733,000	8,300	6,114,900	200	22,400
ST. JOSEPH	4,700	1,758,800	2,400	1,431,100	100	6,700
SANILAC	3,400	1,432,700	2,200	1,458,500	100	8,900
SCHOOLCRAFT	600	176,300	200	106,500	100	8,100
SHIAWASSEE	6,700	2,669,900	3,400	2,139,400	100	12,900
TUSCOLA	4,500	1,787,900	2,700	1,733,200	100	14,400
VAN BUREN	7,500	3,118,500	3,500	2,492,300	100	7,600
WASHTENAW	39,200	24,029,100	11,400	10,513,400	100	14,800
WAYNE LESS DETROIT	122,800	72,341,200	56,500	50,681,000	300	59,100
WEXFORD	3,200	1,216,700	1,600	986,300	100	8,300
OUTSIDE OF MICHIGAN	22,700	12,157,100	9,200	7,854,900	100	17,700
DETROIT	128,700	64,189,100	30,200	22,488,800	300	92,000
TOTAL	1,058,500	\$527,589,200	453,200	\$349,153,100	9,000	\$1,215,500

Exhibit 17 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	100	\$36,400	< 50	\$22,000	1,200	\$541,800
ALGER	< 50	20,300	< 50	0	900	330,400
ALLEGAN	800	443,700	100	864,900	14,300	8,166,400
ALPENA	400	167,200	< 50	19,700	4,200	1,789,400
ANTRIM	200	84,300	< 50	33,200	3,500	1,878,300
ARENAC	200	81,300	100	236,100	2,100	1,213,900
BARAGA	< 50	19,800	< 50	0	600	259,300
BARRY	300	134,200	< 50	260,200	6,600	3,648,600
BAY	1,200	604,300	300	1,245,400	17,300	9,357,600
BENZIE	100	64,500	< 50	2,800	2,300	1,104,300
BERRIEN	1,500	806,200	100	379,000	22,300	10,687,200
BRANCH	300	146,800	200	715,500	5,500	3,182,300
CALHOUN	1,400	814,800	200	793,400	19,800	11,344,100
CASS	300	124,100	100	786,700	4,900	3,029,500
CHARLEVOIX	200	92,500	< 50	28,400	4,200	2,279,600
CHEBOYGAN	200	83,400	< 50	8,700	3,100	1,331,800
CHIPPEWA	200	96,000	< 50	21,400	5,500	1,856,700
CLARE	400	137,000	< 50	83,900	3,700	1,451,800
CLINTON	300	181,600	200	698,700	8,400	5,434,100
CRAWFORD	100	51,600	< 50	0	1,500	564,600
DELTA	400	155,100	< 50	61,900	4,800	1,994,500
DICKINSON	200	90,100	< 50	18,700	3,400	1,572,200
EATON	700	479,100	100	572,200	19,400	11,400,200
EMMET	200	110,900	< 50	6,000	5,500	2,864,600
GENESEE	4,900	2,868,900	100	251,800	68,400	33,930,000
GLADWIN	300	130,000	< 50	52,900	3,500	1,602,100
GOGEBIC	100	48,500	< 50	0	1,600	569,400
GRAND TRAVERSE	600	334,200	< 50	44,100	16,100	8,924,700
GRATIOT	300	135,800	400	1,761,500	5,200	3,878,800
HILLSDALE	400	180,800	200	554,100	5,900	3,192,300
HOUGHTON	200	88,400	< 50	3,500	2,900	1,120,300
HURON	300	129,700	1,000	5,311,100	6,700	8,676,400
INGHAM	2,600	1,665,400	100	1,098,700	50,400	30,484,700
IONIA	400	212,600	100	605,200	7,500	4,163,000
IOSCO	300	119,400	< 50	39,800	3,500	1,377,700
IRON	100	36,500	< 50	2,100	1,300	489,700
ISABELLA	400	218,200	100	463,000	9,200	4,955,800
JACKSON	1,400	839,400	100	320,400	21,700	10,727,800
KALAMAZOO	2,100	1,263,300	100	552,500	40,500	22,136,400
KALKASKA	100	55,200	< 50	5,300	2,000	839,200
KENT	4,400	2,786,700	100	492,500	98,000	51,131,400
KEWEENAW	< 50	7,700	< 50	0	100	62,100

Exhibit 17 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	200	\$73,600	< 50	\$6,000	1,300	\$523,700
LAPEER	500	278,900	100	184,900	10,200	5,449,900
LEELANAU	100	41,700	< 50	40,800	2,700	1,699,000
LENAWEE	800	509,600	400	1,972,200	15,200	10,059,300
LIVINGSTON	500	374,300	< 50	6,000	16,700	10,350,200
LUCE	< 50	8,400	< 50	0	400	111,000
MACKINAC	100	28,900	< 50	6,100	1,900	746,200
MACOMB	6,100	4,718,100	< 50	99,700	165,600	111,493,100
MANISTEE	300	123,500	< 50	9,500	3,600	1,686,500
MARQUETTE	400	186,000	< 50	3,900	6,600	2,503,300
MASON	300	133,100	100	197,400	4,600	2,380,600
MECOSTA	300	139,800	< 50	131,500	4,400	2,193,600
MENOMINEE	100	43,500	< 50	68,600	2,400	941,300
MIDLAND	600	279,400	< 50	190,700	9,600	4,626,700
MISSAUKEE	100	46,100	100	402,900	1,700	1,127,800
MONROE	1,000	622,900	200	609,800	18,700	10,622,500
MONTCALM	600	294,700	200	742,500	8,700	4,625,700
MONTMORENCY	100	40,500	< 50	8,300	1,100	403,300
MUSKEGON	2,300	1,286,600	< 50	247,200	27,200	13,281,100
NEWAYGO	500	235,300	100	243,500	5,900	3,139,300
OAKLAND	5,900	4,599,700	< 50	67,800	184,500	130,272,500
OCEANA	300	130,800	100	269,900	3,800	2,042,000
OGEMAW	200	106,900	< 50	60,300	2,900	1,239,000
ONTONAGON	< 50	13,700	< 50	2,300	600	216,300
OSCEOLA	200	98,900	100	211,200	2,900	1,460,800
OSCODA	100	27,300	< 50	0	600	209,300
OTSEGO	200	71,100	< 50	0	2,500	1,000,800
OTTAWA	1,400	864,400	200	1,239,700	38,800	21,898,400
PRESQUE ISLE	100	51,400	< 50	34,100	1,800	775,100
ROSCOMMON	300	147,100	< 50	20,700	3,800	1,628,600
SAGINAW	2,400	1,275,700	500	1,951,800	26,700	13,472,900
ST. CLAIR	1,500	928,500	< 50	151,200	26,900	14,950,000
ST. JOSEPH	500	231,000	200	825,500	7,800	4,253,200
SANILAC	400	186,900	500	1,655,500	6,500	4,742,400
SCHOOLCRAFT	100	18,900	< 50	3,300	1,000	313,100
SHIAWASSEE	700	370,000	200	685,200	11,100	5,877,400
TUSCOLA	500	266,100	600	3,233,000	8,500	7,034,500
VAN BUREN	800	439,700	100	482,200	12,000	6,540,300
WASHTENAW	1,700	1,310,600	200	916,200	52,600	36,784,100
WAYNE LESS DETROIT	8,400	6,681,200	< 50	81,000	188,100	129,843,500
WEXFORD	400	192,300	< 50	33,900	5,100	2,437,500
OUTSIDE OF MICHIGAN	1,500	1,072,500	100	196,300	33,600	21,298,600
DETROIT	11,300	8,003,600	< 50	4,500	170,500	94,778,000
TOTAL	82,100	\$52,699,200	7,900	\$35,920,500	1,610,700	\$966,577,600

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*.

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 2011 Estimate

Accelerated Depreciation

\$14,437,000

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. The federal tax expenditure estimate for depreciation now compares tax law depreciation with the estimated economic depreciation adjusted for inflation.

Employer Contributions to Health and Life Insurance

\$870,230,000

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.

	<u>FY 2011 Estimate</u>
Employer Pension Plans	\$541,595,000
Exempts employer payments into qualified employee pension plans from taxation.	
Federal Adjustments to Income	\$48,316,000
Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	
Fellowships and Scholarships	\$9,116,000
Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	
Gain on Sale of Primary Residence	\$198,170,000
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.	
Income Maintenance Benefits	\$5,618,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
Individual Retirement Accounts	\$199,017,000
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 \$5,000 for 2009. Only persons with an AGI below \$89,000 on a joint return (\$55,000 on a single return) or not covered by an employer retirement plan can take the full \$5,000 deduction. A partial deduction, phased out according to income, is available between \$89,000-\$109,000 for joint filers and \$55,000-\$65,000 for single filers.	
Interest on Life Insurance Savings	\$97,848,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	
Medical Care Savings Account	\$9,366,000
Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	

FY 2011 Estimate

Railroad Retirement Benefits

\$1,350,000

Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).

Social Security Benefits

\$231,602,000

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. This estimate is only for the portion of Social Security benefits that are excluded from federal AGI. The portion included in AGI is a part of the tax expenditure estimate for Michigan adjustments to income.

Student Loan Deduction

\$4,578,000

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.

Veterans' Benefits

\$38,487,000

Excludes veterans' benefits administered by the Veterans' Administration from AGI.

Workers' Compensation

\$37,573,000

Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to decrease 0.3 percent from \$48.0 million in FY 2010 to \$47.8 million in FY 2011. Transportation tax expenditure estimates were based on FY 2008 and FY 2009 data.

Estimate Reliability	(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 Acts 25 and 26 of 2008 amended the Aeronautics Code and the Motor Fuel Tax Act, respectively, to exempt aviation fuel from the aviation fuel and motor fuel taxes if the fuel was purchased to formulate leaded racing fuel.

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 \$376,000 to the state's Aeronautics Fund in FY 2011.

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 2011, the aviation fuel tax is projected to yield \$5.5 million, which is deposited into the state's Aeronautics Fund.

FY 2011 Estimate

Federally-Owned Aircraft

\$295,000

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

Interstate Flight Refund

\$3,000,000

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 2011 Estimate

Marine Vessel Exemption

\$740,000

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 2011, motor fuel taxes will yield an estimated \$941.4 million.

	<u>FY 2011 Estimate</u>
<p>Diesel Fuel for Railroads Exempts diesel fuel used by railroad locomotives from motor fuel taxes.</p>	n.a.
<p>Evaporation and Loss Allowance The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.</p>	\$12,580,000
<p>Fuel for Job Sites and Charter Firms Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.</p>	\$5,130,000
<p>Fuel for Off-Road Use Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.</p>	\$1,000,000
<p>Municipal Franchise Vehicles Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.</p>	\$460,000
<p>Public Vehicles Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.</p>	\$13,480,000
<p>Tribal Tax Agreements 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.</p>	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, the registration fee for passenger vehicles became based on the vehicle's value rather than its 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 2011, the motor vehicle registration fee is projected to yield \$831.0 million.

FY 2011 Estimate

Disabled Veterans' Vehicles	\$378,000
Provides totally disabled veterans free vehicle license plates.	
Handicapper Vans	n.a.
Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	
Intercity Commercial Buses	n.a.
Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.	
Public and Nonprofit Vehicles	\$10,750,000
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 2011 Estimate

Publicly-Owned Watercraft	\$13,000
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 decrease 5.8 percent from \$8,710.6 million in FY 2010 to \$8,203.7 million in FY 2011. The significant decline from estimates published in recent years is due to the decline in property values throughout the state. Estimates were based on FY 2008 and FY 2009 data.

Estimate Reliability	(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 2009 amended the Neighborhood Enterprise Zone Act to create an exception to the requirement that the application for a Neighborhood Enterprise Zone certificate be filed prior to the issuance of a building permit. The exception applied to a single development in Detroit.

Public Act 161 of 2009 amended the Local Development Financing Act to allow the Michigan Economic Development Corporation (MEDC) to designate 2 additional certified technology parks after June 1, 2009, and before April 1, 2010.

Public Act 162 of 2009 amended the Local Development Financing Act to allow a municipality that had created a local development financing authority to apply with the MEDC to designate all or a portion of the authority district as a certified alternative energy park. The MEDC could designate up to 10 certified alternative energy parks across the state.

Public Act 189 of 2009 amended the General Property Tax Act to require the deferment of summer property taxes for property owned by a limited liability company (LLC) that is agricultural property if the individual members of the LLC qualified for a deferment prior to the formation of the LLC.

Public Acts 213 and 214 of 2009 amended the Downtown Development Authority Act and the Tax Increment Finance Authority Act, respectively, to extend the deadline for authorities created under these Acts have to apply to the Department of Treasury for approval to have state education tax retained and paid to those authorities.

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 2011 collections are projected to total \$63.0 million.

FY 2011 Estimate

Broadband Investment Credit	\$26,000,000
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.	
Railroad Right-of-Way	\$24,500,000
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 was responsible for the decline in average millage rates for 2003.

Average Statewide Millage Rates

Calendar Year	Homestead Property	Nonhomestead Property	All Property
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	31.52	50.06	39.00
2004	32.70	51.20	40.00
2005	32.60	51.38	39.88
2006	32.65	50.96	39.96
2007	32.72	51.49	39.89
2008	32.35	51.06	38.94
2009	n.a.	n.a.	39.13

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 2011 Estimate

Agricultural Transfers

\$34,100,000

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

\$130,000,000

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

FY 2011 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

\$160,000

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

Fairground Property

n.a.

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

Homestead Exemption

\$3,220,000,000

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

\$160,000,000

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

Industrial Facilities Development

\$231,000,000

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).

FY 2011 Estimate

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 19 displays a partial estimate of the taxable value of property subject to the industrial facilities development program. Public Act 39 of 2007 reduced the tax on new facility personal property on land classified as industrial real property.

Neighborhood Enterprise Zones \$49,900,000

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, 19 cities participate in this program.

Next Energy Exemption \$3,000,000

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 \$10,500,000

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.

Personal Property Ad Valorem Exemptions \$369,000,000

Exempts industrial personal property from the 18-mill property tax for local schools and the state education tax (6 mills). Commercial personal property is exempt from 12 of the 18 mills for schools.

Personal Property Industrial Facilities \$61,800,000

Provides an exemption from the industrial facilities tax equal to the portion of the tax attributable to the 6 mills for state education tax and the 18 mills for school operations.

FY 2011 Estimate

Poverty Exemption \$7,500,000

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

Renaissance Zones \$81,500,000

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 \$1,550,000,000

Exhibit 19 reports the results from the 2009 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 18 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 \$28.9 billion. If taxed at the 2008 average nonhomestead statewide rate of 51.06 mills, tax-exempt property would have yielded \$1.48 billion in property tax revenue.

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 20 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 an estimated 380,867 acres in 2009.

Tax-Exempt County and Municipal Property \$222,000,000

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

Tax-Exempt Federal Property \$164,000,000

Exempts real property belonging to the United States government.

	<u>FY 2011 Estimate</u>
Tax-Exempt Other Real Tax Exempt Property	\$166,000,000
<p>Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.</p>	
Tax-Exempt Personal Property	\$399,000,000
<p>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.</p> <p>Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.</p>	
Tax-Exempt Public Education Property	\$435,000,000
<p>Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.</p>	
Tax-Exempt Specifically-Taxed Property	n.a.
<p>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.</p>	
Tax-Exempt State Property	\$164,000,000
<p>Exempts real property owned by the State of Michigan.</p>	

FY 2011 Estimate

Tax Increment Financing

\$275,000,000

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

\$1,780,000,000

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

\$1,230,000

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 is estimated to yield a total of \$10.3 million in FY 2010. The state's share of the iron ore specific tax is deposited into the School Aid Fund. No net revenue was deposited in FY 2010.

Exhibit 18 Counties of Michigan



Exhibit 19
Estimated Taxable Value of Exempt Real and Personal Property by County, 2009
(Taxable Value in Thousands)

<u>County</u>	<u>Industrial Facilities Tax</u>	<u>Federal</u>	<u>State</u>	<u>County and Municipal</u>	<u>Public Education</u>
ALCONA	\$0	\$89,028	\$13,869	\$22,075	\$14,356
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN*	205,645	0	0	0	0
ALPENA	10,924	8,683	66,022	98,978	65,347
ANTRIM*	0	0	0	0	0
ARENAC	969	517	1,434	1,437	1,150
BARAGA*	0	20,100	39,143	20,860	24,515
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	70,842	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN*	225,049	n.a	n.a	n.a	n.a
CASS *	23,121	0	46,075	116,775	116,813
CHARLEVOIX*	101,829	979	22,066	24,426	44,643
CHEBOYGAN	0	2,192	72,007	38,012	21,395
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE	8,209	927	25,013	3,443	37,108
CLINTON *	18,343	15	3,200	15,000	25,000
CRAWFORD *	2,775	28,545	230,000	6,233	21,150
DELTA	20,090	56,950	14,051	12,450	27,608
DICKINSON	12,921	8,300	9,500	8,300	45,000
EATON	173,623	319	21,096	130,085	46,000
EMMET *	3,762	0	9,333	349	7
GENESEE	101,224	16,900	56,509	483,588	563,923
GLADWIN	5,555	50,000	25,000	13,000	31,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE	21,435	611	254	85,000	66,800
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	0	272	650	20,487	71,500
HOUGHTON	4,230	13,280	83,687	8,724	105,867
HURON*	56,841	39,400	10,542	85,700	0
INGHAM	186,082	n.a.	n.a	n.a.	n.a.
IONIA	20,437	0	175,582	17,255	21,800
IOSCO*	121	121,832	39,299	32,477	29,240
IRON*	165	21,800	13,500	6,500	526
ISABELLA	11,652	0	0	0	0
JACKSON*	166,939	2,000	201,000	38,000	98,000
KALAMAZOO	150,130	35,517	361,066	762,576	1,422,418
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	543,538	24,450	23,766	174,895	484,900
KEWEENAW	0	67,495	7,610	10,594	1,629

Exhibit 19 (Continued)

<u>County</u>	Industrial Facilities			County and Public	
	<u>Tax</u>	<u>Federal</u>	<u>State</u>	<u>Municipal</u>	<u>Education</u>
LAKE	\$118	\$112,548	\$64,150	\$8,323	\$9,561
LAPEER*	57,151	3,272	16,794	140,854	98,456
LEELANAU	0	1,104	208	1,724	14
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON **	18,138	429	1,803	167,284	168,312
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB	64,405	8,969	13,531	34,106	44,436
MANISTEE	7,274	19,000	36,800	32,700	35,100
MARQUETTE *	14,988	59,000	40,100	18,750	185,000
MASON *	57,172	138,873	33,956	91,258	174,391
MECOSTA	73,367	9,953	2,361	9,300	350,000
MENOMINEE	3,679	0	74,966	94	705
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	6,588	80	2,080	4,609	19,922
MONROE	287,130	141	10,966	82,690	182,135
MONTCALM	5,809	n.a.	6,612	n.a.	n.a.
MONTMORENCY *	360	120,000	36,000	20,000	13,000
MUSKEGON	148,843	18,109	90,366	152,078	275,063
NEWAYGO	22,466	n.a.	n.a.	n.a.	n.a.
OAKLAND	447,001	n.a.	n.a.	n.a.	n.a.
OCEANA *	7,218	16,500	6,100	2,200	15,000
OGEMAW *	533	6,230	12,830	8,171	6,256
ONTONAGON	1,507	229,138	29,030	4,648	12,490
OSCEOLA	23,685	0	4,330	5,153	21,524
OSCODA	734	279,766	96,109	21,910	33,483
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	698,447	22,171	33,017	220,600	926,916
PRESQUE ISLE	374,300	n.a.	n.a.	n.a.	n.a.
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW	151,429	25,311	154,540	210,120	683,227
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH	126,178	n.a.	n.a.	n.a.	n.a.
SANILAC	16,663	n.a.	n.a.	n.a.	n.a.
SCHOOLCRAFT	15,066	n.a.	n.a.	n.a.	47,142
SHIAWASSEE *	11,594	735	19,950	73,500	101,850
TUSCOLA*	13,292	0	0	0	0
VAN BUREN*	54,876	0	0	0	0
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD	22,655	n.a.	n.a.	n.a.	0
TOTAL	\$5,534,425	\$3,067,153	\$3,069,546	\$4,139,312	\$8,113,716

Note: Wayne and Ingham Counties are not in totals. 2008 taxable value for Wayne County was \$52.9 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 19 (Continued)

<u>County</u>	<u>Personal Property</u>	<u>Other</u>	<u>Exempt Total</u>	<u>Total Taxable Value Real and Personal Property</u>	<u>Exempt as a Percent of Taxable</u>
ALCONA	\$0	\$779	\$140,107	\$790,203	15.1%
ALGER*	55,000	0	88,568	337,270	20.8%
ALLEGAN*	0	0	0	4,374,781	0.0%
ALPENA	167,330	0	406,360	959,531	29.8%
ANTRIM*	0	0	0	1,800,908	0.0%
ARENAC	28,503	0	33,041	557,601	5.6%
BARAGA*	53,017	125,669	283,304	222,707	56.0%
BARRY *	63,780	34,396	174,225	1,961,117	8.2%
BAY*	255,154	2,593	519,607	3,104,224	14.3%
BENZIE*	0	15,503	159,796	1,124,943	12.4%
BERRIEN	0	0	0	6,921,813	0.0%
BRANCH *	0	6,500	22,304	1,331,910	1.6%
CALHOUN*	n.a	n.a	0	3,847,673	0.0%
CASS *	253,589	0	533,252	1,821,887	22.6%
CHARLEVOIX*	3,526	13	95,653	2,141,722	4.3%
CHEBOYGAN	28,393	9,494	171,493	1,394,418	11.0%
CHIPPEWA *	21,200	3,500	1,374,928	1,020,315	57.4%
CLARE	72,638	0	139,129	1,046,239	11.7%
CLINTON *	0	0	43,215	2,555,700	1.7%
CRAWFORD *	89,130	20,000	395,058	598,991	39.7%
DELTA	0	0	111,059	1,128,805	9.0%
DICKINSON	11,100	0	82,200	925,193	8.2%
EATON	348,532	157,927	703,959	3,509,622	16.7%
EMMET *	0	0	9,689	2,893,932	0.3%
GENESEE	210,429	0	1,331,349	11,386,079	10.5%
GLADWIN	2,900	2,460	124,360	975,605	11.3%
GOGEBIC *	330	302	44,759	484,976	8.4%
GRAND TRAVERSE	169,600	51,400	373,665	4,478,431	7.7%
GRATIOT *	135,000	10,000	349,600	950,429	26.9%
HILLSDALE	59,300	45,500	197,709	1,384,564	12.5%
HOUGHTON	2,290	9,880	223,728	724,831	23.6%
HURON*	0	0	135,642	1,674,204	7.5%
INGHAM	n.a.	n.a.	n.a.	8,032,993	n.a.
IONIA	3,970	0	218,607	1,574,788	12.2%
IOSCO*	3,621	12,356	238,825	1,178,115	16.9%
IRON*	0	0	42,326	453,238	8.5%
ISABELLA	0	0	0	1,657,894	0.0%
JACKSON*	200,000	5,000	544,000	4,551,419	10.7%
KALAMAZOO	129,703	103,344	2,814,624	8,372,294	25.2%
KALKASKA *	100,000	55,000	451,000	766,404	37.0%
KENT *	1,840,872	158,010	2,706,893	21,912,967	11.0%
KEWEENAW	361	60,227	147,916	123,597	54.5%

Exhibit 19 (Continued)

<u>County</u>	<u>Personal</u>		<u>Exempt</u>	<u>Total Taxable</u>	<u>Exempt</u>
	<u>Property</u>	<u>Other</u>	<u>Total</u>	<u>Value Real and</u> <u>Personal Property</u>	<u>as a Percent</u> <u>of Taxable</u>
LAKE	\$735	\$5,827	\$201,144	\$514,448	28.1%
LAPEER*	184,151	0	443,527	3,128,418	12.4%
LEELANAU	0	2,092	5,142	2,366,601	0.2%
LENAWEE *	0	21,000	362,400	3,448,426	9.5%
LIVINGSTON **	0	14,596	352,424	8,572,563	3.9%
LUCE *	650	1,749	17,321	186,863	8.5%
MACKINAC *	7,817	2,164	131,295	907,526	12.6%
MACOMB	0	4,800	105,842	31,017,786	0.3%
MANISTEE	46,000	50,700	220,300	1,110,542	16.6%
MARQUETTE *	0	230,000	532,850	1,903,579	21.9%
MASON *	28,897	51,789	519,164	1,547,422	25.1%
MECOSTA	25,000	22,590	419,204	1,300,539	24.4%
MENOMINEE	0	4,431	80,196	650,283	11.0%
MIDLAND *	154,540	110,240	439,605	3,401,886	11.4%
MISSAUKEE	72,582	25,605	124,878	534,283	18.9%
MONROE	0	8,906	284,838	6,155,641	4.4%
MONTCALM	38,875	56,583	102,070	1,761,945	5.5%
MONTMORENCY *	0	175,000	364,000	497,960	42.2%
MUSKEGON	595,988	0	1,131,604	4,714,943	19.4%
NEWAYGO	n.a.	n.a.	0	1,443,169	0.0%
OAKLAND	101,829	n.a.	101,829	62,416,674	0.2%
OCEANA *	4,100	0	43,900	1,134,623	3.7%
OGEMAW *	0	2,844	36,331	847,354	4.1%
ONTONAGON	31,051	127,732	434,089	255,098	63.0%
OSCEOLA	173,788	6,123	210,918	707,931	23.0%
OSCODA	7,365	7,552	446,185	391,345	53.3%
OTSEGO *	45,800	3,665	160,066	1,262,367	11.3%
OTTAWA	0	843,576	2,046,280	10,018,438	17.0%
PRESQUE ISLE	n.a.	n.a.	0	662,363	0.0%
ROSCOMMON*	8,400	9,514	285,832	1,383,400	17.1%
SAGINAW	1,462,750	244,000	2,779,948	5,322,930	34.3%
SAINT CLAIR*	129,346	178,053	850,371	6,568,492	11.5%
SAINT JOSEPH	n.a.	n.a.	0	1,891,303	0.0%
SANILAC	n.a.	n.a.	0	1,452,048	0.0%
SCHOOLCRAFT	n.a.	n.a.	47,142	341,431	12.1%
SHIAWASSEE *	12,000	0	208,035	1,863,346	10.0%
TUSCOLA*	0	0	0	1,495,819	0.0%
VAN BUREN*	0	0	0	3,016,540	0.0%
WASHTENAW *	774	647	12,384	15,312,911	0.1%
WEXFORD	n.a.	n.a.	0	1,013,982	0.0%
TOTAL	\$7,441,707	\$3,101,630	\$28,933,064	\$301,544,557	8.8%

Note: Wayne and Ingham Counties are not in totals. 2008 taxable value for Wayne County was \$52.9 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
General Property Tax – Estimated Exempt Acreage by County, 2009**

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA	410	LAKE *	1,022
ALGER*	14,000	LAPEER*	4,600
ALLEGAN *	1,000	LEELANAU	3,068
ALPENA	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	1,326
ARENAC	240	LUCE *	2,300
BARAGA*	7,740	MACKINAC *	240
BARRY *	7,000	MACOMB *	277
BAY*	3,650	MANISTEE *	4,400
BENZIE *	554	MARQUETTE *	390
BERRIEN *	6,812	MASON*	620
BRANCH *	425	MECOSTA *	2,015
CALHOUN *	5,670	MENOMINEE *	141
CASS *	60	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	1,440
CHEBOYGAN	10,950	MONROE	3,200
CHIPPEWA *	1,500	MONTCALM	7,000
CLARE *	172	MONTMORENCY *	200
CLINTON *	100	MUSKEGON	2,100
CRAWFORD *	1,619	NEWAYGO *	6,800
DELTA	700	OAKLAND	4,144
DICKINSON	400	OCEANA *	500
EATON	3,165	OGEMAW *	693
EMMET*	1,000	ONTONAGON	200
GENESEE	11,990	OSCEOLA	1,285
GLADWIN	1,000	OSCODA	211
GOGEBIC *	2,300	OTSEGO *	735
GRAND TRAVERSE	4,278	OTTAWA	5,814
GRATIOT *	300	PRESQUE ISLE *	93,145
HILLSDALE	1,975	ROSCOMMON *	1,398
HOUGHTON	2,925	SAGINAW	4,400
HURON*	341	SAINT CLAIR *	11,972
INGHAM	n.a.	SAINT JOSEPH *	8,734
IONIA	544	SANILAC *	0
IOSCO *	33,847	SCHOOLCRAFT *	n.a.
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*	3,670	TOTAL	380,867

* 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 2009 state share of this tax totaled \$3.2 million indicating \$4.8 million in total state and local collections. Exhibit 21 only shows the county share of the tax.

FY 2011 Estimate

Mobile Home Tax Expenditure

\$49,900,000

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 \$28.6 million in 2008 (see Exhibit 21).

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 \$140.0 million in FY 2011.

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, Washtenaw, and Wexford. 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 \$14.6 million in 2008 (see Exhibit 21).

City Income Tax

A city income tax is levied by adoption of a city ordinance subject to voter approval. 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 2008, city income taxes totaled \$439.7 million (see Exhibit 23). 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 2011 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 21
Miscellaneous Local Taxes Kept by Local Units, 2008

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA	\$0	\$84	\$31,247
ALGER	0	399	25,063
ALLEGAN	0	25,902	316,678
ALPENA	0	518	54,650
ANTRIM	0	271	116,397
ARENAC	0	2,360	31,448
BARAGA	0	72	55,906
BARRY	0	4,245	152,340
BAY	0	14,705	190,034
BENZIE	0	1,123	88,096
BERRIEN	0	16,665	591,390
BRANCH	0	3,339	115,647
CALHOUN	94,876	12,559	290,615
CASS	0	3,845	160,368
CHARLEVOIX	0	3,197	164,919
CHEBOYGAN	0	1,069	89,857
CHIPPEWA	0	4,142	78,031
CLARE	0	2,111	69,467
CLINTON	0	11,220	182,786
CRAWFORD	0	0	40,774
DELTA	0	9,566	80,175
DICKINSON	0	2,370	52,595
EATON	0	9,447	260,216
EMMET	0	2,202	154,982
GENESEE	1,186,002	66,468	911,976
GLADWIN	0	399	61,327
GOGEBIC	0	279	51,753
GRAND TRAVERSE	0	10,642	382,968
GRATIOT	0	4,246	54,800
HILLSDALE	0	2,048	100,739
HOUGHTON	0	216	205,291
HURON	0	3,048	87,269
INGHAM	1,854,331	13,165	706,129
IONIA	0	5,644	116,048
IOSCO	0	750	61,960
IRON	0	419	43,086
ISABELLA	0	4,308	121,024
JACKSON	0	23,313	350,986
KALAMAZOO	2,006,007	22,255	727,104
KALKASKA	0	290	52,454
KENT	4,987,560	44,520	2,080,404
KEWEENAW	0	0	121,578

Exhibit 21 (Continued)

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$34,322
LAPEER	0	11,713	260,808
LEELANAU*	0	536	256,811
LENAWEE	0	23,680	391,257
LIVINGSTON	0	23,568	726,408
LUCE	0	0	17,483
MACKINAC	0	0	68,429
MACOMB	0	71,781	2,483,504
MANISTEE*	0	776	115,733
MARQUETTE	0	2,787	171,758
MASON	0	3,025	84,918
MECOSTA	0	2,279	81,400
MENOMINEE	0	1,054	44,653
MIDLAND	0	5,300	260,555
MISSAUKEE	0	42	31,907
MONROE	0	30,056	383,972
MONTCALM	0	3,855	115,886
MONTMORENCY	0	84	26,790
MUSKEGON	746,820	21,638	234,763
NEWAYGO	0	5,653	110,239
OAKLAND	0	88,514	5,622,293
OCEANA	0	1,858	76,792
OGEMAW	0	288	4,073
ONTONAGON	0	0	23,408
OSCEOLA	0	385	45,781
OSCODA	0	0	24,523
OTSEGO	0	1,141	55,008
OTTAWA	0	32,208	855,642
PRESQUE ISLE	0	354	29,880
ROSCOMMON	0	1,870	81,007
SAGINAW	2,272,097	13,316	365,946
SAINT CLAIR	0	27,113	369,381
SAINT JOSEPH	0	5,922	151,418
SANILAC	0	6,057	97,381
SCHOOLCRAFT	0	50	15,474
SHIAWASSEE	0	12,567	133,252
TUSCOLA	0	4,664	97,375
VAN BUREN	0	6,186	220,654
WASHTENAW	1,481,998	33,931	1,397,379
WAYNE	0	68,298	3,368,629
WEXFORD	0	8,258	76,062
TOTAL	\$14,629,691	\$854,219	\$28,643,532

* Figures carried forward from a previous year.

FY 2011 Estimate

Nonresident Reduced Rate

\$152,000,000

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

\$16,000,000

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 22. 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 \$52.4 million in 2008.

Exhibit 22
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2008

<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	3,833	\$22,998	3,535	\$10,605
Battle Creek	34,956	\$262,170	43,384	\$162,690
Big Rapids	3,288	\$19,728	13,810	\$41,430
Detroit*	410,818	\$6,162,270	349,988	\$2,624,910
Flint	44,670	\$268,020	81,266	\$243,798
Grand Rapids	137,978	\$1,345,286	162,914	\$794,206
Grayling	985	\$29,550	4,561	\$68,415
Hamtramck	12,824	\$76,944	6,164	\$18,492
Highland Park	1,872	\$22,464	3,200	\$19,200
Hudson	2,358	\$23,580	493	\$2,465
Ionia	4,822	\$33,754	13,301	\$46,554
Jackson	45,372	\$272,232	30,654	\$91,962
Lansing	67,286	\$403,716	99,813	\$299,439
Lapeer	6,195	\$37,170	17,218	\$51,654
Muskegon	12,430	\$74,580	31,724	\$95,172
Muskegon Heights	2,528	\$15,168	6,224	\$18,672
Pontiac	15,579	\$93,474	55,880	\$167,640
Port Huron	21,497	\$128,982	26,896	\$80,688
Portland	4,003	\$40,030	2,236	\$11,180
Saginaw	25,728	\$289,440	41,952	\$235,980
Springfield	2,961	\$44,415	3,988	\$29,910
Walker	18,099	\$135,743	33,883	\$127,061
TOTAL	880,082	\$9,801,713	1,033,084	\$5,242,123

* Based on a previous year's survey.

**Exhibit 23
City Tax Rates and Exemption Allowances, 2008**

<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	\$1,077
Battle Creek	1.00%	0.50%	1.00%	750	13,053
Big Rapids	1.00%	0.50%	1.00%	600	1,795
Detroit	2.50%	1.25%	2.50%	600	251,525
Flint	1.00%	0.50%	1.00%	600	16,235
Grand Rapids	1.30%	0.65%	1.30%	750	58,260
Grayling	1.00%	0.50%	1.00%	3,000	396
Hamtramck	1.00%	0.50%	1.00%	600	2,077
Highland Park	2.00%	1.00%	2.00%	600	2,533
Hudson	1.00%	0.50%	1.00%	1,000	326
Ionia	1.00%	0.50%	1.00%	700	1,486
Jackson	1.00%	0.50%	1.00%	600	7,446
Lansing	1.00%	0.50%	1.00%	600	31,626
Lapeer	1.00%	0.50%	1.00%	600	2,380
Muskegon	1.00%	0.50%	1.00%	600	7,802
Muskegon Heights	1.00%	0.50%	1.00%	600	889
Pontiac	1.00%	0.50%	1.00%	600	10,892
Port Huron	1.00%	0.50%	1.00%	600	8,101
Portland	1.00%	0.50%	1.00%	1,000	573
Saginaw	1.50%	0.75%	1.50%	750	12,394
Springfield	1.00%	0.50%	1.00%	1,500	779
Walker	1.00%	0.50%	1.00%	750	8,045
TOTAL					\$439,690