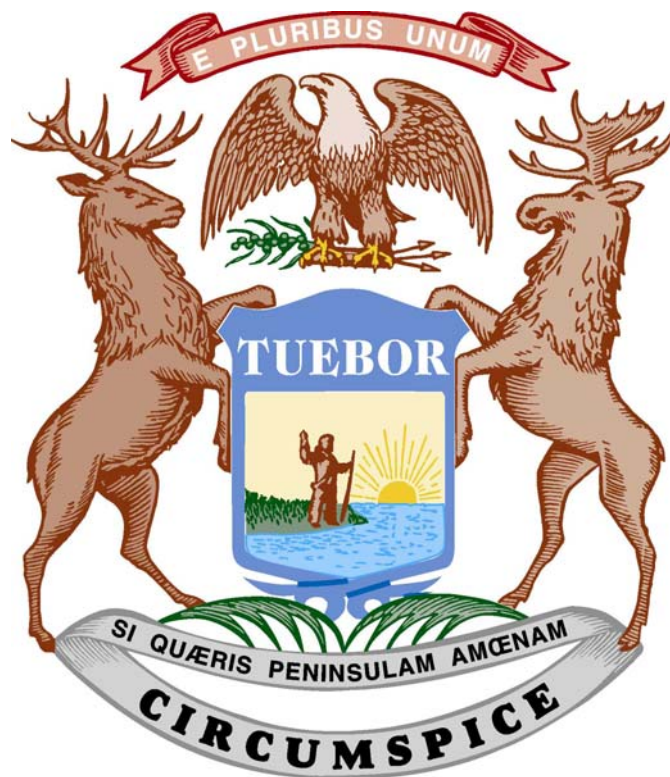


Executive Budget Appendix on Tax Credits, Deductions, and Exemptions

Fiscal Years 2013 and 2014



**State of Michigan
Rick Snyder, Governor**

**Executive Budget
Appendix on Tax Credits,
Deductions, and Exemptions
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Michigan Department of Treasury
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The public act summaries in this report are intended to be brief overviews of the legislation enacted in 2011. They are not intended to provide any tax guidance and may not be relied upon as the official interpretation or position of the Michigan Department of Treasury.

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
2011 - 2012	October 2011	Treasury
2013 - 2014	July 2012	Treasury

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

EXECUTIVE SUMMARY

Fiscal Years 2013 and 2014

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 2.4 percent between fiscal year (FY) 2013 and FY 2014, from \$30.74 billion to \$31.49 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 \$782.1 million to \$911.1 million from FY 2013 to FY 2014. The estimates under the business privilege tax category reflect the credits, deductions, and exemptions in place under the corporate income tax and the most significant certificated credits which may be claimed under the Michigan business tax.

Consumption tax expenditures are predicted to increase 3.6 percent between FY 2013 and FY 2014, from \$14,797.2 million to \$15,336.7 million. Growth in tax expenditures related to health care services, food for home use, and prescription drugs account for most of the increase. Comparisons between the estimates for consumption tax expenditures contained in this report and those in prior editions of the *Tax Expenditure Appendix* are not valid due to changes in the methodology and data sources used to calculate tax expenditures related to services.

Individual income tax expenditures are predicted to rise from \$7,595.4 million in FY 2013 to \$7,814.9 million in FY 2014, a 2.9 percent increase. 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 1.8 percent between FY 2013 and FY 2014, dropping from \$7,514.2 million to \$7,376.0 million. The decrease for 2012 is due to falling taxable values which reduce the value of many tax exemptions.

Transportation tax expenditures are predicted to increase 0.2 percent between FY 2013 and FY 2013, from \$48.3 million to \$48.4 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 the corporate income tax credit for small 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 earned income tax credit, at both the federal and state levels, is intended to increase work effort and attachment to the labor force and is a good 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 2010, 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) 2013 and FY 2014 are based on the most recent data available. Tax year 2010 income tax data (returns processed in the spring of 2011) are used, as are 2010 property and sales tax data, and tax year 2010 MBT data. Most estimates of the cost (in terms of foregone revenue) of credits, deductions, exemptions, and other reductions are based on actual tax return data. However, many exemptions are not reported on tax returns. In these instances, tax expenditure estimates were derived from other sources.

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

Assumption 1: The elimination of a 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 the tax categories 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 \$30.737 billion in FY 2013 to \$31.487 billion in FY 2014, a 2.4 percent increase (see Exhibit 1). A decline in property tax expenditures caused by falling property values was offset by increases in consumption and individual income tax expenditures.

Exhibit 1
Total Tax Expenditures, FY 2012, FY 2013 and FY 2014

<u>Tax Category</u>	<u>FY 2012</u> <u>(000)</u>	<u>FY 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>	<u>Change</u> <u>FY 2013 -</u> <u>FY 2014</u> <u>(000)</u>
Business Privilege	\$2,596,650	\$782,100	\$911,100	\$129,000
Consumption	14,563,699	14,797,235	15,336,657	539,422
Individual Income	8,585,425	7,595,392	7,814,931	219,539
Property	7,621,780	7,356,820	7,217,060	-139,760
Other Local (City Income)	164,700	157,400	158,900	1,500
Transportation	48,662	48,279	48,359	80
TOTAL	\$33,580,916	\$30,737,226	\$31,487,007	\$749,781

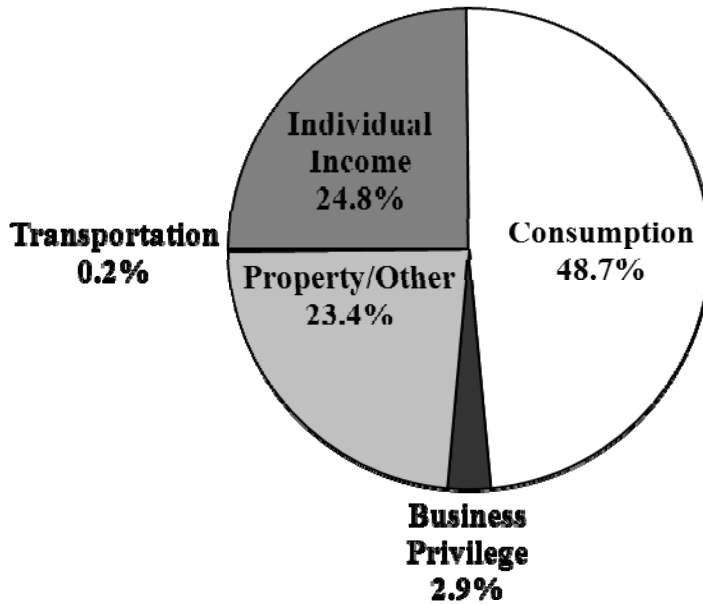
Totals may differ slightly due to rounding.

Estimates for FY 2012 are presented here to highlight the large decline in business privilege and individual income tax expenditures due to tax reform legislation enacted in 2011. The estimates for FY 2012 are from the previous edition of this report. As a result of the replacement of the Michigan business tax (MBT) with a corporate income tax, along with the repeal of almost all of

the credits allowed against the MBT, and the elimination or reduction of several credits against the individual income tax, tax expenditures for the business privilege and individual income tax categories are estimated to be \$2.8 billion lower in FY 2013 than in FY 2012.

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2014, consumption tax expenditures comprise 48.7 percent of total tax expenditures, while income tax expenditures comprise 24.8 percent and property and other local taxes comprise 23.4 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 2014 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2014 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	\$9.3	\$64.2	14.5%
Corporate Income/MBT	860.9	298.5	288.4%
Consumption			
Total Alcohol	0.1	177.5	0.1%
Cigarette and Tobacco	19.3	920.4	2.1%
Sales and Use	15,317.3	8,692.1	176.2%
Individual Income Tax	5,165.5	8,204.6	63.0%
Transportation			
Aviation Fuel	3.5	5.8	60.6%
Gasoline	27.1	822.0	3.3%
Diesel Fuel	5.5	130.0	4.2%
Motor Vehicle Registration	11.5	888.0	1.3%
City Income Tax	<u>158.9</u>	<u>430.0</u>	<u>37.0%</u>
TOTAL	\$21,578.9	\$20,633.1	104.6%

*From Consensus Revenue Estimating Conference, May 2012. 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 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>
Insurance Company		
Disability Insurance Exclusion	\$9,100	\$9,300
Michigan Association and Facilities Credit	26,700	\$27,400
Michigan Examination Fees Credit	2,900	3,000
Supplemental Workers' Compensation	1,200	1,200
SUBTOTAL	<u>\$39,900</u>	<u>\$40,900</u>
Oil and Gas Severance Tax		
Marginal Wells	\$6,400	\$6,700
Public Land	2,500	2,600
SUBTOTAL	<u>\$8,900</u>	<u>\$9,300</u>
Corporate Income Tax		
Foreign Dividends Income Exclusion	\$196,100	\$211,800
Government Securities' Income Exclusion	800	900
Small Business Alternate Tax Credit	9,400	10,200
SUBTOTAL	<u>\$206,300</u>	<u>\$222,900</u>
Michigan Business Tax Certificated Credits		
Brownfield Redevelopment Credit	50,000	40,000
Film Credits	25,000	5,000
Michigan Economic Growth Authority (MEGA)	116,000	245,000
MEGA Photovoltaic Technology Credit	11,000	21,000
MEGA Polycrystalline Silicon Manufacturing	24,000	26,000
MEGA Vehicle Battery Credit	285,000	285,000
Other Certificated Credits	16,000	16,000
SUBTOTAL	<u>\$527,000</u>	<u>\$638,000</u>
TOTAL	<u>\$782,100</u>	<u>\$911,100</u>

Exhibit 5
Consumption Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2013</u> <u>(000)</u>	<u>FY 2014</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	13,660	13,270
Sales on Military Bases and Reservations	5,601	5,601
SUBTOTAL	\$19,661	\$19,271
Sales and Use Tax Expenditures		
Air and Water Pollution	\$55,000	\$57,000
Aircraft Parts	6,900	7,110
Bad Debts	63,800	65,700
Cargo Aircraft	23,290	22,940
Church Construction	1,938	1,977
Church Cars	2,570	2,650
Collection Fee	45,300	46,600
Commercial Domestic Aircraft	4,000	4,000
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	202	201
Employee Meals	16,720	17,210
Enterprise Zone Credit	n.a.	n.a.
Food	1,244,270	1,280,450
Food for Students	22,280	22,930
Government or Red Cross	205,730	211,930
Gratuity and Tips	64,970	66,860
Horticultural and Agricultural Products	243,040	250,330
Imported Property from Other States	1,630	1,660

Exhibit 5 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>
Industrial Processing	\$1,055,000	\$1,108,000
Interstate Communications	9,000	9,000
Interstate Trucks and Trailers	27,480	28,310
Investment Coins	8,200	9,430
Isolated Sales	n.a.	n.a.
Military PX Sales	638	606
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	93,460	94,820
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	1,670	1,720
Nonprofit Organizations	252,510	259,850
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	62,920	64,810
Prescription Drugs	571,520	628,490
Radio and TV	4,400	4,400
Rail Rolling Stock	1,580	1,630
Residential Utilities	164,000	165,000
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	60,200	60,800
Services (Including Nonprofits)	10,352,850	10,709,100
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	13,660	14,070
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	36,910	37,650
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	21,621	21,837
SUBTOTAL	\$14,777,484	\$15,317,296
TOTAL	\$14,797,235	\$15,336,657

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

Exhibit 6
Individual Income Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>
State Income Tax		
Adjustments to Income (except military)	\$52,157	\$54,300
College Savings Accounts	10,490	11,253
Dependent Exemption	16,083	16,244
Disabled Veteran Exemption	200	200
Earned Income Credit	112,100	115,500
Farmland Credit	42,933	44,651
Historic Preservation Credit	1,146	1,045
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	141	144
Homestead Property Tax Credit	501,068	523,598
Income Attributable to Another State	2,252,732	2,342,842
Income Tax Paid to Other State Credit	49,510	51,338
Military Pay	31,487	34,513
Pension and Retirement Benefits Deduction	497,653	495,069
Personal Exemption	1,130,887	1,142,196
Renaissance Zones	1,408	1,440
Senior Investment Income Deduction	16,242	16,267
Social Security Benefits	261,980	272,459
Special Exemption	9,547	9,585
State and Local Income Tax Refunds	23,076	23,307
Tribal Tax Agreements	n.a.	n.a.
U.S. Government Bond Interest Deduction	9,455	9,550
TOTAL STATE	\$5,020,295	\$5,165,501
Federal Adjustments		
Accelerated Depreciation	\$77,324	\$79,644
Employer Contributions to Insurance	857,454	883,178
Employer Pension Plans	585,829	603,404
Federal Adjustments to Income	50,099	51,602
Fellowships and Scholarships	14,942	15,390
Gain on Sale of Primary Residence	\$146,033	\$147,493
Income Maintenance Benefits	9,876	10,172
Individual Retirement Accounts	279,512	287,897
Interest on Life Insurance Savings	113,602	117,010

Exhibit 6 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>
Federal Adjustments (continued)		
Medical Savings Account	8,922	9,190
Railroad Retirement Benefits	1,354	1,395
Social Security Benefits	312,606	321,984
Student Loan Deduction	4,088	4,211
Veterans' Benefits	58,623	60,382
Workers' Compensation	54,833	56,478
TOTAL FEDERAL	\$2,575,097	\$2,649,430
TOTAL STATE AND FEDERAL	\$7,595,392	\$7,814,931

Exhibit 7
Transportation Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$310	\$315
Interstate Flight Refund	3,150	3,200
Marine Vessel Exemption	740	740
SUBTOTAL	<u>\$4,200</u>	<u>\$4,255</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$5,370	\$5,450
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	12,570	12,520
Fuel for Off-Road Use	1,050	1,100
Municipal Franchise Vehicles	430	430
Public Vehicles	13,220	13,090
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	<u>\$32,640</u>	<u>\$32,590</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$525	\$550
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	10,900	10,950
SUBTOTAL	<u>\$11,425</u>	<u>\$11,500</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	\$14	\$14
TOTAL	<u>\$48,279</u>	<u>\$48,359</u>

Exhibit 8
Local Property and Other Local Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$34,000	\$34,300
Air and Water Pollution Control	120,000	120,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	110	90
Enterprise Zone Credit	0	0
Fairground Property	n.a.	n.a.
Homestead Exemption	3,060,000	3,070,000
Homestead Exemption for Farm Property	160,000	160,000
Industrial Facilities Development	225,400	228,800
Mobile Homes	53,150	54,200
Neighborhood Enterprise Zones	22,000	22,500
Next Energy Exemption	3,400	3,600
Obsolete Property Rehabilitation	11,000	11,500
Personal Property - Indust./Commercial Ad Valorem	366,000	368,000
Personal Property - Industrial Facilities	67,000	68,500
Poverty Exemption	8,000	8,300
Railroad Right-of-Way/Broadband Credit	50,500	51,000
Renaissance Zones	86,000	87,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,729,000	1,758,000
Tax Increment Financing	280,000	280,000
Taxable Value Cap	1,080,000	890,000
Water Softeners	1,260	1,270
SUBTOTAL	<u>\$7,356,820</u>	<u>\$7,217,060</u>
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$145,100	\$146,500
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	12,300	12,400
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	<u>\$157,400</u>	<u>\$158,900</u>
TOTAL	<u>\$7,514,220</u>	<u>\$7,375,960</u>

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

CHAPTER 3

TAX EXPENDITURE BUDGET

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

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

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

Exhibit 9
Tax Expenditure Budget, FY 2014

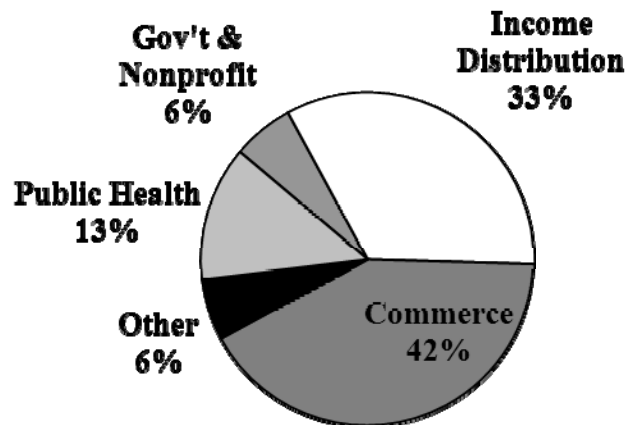


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2012

<u>Spending Category</u>	<u>FY 2013 Tax Expenditure (000)</u>	<u>FY 2012 Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$285,973	\$57,566	\$343,539	83.2%
Commerce (DELEG)	11,303,935	419,801	11,723,736	96.4%
Higher Education	480,622	1,263,952	1,744,574	27.5%
Income Distribution (DHS)	6,672,805	1,155,301	7,828,106	85.2%
Military Affairs	98,074	61,485	159,559	61.5%
Natural Resources	55,000	501,162	556,162	9.9%
Public (Community) Health	3,882,351	4,901,035	8,783,387	44.2%
Transportation	50,892	2,029,156	2,080,048	2.4%
TOTAL	\$22,829,652	\$10,389,457	\$33,219,110	68.7%

Note: FY 2012 expenditure figures from *FY 2011-2012 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 2013</u> <u>(000)</u>	<u>FY 2014</u> <u>(000)</u>
Agriculture	\$577,173	\$569,381
Commerce	12,678,345	13,110,223
Education	970,622	1,010,353
Government and Nonprofit Organizations	1,840,254	1,879,582
Income Distribution	10,464,405	10,505,876
Military Affairs	98,074	102,812
Natural Resources	175,110	177,090
Public Health	3,882,351	4,080,419
Transportation	50,892	51,271
TOTAL	\$30,737,226	\$31,487,007

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 2013 (000)	FY 2014 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	\$34,000	\$34,300
Homestead Exemption for Farm Property	160,000	160,000
Taxable Value Cap	97,200	80,100
Income Tax		
Farmland Development Credit (PA 116)	42,933	44,651
Sales and Use Taxes		
Horticultural or Agricultural Products	243,040	250,330
TOTAL	\$577,173	\$569,381
Commerce		
Alcoholic Beverage Taxes		
Small Brewer's Credit	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	400	400
Licensee Expenses	13,660	13,270
Income Tax		
Accelerated Depreciation	77,324	79,644
Income Attributable to Another State	2,252,732	2,342,842
Renaissance Zone Credit	1,408	1,440
Insurance Company Retaliatory Tax		
Disability Insurance Exclusion	9,100	9,300
Michigan Association and Facilities Credit	26,700	27,400
Michigan Examination Fees Credit	2,900	3,000
Supplemental Workers' Compensation Credits	1,200	1,200
Corporate Income Tax		
Foreign Dividends Income Exclusion	196,100	211,800
Government Securities' Income Exclusion	800	900
Small Business Alternate Tax Credit	9,400	10,200
Michigan Business Tax		
Brownfield Redevelopment Credit	50,000	40,000
Film Credits	25,000	5,000
Michigan Economic Growth Authority (MEGA)	116,000	245,000
MEGA Photovoltaic Technology Credit	11,000	21,000
MEGA Polycrystalline Silicon Manufacturing	24,000	26,000

Tax/Tax Expenditure	FY 2013 (000)	FY 2014 (000)
Commerce (Continued)		
MEGA Vehicle Battery Credit	\$285,000	\$285,000
Other Certificated Credits	16,000	16,000
Oil and Gas Severance Tax		
Marginal Wells	6,400	6,700
Property Tax		
Broadband Investment Credit	24,700	25,000
Enterprise Zone	0	0
Industrial Facilities Development	225,400	228,800
Mobile Homes	53,150	54,200
Neighborhood Enterprise Zones	22,000	22,500
Next Energy Exemption	3,400	3,600
Obsolete Property Rehabilitation	11,000	11,500
Personal Property - Indust./Commercial Ad Valorem	366,000	368,000
Personal Property - Industrial Facilities	67,000	68,500
Renaissance Zones	86,000	87,000
Tax Increment Financing	280,000	280,000
Taxable Value Cap	259,200	213,600
Water Softeners	1,260	1,270
Sales and Use Taxes		
Aircraft Parts	6,900	7,110
Bad Debts	63,800	65,700
Cargo Aircraft	23,290	22,940
Collection Fee	45,300	46,600
Commercial Domestic Aircraft	4,000	4,000
Communication and Telephone Exemption	37,000	37,000
Employee Meals	16,720	17,210
Gratuities and Tips	64,970	66,860
Imported Property from Other States	1,630	1,660
Industrial Processing	1,055,000	1,108,000
Interstate Telecommunications	9,000	9,000
Interstate Trucks and Trailers	27,480	28,310
Investment Coins	8,200	9,430
Newspapers, Periodicals, and Films	93,460	94,820
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Water	60,200	60,800
Services (except education, health, and nonprofits)	6,559,380	6,741,570
Telephone Services	13,660	14,070

Tax/Tax Expenditure	FY 2013 (000)	FY 2014 (000)
Commerce (Continued)		
Vehicle and Aircraft Transfers	\$36,910	\$37,650
Vending Machines	21,621	21,837
TOTAL	\$12,678,345	\$13,110,223
Education		
Income Tax		
College Savings Account	\$10,490	\$11,253
Fellowships and Scholarships	14,942	15,390
Higher Education/Public Contribution Credit	\$0	\$0
Property Tax		
Exempt Public Education Property	490,000	498,000
Sales Tax		
Services	455,190	485,710
TOTAL	\$970,622	\$1,010,353
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$310	\$315
Income Tax		
Historic Preservation Credit	1,146	1,045
U.S. Government Bond Interest Deduction	9,455	9,550
Motor Fuel Taxes		
Public Vehicles	13,220	13,090
Motor Vehicle Weight Tax		
Public and Nonprofit Vehicles	10,900	10,950
Oil and Gas Severance Tax		
Public Land	2,500	2,600
Property Tax		
Tax Exempt Property	1,239,000	1,260,000
Sales and Use Taxes		
Church Cars	2,570	2,650
Church Construction	1,938	1,977
Government or Red Cross	205,730	211,930
Nonprofit Organizations	252,510	259,850
Services	100,961	105,611
Watercraft Registration Fee		
Publicly Owned Watercraft	14	14
TOTAL	\$1,840,254	\$1,879,582

Tax/Tax Expenditure	FY 2013 (000)	FY 2014 (000)
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	\$145,100	\$146,500
Personal Exemption	12,300	12,400
General Property Tax		
Homestead Exemption	3,060,000	3,070,000
Poverty Exemption	8,000	8,300
Taxable Value Cap	723,600	596,300
Income Tax		
Adjustments to Income (gains/losses and other)	52,157	54,300
Adjustments to Income (federal)	50,099	51,602
Dependent Exemption	16,083	16,244
Earned Income Tax Credit	112,100	115,500
Employer Contributions to Health and Life Insurance	857,454	883,178
Employer Pension Plans	585,829	603,404
Gain on Sale of Primary Residence	146,033	147,493
Home Heating Assistance Credit	141	144
Homestead Property Tax Credit (excluding veterans)	500,068	522,638
Income Maintenance Benefits	9,876	10,172
Individual Retirement Account	279,512	287,897
Interest on Life Insurance Savings	113,602	117,010
Other State Tax Credit	49,510	51,338
Pension and Retirement Benefits Deduction	497,653	495,069
Personal Exemption	1,130,887	1,142,196
Railroad Retirement Benefits	1,354	1,395
Senior Investment Income Deduction	16,242	16,267
Social Security Benefits (federal exclusion)	312,606	321,984
Social Security Benefits (in federal AGI)	261,980	272,459
Special Exemption	9,547	9,585
State and Local Income Tax Refunds	23,076	23,307
Student Loan Deduction	4,088	4,211
Workers' Compensation	54,833	56,478
Sales and Use Taxes		
Donated Vehicles	125	125
Food	1,244,270	1,280,450
Food for Students	22,280	22,930
Residential Utilities	164,000	165,000
TOTAL	\$10,464,405	\$10,505,876

Tax/Tax Expenditure	FY 2013 (000)	FY 2014 (000)
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	\$5,601	\$5,601
Income Tax		
Disabled Veteran Exemption	200	200
Military Pay	31,487	34,513
Veterans' Benefits	58,623	60,382
Veterans' Property Tax Credit	1,000	960
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	525	550
Sales and Use Taxes		
Military Post-Exchange Sales	638	606
TOTAL	\$98,074	\$102,812
Natural Resources		
Property Tax		
Air and Water Pollution	\$120,000	\$120,000
Energy Conservation Devices	110	90
Sales and Use Taxes		
Air and Water Pollution	55,000	57,000
TOTAL	\$175,110	\$177,090
Public Health		
Income Tax		
Medical Care Savings	\$8,922	\$9,190
Sales and Use Taxes		
Medical Services	3,237,319	3,376,209
Nonprofit Hospital Construction	1,670	1,720
Ophthalmic and Orthopedic Products	62,920	64,810
Prescription Drugs	\$571,520	\$628,490
TOTAL	\$3,882,351	\$4,080,419
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,150	\$3,200
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,370	5,450
Evaporation and Loss Allowance	12,570	12,520
Fuel for Off-Road Use	1,050	1,100

Tax/Tax Expenditure	FY 2013 (000)	FY 2014 (000)
Transportation (Continued)		
Marine Vessel Fuel	\$740	\$740
Municipal Franchise Vehicles	430	430
Sales and Use Taxes		
Driver Training	202	201
Rail Rolling Stock	1,580	1,630
Utility Property Tax		
Railroad Right-of-Way	25,800	26,000
TOTAL	\$50,892	\$51,271

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and corporate income expenditures. Business privilege tax expenditures are projected to increase from \$782.1 million in FY 2013 to \$911.1 million in FY 2014. The reduction of tax credits and deductions under the corporate income tax results in much smaller tax expenditures than under the Michigan Business Tax (MBT).

- Estimate Reliability**
- (2) Small Business Alternative Tax Rate Credit
 - (3) Other Corporate Income Tax and MBT Tax Expenditures

This year's report includes tax expenditures for the corporate income tax, which replaced the MBT for most corporate taxpayers effective January 1, 2012. A big difference between the corporate income tax and the MBT is that business entities other than traditional corporations (sole proprietorships, partnerships, S-corporations, and other flow-through entities) are not taxed under the corporate tax. The income from flow-through entities is taxable to the owners under the individual income tax. Other tax expenditure estimates from business privilege taxes were based on 2010 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 Act 38 of 2011 amended the Income Tax Act to eliminate several individual tax credits and deductions, reduce the refundable homestead property tax and earned income tax credits, adjust the income tax rate for future years, and impose a new 6 percent tax on taxable corporate income effective January 1, 2012. P.A. 38 also reduced the deduction for pension and retirement benefits for younger taxpayers (see Chapter 6). The new corporate income tax (CIT) was enacted to replace the Michigan business tax (MBT) which was eliminated for most taxpayers by Public Act 39 of 2011. More detail on the tax changes for tax year 2012 is available online at www.michigan.gov/treasury.

Public Act 39 of 2011 amended the Michigan Business Tax Act to eliminate the MBT for most taxpayers and allow eligible taxpayers that wish to claim certain certificated tax credits to continue to file MBT returns until the amount of those credits and any carryforwards are exhausted. Once all of the certificated credits have been exhausted the MBT Act will be repealed.

Public Act 40 of 2011 amended the Multistate Tax Compact to clarify that out-of-state taxpayers are required to use the single-factor formula based on sales that is contained in the MBT Act and

P.A. 38 for the CIT as opposed to the formula in the Compact that equally weights payroll, property, and sales to apportion their tax base to Michigan.

Public Act 77 of 2011 amended the Michigan Business Tax Act to allow for reduced film credits to be awarded. The credit rates formerly specified under the MBT were amended to be maximum credit rates, thus allowing for reduced credits. In addition, P.A. 77 included in the definition of purchases from other firms payments by certain taxpayers classified in the truck transportation subsector to subcontractors to transport freight by motor vehicle. Finally, P.A. 77 reauthorizes a credit for tax years 2009 through 2011 for necessary expenditures to ensure traffic and pedestrian safety while hosting motorsports events. The credit is equal to 50 percent of the necessary expenditures in tax year 2009 and 100 percent of the necessary expenditures in tax years 2010 and 2011.

Public Acts 170, 171, 173, 175, 176, 179, 181 through 187, and 189 through 191 of 2011 amended the Income Tax Act to clarify portions of the CIT and correct certain technical issues that were identified or had arisen since the passage of the new tax. Included among the changes were revisions to the definitions of business income and gross receipts, a clarification of the requirement for quarterly estimated payments, and a clarification of the requirements for apportionment.

Public Act 209 of 2011 amended the Michigan Business Tax Act to address the transition between the elimination of the MBT and start of CIT, especially for fiscal-year filers. Some taxpayers will elect to continue filing under the MBT in order to claim certain certificated credits. If these taxpayers also file on a fiscal-year basis, they will file a short-period MBT return for the fractional part of the year ending on December 31, 2011 (like all other taxpayers), and then a second MBT return for the fractional part of the year beginning January 1, 2012.

Public Act 292 of 2011 amended the Michigan Business Tax Act to change the battery manufacturing facility and large scale battery credits available under the MBT. An eligible battery manufacturing taxpayer may elect to redeem a voucher certificate for credit if the taxpayer forgoes claiming the credit and creates 100 additional new jobs in Michigan for a total of 400 new jobs. The voucher may be redeemed for an annual amount of \$25 million for no more than three years, beginning in a tax year after December 31, 2011. Also, a recapture provision is added for an eligible taxpayer with a large scale battery credit that will reduce the credit by \$65,000 for each job less than the 750 job threshold required for the large scale battery credit. This Act also extended the deadline for the taxpayer to enter into an agreement with the Michigan Economic Growth Authority (MEGA) until June 30, 2012.

Public Act 304 of 2011 amended the Revenue Act to retroactively prohibit the Department of Treasury from assessing tax under the Single Business Tax (SBT) or reducing an SBT refund for a certain classification of taxpayer and for certain amounts described in the Act. The excluded amounts are associated with certain personal investment activity and not derived in the course of the taxpayer's regular trade or business.

Public Act 305 of 2011 amended the Michigan Business Tax Act to retroactively exclude from the definition of business income items that are not derived from transaction, activities, or

sources in the regular course of a trade or business for a certain classification of taxpayer. The Act also clarifies the definition of “research and development expenses” and adds a section that governs the general treatment under the MBT of entities disregarded for purposes of federal income tax and outlines certain exceptions.

Public Acts 306, 307, 309, and 311 of 2011 amended the Income Tax Act to clarify the treatment under Michigan’s CIT of entities disregarded for purposes of federal income tax.

Public Acts 308 and 310 of 2011 amended the Income Tax Act to require unitary apportionment when a corporate taxpayer is unitary with a flow-through entity. A taxpayer that is unitary with a flow-through entity would include a proportionate share of the flow-through entity’s Michigan and total sales when determining apportionment for the taxpayer’s Michigan CIT.

Public Act 312 of 2011 amended the Income Tax Act to delete redundant language allowing a corporation’s business loss carry-forward for 10 years after the tax year in which the loss is incurred.

Public Act 313 of 2011 amended the Income Tax Act to eliminate the simplified tax return previously allowed in the SBT and MBT for taxpayers qualifying for the small business alternative credit under the CIT.

Public Act 316 of 2011 amended the Michigan Business Tax Act to exclude from property eligible for the industrial personal property tax credit a turbine primarily used to generate electricity for sale and powered by gas, steam, nuclear energy, coal, or oil.

Insurance Company Tax

Effective January 1, 2012, the MBT tax on Michigan insurance premiums was replaced by a 1.25 percent tax in the Income Tax Act. 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 premiums tax or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$319.2 million for FY 2014; revenue goes to the State General Fund.

FY 2014 Estimate

Captive Insurance Companies

n.a.

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

FY 2014 Estimate

Disability Insurance Exclusion	\$5,200,000
Exempts the first \$190,000,000 of disability insurance premiums written in Michigan.	
Michigan Association and Facilities Credit	\$32,000,000
Provides a credit for payments made to the Michigan workers' compensation placement facility, the Michigan basic property insurance association, the Michigan automobile insurance placement facility, the property and casualty guaranty association, and the life and health guaranty association.	
Michigan Examination Fees Credit	\$3,000,000
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.	
Workers' Disability Supplemental Benefit (WDSB) Credit	\$1,200,000
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 \$64.2 million for FY 2014; revenue goes to the State General Fund.

FY 2014 Estimate

Marginal Wells	\$6,800,000
Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.	
Public Land	\$3,200,000
Exempts oil and gas severed from publicly-owned lands from taxation.	

Corporate Income Tax Expenditures

Public Act 38 of 2011 added a 6.0 percent tax on corporate income to the Income Tax Act. The new tax took effect on January 1, 2012, and applies only to C corporations and entities taxed as C corporations for federal income tax purposes, with the tax imposed on federal taxable income subject to allocation or apportionment. A significant difference between the MBT and the new corporate tax is the elimination of most tax credits. The only credit enacted against the corporate income tax is the small business alternative credit. Financial institutions are not taxed on business income or gross receipts, but are subject to a tax of 0.29 percent on their apportioned net capital.

An entity that has received, has been approved to receive, or has been assigned certain certificated tax credits under the MBT may elect to continue to file and pay under the MBT in lieu of the corporate income tax. Examples of the remaining certificated credits are the photovoltaic credit, the MEGA employment tax credit, polysilicon credit, select renaissance zone credits, battery pack credits, historic preservation credit, brownfield redevelopment credit, film production and infrastructure credits, and the farmland preservation credit.

Revenues from the corporate income tax were estimated at the May 2012 Consensus Conference to be \$838.9 million in FY 2013 and \$912.4 million in FY 2014. The certificated credits remaining under the MBT were estimated at -\$475.4 million in FY 2013 and -\$608.4 million in FY 2014.

Included with the estimated reduction in corporate tax revenue associated with the small business alternative credit are estimates of the remaining certificated credits that will be claimed by those taxpayers that continue to file under the MBT.

FY 2014 Estimate

Anchor Company Credit (MBT Certificated 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.	
Brownfield Redevelopment Credit (MBT Certificated Credit)	\$40,000,000
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.	
Farmland Preservation Credit (MBT Certificated Credit)	\$1,000,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Public Act 451 of 1994. This credit is included in “Other Certificated Credits” in Exhibits 4 and 12.	

FY 2014 Estimate

Film Credits (MBT Certificated Credit)	\$5,000,000
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.	
Foreign Dividends Exemption (Corporate Income)	\$211,800,000
Excludes dividends and royalties received from a foreign entity or person from taxable income.	
Government Securities Interest Exemption (Corporate Income)	\$900,000
Excludes interest income from obligations or securities of the federal government, State of Michigan or Michigan governmental unit.	
Historic Preservation Credit (MBT Certificated Credit)	\$2,000,000
Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. This credit is included in “Other Certificated Credits” in Exhibits 4 and 12.	
Michigan Economic Growth Authority (MEGA) Credits (MBT Certificated Credit)	\$245,000,000
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 Photovoltaic Technology Credit (MBT Certificated Credit)	\$21,000,000
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 (MBT Certificated Credit)	\$26,000,000
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 2014 Estimate

MEGA Vehicle Battery Credit (MBT Certificated Credit)	\$285,000,000
Provides for MEGA credits for the mass production of certain plug-in traction battery packs for electrical motor vehicles that qualify for a federal tax credit. The maximum amount of these credits that may be claimed in calendar 2011 (impact seen in fiscal year 2012) is \$40 million. The credit is refundable, but may also be carried forward for up to 10 years.	
Renaissance Zone Credit (MBT Certificated Credit)	\$10,000,000
Provides a credit for the portion of tax attributable to business activity in a renaissance zone designated based on a development or qualified collaboration agreement. This credit is included in “Other Certificated Credits” in Exhibits 4 and 12.	
Small Business Alternative Tax Credit (Corporate Income)	\$10,200,000
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).	
Workers’ Disability Supplemental Benefit (WDSB) Credit (MBT Certificated Credit)	\$3,000,000
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. This credit is included in “Other Certificated Credits” in Exhibits 4 and 12.	

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 \$15,336.7 million in FY 2014, a 3.6 percent increase over the FY 2013 level of \$14,797.2 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 2013 and FY 2014. Sales and use tax expenditure estimates are based on FY 2007 through FY 2011 data. Alcohol and cigarette tax expenditure estimates were based on FY 2011 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 Act 71 of 2011 amended the General Sales Tax Act to expand the definition of materialperson to include a person who sells precast concrete products or certain conduit or fitting products for sewage or water. A materialperson is allowed to make sales tax payments on a quarterly basis on credit sales rather than the monthly or accelerated basis that is generally required.

Public Act 141 of 2011 amended the Use Tax Act to end the collection of the use tax on Medicaid contracted health plans and Medicaid managed care organizations effective March 31, 2012.

Public Act 142 of 2011 created the Health Insurance Claims Assessment Act. This Act imposes a one percent assessment on certain paid health care claims beginning January 1, 2012. Assessments collected under the Act will be deposited into the Health Insurance Claim Assessment Fund and be used to finance the expenditures of Medicaid managed care organizations. The assessment was designed to raise approximately \$400 million annually, adjusted for inflation, and the assessment payers will be entitled to a proportional credit in the

next year if collections exceed the cap. The assessment is scheduled to sunset effective January 1, 2014.

Public Act 166 of 2011 amended the Michigan Liquor Control Code to repeal the tax on the purchase of liquor for off-premise consumption, effective October 1, 2012. The tax was levied at 1.85 percent of the purchase price.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2014 (millions of dollars).

Alcoholic Beverage Taxes (millions)		<u>FY 2014 Revenue</u>
<u>Tax</u>	<u>Location of Deposit</u>	
Beer and Wine Excise	General Fund	\$51.8
4.0 Percent Liquor Excise	School Aid Fund	\$41.9
4.0 Percent Liquor Specific	General Fund	\$41.9
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$41.9
		<u>FY 2014 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 2014, the tax on cigarettes will yield an estimated \$853.1 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$67.3 million.

FY 2014 Estimate

Bad Debt Deduction Allows cigarette wholesalers to deduct any losses from bad debts.	\$400,000
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.	\$13,270,000
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.	\$5,601,000
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.	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.

FY 2014 Estimate

Small Hotel Exemption Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.	n.a.
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Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield \$7,395.1 million in FY 2014. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; up to 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 \$1,297.0 million in FY 2014. Due to their complementary nature, sales and use tax expenditures are reported together.

FY 2014 Estimate

Air and Water Pollution	\$57,000,000
Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	
Aircraft Parts	\$7,110,000
Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	
Bad Debts	\$65,700,000
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	\$22,940,000
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	\$1,977,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
Church Cars	\$2,650,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	

FY 2014 Estimate

Collection Fee	\$46,600,000
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	\$4,000,000
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 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	\$201,000
Exempts property used for demonstration or driver training programs.	
Employee Meals	\$17,210,000
Exempts meals provided by employers to their employees starting in 2002.	
Food	\$1,280,450,000
Exempts food for human consumption, except prepared food intended for immediate consumption.	
Food for Students	\$22,930,000
Exempts sales of food by nonprofit schools or other similar educational institutions to students.	

	<u>FY 2014 Estimate</u>
Government or Red Cross	\$211,930,000
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.	
Gratuity and Tips	\$66,860,000
Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	
Horticultural and Agricultural Products	\$250,330,000
Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	
Imported Property	\$1,660,000
Exempts property that is not an aircraft purchased by a nonresident and brought into Michigan more than 90 days after purchase from the use tax. A similar exemption applies to property purchased by a resident and brought into the state more than 360 days after purchase.	
Industrial Processing	\$1,108,000,000
Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	
International Telecommunications	\$9,000,000
Exempts international and WATS calls from the use tax.	
Interstate Trucks and Trailers	\$28,310,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax. An exemption based on out-of-state usage would lower the tax expenditure to \$12,000,000.	
Investment Coins	\$9,430,000
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.	

FY 2014 Estimate

Military PX Sales	\$606,000
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.	
Newspapers, Periodicals, and Films	\$94,820,000
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	\$1,720,000
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	\$259,850,000
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.	
Nonresident Merchandise Transfer	n.a.
Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	
Nonresident Property	n.a.
Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	
Ophthalmic and Orthopedic Products	\$64,810,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	

	<u>FY 2014 Estimate</u>
Prescription Drugs Exempts prescription drugs for human consumption.	\$628,490,000
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.	\$1,630,000
Residential Utilities Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	\$165,000,000
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.	\$60,800,000
Services Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately \$3.54 billion of the total represents services purchased by consumers.	\$10,709,100,000

Service Tax Expenditures, FY 2014
(millions)

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$8.7	\$0.0	\$8.7
Admin., Support, and Waste Mgmt.	837.1	20.5	857.6
Arts, Entertainment, and Recreation	182.2	38.0	220.2
Construction	1,126.0	0.0	1,126.0
Educational Services	69.7	416.0	485.7
Health Care and Social Assistance	1,363.1	2,013.1	3,376.2
Information	282.3	0.0	282.3
Other Services (except Public Admin.)	515.6	113.5	629.1
Professional, Scientific, and Technical	2,013.1	14.6	2,027.7
Real Estate and Rental and Leasing	579.0	0.0	579.0
Transportation and Warehousing	1,000.4	10.6	1,011.0
Utilities	<u>0.0</u>	<u>105.6</u>	<u>105.6</u>
TOTAL	\$7,977.2	\$2,731.9	\$10,709.1

Source: Calculations by the Office of Revenue and Tax Analysis using the *2007 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 2014 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	\$14,070,000
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.	

FY 2014 Estimate

Vehicle and Aircraft Transfers

\$37,650,000

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

\$21,837,000

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

CHAPTER 6

INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 2.9 percent from \$5,020.3 million in FY 2013 to \$5,165.5 million in FY 2014. Federal income tax expenditures are projected to increase 2.9 percent from \$2,575.1 million in FY 2013 to \$2,649.4 million in FY 2014. Individual income tax expenditure estimates were based on tax year 2010 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 2010. 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 38 of 2011 amended the Income Tax Act to eliminate several individual tax credits and deductions, reduce the refundable homestead property tax and earned income tax credits, adjust the income tax rate for future years, and impose a new 6 percent tax on taxable corporate income effective January 1, 2012. P.A. 38 also reduced the deduction for pension and retirement benefits by limiting the deduction for taxpayers born between 1946 and 1952 to \$20,000 on a single return and \$40,000 on a joint return, and eliminating the deduction for taxpayers born after 1952. The new corporate income tax was enacted to replace the Michigan business tax (MBT) which was eliminated for most taxpayers by Public Act 39 of 2011. More detail on the tax changes for tax year 2012 is available online at www.michigan.gov/treasury.

Public Acts 41 through 45 amended the State Employees' Retirement Act, the Public School Employees Retirement Act, the Michigan Legislative Retirement System Act, Public Act 339 of 1927 (public libraries), and the Judges Retirement Act, respectively, to repeal the full exemption for pension and retirement benefits received from public sources. After repeal of the exemption in each of these acts, any exemption for pension and retirement benefits is now governed by the

provisions of the Income Tax Act. Under the Income Tax Act, benefits from public sources will be treated the same as benefits from private sources for taxpayers born after 1945.

Public Acts 172, 174, 177, 178 and 180 of 2011 amended the Income Tax Act to clarify portions of the individual income tax and correct certain technical issues that were identified or had arisen since the passage of P.A. 38. Changes were made to the definition of total household resources, the calculation of the homestead property tax credit, and the effective date of the new apportionment formula to align the statute with the original intent.

Public Acts 188 and 192 through 194 amended the Income Tax Act to correct and clarify the withholding provisions in the Act. These new Acts amended provisions related to withholding from pension and retirement benefits and income from flow-through entities.

Public Act 273 of 2001 amended the Income Tax Act to exclude from the taxable value of real property the value of unoccupied farmland classified as agricultural when applying the taxable value limitation of \$135,000 for eligibility for the homestead property tax credit.

Public Act 314 of 2011 amended the Income Tax Act to restore the deduction for income earned by residents of a qualified renaissance zone for tax years beginning in or after 2012. The deduction is limited to residents of renaissance zones that were designated as a renaissance zone before January 1, 2012.

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 2014, the State of Michigan will collect an estimated \$8,204.6 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 2010, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.35 percent to an average effective rate of 2.09 percent. Public Act 38 of 2011 made significant changes to the Michigan income tax, effective January 1, 2012. The impact of those changes is included in the estimates below. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.

FY 2014 Estimate

Adjustments to Income

\$54,300,000

New data allow for many subtractions from income to be reported separately. The estimate here represents the net difference between the remaining subtractions and additions to income. The remaining subtractions include gains and losses from other states, net operating losses, and net income from gas and oil royalty or working interests.

FY 2014 Estimate

College Savings Account \$11,253,000

A deduction is allowed for contributions to purchase contracts under the Michigan Education Trust or to fund accounts in the Michigan Education Savings Program. Investment earnings are also exempt.

Dependent Exemption \$15,985,000

Taxpayers claimed as a dependent on another taxpayer's return may claim an exemption equal to \$1,500 for themselves when filing their tax return.

Disabled Veterans Exemption \$200,000

Allows a taxpayer to claim an additional exemption of \$300 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.

Earned Income Tax Credit \$115,500,000

Provides a refundable income tax credit equal to 6 percent of any federal earned income tax credit for which a taxpayer is eligible. Approximately 64 percent of the credit exceeded the claimant's income tax liability for tax year 2010.

Farmland Development Credit \$44,651,000

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.

Historic Preservation Credit \$1,045,000

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 \$144,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2011, these credits totaled an estimated \$66.8 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$136,000 in FY 2011.

FY 2014 Estimate

Homestead Property Tax Credit

\$523,598,000

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 low-income senior citizens, veterans, and blind and disabled persons. For tax year 2010, homestead credits, excluding the farmland credit itemized separately, totaled \$872.8 million (Exhibit 17). Of the homestead credits, 53.9 percent went to general taxpayers, 39.6 percent went to senior citizens, and the remaining 6.5 percent went to veterans and blind and disabled persons.

Income Attributable to Another State

\$2,342,842,000

Provides a deduction to Michigan residents for business income earned in another state or gains from the sale of property located in another state. In addition, non-residents may deduct income not allocated to Michigan.

Income Tax Paid to Another State Credit

\$51,338,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2010, taxpayers claimed \$44.8 million in credits.

Military Pay

\$34,513,000

Exempts compensation received while on active duty in the U.S. Armed Forces.

Pension and Retirement Benefits Deduction

\$495,069,000

Provides a deduction for pension and retirement benefits based on the age of the taxpayer and, if married, the taxpayer's spouse. For those born prior to 1946, all benefits from public sources are deductible and benefits from private sector plans are deductible up to \$47,309 for singles and \$94,618 for married couples filing a joint return (2012 limits). Taxpayers born between 1946 and 1952, inclusive, may deduct from all retirement benefits up to \$20,000 for singles and \$40,000 for married couples. There is no deduction allowed for taxpayers born after 1953 until they turn age 67.

Exhibit 13
Selected Individual Income Tax Expenditures, CY 2010

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Higher Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than \$2,000*	384,062	8.3%	8,290	\$75,707	2,185	\$154,566
2,001 - 4,000	160,543	3.5%	14,851	108,927	1,344	66,801
4,001 - 6,000	158,475	3.4%	16,718	181,571	1,717	93,314
6,001 - 8,000	158,278	3.4%	18,943	249,298	2,164	123,253
8,001 - 10,000	171,114	3.7%	21,857	345,772	2,529	157,479
10,001 - 12,000	165,012	3.6%	22,012	401,835	2,563	157,055
12,001 - 14,000	169,986	3.7%	23,862	472,924	3,078	199,064
14,001 - 16,000	154,841	3.4%	23,079	502,315	2,921	186,714
16,001 - 18,000	142,577	3.1%	22,506	532,526	3,002	197,387
18,001 - 20,000	133,624	2.9%	21,365	533,029	2,985	204,077
20,001 - 25,000	295,587	6.4%	51,129	1,430,729	7,782	532,635
25,001 - 30,000	247,813	5.4%	45,379	1,456,466	7,728	538,033
30,001 - 35,000	214,956	4.7%	40,288	1,382,936	7,878	564,388
35,001 - 40,000	193,551	4.2%	35,242	1,246,603	8,177	595,496
40,001 - 45,000	168,512	3.7%	31,535	1,169,066	8,146	596,583
45,001 - 50,000	150,725	3.3%	29,583	1,141,310	8,212	603,310
50,001 - 55,000	141,388	3.1%	28,034	1,126,382	8,553	652,944
55,001 - 60,000	131,533	2.9%	26,546	1,108,459	8,984	700,656
60,001 - 70,000	235,159	5.1%	49,168	2,118,651	18,095	1,442,154
70,001 - 80,000	198,422	4.3%	41,369	1,832,631	17,540	1,466,383
80,001 - 90,000	162,613	3.5%	33,796	1,536,896	16,893	1,484,161
90,001 - 100,000	129,026	2.8%	27,756	1,299,598	15,118	1,385,078
Over 100,000	<u>532,591</u>	<u>11.6%</u>	<u>113,423</u>	<u>7,395,710</u>	<u>95,752</u>	<u>10,770,612</u>
TOTAL	4,600,388	100.0%	746,731	\$27,649,340	253,346	\$22,872,143

*Includes 140,455 credit-only returns (zero income).

FY 2014 Estimate

Personal Exemption

\$1,142,196,000

Exempts \$3,763 (tax year 2012) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption will increase to \$3,950 for 2013, \$4,000 in 2014, and then increase in \$100 increments based on the rate of inflation. The personal exemption reduced tax year 2010 revenue by approximately \$1,066.5 million.

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

Renaissance Zones

\$1,440,000

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.

Senior Investment Income Deduction

\$16,267,000

Allows a taxpayer who was born prior to 1946 to deduct dividends, interest, and capital gains included in federal adjusted gross income (AGI) up to limits which are adjusted for inflation annually. The limits for tax year 2012 are \$10,545 for singles and \$21,091 for couples filing a joint return. The limits are reduced by the amount deducted for pension and retirement benefits.

Social Security Benefits

\$272,459,000

Provides a deduction for Social Security benefits included in AGI. Depending on income, benefit recipients may have to include some Social Security benefits in AGI for federal tax purposes.

Special Exemption

\$9,585,000

Allows a taxpayer and his or her spouse to each claim a \$2,400 exemption for tax year 2012 if they are disabled. Taxpayers may also claim an exemption for disabled dependents. These exemptions are adjusted periodically for inflation.

FY 2014 Estimate

State and Local Income Tax Refunds

\$23,307,000

Provides a deduction of a state and local income tax refund if the refund is included in AGI. For federal tax purposes, payments of state and local taxes that are reported as an itemized deduction but subsequently returned as a refund are included in AGI for the year in which the refund was received. For example, income tax withholding for tax year 2012 may be claimed as an itemized deduction on the 2012 federal income tax return. If a portion of that withholding is returned to a taxpayer as a refund in early 2013, the taxpayer would report the refund as income on the 2013 federal income tax return, but subtract the refund amount on the 2013 Michigan return.

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.

U.S. Government Bond Interest Deduction

\$9,550,000

Provides a deduction for interest received on debt issued by the U.S. Government and included in AGI. The deduction includes interest received from U.S. Savings Bonds and U.S. Treasury bills, notes, and bonds.

Exhibit 14
Selected Individual Income Tax Expenditures by Income Class, CY 2010

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions ⁽¹⁾	
	Number	Percent	Number	Amount	Number	Amount
Zero Income ⁽²⁾	213,518	4.6%	22,688	\$17,208,762	0	\$0
\$0 - 2,000	170,544	3.7%	16,752	8,801,189	17,056	2,671,030
2,001 - 4,000	160,543	3.5%	16,784	7,920,642	58,403	9,145,930
4,001 - 6,000	158,475	3.4%	22,340	10,419,877	84,053	13,162,690
6,001 - 8,000	158,278	3.4%	29,298	13,692,066	106,631	16,698,442
8,001 - 10,000	171,114	3.7%	42,679	20,641,175	153,569	24,048,911
10,001 - 12,000	165,012	3.6%	44,067	21,253,139	165,483	25,914,603
12,001 - 14,000	169,986	3.7%	52,906	25,868,443	207,261	32,457,006
14,001 - 16,000	154,841	3.4%	48,690	23,641,068	193,323	30,274,408
16,001 - 18,000	142,577	3.1%	46,869	22,413,754	186,086	29,141,040
18,001 - 20,000	133,624	2.9%	46,140	21,721,364	183,311	28,706,491
20,001 - 25,000	295,587	6.4%	106,233	49,142,877	432,272	67,693,768
25,001 - 30,000	247,813	5.4%	89,342	40,345,484	371,870	58,234,867
30,001 - 35,000	214,956	4.7%	77,462	34,208,371	336,123	52,636,887
35,001 - 40,000	193,551	4.2%	67,761	30,125,773	305,851	47,896,230
40,001 - 45,000	168,512	3.7%	55,458	24,754,574	278,532	43,618,112
45,001 - 50,000	150,725	3.3%	46,227	20,757,714	265,701	41,608,850
50,001 - 55,000	141,388	3.1%	39,848	18,215,441	258,288	40,447,855
55,001 - 60,000	131,533	2.9%	33,985	15,716,248	253,290	39,665,180
60,001 - 70,000	235,159	5.1%	52,668	25,271,440	483,613	75,733,843
70,001 - 80,000	198,422	4.3%	37,558	15,711,125	434,343	68,018,043
80,001 - 90,000	162,613	3.5%	9,574	1,725,601	375,053	58,733,342
90,001 - 100,000	129,026	2.8%	236	112,730	310,109	48,562,999
Over 100,000	<u>532,591</u>	<u>11.6%</u>	<u>468</u>	<u>338,029</u>	<u>1,349,815</u>	<u>211,380,956</u>
TOTAL	4,600,388	100.0%	1,006,033	\$470,006,886	6,810,035	\$1,066,451,481

⁽¹⁾ Effective exemptions in this exhibit are personal exemptions that offset exemptions.

This number does not include disabled and other special exemptions.

⁽²⁾ Includes 140,455 credit-only returns.

Exhibit 15
Effective Income Tax Rates by Income Class, CY 2010⁽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⁾	(\$7,088,847,861)	(\$94,009,165)	
\$0 - 2,000	146,747,893	(59,534,783)	-40.57%
2,001 - 4,000	482,104,334	(32,856,983)	-6.82%
4,001 - 6,000	792,165,388	(34,246,284)	-4.32%
6,001 - 8,000	1,109,164,148	(39,076,083)	-3.52%
8,001 - 10,000	1,542,733,054	(53,518,761)	-3.47%
10,001 - 12,000	1,815,631,884	(50,317,860)	-2.77%
12,001 - 14,000	2,207,849,149	(60,195,205)	-2.73%
14,001 - 16,000	2,321,423,999	(40,098,963)	-1.73%
16,001 - 18,000	2,421,318,493	(25,134,563)	-1.04%
18,001 - 20,000	2,538,265,926	(11,138,428)	-0.44%
20,001 - 25,000	6,616,996,528	12,210,004	0.18%
25,001 - 30,000	6,800,798,758	63,245,100	0.93%
30,001 - 35,000	6,975,073,796	102,617,665	1.47%
35,001 - 40,000	7,253,083,201	128,406,015	1.77%
40,001 - 45,000	7,152,945,630	148,327,383	2.07%
45,001 - 50,000	7,154,585,387	161,390,006	2.26%
50,001 - 55,000	7,418,495,171	175,128,203	2.36%
55,001 - 60,000	7,559,857,796	185,104,338	2.45%
60,001 - 70,000	15,255,249,215	393,302,463	2.58%
70,001 - 80,000	14,854,061,096	406,276,741	2.74%
80,001 - 90,000	13,791,295,757	401,771,052	2.91%
90,001 - 100,000	12,233,081,905	366,749,007	3.00%
Over 100,000	<u>133,214,100,669</u>	<u>3,275,266,889</u>	<u>2.46%</u>
TOTAL	\$254,568,181,316	\$5,319,667,788	2.09%

Effective rate excluding zero income AGI and Taxes Paid 2.07%

Effective rate excluding zero income AGI 2.03%

(1) Values in this table are based on a sample of the 4,459,933 MI-1040 and MI-1040CR returns.

(2) Includes 140,455 credit-only returns (zero income).

Exhibit 16
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2010

Adjusted Gross Income	Effective Exemptions⁽¹⁾	Adjustments to Income	Nonrefundable Credits⁽²⁾	Prop. Tax Credits
Less Than \$2,000	518.6%	34.2%	-1.9%	788.3%
2,001 - 4,000	125.1%	20.0%	0.2%	136.2%
4,001 - 6,000	89.6%	19.7%	0.9%	91.1%
6,001 - 8,000	75.2%	21.9%	1.0%	74.0%
8,001 - 10,000	68.7%	20.2%	1.1%	63.5%
10,001 - 12,000	62.4%	22.7%	1.0%	54.2%
12,001 - 14,000	60.4%	20.9%	1.0%	47.8%
14,001 - 16,000	52.4%	22.2%	1.0%	41.0%
16,001 - 18,000	46.8%	21.7%	1.1%	35.6%
18,001 - 20,000	42.3%	20.7%	1.1%	31.2%
20,001 - 25,000	37.2%	20.3%	1.2%	26.0%
25,001 - 30,000	31.2%	20.9%	1.1%	20.5%
30,001 - 35,000	26.8%	21.2%	1.1%	16.4%
35,001 - 40,000	23.2%	23.7%	1.0%	13.6%
40,001 - 45,000	21.1%	22.2%	1.1%	11.4%
45,001 - 50,000	19.3%	21.5%	1.1%	9.6%
50,001 - 55,000	18.0%	21.6%	1.1%	8.2%
55,001 - 60,000	17.0%	21.4%	1.1%	7.0%
60,001 - 70,000	15.8%	20.7%	1.1%	5.5%
70,001 - 80,000	14.5%	20.3%	1.1%	3.3%
80,001 - 90,000	13.4%	20.0%	1.1%	0.4%
90,001 - 100,000	12.5%	19.1%	1.2%	0.0%
Over 100,000	5.0%	38.2%	1.0%	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, the vehicle donation credit, and the energy cost recovery surcharge credit.

Exhibit 17
Property Tax Credits by County, CY 2010

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	500	\$201,200	600	\$319,700	100	\$4,700
ALGER	500	175,000	300	168,200	100	5,700
ALLEGAN	9,000	3,773,800	4,200	3,032,800	100	10,200
ALPENA	2,000	642,200	1,700	988,600	100	11,300
ANTRIM	1,700	707,000	1,300	972,400	100	5,700
ARENAC	1,000	354,100	800	511,000	< 50	4,700
BARAGA	300	108,900	300	135,600	< 50	5,800
BARRY	4,100	1,717,400	2,200	1,523,300	100	5,900
BAY	8,800	3,047,100	6,000	3,748,200	200	31,000
BENZIE	1,200	456,000	800	520,800	100	4,400
BERRIEN	13,300	4,955,400	7,600	5,025,800	200	16,100
BRANCH	3,000	1,129,100	1,700	1,068,400	100	6,900
CALHOUN	11,100	4,771,500	6,200	4,665,300	200	21,400
CASS	2,900	1,085,500	1,800	1,133,100	100	4,900
CHARLEVOIX	2,400	1,058,300	1,600	1,158,200	< 50	2,800
CHEBOYGAN	1,700	538,300	1,100	664,800	100	9,600
CHIPPEWA	2,100	641,100	1,200	684,300	200	17,600
CLARE	2,000	616,000	1,200	588,500	100	8,600
CLINTON	5,100	2,448,000	2,800	2,095,700	< 50	3,800
CRAWFORD	800	258,200	500	294,300	100	6,400
DELTA	2,500	854,500	1,700	986,800	200	26,000
DICKINSON	1,800	619,600	1,300	836,800	100	14,200
EATON	12,300	5,489,300	6,100	4,558,300	100	11,800
EMMET	3,300	1,382,900	1,700	1,243,300	100	4,800
GENESEE	41,000	15,324,600	17,500	10,680,600	400	53,700
GLADWIN	1,600	553,300	1,400	784,900	100	8,400
GOGEBIC	800	263,800	700	362,200	100	16,600
GRAND TRAVERSE	10,300	4,648,900	4,800	3,733,200	100	10,800
GRATIOT	2,800	968,200	1,600	981,200	100	8,200
HILLSDALE	3,200	1,240,500	1,900	1,169,500	100	10,000
HOUGHTON	1,800	605,900	900	538,300	100	15,600
HURON	2,800	1,253,500	2,600	1,873,500	100	6,600
INGHAM	35,100	17,198,800	11,700	9,679,000	100	20,000
IONIA	4,600	1,793,000	2,100	1,385,600	100	6,100
IOSCO	1,600	488,300	1,400	721,000	200	14,400
IRON	600	190,000	600	291,700	100	12,400
ISABELLA	6,400	2,575,600	2,500	1,724,500	100	7,000
JACKSON	13,100	4,977,900	6,600	4,215,300	200	22,300
KALAMAZOO	27,700	11,893,200	10,800	8,408,300	200	23,600
KALKASKA	1,200	404,000	600	376,600	< 50	3,300
KENT	67,600	28,198,200	24,500	17,976,600	400	43,100
KEWEENAW	100	17,700	100	37,800	< 50	800

Exhibit 17 (Continued)

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	600	\$208,800	500	\$240,500	< 50	\$4,200
LAPEER	6,000	2,471,500	3,100	1,959,600	100	9,100
LEELANAU	1,400	677,000	1,200	993,200	< 50	1,700
LENAWEE	8,900	3,716,400	4,900	3,560,400	100	11,000
LIVINGSTON	600	208,800	500	240,500	< 50	4,200
LUCE	200	64,500	100	29,000	< 50	3,600
MACKINAC	700	246,200	500	324,100	< 50	3,100
MACOMB	99,400	51,625,400	51,900	42,481,100	500	64,100
MANISTEE	1,700	651,200	1,500	913,000	100	9,600
MARQUETTE	4,300	1,413,500	2,000	1,142,000	300	37,500
MASON	2,600	938,000	1,700	1,182,400	100	5,500
MECOSTA	2,400	915,400	1,500	890,500	100	5,900
MENOMINEE	1,300	431,400	800	453,800	100	11,000
MIDLAND	6,000	2,279,100	3,300	2,257,700	100	14,800
MISSAUKEE	800	310,300	500	316,000	< 50	3,400
MONROE	10,200	4,153,500	6,000	3,995,300	100	13,700
MONTCALM	5,100	1,894,600	2,700	1,723,400	100	10,100
MONTMORENCY	600	179,200	400	208,100	100	5,400
MUSKEGON	16,000	6,017,700	8,100	5,419,400	200	27,000
NEWAYGO	3,400	1,341,400	2,000	1,362,800	100	9,100
OAKLAND	119,000	67,704,100	54,900	47,778,400	300	46,100
OCEANA	2,000	782,500	1,400	890,200	100	7,200
OGEMAW	1,400	488,600	1,000	582,400	100	8,000
ONTONAGON	300	95,900	200	128,100	100	7,800
OSCEOLA	1,500	511,700	1,100	620,300	100	6,500
OSCODA	300	83,300	200	70,700	< 50	2,800
OTSEGO	1,500	512,900	800	432,900	100	4,400
OTTAWA	24,800	10,273,900	11,700	8,646,600	200	15,500
PRESQUE ISLE	700	246,100	800	418,900	100	6,100
ROSCOMMON	1,700	584,000	1,600	917,500	100	11,000
SAGINAW	14,700	4,925,800	7,500	4,340,300	300	40,600
ST. CLAIR	15,000	6,196,100	8,300	5,817,800	200	24,300
ST. JOSEPH	4,600	1,691,600	2,500	1,546,200	100	7,400
SANILAC	3,100	1,270,100	2,200	1,412,800	100	8,300
SCHOOLCRAFT	400	105,200	200	113,100	100	6,600
SHIAWASSEE	6,500	2,447,200	3,500	2,202,000	100	12,700
TUSCOLA	4,300	1,604,200	2,700	1,713,400	100	15,300
VAN BUREN	7,400	3,065,700	3,700	2,660,200	100	10,000
WASHTENAW	38,700	22,041,900	12,200	11,164,800	100	11,300
WAYNE LESS DETROIT	115,600	61,806,000	55,800	48,177,100	400	61,600
WEXFORD	2,900	1,087,700	1,600	1,012,800	100	7,900
OUTSIDE OF MICHIGAN	21,000	10,568,100	9,700	8,069,100	200	21,400
DETROIT	121,000	57,806,400	29,500	22,151,000	300	73,600
TOTAL	1,006,000	\$470,006,900	458,000	\$345,861,500	9,900	\$1,199,900

Exhibit 17 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	100	\$33,600	< 50	\$18,400	1,300	\$577,700
ALGER	100	34,100	< 50	300	900	383,200
ALLEGAN	800	445,600	100	938,500	14,200	8,201,000
ALPENA	300	161,000	< 50	23,900	4,200	1,827,100
ANTRIM	200	83,400	< 50	38,200	3,300	1,806,600
ARENAC	200	85,000	100	244,100	2,100	1,198,900
BARAGA	< 50	20,100	< 50	0	700	270,300
BARRY	300	151,000	100	318,400	6,600	3,716,100
BAY	1,300	632,000	300	1,243,600	16,600	8,702,000
BENZIE	100	58,900	< 50	3,400	2,200	1,043,400
BERRIEN	1,600	862,100	100	375,100	22,700	11,234,400
BRANCH	300	138,300	200	817,900	5,300	3,160,600
CALHOUN	1,400	851,500	200	818,600	19,100	11,128,300
CASS	300	124,400	100	777,300	5,100	3,125,200
CHARLEVOIX	200	95,300	< 50	44,600	4,300	2,359,200
CHEBOYGAN	200	91,500	< 50	17,100	3,100	1,321,300
CHIPPEWA	300	112,400	< 50	22,600	3,700	1,477,900
CLARE	400	137,300	< 50	107,300	3,600	1,457,600
CLINTON	300	215,000	200	879,100	8,500	5,641,600
CRAWFORD	100	46,200	< 50	0	1,500	605,000
DELTA	400	185,000	< 50	69,400	4,800	2,121,900
DICKINSON	200	94,200	< 50	20,400	3,500	1,585,200
EATON	900	542,900	100	611,800	19,500	11,214,100
EMMET	200	99,400	< 50	4,600	5,300	2,735,000
GENESEE	5,300	2,888,000	100	307,800	64,300	29,254,700
GLADWIN	300	119,500	< 50	50,900	3,400	1,517,000
GOGEBIC	100	54,700	< 50	0	1,700	697,300
GRAND TRAVERSE	600	355,900	< 50	54,900	15,800	8,803,700
GRATIOT	300	127,400	400	2,138,800	5,100	4,223,900
HILLSDALE	400	179,800	200	663,700	5,800	3,263,500
HOUGHTON	200	82,900	< 50	0	3,100	1,242,600
HURON	300	137,400	1,000	5,833,500	6,700	9,104,600
INGHAM	2,800	1,824,900	100	1,063,700	49,900	29,786,300
IONIA	500	229,000	100	817,900	7,400	4,231,500
IOSCO	300	115,400	< 50	51,200	3,500	1,390,400
IRON	100	38,200	< 50	1,800	1,300	534,100
ISABELLA	400	240,800	100	497,700	9,500	5,045,700
JACKSON	1,600	916,000	100	353,500	21,500	10,485,100
KALAMAZOO	2,200	1,333,000	100	627,200	41,100	22,285,300
KALKASKA	100	50,600	< 50	7,900	2,000	842,300
KENT	5,100	3,171,500	100	603,600	97,700	49,993,000
KEWEENAW	< 50	5,000	< 50	0	100	61,300

Exhibit 17 (Continued)

<u>County</u>	<u>Blind and Disabled</u>		<u>Farmland</u>		<u>Total Credits</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
LAKE	200	\$72,000	< 50	\$5,800	1,300	\$531,300
LAPEER	500	286,900	100	207,000	9,800	4,934,100
LEELANAU	100	36,300	< 50	49,500	2,600	1,757,600
LENAWEE	1,000	604,900	400	2,106,800	15,400	9,999,500
LIVINGSTON	600	385,100	< 50	5,800	15,900	9,220,400
LUCE	< 50	8,500	< 50	0	400	105,600
MACKINAC	100	22,500	< 50	1,600	1,300	597,500
MACOMB	6,900	5,043,500	< 50	102,800	158,800	99,316,900
MANISTEE	200	118,800	< 50	4,000	3,500	1,696,500
MARQUETTE	400	184,100	< 50	3,100	7,000	2,780,100
MASON	300	141,900	100	268,200	4,700	2,536,100
MECOSTA	300	143,600	< 50	162,300	4,400	2,117,800
MENOMINEE	100	51,500	< 50	82,900	2,300	1,030,700
MIDLAND	600	297,400	< 50	214,100	10,100	5,063,200
MISSAUKEE	100	49,400	100	393,400	1,600	1,072,600
MONROE	1,000	578,700	100	634,600	17,500	9,375,900
MONTCALM	600	290,600	200	751,100	8,700	4,669,800
MONTMORENCY	100	40,600	< 50	15,300	1,200	448,500
MUSKEGON	2,500	1,419,600	< 50	290,200	26,900	13,173,900
NEWAYGO	500	247,100	100	278,300	6,000	3,238,700
OAKLAND	6,700	4,967,600	< 50	115,300	181,000	120,611,500
OCEANA	300	143,500	100	297,100	3,800	2,120,500
OGEMAW	300	107,900	< 50	83,200	2,800	1,270,300
ONTONAGON	< 50	20,100	< 50	2,400	700	254,400
OSCEOLA	200	107,100	100	263,900	2,900	1,509,500
OSCODA	100	24,800	< 50	0	600	181,600
OTSEGO	200	63,800	< 50	0	2,500	1,014,000
OTTAWA	1,600	956,100	200	1,324,100	38,400	21,216,300
PRESQUE ISLE	100	56,500	< 50	37,200	1,700	764,800
ROSCOMMON	300	160,200	< 50	32,000	3,800	1,704,700
SAGINAW	2,400	1,251,600	500	2,108,600	25,400	12,666,900
ST. CLAIR	1,500	860,800	< 50	179,400	25,000	13,078,400
ST. JOSEPH	500	260,500	100	831,400	7,900	4,337,100
SANILAC	300	167,900	500	1,901,500	6,200	4,760,600
SCHOOLCRAFT	< 50	15,500	< 50	3,400	700	243,800
SHIAWASSEE	800	416,100	200	735,300	11,100	5,813,300
TUSCOLA	600	262,600	600	3,521,100	8,300	7,116,700
VAN BUREN	800	452,300	100	524,100	12,000	6,712,200
WASHTENAW	2,000	1,459,900	200	1,104,800	53,100	35,782,700
WAYNE LESS DETROIT	9,300	7,154,100	< 50	130,900	181,100	117,329,600
WEXFORD	400	220,500	< 50	36,000	5,000	2,365,000
OUTSIDE OF MICHIGAN	1,700	1,138,900	100	217,300	32,600	20,014,800
DETROIT	11,700	8,246,100	< 50	2,100	162,500	88,279,200
TOTAL	88,600	\$55,707,700	8,000	\$39,694,300	1,570,700	\$912,470,200

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 2014 Estimate

Accelerated Depreciation

\$79,644,000

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

\$883,178,000

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 2014 Estimate</u>
Employer Pension Plans	\$603,404,000
Exempts employer payments into qualified employee pension plans from taxation.	
Federal Adjustments to Income	\$51,602,000
Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	
Fellowships and Scholarships	\$15,390,000
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	\$147,493,000
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	\$10,172,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
Individual Retirement Accounts	\$287,897,000
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 2011. Only persons with an AGI below \$92,000 on a joint return (\$58,000 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 \$92,000-\$112,000 for joint filers and \$58,000-\$68,000 for single filers.	
Interest on Life Insurance Savings	\$117,010,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	
Medical Care Savings Account	\$9,190,000
Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	

FY 2014 Estimate

Railroad Retirement Benefits

\$1,395,000

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

Social Security Benefits

\$321,984,000

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 reported separately above.

Student Loan Deduction

\$4,211,000

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

\$60,382,000

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

Workers' Compensation

\$56,478,000

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 increase 0.2 percent from \$48.3 million in FY 2013 to \$48.4 million in FY 2014. Transportation tax expenditure estimates were based on FY 2010 and FY 2011 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

No changes in 2011.

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 \$360,000 to the state's Aeronautics Fund in FY 2014.

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 2014, the aviation fuel tax is projected to yield \$5.8 million, which is deposited into the state's Aeronautics Fund.

FY 2014 Estimate

Federally-Owned Aircraft	\$315,000
Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.	

FY 2014 Estimate

Interstate Flight Refund

\$3,200,000

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 2014 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 2014, motor fuel taxes will yield an estimated \$952.4 million.

FY 2014 Estimate

Diesel Fuel for Railroads	n.a.
Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	
Evaporation and Loss Allowance	\$12,520,000
The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.	
Fuel for Job Sites and Charter Firms	\$5,450,000
Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.	
Fuel for Off-Road Use	\$1,100,000
Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	
Municipal Franchise Vehicles	\$430,000
Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	
Public Vehicles	\$13,090,000
Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	
Tribal Tax Agreements	n.a.
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.	

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 2014, the motor vehicle registration fee is projected to yield \$888.0 million.

FY 2014 Estimate

Disabled Veterans' Vehicles	\$550,000
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	\$10,950,000
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 2014 Estimate

Publicly-Owned Watercraft	\$14,000
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 1.8 percent from \$7,514.2 million in FY 2013 to \$7,376.0 million in FY 2014. 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 2010 and FY 2011 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 Acts 56 and 57 of 2011 amended the City Income Tax and City Utility Users Tax Acts, respectively, to lower the population thresholds in these Acts that apply to the City of Detroit to 600,000. The previous threshold in each Act was 750,000. The threshold in the City Income Tax Act allows Detroit to have a higher tax rate than other cities and, based on population, Detroit is the only city to levy the utility users tax.

Public Acts 81 and 82 of 2011 amended the Commercial Rehabilitation Act to revise the definition of a qualified facility under the Act. P.A. 81 would include as a qualified facility a hotel or motel with meeting space that is attached to a convention and trade center that is over 250,000 square feet and is located in Oakland County. P.A. 82 would include vacant property in Detroit on which a previous structure had been demolished and an application to establish a redevelopment district had previously been filed.

Public Act 154 of 2011 amended the Plant Rehabilitation and Industrial Development Act to reduce the population requirement for a Federal Reserve Bank to be included in the definition of industrial property under the Act. The population requirement was lowered from 750,000 to 600,000, a level that currently applies to Detroit.

Public Act 272 of 2011 amended the Obsolete Property Rehabilitation Act to allow an applicant with an approved application for an obsolete property rehabilitation exemption certificate to submit an amended application if an error or mistake was discovered in the original application.

Public Act 317 of 2011 amended the Revised School Code to exclude from industrial personal property eligible for the exemption from local school operating millages of up to 18 mills a turbine primarily used to generate electricity for sale and powered by gas, steam, nuclear energy, coal, or oil.

Public Act 318 of 2011 amended the State Education Tax Act to exclude from industrial personal property eligible for the exemption from the 6 mill tax a turbine primarily used to generate electricity for sale and powered by gas, steam, nuclear energy, coal, or oil.

Public Act 319 of 2011 amended the Plant Rehabilitation and Industrial Development Districts Act to exclude from industrial personal property a turbine primarily used to generate electricity for sale and powered by gas, steam, nuclear energy, coal, or oil.

Public Act 320 of 2011 amended the General Property Tax Act to specify that property with status as qualified agricultural property or classified as agricultural real property would not lose such status or classification if the property owner or lessee implemented a wildlife risk mitigation action plan.

Public Act 321 of 2011 amended the General Property Tax Act to create procedures that were formerly in MCL 211.96 for the cancellation of rejected taxes under certain circumstances. The situations covered by P.A. 321 were generally errors such as an assessment on exempt property or a double assessment on a single property.

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 2014 collections are projected to total \$57.3 million.

FY 2014 Estimate

Broadband Investment Credit

\$25,000,000

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

\$26,000,000

Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan.

General Property Tax

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

Average Statewide Millage Rates

<u>Calendar Year</u>	<u>Homestead Property</u>	<u>Nonhomestead Property</u>	<u>All Property</u>
1993	n.a.	n.a.	56.64
1994	30.22	48.17	38.19
1995	31.00	48.79	38.88
1996	31.36	49.54	39.32
1997	31.36	49.63	39.25
1998	31.43	49.68	39.27
1999	31.40	49.76	39.16
2000	31.54	50.10	39.32
2001	32.12	50.72	39.78
2002	32.60	51.00	40.17
2003	31.81	49.74	39.00
2004	32.71	50.81	40.00
2005	32.60	51.38	39.88
2006	32.66	51.38	39.96
2007	32.72	51.49	39.89
2008	33.14	50.94	38.94
2009	32.86	51.09	39.13
2010	33.10	50.67	39.70

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Nonhomestead millage rates, except 2010, from the Tax Analysis Division, Michigan Department of Treasury.

FY 2014 Estimate

Agricultural Transfers

\$34,300,000

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.

FY 2014 Estimate

Air and Water Pollution Control

\$120,000,000

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

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

\$90,000

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

\$3,070,000,000

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

\$228,800,000

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

For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility, except that the full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 19 displays a partial estimate of the taxable value of property subject to the industrial facilities development program. Public Act 39 of 2007 and Public Act 457 of 2008 reduced the tax on new facility personal property on land classified as industrial or commercial real property.

Neighborhood Enterprise Zones

\$22,500,000

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

\$3,600,000

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

\$11,500,000

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

\$368,000,000

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.

FY 2014 Estimate

Personal Property Industrial Facilities \$68,500,000

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.

Poverty Exemption \$8,300,000

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 \$87,000,000

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

Tax-Exempt Property \$1,758,000,000

Exhibit 19 reports the results from the 2010 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 \$32.0 billion. If taxed at the 2010 average nonhomestead statewide rate of 50.67 mills, tax-exempt property would have yielded \$1.62 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 391,203 acres in 2010.

Tax-Exempt County and Municipal Property \$263,000,000

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

	<u>FY 2014 Estimate</u>
Tax-Exempt Federal Property Exempts real property belonging to the United States government.	\$173,000,000
Tax-Exempt Other Real Tax Exempt Property Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.	\$216,000,000
Tax-Exempt Personal Property Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment. Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.	\$434,000,000
Tax-Exempt Public Education Property Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.	\$498,000,000
Tax-Exempt Specifically-Taxed Property 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.	n.a.
Tax-Exempt State Property Exempts real property owned by the State of Michigan.	\$174,000,000

FY 2014 Estimate

Tax Increment Financing

\$280,000,000

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

\$890,000,000

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

\$1,270,000

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 \$12.0 million in FY 2012. The state's share of the iron ore specific tax is deposited into the School Aid Fund. The state received \$5.2 million in FY 2011 and will receive an estimated \$6.5 million in FY 2012.

Exhibit 18 Counties of Michigan



Exhibit 19
Estimated Taxable Value of Exempt Real and Personal Property by County, 2011
(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	\$91,680	\$6,739	\$22,732	\$14,762
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN	117,618	0	0	0	0
ALPENA	8,778	9,069	68,956	103,378	68,250
ANTRIM*	0	0	0	0	0
ARENAC	1,798	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	52,199	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	18,536	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	135,064	294	19,442	119,887	42,394
EMMET *	3,762	0	9,333	349	7
GENESEE	75,210	17,651	59,022	505,088	588,995
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	48,906	269	640	20,200	70,000
HOUGHTON	4,011	13,575	85,266	9,426	113,723
HURON*	56,841	39,400	10,542	85,700	0
INGHAM *	186,082	n.a.	n.a	n.a.	n.a.
IONIA	18,887	0	175,582	17,255	21,800
IOSCO*	121	121,832	39,299	32,477	29,240
IRON	3,111	23,000	15,000	7,000	525
ISABELLA	11,764	0	0	0	0
JACKSON	94,089	2,000	201,000	38,000	98,000
KALAMAZOO	152,919	37,096	377,119	796,480	1,485,657
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>	<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	\$802	\$136,715	\$764,073	15.2%
ALGER*	55,000	0	88,568	345,105	20.4%
ALLEGAN	113,900	0	113,900	4,146,498	2.7%
ALPENA	174,768	0	424,421	916,447	31.7%
ANTRIM*	0	0	0	1,671,438	0.0%
ARENAC	33,551	516,698	554,787	550,224	50.2%
BARAGA*	53,017	125,669	283,304	233,595	54.8%
BARRY *	63,780	34,396	174,225	1,885,298	8.5%
BAY*	255,154	2,593	519,607	2,916,647	15.1%
BENZIE*	0	15,503	159,796	1,088,756	12.8%
BERRIEN	1,549	0	1,549	6,983,786	0.0%
BRANCH *	0	6,500	22,304	1,267,292	1.7%
CALHOUN*	n.a	n.a	0	3,629,246	0.0%
CASS *	253,589	0	533,252	1,796,730	22.9%
CHARLEVOIX*	3,526	13	95,653	2,032,206	4.5%
CHEBOYGAN *	28,393	9,494	171,493	1,318,716	11.5%
CHIPPEWA *	21,200	3,500	1,374,928	1,054,022	56.6%
CLARE *	72,638	0	139,129	1,022,980	12.0%
CLINTON	43,215	0	86,430	2,466,454	3.4%
CRAWFORD *	89,130	20,000	395,058	539,820	42.3%
DELTA *	0	0	111,059	1,105,620	9.1%
DICKINSON *	11,100	0	82,200	924,059	8.2%
EATON	149,143	145,546	476,706	3,296,889	12.6%
EMMET *	0	0	9,689	2,651,643	0.4%
GENESEE	218,275	0	1,389,031	9,450,209	12.8%
GLADWIN	2,900	2,460	124,360	937,759	11.7%
GOGEBIC *	330	302	44,759	496,353	8.3%
GRAND TRAVERSE *	169,600	51,400	373,665	4,298,415	8.0%
GRATIOT *	135,000	10,000	349,600	930,389	27.3%
HILLSDALE	43,494	42,500	177,103	1,284,884	12.1%
HOUGHTON	2,331	9,918	234,239	752,788	23.7%
HURON*	0	0	135,642	1,635,393	7.7%
INGHAM *	n.a.	n.a.	n.a.	7,341,745	n.a.
IONIA	3,900	0	218,537	1,485,615	12.8%
IOSCO*	3,621	12,356	238,825	1,134,909	17.4%
IRON	0	0	45,525	471,543	8.8%
ISABELLA	0	0	0	1,627,829	0.0%
JACKSON	200,000	5,000	544,000	4,278,175	11.3%
KALAMAZOO	135,470	107,950	2,939,772	8,056,645	26.7%
KALKASKA *	100,000	55,000	451,000	725,145	38.3%
KENT *	1,840,872	158,010	2,706,893	20,506,184	11.7%
KEWEENAW *	361	60,227	147,916	127,839	53.6%

Exhibit 19 (Continued)

<u>County</u>	Industrial	County			Public
	Facilities	Tax	Federal	State	and
				Municipal	
LAKE	\$118	\$79,056	\$44,973	\$8,285	\$9,594
LAPEER*	57,151	3,272	16,794	140,854	98,456
LEELANAU	0	1,252	208	2,072	14,000
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	1,139,351	3,037	79,300	545,330	991,228
MANISTEE	15,925	138,510	38,900	34,600	37,120
MARQUETTE	1,103	61,500	43,500	22,000	205,000
MASON *	57,172	138,873	33,956	91,258	174,391
MECOSTA *	51,689	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	5,590	79	2,065	4,577	19,783
MONROE	146,489	141	10,547	79,540	175,197
MONTCALM *	32,131	n.a.	0	n.a.	n.a.
MONTMORENCY *	360	120,000	36,000	20,000	13,000
MUSKEGON	119,366	17,203	85,847	144,474	261,309
NEWAYGO	3,503	n.a.	n.a.	n.a.	n.a.
OAKLAND	260,110	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	1,146	224,158	28,399	4,547	12,360
OSCEOLA	24,444	0	4,390	5,224	21,823
OSCODA *	734	279,766	96,109	21,910	33,483
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	647,243	19,666	29,285	195,670	822,164
PRESQUE ISLE	373,177	0	40,315	108,911	n.a.
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW	154,087	25,650	154,550	210,120	683,000
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH	112,928	n.a.	n.a.	n.a.	n.a.
SANILAC	11,316	n.a.	n.a.	n.a.	n.a.
SCHOOLCRAFT	10,491	n.a.	n.a.	n.a.	46,828
SHIAWASSEE	6,074	675	18,500	68,000	93,000
TUSCOLA*	13,292	0	0	0	0
VAN BUREN	97,974	0	1,000	12,500	7,500
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD	20,593	n.a.	n.a.	n.a.	0
TOTAL	\$6,002,651	\$3,148,608	\$3,161,430	\$4,787,339	\$9,063,611

Note: Wayne and Ingham Counties are not in totals. 2010 taxable value for Wayne County was \$46.6 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</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	\$690	\$5,683	\$148,281	\$543,397	21.4%
LAPEER*	184,151	0	443,527	2,718,008	14.0%
LEELANAU	0	2,092	19,624	2,375,557	0.8%
LENAWEE *	0	21,000	362,400	3,220,186	10.1%
LIVINGSTON *	0	14,596	352,424	7,607,449	4.4%
LUCE *	650	1,749	17,321	181,314	8.7%
MACKINAC *	7,817	2,164	131,295	898,859	12.7%
MACOMB	190,003	489,417	2,298,315	25,959,180	8.1%
MANISTEE	48,700	53,600	351,430	1,094,697	24.3%
MARQUETTE	0	240,000	572,000	2,004,179	22.2%
MASON *	28,897	51,789	519,164	1,527,283	25.4%
MECOSTA *	72,999	22,590	467,203	1,237,208	27.4%
MENOMINEE *	0	4,431	80,196	668,173	10.7%
MIDLAND *	154,540	110,240	439,605	3,610,361	10.9%
MISSAUKEE	0	0	26,504	547,385	4.6%
MONROE	0	8,565	273,990	5,690,411	4.6%
MONTCALM *	89,554	0	89,554	1,672,332	5.1%
MONTMORENCY *	0	175,000	364,000	492,713	42.5%
MUSKEGON	567,395	0	1,076,228	4,442,005	19.5%
NEWAYGO	n.a.	n.a.	0	1,380,337	0.0%
OAKLAND	140,245	n.a.	140,245	50,798,540	0.3%
OCEANA *	4,100	0	43,900	1,125,656	3.8%
OGEMAW *	0	2,844	36,331	806,536	4.3%
ONTONAGON	30,727	126,400	426,591	253,226	62.8%
OSCEOLA	176,211	6,207	213,855	681,411	23.9%
OSCODA *	7,365	7,552	446,185	368,041	54.8%
OTSEGO *	45,800	3,665	160,066	1,170,786	12.0%
OTTAWA	0	748,242	1,815,027	9,405,988	16.2%
PRESQUE ISLE	n.a.	n.a.	149,226	649,769	18.7%
ROSCOMMON*	8,400	9,514	285,832	1,287,085	18.2%
SAGINAW	1,719,520	245,000	3,037,840	5,027,107	37.7%
SAINT CLAIR*	129,346	178,053	850,371	5,671,747	13.0%
SAINT JOSEPH	n.a.	n.a.	0	1,886,114	0.0%
SANILAC	n.a.	n.a.	0	1,382,663	0.0%
SCHOOLCRAFT	n.a.	n.a.	46,828	351,185	11.8%
SHIAWASSEE	12,000	0	192,175	1,732,790	10.0%
TUSCOLA*	0	0	0	1,401,084	0.0%
VAN BUREN	1,500	0	22,500	2,942,601	0.8%
WASHTENAW *	774	647	12,384	14,083,129	0.1%
WEXFORD	n.a.	n.a.	0	954,007	0.0%
TOTAL	\$7,900,192	\$3,926,876	\$31,988,056	\$272,658,117	10.5%

Note: Wayne and Ingham Counties are not in totals. 2010 taxable value for Wayne County was \$46.6 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, 2011

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA	410	LAKE	1,052
ALGER*	14,000	LAPEER*	4,600
ALLEGAN *	1,000	LEELANAU *	3,202
ALPENA	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	1,326
ARENAC	5,434	LUCE *	2,300
BARAGA*	7,740	MACKINAC *	240
BARRY *	7,000	MACOMB *	5,234
BAY*	3,650	MANISTEE	4,400
BENZIE *	554	MARQUETTE	180
BERRIEN	6,812	MASON*	620
BRANCH *	425	MECOSTA	2,600
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	4,200
DICKINSON *	400	OCEANA *	500
EATON	3,165	OGEMAW *	693
EMMET*	1,000	ONTONAGON	200
GENESEE	12,000	OSCEOLA	1,285
GLADWIN *	1,000	OSCODA *	211
GOGEBIC *	2,300	OTSEGO *	735
GRAND TRAVERSE *	4,278	OTTAWA	6,300
GRATIOT *	300	PRESQUE ISLE *	92,659
HILLSDALE	2,900	ROSCOMMON *	1,398
HOUGHTON *	2,944	SAGINAW	4,450
HURON*	341	SAINT CLAIR *	11,972
INGHAM	n.a.	SAINT JOSEPH	8,712
IONIA *	544	SANILAC *	0
IOSCO *	33,847	SCHOOLCRAFT *	n.a.
IRON	645	SHIAWASSEE	325
ISABELLA *	2,882	TUSCOLA *	475
JACKSON	3,020	VAN BUREN *	4,530
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA *	340	WEXFORD *	800
KENT *	3,200		
KEWEENAW*	3,670	TOTAL	391,203

* 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 2011 state share of this tax totaled \$2.7 million indicating \$4.0 million in total state and local collections. Exhibit 21 only shows the county share of the tax.

FY 2014 Estimate

Mobile Home Tax Expenditure

\$54,200,000

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 \$21.8 million in 2010 (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 \$147.3 million in FY 2014.

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 \$16.6 million in 2010 (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 2010, city income taxes totaled \$386.3 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 2014 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 Counties, 2010

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA	\$0	\$68	\$22,927
ALGER	0	0	24,639
ALLEGAN*	0	24,714	266,381
ALPENA	0	590	48,981
ANTRIM	0	258	101,587
ARENAC	0	1,672	25,057
BARAGA	0	0	12,665
BARRY	0	4,689	124,047
BAY	0	13,453	143,355
BENZIE	0	738	73,646
BERRIEN	0	16,869	481,647
BRANCH	0	3,948	76,465
CALHOUN	129,296	16,682	302,529
CASS	0	4,287	132,996
CHARLEVOIX	0	3,206	152,163
CHEBOYGAN	0	1,297	78,791
CHIPPEWA	0	2,616	73,661
CLARE	0	2,038	52,652
CLINTON	0	11,186	154,255
CRAWFORD	0	0	35,769
DELTA	0	3,897	63,066
DICKINSON	0	2,526	47,621
EATON	0	9,333	184,698
EMMET	0	1,570	216,710
GENESEE	1,026,597	51,299	614,189
GLADWIN	0	277	61,416
GOGEBIC	0	43	26,778
GRAND TRAVERSE	0	9,933	358,949
GRATIOT	0	4,412	54,391
HILLSDALE*	0	2,153	86,511
HOUGHTON	0	216	62,844
HURON	0	3,859	92,737
INGHAM	1,928,410	14,662	455,974
IONIA	0	4,582	74,918
IOSCO	0	656	56,439
IRON	0	207	23,339
ISABELLA	0	4,921	92,912
JACKSON	0	23,335	202,084
KALAMAZOO	2,068,775	83,012	554,753
KALKASKA	0	199	36,799
KENT	4,923,974	48,380	1,517,566
KEWEENAW	0	0	4,435

Exhibit 21 (Continued)

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$25,739
LAPEER	0	11,346	177,306
LEELANAU*	0	451	147,693
LENAWEE	0	10,424	186,393
LIVINGSTON	0	17,560	544,466
LUCE	0	0	8,565
MACKINAC	0	3,708	43,243
MACOMB	0	67,693	1,662,354
MANISTEE*	0	486	50,702
MARQUETTE	0	2,757	143,594
MASON	0	3,172	79,697
MECOSTA	0	2,868	68,113
MENOMINEE	0	940	37,989
MIDLAND	0	5,360	223,444
MISSAUKEE	0	54	28,364
MONROE	0	31,246	270,310
MONTCALM	0	3,733	88,587
MONTMORENCY	0	78	21,357
MUSKEGON	843,733	20,208	241,820
NEWAYGO	0	4,082	80,625
OAKLAND	0	85,398	4,179,012
OCEANA	0	2,249	60,345
OGEMAW*	0	651	33,961
ONTONAGON	0	0	16,848
OSCEOLA	0	381	32,382
OSCODA	0	20	18,811
OTSEGO	0	480	55,155
OTTAWA	0	32,565	424,063
PRESQUE ISLE	0	354	29,174
ROSCOMMON	0	1,347	67,813
SAGINAW	2,118,090	13,687	282,936
SAINT CLAIR	0	21,658	179,578
SAINT JOSEPH	0	5,786	103,955
SANILAC	0	5,504	94,634
SCHOOLCRAFT	0	26	22,897
SHIAWASSEE	0	11,308	99,269
TUSCOLA	0	17,157	75,038
VAN BUREN	0	6,032	169,136
WASHTENAW	3,539,013	32,706	1,105,990
WAYNE	0	80,101	3,272,066
WEXFORD	0	1,954	68,339
TOTAL	\$16,577,888	\$883,303	\$21,795,102

* Figures carried forward from a previous year.

FY 2014 Estimate

Nonresident Reduced Rate

\$146,500,000

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

\$12,400,000

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 \$43.8 million in 2010.

Exhibit 22
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2010

<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	3,539	\$21,234	3,539	\$10,617
Battle Creek	30,573	229,298	40,638	152,393
Big Rapids	2,991	17,946	14,456	43,368
Detroit	240,145	3,602,175	290,010	2,175,075
Flint	31,016	186,096	64,228	192,684
Grand Rapids	135,454	1,280,040	157,732	745,284
Grayling *	885	26,550	4,353	65,295
Hamtramck	20,156	120,936	6,629	19,887
Highland Park	8,591	103,092	3,620	21,720
Hudson	1,043	10,430	1,304	6,520
Ionia	5,797	40,579	12,971	45,399
Jackson	17,298	103,788	30,356	91,068
Lansing	66,785	400,710	101,377	304,131
Lapeer	6,140	36,840	16,856	50,568
Muskegon	13,886	83,316	30,158	90,474
Muskegon Heights *	1,783	10,698	5,010	15,030
Pontiac	16,603	99,618	39,688	119,064
Port Huron	19,663	117,978	23,552	70,656
Portland	4,288	42,880	2,263	11,315
Saginaw	29,485	331,706	41,889	235,626
Springfield	4,012	30,090	7,803	29,261
Walker	21,196	127,176	33,730	101,190
TOTAL	681,329	\$7,023,176	932,162	\$4,596,624

* Based on a previous year's survey.

Exhibit 23
City Tax Rates and Exemption Allowances, 2010

<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	\$982
Battle Creek	1.00%	0.50%	1.00%	750	11,442
Big Rapids	1.00%	0.50%	1.00%	600	1,848
Detroit	2.50%	1.25%	1.00%	600	215,591
Flint	1.00%	0.50%	1.00%	600	13,986
Grand Rapids	1.40%	0.70%	1.40%	675	57,530
Grayling	1.00%	0.50%	1.00%	3,000	326
Hamtramck	1.00%	0.50%	1.00%	600	1,814
Highland Park	2.00%	1.00%	2.00%	600	3,162
Hudson	1.00%	0.50%	1.00%	1,000	266
Ionia	1.00%	0.50%	1.00%	700	1,659
Jackson	1.00%	0.50%	1.00%	600	6,273
Lansing	1.00%	0.50%	1.00%	600	25,821
Lapeer	1.00%	0.50%	1.00%	600	2,329
Muskegon	1.00%	0.50%	1.00%	600	6,460
Muskegon Heights	1.00%	0.50%	1.00%	600	842
Pontiac	1.00%	0.50%	1.00%	600	9,448
Port Huron	1.00%	0.50%	1.00%	600	5,743
Portland	1.00%	0.50%	1.00%	1,000	640
Saginaw	1.50%	0.75%	1.50%	750	12,044
Springfield	1.00%	0.50%	1.00%	750	695
Walker	1.00%	0.50%	1.00%	600	7,422
TOTAL					\$386,323