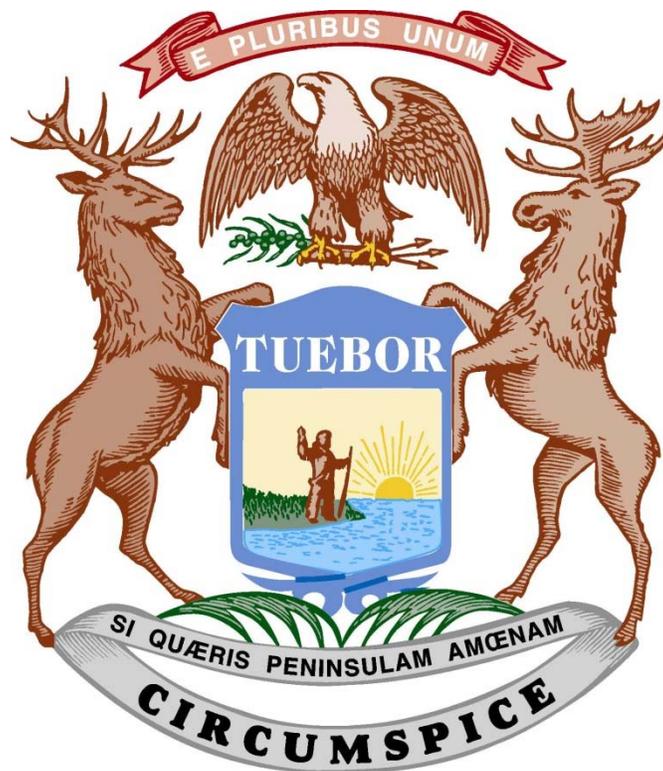


# **Executive Budget Appendix on Tax Credits, Deductions, and Exemptions**

**Fiscal Years 2017 and 2018**



**State of Michigan  
Rick Snyder, Governor**

**Executive Budget  
Appendix on Tax Credits,  
Deductions, and Exemptions  
Fiscal Years 2017 and 2018**



**State of Michigan  
Michigan Department of Treasury  
Rick Snyder, Governor**

## ACKNOWLEDGMENTS

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County equalization directors provided estimates of the value of tax-exempt property in their counties, county treasurers provided data for the taxes they administer, and city income tax directors provided estimates for other local tax credits, deductions, and exemptions. We would like to thank all of these officials for their assistance and cooperation.

The public act summaries in this report are intended to be brief overviews of the legislation enacted in 2015. 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>.

Nick Khouri  
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
2014 - 2015	June 2013	Treasury
2015 - 2016	December 2014	Treasury
2016 - 2017	June 2016	Treasury
2017 - 2018	September 2017	Treasury

## APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

### EXECUTIVE SUMMARY

#### Fiscal Years 2017 and 2018

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 3.0 percent between fiscal year (FY) 2017 and FY 2018, from \$38.71 billion to \$39.87 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 \$944.9 million to \$959.7 million from FY 2017 to FY 2018. 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 3.8 percent between FY 2017 and FY 2018, from \$17,818.0 million to \$18,496.2 million. Growth in tax expenditures related to health care services, food for home use, prescription drugs, and industrial processing 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 \$9,704.9 million in FY 2017 to \$9,972.6 million in FY 2018, a 2.8 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 increase 1.9 percent between FY 2017 and FY 2018, rising from \$10,189.9 million to \$10,382.3 million. The value of local tax exemptions will rise as property values stabilize and begin to increase.

Transportation tax expenditures are predicted to increase by 13.1 percent between FY 2017 and FY 2018, from \$52.82 million to \$59.75 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, since both reduce the effective cost of health care by 50 percent.

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 substitutes for direct spending. This report includes statutory credits, deductions, and exemptions, a broad concept than tax expenditures, and this broader approach includes several tax provisions that many would consider adjustments necessary to obtain the appropriate tax base, such as the exemption for food under the sales tax.

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 2015, individual Michigan taxpayers could claim a \$4,000 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.

## **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 even though it is a statutory exemption in the General Sales Tax Act.

### **Measuring Tax Expenditures**

The estimates in this report for fiscal year (FY) 2017 and FY 2018 are based on the most recent data available. Tax year 2014 income tax data (returns processed in the spring of 2015) are used, as are 2014 property and sales tax data, and tax year 2014 Corporate Income Tax (CIT) 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 property tax exemption may allow firms to take greater advantage of other exemptions, 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 places sunset dates on some 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 \$38.710 billion in FY 2017 to \$39.871 billion in FY 2018, a 3.0 percent increase (see Exhibit 1). The overall increase in tax expenditures was concentrated in consumption and individual income tax expenditures.

**Exhibit 1**  
**Total Tax Expenditures, FY 2017 and FY 2018**

<u>Tax Category</u>	<u>FY 2017</u> <u>(000)</u>	<u>FY 2018</u> <u>(000)</u>	<u>Change</u> <u>FY 2017 -</u> <u>FY 2018</u> <u>(000)</u>
Business Privilege	\$944,876	\$959,700	\$14,824
Consumption	17,817,950	18,496,223	678,273
Individual Income	9,704,949	9,972,574	267,625
Property	9,941,550	10,131,450	189,900
Other Local (City Income)	248,332	250,813	2,481
Transportation	<u>52,816</u>	<u>59,747</u>	<u>6,931</u>
<b>TOTAL</b>	<b>\$38,710,473</b>	<b>\$39,870,507</b>	<b>\$1,160,034</b>

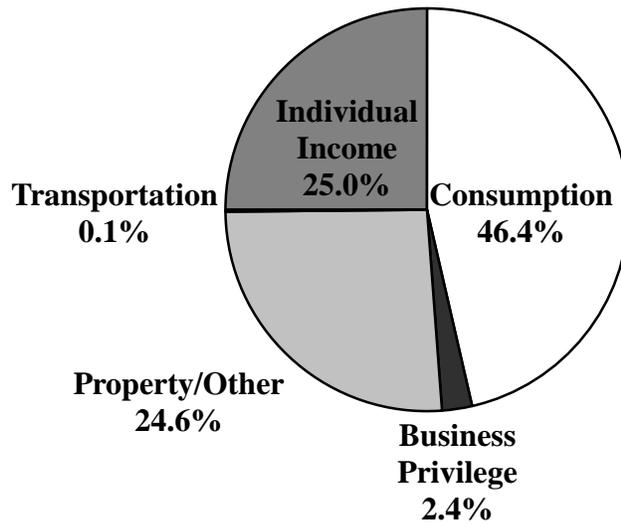
Totals may differ slightly due to rounding.

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2018, consumption tax expenditures comprise 46.4 percent of total tax expenditures, while income tax expenditures comprise 25.0 percent and

property and other local taxes comprise 24.6 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 2018 Distribution of Tax Expenditures**

Total may not equal 100 percent due to rounding.



**Exhibit 3**  
**FY 2018 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	\$4.7	\$27.0	17.4%
Corporate Income/MBT	927.4	194.6	476.6%
Consumption			
Total Alcohol	0.1	215.2	0.0%
Cigarette and Tobacco	19.0	935.8	2.0%
Sales and Use	18,477.1	9,067.8	203.8%
Individual Income Tax	7,004.9	10,042.5	69.8%
Transportation			
Aviation Fuel	3.9	5.7	68.8%
Gasoline	35.1	1,195.1	2.9%
Diesel Fuel	6.0	237.6	2.5%
Motor Vehicle Registration	14.1	1,320.8	1.1%
City Income Tax	250.8	559.0	44.9%
<b>TOTAL</b>	<b>\$26,743.1</b>	<b>\$23,801.1</b>	<b>112.4%</b>

\*From Consensus Revenue Estimating Conference, May 2017. 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><b>Tax or Tax Expenditure</b></u>	<u><b>FY 2017</b></u> <u><b>(000)</b></u>	<u><b>FY 2018</b></u> <u><b>(000)</b></u>
Insurance Company		
Disability Insurance Exclusion	\$11,300	\$11,900
Michigan Association and Facilities Credit	32,260	\$9,800
Michigan Examination Fees Credit	5,100	5,400
Supplemental Workers' Compensation	500	500
<b>SUBTOTAL</b>	<b>\$49,160</b>	<b>\$27,600</b>
Oil and Gas Severance Tax		
Marginal Wells	\$2,900	\$3,400
Public Land	1,100	1,300
<b>SUBTOTAL</b>	<b>\$4,000</b>	<b>\$4,700</b>
Corporate Income Tax		
Foreign Dividends Income Exclusion	\$214,216	\$224,900
Government Securities' Income Exclusion	600	900
Income from Extractive Activities Deduction	1,700	1,900
Small Business Alternate Tax Credit	3,900	4,100
<b>SUBTOTAL</b>	<b>\$220,416</b>	<b>\$231,800</b>
Michigan Business Tax Certificated Credits		
Brownfield Redevelopment Credit	50,000	35,000
Film Credits	3,600	0
Michigan Economic Growth Authority (MEGA)	532,100	607,500
MEGA Photovoltaic Technology Credit	0	0
MEGA Polycrystalline Silicon Manufacturing	12,700	14,600
MEGA Vehicle Battery Credit	50,000	25,000
Other Certificated Credits	22,900	13,500
<b>SUBTOTAL</b>	<b>\$671,300</b>	<b>\$695,600</b>
<b>TOTAL</b>	<b>\$944,876</b>	<b>\$959,700</b>

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

<u>Tax or Tax Expenditure</u>	<u>FY 2017</u> <u>(000)</u>	<u>FY 2018</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
<b>SUBTOTAL</b>	<b>\$90</b>	<b>\$90</b>
Tobacco Products Tax		
Bad Debt Deduction	\$400	\$400
Licensee Expenses	13,880	13,710
Sales on Military Bases and Reservations	4,970	4,920
<b>SUBTOTAL</b>	<b>\$19,250</b>	<b>\$19,030</b>
Sales and Use Tax Expenditures		
Air and Water Pollution	\$57,800	\$57,800
Aircraft Parts	6,660	6,790
Bad Debts	23,100	23,800
Cargo Aircraft	21,930	21,600
Church Construction	2,408	2,432
Church Cars	2,220	2,290
Collection Fee	36,808	37,966
Commercial Domestic Aircraft	4,000	4,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	31,640	30,060
Data Centers	15,000	16,000
Donated Property	n.a.	n.a.
Donated Vehicles	125	125
Driver Training	187	176
Employee Meals	17,590	18,140
Enterprise Zone Credit	n.a.	n.a.
Food	1,264,740	1,305,540
Food for Students	41,720	42,851
Government or Red Cross	269,000	277,000
Gratuity and Tips	73,000	75,000
Horticultural and Agricultural Products	320,000	330,000
Imported Property from Other States	1,750	1,790

**Exhibit 5 (Continued)**

<b><u>Tax or Tax Expenditure</u></b>	<b><u>FY 2017</u></b> <b><u>(000)</u></b>	<b><u>FY 2018</u></b> <b><u>(000)</u></b>
Industrial Processing	\$1,363,000	\$1,411,000
Interstate Communications	6,500	6,400
Interstate Trucks and Trailers	32,570	33,600
Investment Coins	4,010	3,930
Isolated Sales	n.a.	n.a.
Military PX Sales	695	678
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	120,880	122,830
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	2,140	2,200
Nonprofit Organizations	196,310	202,640
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	63,530	65,440
Prescription Drugs	674,520	727,570
Radio and TV	4,400	4,400
Rail Rolling Stock	7,300	7,530
Residential Utilities	164,500	168,200
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	58,100	58,700
Services (Including Nonprofits)	12,799,080	13,292,060
Small Out-of-State Purchases	n.a.	n.a.
Tax on the Difference - Vehicles	31,700	35,300
Telephone Services	17,750	18,310
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	39,950	40,750
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	20,897	21,105
<b>SUBTOTAL</b>	<b>\$17,798,610</b>	<b>\$18,477,103</b>
<b>TOTAL</b>	<b>\$17,817,950</b>	<b>\$18,496,223</b>

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

**Exhibit 6**  
**Individual Income Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2017</u> <u>(000)</u>	<u>FY 2018</u> <u>(000)</u>
State Income Tax		
Adjustments to Income (except military)	\$0	\$0
College Savings Accounts	13,254	14,194
Dependent Exemption	18,856	19,044
Disabled Veteran Exemption	300	300
Earned Income Credit	119,149	123,319
Farmland Credit	44,163	45,930
Historic Preservation Credit	68	34
Home Heating Assistance Credit	62	64
Homestead Property Tax Credit	522,203	524,814
Income Attributable to Another State	3,353,009	3,487,129
Income from Extractive Activities Deduction	6,000	6,000
Income Tax Paid to Other State Credit	59,586	61,961
Military Pay	26,307	27,609
Miscellaneous Deductions	21,000	20,000
Net Operating Loss Deduction	24,000	24,000
Net Adjustment for Gains/Losses	11,000	11,000
Pension and Retirement Benefits Deduction	482,000	438,100
Personal Exemption	1,391,396	1,404,430
Renaissance Zones	1,317	1,251
Senior Investment Income Deduction	15,017	15,233
Senior Standard Deduction	252,500	305,250
Social Security Benefits	413,578	430,121
Special Exemption	13,159	13,291
State and Local Income Tax Refunds	19,850	20,048
Tribal Tax Agreements	n.a.	n.a.
U.S. Government Bond Interest Deduction	11,705	11,822
<b>TOTAL STATE</b>	<b>\$6,819,479</b>	<b>\$7,004,944</b>
Federal Adjustments		
Accelerated Depreciation	\$12,060	\$12,420
Employer Contributions to Insurance	1,045,450	1,076,810
Employer Pension Plans	619,420	638,000
Federal Adjustments to Income	42,080	43,340
Fellowships and Scholarships	21,220	21,860
Gain on Sale of Primary Residence	\$218,880	\$221,070
Income Maintenance Benefits	2,800	2,880

**Exhibit 6 (Continued)**

<b><u>Tax or Tax Expenditure</u></b>	<b><u>FY 2017</u></b> <b><u>(000)</u></b>	<b><u>FY 2018</u></b> <b><u>(000)</u></b>
Federal Adjustments (continued)		
Individual Retirement Accounts	317,360	326,880
Interest on Life Insurance Savings	107,830	111,060
Medical Savings Account	28,160	29,000
Railroad Retirement Benefits	1,340	1,380
Social Security Benefits	335,140	345,190
Student Loan Deduction	11,240	11,580
Veterans' Benefits	74,380	76,610
Workers' Compensation	48,110	49,550
<b>TOTAL FEDERAL</b>	<b>\$2,885,470</b>	<b>\$2,967,630</b>
<b>TOTAL STATE AND FEDERAL</b>	<b>\$9,704,949</b>	<b>\$9,972,574</b>

**Exhibit 7**  
**Transportation Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2017</u> <u>(000)</u>	<u>FY 2018</u> <u>(000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$321	\$323
Interstate Flight Refund	3,248	3,600
Marine Vessel Exemption	740	740
<b>SUBTOTAL</b>	<u>\$4,309</u>	<u>\$4,663</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$5,810	\$5,955
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	16,783	17,930
Fuel for Off-Road Use	1,100	1,500
Municipal Franchise Vehicles	400	550
Public Vehicles	12,700	15,084
Tribal Tax Agreements	n.a.	n.a.
<b>SUBTOTAL</b>	<u>\$36,793</u>	<u>\$41,019</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$580	\$700
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	11,120	13,350
<b>SUBTOTAL</b>	<u>\$11,700</u>	<u>\$14,050</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	\$14	\$15
<b>TOTAL</b>	<u>\$52,816</u>	<u>\$59,747</u>

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

<u>Tax or Tax Expenditure</u>	<u>FY 2017</u> <u>(000)</u>	<u>FY 2018</u> <u>(000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$39,600	\$40,400
Air and Water Pollution Control	130,000	130,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Disabled Veteran Homestead Exemption	21,800	22,500
Energy Conservation Devices	50	40
Enterprise Zone Credit	0	0
Exempt Property - ESA	0	3,900
Fairground Property	n.a.	n.a.
Homestead Exemption	3,250,000	3,300,000
Homestead Exemption for Farm Property	176,900	180,400
Industrial Facilities Development	238,100	240,500
Mobile Homes	59,000	60,200
Neighborhood Enterprise Zones	28,000	28,600
Next Energy Exemption	3,700	3,800
Obsolete Property Rehabilitation	12,500	12,800
Personal Property - Indust./Commercial Ad Valorem	376,800	378,700
Personal Property - Industrial Facilities	70,600	71,300
Small Taxpayer Exemption and Eligible Manufacturing		
Personal Property	380,600	410,500
Poverty Exemption	8,900	9,100
Railroad Right-of-Way/Broadband Credit	60,200	60,800
Renaissance Zones	62,500	67,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,811,000	1,837,000
Tax Increment Financing	330,000	335,000
Taxable Value Cap	2,880,000	2,937,600
Water Softeners	1,300	1,310
<b>SUBTOTAL</b>	<b>\$9,941,550</b>	<b>\$10,131,450</b>
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$238,132	\$240,513
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	10,200	10,300
Supplemental Unemployment Benefits	n.a.	n.a.
<b>SUBTOTAL</b>	<b>\$248,332</b>	<b>\$250,813</b>
<b>TOTAL</b>	<b>\$10,189,882</b>	<b>\$10,382,263</b>

## CHAPTER 3

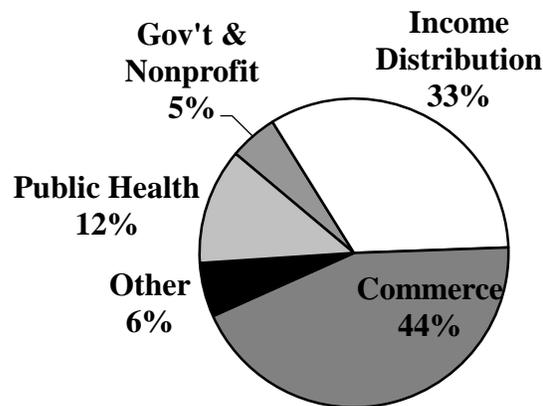
### TAX EXPENDITURE BUDGET

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 2018**



**Exhibit 10**  
**Comparison of State Tax and Direct Expenditures (From State Resources)**  
**for Selected Spending Categories, FY 2016**

<u>Spending Category</u>	<u>FY 2017 Tax Expenditure (000)</u>	<u>FY 2016 Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$364,163	\$75,721	\$439,884	82.8%
Commerce (LARA)	14,687,417	296,885	14,984,302	98.0%
Higher Education	519,114	1,437,698	1,956,812	26.5%
Health & Human Services	12,132,980	6,357,068	18,490,048	65.6%
Military Affairs	107,632	74,409	182,041	59.1%
Natural Resources	65,500	317,363	382,863	17.1%
Transportation	71,168	2,584,391	2,655,559	2.7%
<b>TOTAL</b>	<b>\$27,947,974</b>	<b>\$11,143,535</b>	<b>\$39,091,509</b>	<b>71.5%</b>

Notes:

1. FY 2016 expenditure figures from *FY 2015-16 Appropriations Report, Part II - Initial Appropriations*, Senate Fiscal Agency.
2. The Governor combined the Departments of Human Services and Community Health into the Department of Health and Human Services. Tax expenditures related to public health and income distribution have been combined here.

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 2017</u> <u>(000)</u>	<u>FY 2018</u> <u>(000)</u>
Agriculture	\$839,863	\$861,114
Commerce	16,941,717	17,486,455
Education	997,114	1,018,004
Government and Nonprofit Organizations	1,965,817	2,008,981
Income Distribution	13,007,323	13,270,336
Military Affairs	107,632	111,217
Natural Resources	195,550	195,740
Public Health	4,584,289	4,844,679
Transportation	71,168	73,981
<b>TOTAL</b>	<b>\$38,710,473</b>	<b>\$39,870,507</b>

Note: Total may differ from Exhibit 1 due to rounding.  
 See Exhibit 12 for a detailed list of tax expenditures.

**Exhibit 12**  
**Tax Expenditure Budget Detail**

<b>Tax/Tax Expenditure</b>	<b>FY 2017 (000)</b>	<b>FY 2018 (000)</b>
<b>Agriculture</b>		
General Property Tax		
Agriculture Transfer	\$39,600	\$40,400
Homestead Exemption for Farm Property	176,900	180,400
Taxable Value Cap	259,200	264,384
Income Tax		
Farmland Development Credit (PA 116)	44,163	45,930
Sales and Use Taxes		
Horticultural or Agricultural Products	320,000	330,000
<b>TOTAL</b>	<b>\$839,863</b>	<b>\$861,114</b>
<b>Commerce</b>		
Alcoholic Beverage Taxes		
Small Brewer's Credit	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	400	400
Licensee Expenses	13,880	13,710
Income Tax		
Accelerated Depreciation	12,060	12,420
Income Attributable to Another State	3,353,009	3,487,129
Net Operating Loss Deduction	24,000	24,000
Net Adjustment for Gains/Losses	11,000	11,000
Renaissance Zone Credit	1,317	1,251
Insurance Company Retaliatory Tax		
Disability Insurance Exclusion	11,300	11,900
Michigan Association and Facilities Credit	32,260	9,800
Michigan Examination Fees Credit	5,100	5,400
Supplemental Workers' Compensation Credits	500	500
Corporate Income Tax		
Foreign Dividends Income Exclusion	214,216	224,900
Government Securities' Income Exclusion	600	900
Small Business Alternate Tax Credit	3,900	4,100
Michigan Business Tax		
Brownfield Redevelopment Credit	50,000	35,000
Film Credits	3,600	0
Michigan Economic Growth Authority (MEGA)	532,100	607,500

<b>Tax/Tax Expenditure</b>	<b>FY 2017 (000)</b>	<b>FY 2018 (000)</b>
<b>Commerce (Continued)</b>		
MEGA Photovoltaic Technology Credit	0	0
MEGA Polycrystalline Silicon Manufacturing	12,700	14,600
MEGA Vehicle Battery Credit	\$50,000	\$25,000
Other Certificated Credits	22,900	13,500
Oil and Gas Severance Tax		
Marginal Wells	2,900	3,400
Property Tax		
Broadband Investment Credit	24,600	24,800
Enterprise Zone	0	0
Exempt Property - ESA	0	3,900
Industrial Facilities Development	238,100	240,500
Mobile Homes	59,000	60,200
Neighborhood Enterprise Zones	28,000	28,600
Next Energy Exemption	3,700	3,800
Obsolete Property Rehabilitation	12,500	12,800
Personal Property - Indust./Commercial Ad Valorem	376,800	378,700
Personal Property - Industrial Facilities	70,600	71,300
Small Taxpayer/Eligible Manufacturing Personal Prop.	380,600	410,500
Renaissance Zones	62,500	67,000
Tax Increment Financing	330,000	335,000
Taxable Value Cap	691,200	705,024
Water Softeners	1,300	1,310
Sales and Use Taxes		
Aircraft Parts	6,660	6,790
Bad Debts	23,100	23,800
Cargo Aircraft	21,930	21,600
Collection Fee	36,808	37,966
Commercial Domestic Aircraft	4,000	4,000
Communication and Telephone Exemption	31,640	30,060
Data Centers	15,000	16,000
Employee Meals	17,590	18,140
Gratuities and Tips	73,000	75,000
Imported Property from Other States	1,750	1,790
Industrial Processing	1,363,000	1,411,000
Interstate Telecommunications	6,500	6,400
Interstate Trucks and Trailers	32,570	33,600
Investment Coins	4,010	3,930
Newspapers, Periodicals, and Films	120,880	122,830

<b>Tax/Tax Expenditure</b>	<b>FY 2017 (000)</b>	<b>FY 2018 (000)</b>
<b>Commerce (Continued)</b>		
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Water	58,100	58,700
Services (except education, health, and nonprofits)	8,372,650	8,643,950
Tax on the Difference - Vehicles	31,700	35,300
Telephone Services	17,750	18,310
Vehicle and Aircraft Transfers	\$39,950	\$40,750
Vending Machines	20,897	21,105
<b>TOTAL</b>	<b>\$16,941,717</b>	<b>\$17,486,455</b>
<b>Education</b>		
Income Tax		
College Savings Account	\$13,254	\$14,194
Fellowships and Scholarships	21,220	21,860
Higher Education/Public Contribution Credit	\$0	\$0
Property Tax		
Exempt Public Education Property	478,000	485,000
Sales Tax		
Services	484,640	496,950
<b>TOTAL</b>	<b>\$997,114</b>	<b>\$1,018,004</b>
<b>Government and Nonprofit Organizations</b>		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$321	\$323
Income Tax		
Historic Preservation Credit	68	34
U.S. Government Bond Interest Deduction	11,705	11,822
Motor Fuel Taxes		
Public Vehicles	12,700	15,084
Motor Vehicle Weight Tax		
Public and Nonprofit Vehicles	11,120	13,350
Oil and Gas Severance Tax		
Public Land	1,100	1,300
Property Tax		
Tax Exempt Property	1,333,000	1,352,000

<b>Tax/Tax Expenditure</b>	<b>FY 2017 (000)</b>	<b>FY 2018 (000)</b>
<b>Government and Nonprofit Organizations (Continued)</b>		
Sales and Use Taxes		
Church Cars	2,220	2,290
Church Construction	2,408	2,432
Government or Red Cross	269,000	277,000
Nonprofit Organizations	196,310	202,640
Services	125,851	130,691
Watercraft Registration Fee		
Publicly Owned Watercraft	14	15
<b>TOTAL</b>	<b>\$1,965,817</b>	<b>\$2,008,981</b>

#### **Income Distribution**

City Income Tax		
Nonresident Reduced Rate	\$238,132	\$240,513
Personal Exemption	10,200	10,300
General Property Tax		
Disabled Veteran Homestead Exemption	\$21,800	\$22,500
Homestead Exemption	3,250,000	3,300,000
Poverty Exemption	8,900	9,100
Taxable Value Cap	1,929,600	1,968,192
Income Tax		
Adjustments to Income (gains/losses and other)	0	0
Adjustments to Income (federal)	42,080	43,340
Dependent Exemption	18,856	19,044
Earned Income Tax Credit	119,149	123,319
Employer Contributions to Health and Life Insurance	1,045,450	1,076,810
Employer Pension Plans	619,420	638,000
Gain on Sale of Primary Residence	218,880	221,070
Home Heating Assistance Credit	62	64
Homestead Property Tax Credit (excluding veterans)	521,803	524,414
Income Maintenance Benefits	2,800	2,880
Individual Retirement Account	317,360	326,880
Interest on Life Insurance Savings	107,830	111,060
Miscellaneous Deductions	21,000	20,000
Other State Tax Credit	59,586	61,961
Pension and Retirement Benefits Deduction	482,000	438,100

<b>Tax/Tax Expenditure</b>	<b>FY 2017 (000)</b>	<b>FY 2018 (000)</b>
<b>Income Distribution (Continued)</b>		
Personal Exemption	1,391,396	1,404,430
Railroad Retirement Benefits	1,340	1,380
Senior Investment Income Deduction	15,017	15,233
Senior Special Deduction	252,500	305,250
Social Security Benefits (federal exclusion)	335,140	345,190
Social Security Benefits (in federal AGI)	413,578	430,121
Special Exemption	13,159	13,291
State and Local Income Tax Refunds	19,850	20,048
Student Loan Deduction	11,240	11,580
Workers' Compensation	48,110	49,550
Sales and Use Taxes		
Donated Vehicles	125	125
Food	1,264,740	1,305,540
Food for Students	41,720	42,851
Residential Utilities	164,500	168,200
<b>TOTAL</b>	<b>\$13,007,323</b>	<b>\$13,270,336</b>
<b>Military Affairs</b>		
Cigarette Tax		
Sales on Military Bases and Reservations	\$4,970	\$4,920
Income Tax		
Disabled Veteran Exemption	300	300
Military Pay	26,307	27,609
Veterans' Benefits	74,380	76,610
Veterans' Property Tax Credit	400	400
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	580	700
Sales and Use Taxes		
Military Post-Exchange Sales	695	678
<b>TOTAL</b>	<b>\$107,632</b>	<b>\$111,217</b>

<b>Tax/Tax Expenditure</b>	<b>FY 2017 (000)</b>	<b>FY 2018 (000)</b>
<b>Natural Resources</b>		
Income Tax		
Income from Extractive Activities Deduction	\$6,000	\$6,000
Corporate Income Tax		
Income from Extractive Activities Deduction	\$1,700	\$1,900
Property Tax		
Air and Water Pollution	130,000	130,000
Energy Conservation Devices	50	40
Sales and Use Taxes		
Air and Water Pollution	57,800	57,800
<b>TOTAL</b>	<b>\$195,550</b>	<b>\$195,740</b>
<b>Public Health</b>		
Income Tax		
Medical Care Savings	\$28,160	\$29,000
Sales and Use Taxes		
Medical Services	3,815,939	4,020,469
Nonprofit Hospital Construction	2,140	2,200
Ophthalmic and Orthopedic Products	63,530	65,440
Prescription Drugs	\$674,520	\$727,570
<b>TOTAL</b>	<b>\$4,584,289</b>	<b>\$4,844,679</b>
<b>Transportation</b>		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,248	\$3,600
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,810	5,955
Evaporation and Loss Allowance	16,783	17,930
Fuel for Off-Road Use	1,100	1,500
Marine Vessel Fuel	\$740	\$740
Municipal Franchise Vehicles	400	550
Sales and Use Taxes		
Driver Training	187	176
Rail Rolling Stock	7,300	7,530
Utility Property Tax		
Railroad Right-of-Way	35,600	36,000
<b>TOTAL</b>	<b>\$71,168</b>	<b>\$73,981</b>

## 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 \$944.9 million in FY 2017 to \$959.7 million in FY 2018. 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 2014 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 79 of 2015** amended the Revenue Act to eliminate the requirement that a taxpayer pay any amount in dispute in order to appeal to the Court of Claims and increase the time period a taxpayer may appeal an assessment to the Michigan Tax Tribunal from 35 to 60 days.

**Public Act 117 of 2015** amended the Michigan Strategic Fund Act to sunset the film and digital media production assistance program. The Act would prevent new funding under either a new agreement or an amendment to an existing agreement after September 30, 2016.

**Public Acts 192 through 194 of 2015** amended the Michigan Early Stage Venture Investment Act (P.A. 192 and P.A. 193) and the Michigan Business Tax Act (P.A. 194) to reduce the allowable maximum amount of tax voucher certificates from \$600 million to \$450 million and to change the expiration date of the Michigan Early State Venture Investment Fund to January 1, 2030. The Fund had previously been set to expire on January 1, 2054.

#### Insurance Company Tax

Effective January 1, 2012, the MBT 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 \$408.9 million for FY 2018; revenue goes to the State General Fund.

**FY 2018 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.

**Disability Insurance Exclusion**

\$11,900,000

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

**Michigan Association and Facilities Credit**

\$9,800,000

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**

\$5,400,000

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**

\$500,000

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 Single Business Tax (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, marginal properties, and production achieved through carbon dioxide secondary or enhanced recovery projects. The projected yield is \$27.0 million for FY 2018; revenue goes to the State General Fund.

**FY 2018 Estimate**

<b>Marginal Wells</b>	\$3,400,000
Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.	
<b>Public Land</b>	\$1,300,000
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 before 2012 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 2017 Consensus Conference to be \$1,078.0 million in FY 2017 and \$950.2 million in FY 2018. The net revenues from the MBT were estimated at -\$922.8 million in FY 2017 and -\$755.6 million in FY 2018, driven mainly by certificated credits with some other factors contributing.

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 2018 Estimate**

<b>Anchor Company Credit (MBT Certificated Credit)</b>	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.	

**FY 2018 Estimate**

<b>Brownfield Redevelopment Credit (MBT Certificated Credit)</b>	\$35,000,000
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.	
<b>Farmland Preservation Credit (MBT Certificated Credit)</b>	n.a.
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Public Act 451 of 1994. Unlike most MBT certificated credits, an agreement for this credit may be entered into after 2011. This credit is included in “Other Certificated Credits” in Exhibits 4 and 12.	
<b>Film Credits (MBT Certificated Credit)</b>	\$0
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. To be eligible, an agreement had to be entered into by September 30, 2015.	
<b>Foreign Dividends Exemption (Corporate Income)</b>	\$224,900,000
Excludes dividends and royalties received from a foreign entity or person from taxable income.	
<b>Government Securities Interest Exemption (Corporate Income)</b>	\$900,000
Excludes interest income from obligations or securities of the federal government, State of Michigan or Michigan governmental unit.	
<b>Historic Preservation Credit (MBT Certificated Credit)</b>	n.a.
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.	
<b>Income from Extractive Activities Deduction (Corporate Income)</b>	\$1,900,000
The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes.	
<b>Michigan Economic Growth Authority (MEGA) Credits (MBT Certificated Credit)</b>	\$607,500,000
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. Credits are also available for job retention.	

**FY 2018 Estimate**

**MEGA Photovoltaic Technology Credit (MBT Certificated Credit) \$0**

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) \$14,600,000**

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.

**MEGA Vehicle Battery Credit (MBT Certificated Credit) \$25,000,000**

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 credit is refundable, but may also be carried forward for up to 10 years.

**Renaissance Zone Credit (MBT Certificated Credit) n.a.**

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) \$4,100,000**

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)**

n.a.

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 \$18,496.2 million in FY 2018, a 3.8 percent increase over the FY 2017 level of \$17,818.0 million. The growth in sales and use tax expenditures associated with exempt services such as construction, health care, and professional, scientific, and technical services account for most of the growth between FY 2017 and FY 2018. Sales and use tax expenditure estimates are based on FY 2008 through FY 2015 data. Alcohol and cigarette tax expenditure estimates were based on FY 2015 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 124 of 2015** amended the Use Tax Act to increase the amount earmarked to the local community stabilization share by \$300,000 each fiscal year from 2015-16 to 2018-19.

**Public Acts 171 and 172 of 2015** amended the General Sales Tax Act and the Use Tax Act, respectively, to facilitate the implementation of the exemption for over-the-counter drugs that are dispensed pursuant to a prescription. The original sales tax exemption was enacted by Public Act 211 of 2013.

**Public Acts 177 and 178 of 2015** amended the Streamlined Sales and Use Tax Revenue Equalization Act and the Motor Carrier Fuel Tax Act, respectively, to incorporate the higher tax rates enacted under Public Act 176 and apply those tax rates to taxpayers affected by the these Acts.

**Public Acts 204 and 205 of 2015** amended the Use Tax Act and the General Sales Tax Act, respectively, to expand the industrial processing exemption to include property used or consumed

in the production of alcoholic beverages that are sold through the industrial processor’s own location.

**Public Acts 251 and 252 of 2015** amended the General Sales Tax Act and the Use Tax Act, respectively, to exempt the sale of data center equipment to the owner or operator of a qualified data center or a colocated business for assembly, use or consumption in the operations of a qualified data center. A sale of data center equipment is also exempt to a person engaged in constructing a qualified data center. The continuation of the exemption is contingent upon certain job requirements being met by deadlines established in the Acts.

**Public Acts 262 and 263 of 2015** amended the General Sales Tax Act and the Use Tax Act, respectively, to earmark an amount equal to the tax collected at the additional 2 percent from the sale at retail of aviation fuel to the State Aeronautics Fund (35 percent) and the Qualified Airport Fund (65 percent).

**Public Act 264 of 2015** amended the General Sales Tax Act to exempt certain purchases or shipments of fuel from the requirement to pre-pay sales tax. The Act exempted fuel acquired for immediate export and fuel acquired as part of a bulk transfer.

### **Alcoholic Beverage Taxes**

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2018 (millions of dollars).

<b>Alcoholic Beverage Taxes</b>		
<b>(millions)</b>		
<b><u>Tax</u></b>	<b><u>Location of Deposit</u></b>	<b><u>FY 2018 Revenue</u></b>
Beer and Wine Excise	General Fund	\$53.0
4.0 Percent Liquor Excise	School Aid Fund	\$53.8
4.0 Percent Liquor Specific	General Fund	\$54.2
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$54.2
		<b><u>FY 2018 Estimate</u></b>
<b>Beer Shipped Out-of-State</b>		n.a.
Exempts beer manufactured in Michigan, or imported into this state, and then shipped for sale and consumption outside the state.		
<b>Damaged Beer</b>		n.a.
Exempts beer from the beer tax when consumed on the manufacturer’s property or not offered for sale.		

**FY 2018 Estimate**

**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 2018, the tax on cigarettes will yield an estimated \$854.4 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$81.4 million.

**FY 2018 Estimate**

**Bad Debt Deduction** \$400,000

Allows cigarette wholesalers to deduct any losses from bad debts.

**Licensee Expenses** \$13,710,000

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.

**Sales on Military Bases and Reservations** \$4,920,000

Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.

**Tribal Tax Agreements** n.a.

Establishes the number of cigarettes that each tribe may obtain tax-free for the tribe's resident members, while requiring retailers in each tribal agreement area to limit tax-free sales to resident members.

## State Convention Facility Development Tax

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

### FY 2018 Estimate

#### **Small Hotel Exemption**

n.a.

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

## Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield \$7,929.3 million in FY 2018. 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 \$1,138.5 million in FY 2018. Use tax collections do not include the local community stabilization share tax described under Public Act 80 of 2014. Current law directs \$410.8 million of the tax collected for FY 2018 to the authority. Due to their complementary nature, sales and use tax expenditures are reported together and include both the state use tax and the local community stabilization share tax.

### FY 2018 Estimate

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

\$57,800,000

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

	<b><u>FY 2018 Estimate</u></b>
<b>Aircraft Parts</b>	\$6,790,000
Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	
<b>Bad Debts</b>	\$23,800,000
Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible.	
<b>Cargo Aircraft</b>	\$21,600,000
Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.	
<b>Church Construction</b>	\$2,432,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
<b>Church Cars</b>	\$2,290,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	
<b>Collection Fee</b>	\$37,966,000
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.	
<b>Commercial Domestic Aircraft</b>	\$4,000,000
Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	
<b>Commercial Vessels</b>	n.a.
Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce.	

	<b><u>FY 2018 Estimate</u></b>
<b>Communication and Telephone Exemption</b>	\$30,060,000
Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds.	
<b>Data Centers</b>	\$16,000,000
Exempts the sale of data center equipment to the owner or operator of a qualified data center or a colocated business for assembly, use, or consumption in the operation of the data center, or a person engaged in construction or improvement to the extent the equipment is affixed to or made a structural part of a data center.	
<b>Donated Vehicles</b>	\$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.	
<b>Driver Training</b>	\$176,000
Exempts property used for demonstration or driver training programs.	
<b>Employee Meals</b>	\$18,140,000
Exempts meals provided by employers to their employees.	
<b>Food</b>	\$1,305,540,000
Exempts food for human consumption, except prepared food intended for immediate consumption.	
<b>Food for Students</b>	\$42,851,000
Exempts sales of food by nonprofit schools or other similar educational institutions to students.	
<b>Government or Red Cross</b>	\$277,000,000
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.	
<b>Gratuity and Tips</b>	\$75,000,000
Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	
<b>Horticultural and Agricultural Products</b>	\$330,000,000
Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	

**FY 2018 Estimate**

<b>Imported Property</b>	\$1,790,000
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.	
<b>Industrial Processing</b>	\$1,411,000,000
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.	
<b>International Telecommunications</b>	\$6,400,000
Exempts international and WATS calls from the use tax.	
<b>Interstate Trucks and Trailers</b>	\$33,600,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax.	
<b>Investment Coins</b>	\$3,930,000
Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins.	
<b>Isolated Sales</b>	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
<b>Military PX Sales</b>	\$678,000
Exempts military post-exchange sales.	
<b>Military Vehicle Sales</b>	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.	
<b>Newspapers, Periodicals, and Films</b>	\$122,830,000
Exempts sales of copyrighted films, newspapers, and periodicals.	
<b>Nonprofit Ambulance and Fire Service</b>	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.	

**FY 2018 Estimate**

<b>Nonprofit Hospital or Housing Construction</b>	\$2,200,000
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.	
<b>Nonprofit Organizations</b>	\$202,640,000
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.	
<b>Nonprofit Sales Under \$5,000</b>	n.a.
Exempts aggregate sales under \$5,000 for qualified nonprofit organizations.	
<b>Nonresident Merchandise Transfer</b>	n.a.
Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	
<b>Nonresident Property</b>	n.a.
Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	
<b>Ophthalmic and Orthopedic Products</b>	\$65,440,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	
<b>Prescription Drugs</b>	\$727,570,000
Exempts drugs, both prescription and over-the-counter drugs dispensed by a prescription, for human consumption.	
<b>Radio and TV</b>	\$4,400,000
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.	
<b>Rail Rolling Stock</b>	\$7,530,000
Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	
<b>Residential Utilities</b>	\$168,200,000
Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	

**FY 2018 Estimate**

<b>Returned Vehicles</b>	\$1,100,000
Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	
<b>Sale of Business</b>	n.a.
Excludes from the use tax non-inventoried property purchased as part of a business.	
<b>Sale of Water</b>	\$58,700,000
Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	
<b>Services</b>	\$13,292,060,000
Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately \$4.33 billion of the total represents services purchased by consumers.	

**Service Tax Expenditures, FY 2018**  
(millions)

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$13.1	\$0.0	\$13.1
Admin., Support, and Waste Mgmt.	1,014.1	12.8	1,026.9
Arts, Entertainment, and Recreation	209.2	55.4	264.6
Construction	1,424.7	0.0	1,424.7
Educational Services	79.7	417.2	496.9
Health Care and Social Assistance	1,806.0	2,214.5	4,020.5
Information	386.8	0.0	386.8
Other Services (except Public Admin.)	598.6	97.7	696.3
Professional, Scientific, and Technical	2,571.8	59.2	2,631.0
Real Estate and Rental and Leasing	953.7	0.0	953.7
Transportation and Warehousing	1,235.6	11.3	1,246.9
Utilities	<u>0.0</u>	<u>130.7</u>	<u>130.7</u>
<b>TOTAL</b>	\$10,293.3	\$2,998.8	\$13,292.1

Source: Calculations by the Office of Revenue and Tax Analysis using the *2012 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 2018 Estimate**

<b>Small Out-of-State Purchases</b>	n.a.
Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.	
<b>Tax on the Difference - Vehicles</b>	\$35,300,000
Exempts a portion of the credit given for motor vehicles used as a partial payment on the purchase of a motor vehicle. The exemption was limited to no more than \$3,000 in 2016, and will rise by \$500 each succeeding January 1. The full value of a trade-in is also exempt for a titled watercraft used as partial payment on the purchase of a titled watercraft.	
<b>Telephone Services</b>	\$18,310,000
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.	
<b>Textbooks Sold by Schools</b>	n.a.
Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program.	
<b>Tribal Tax Agreements</b>	n.a.
Exempts certain sales of tangible personal property to tribes and tribal members for use within a designated agreement area, while providing for increased collections on sales to non-members.	
<b>Vehicle and Aircraft Transfers</b>	\$40,750,000
Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft.	
<b>Vehicles Purchased for Use in Another State</b>	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.	
<b>Vending Machines and Mobile Facilities</b>	\$21,105,000
Exempts the portion of gross proceeds representing commissions paid to an entity otherwise exempt from the sales tax where the gross proceeds are from certain non-electric vending machines where consideration is 10 cents or less. Also exempts sales of nonalcoholic beverages, and items sold near room temperature from a mobile facility or vending machine.	

## CHAPTER 6

### INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 2.7 percent from \$6,819.5 million in FY 2017 to \$7,004.9 million in FY 2018. Federal income tax expenditures are projected to increase 2.8 percent from \$2,885.5 million in FY 2017 to \$2,967.6 million in FY 2018. Individual income tax expenditure estimates were based on tax year 2014 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 2014. 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 10 of 2015** amended the Revenue Act to permit the Department of Treasury to disclose property tax millage rates and the addresses of housing units that are subject to a service fee instead of property taxes. These housing units are eligible for a reduced homestead property tax credit and the disclosure of the eligible addresses would assist in the proper preparation of credit claims.

**Public Acts 160 through 163 of 2015** created the Michigan Achieving a Better Life Experience (ABLE) Program Act, allowed for the creation of ABLE accounts to finance qualified disability expenses, and established an income tax deduction for contributions to an ABLE account. The deduction would be limited \$5,000 on a single return and \$10,000 on a joint return.

**Public Act 179 of 2015** amended Part 1 of the Income Tax Act to earmark revenue raised by the tax to the Michigan Transportation Fund and make several changes to the homestead property tax credit. Beginning in tax year 2018, a higher percentage of rent may be applied toward property taxes, the phase-out range for total household resources increases, the maximum credit increases to \$1,500, and the percentage of total household resources that may not be refunded decreases

from 3.5 percent to 3.2 percent. Beginning in tax year 2021, the phase-out range and the maximum credit will be adjusted for inflation.

**Public Act 180 of 2015** amended Part 1 of the Income Tax Act to reduce the income tax rate for each tax year beginning on or after January 1, 2023, if the growth in General Fund/General Purpose revenue in the preceding fiscal year exceeds the inflation rate by an amount set forth in the Act.

### **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 2018, the State of Michigan will collect an estimated \$10,042.5 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 2014, these tax expenditures reduced Michigan’s effective income tax rate from a nominal rate of 4.25 percent to an average effective rate of 2.33 percent. Detailed information on income tax expenditures is presented in Exhibits 13 through 16.

	<b><u>FY 2018 Estimate</u></b>
<p><b>College Savings Account</b>            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.</p>	\$14,194,000
<p><b>Dependent Exemption</b>            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.</p>	\$19,044,000
<p><b>Disabled Veterans Exemption</b>            Allows a taxpayer to claim an additional exemption of \$400 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.</p>	\$300,000
<p><b>Earned Income Tax Credit</b>            Provides a refundable income tax credit equal to 6 percent of any federal earned income tax credit for which a taxpayer is eligible.</p>	\$123,319,000
<p><b>Farmland Development Credit</b>            Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses (see Exhibit 16). This credit was expanded by Public Act 421 of 2000.</p>	\$45,930,000

**FY 2018 Estimate**

**Historic Preservation Credit**

\$34,000

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**

\$64,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2015, these credits totaled an estimated \$50.1 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$59,900 in FY 2015.

**Homestead Property Tax Credit**

\$524,814,000

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 2014, homestead credits, excluding the farmland credit itemized separately, totaled \$517.0 million (Exhibit 16). Of the homestead credits, 53.0 percent went to general taxpayers, 36.6 percent went to senior citizens, and the remaining 10.4 percent went to veterans and blind and disabled persons.

**Income Attributable to Another State**

\$3,487,129,000

Provides a deduction to Michigan residents for business income earned in another state and gains on the sale of property in other states. In addition, non-residents may deduct income not allocated to Michigan. This deduction has been growing rapidly in recent tax years.

**Income from Extractive Activities Deduction**

\$6,000,000

The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes.

**FY 2018 Estimate**

<b>Income Tax Paid to Another State Credit</b>	\$61,961,000
Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2014, taxpayers claimed \$53.5 million in credits.	
<b>Military Pay</b>	\$27,609,000
Exempts compensation received while on active duty in the U.S. Armed Forces.	
<b>Miscellaneous Deductions</b>	\$20,000,000
Includes the amount used to determine the federal credit for the elderly or totally and permanently disabled and any portion of a qualified withdrawal from an MESP account that is included in AGI.	
<b>Net Operating Loss Deduction</b>	\$24,000,000
Taxpayers may only deduct the Michigan portion of a net operating loss.	
<b>Net Adjustment for Gains/Losses</b>	\$11,000,000
Michigan taxpayers only include in Michigan taxable income gains or losses on business or real property if that property is located in Michigan. Losses on property located outside Michigan may not be subtracted and gains on property located outside Michigan may be excluded.	
<b>Pension and Retirement Benefits Deduction</b>	\$438,100,000
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 \$49,861 for singles and \$99,723 for married couples filing a joint return (2016 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. The deduction for pension and retirement benefits is replaced with the Michigan standard deduction against all income when those born between 1946 and 1952 reach age 67. A deduction is allowed for taxpayers born after 1953 before they turn age 67 in only special circumstances.	

**FY 2018 Estimate**

**Personal Exemption**

\$1,404,430,000

Exempts \$4,000 (tax year 2014) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption will increase in \$100 increments based on the rate of inflation. The personal exemption reduced tax year 2014 revenue by approximately \$1,242.3 million.

The distribution of effective exemptions across AGI classes is outlined in Exhibit 13. Effective exemptions are exemptions that offset actual income.

**Renaissance Zones**

\$1,251,000

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**

\$15,233,000

Allows a taxpayer who was born prior to 1946 to deduct dividends, interest, and capital gains included in AGI up to limits which are adjusted for inflation annually. The limits for tax year 2016 are \$11,115 for singles and \$22,229 for couples filing a joint return. The limits are reduced by the amount deducted for pension and retirement benefits.

**Senior Standard Deduction**

\$305,250,000

Beginning in tax year 2013, taxpayers born after 1945 and before 1953 who have reached age 67 are eligible for a deduction against all income in lieu of a deduction for retirement benefits. The deduction is \$20,000 for singles and \$40,000 for couples filing a joint return.

**Social Security Benefits**

\$430,121,000

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**

\$13,291,000

Allows a taxpayer and his or her spouse to each claim a \$2,600 exemption for tax year 2015 if they or a dependent are disabled. These exemptions are adjusted periodically for inflation.

**State and Local Income Tax Refunds**

\$20,048,000

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 2015 may be claimed as an itemized deduction on the 2015 federal income tax return. If a portion of that withholding is returned to a taxpayer as a refund in early 2016, the taxpayer would report the refund as income on the 2016 federal income tax return, but subtract the refund amount on the 2016 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**

\$11,822,000

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.

**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 2018 Estimate**

**Accelerated Depreciation**

\$12,420,000

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**

\$1,076,810,000

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.

**Employer Pension Plans**

\$638,000,000

Exempts employer payments into qualified employee pension plans from taxation.

**Federal Adjustments to Income**

\$43,340,000

Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.

**Fellowships and Scholarships**

\$21,860,000

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**

\$221,070,000

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 an exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.

**Exhibit 13**  
**Selected Individual Income Tax Expenditures by Income Class, CY 2014**

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions <sup>(1)</sup>	
	Number	Percent	Number	Amount	Number	Amount
Zero Income <sup>(2)</sup>	145,316	3.1%	11,110	\$6,866,024	0	\$0
\$0 - 2,000	176,174	3.8%	12,236	6,462,354	17,533	2,980,672
2,001 - 4,000	157,351	3.4%	11,608	5,426,875	45,043	7,657,303
4,001 - 6,000	154,646	3.3%	15,707	7,163,268	72,224	12,278,094
6,001 - 8,000	152,945	3.3%	20,524	9,419,899	89,989	15,298,172
8,001 - 10,000	164,500	3.5%	33,080	16,136,196	143,543	24,402,358
10,001 - 12,000	157,628	3.4%	34,569	17,087,444	152,141	25,863,945
12,001 - 14,000	160,267	3.4%	42,001	21,023,850	195,513	33,237,185
14,001 - 16,000	152,514	3.3%	41,865	20,954,340	200,106	34,018,074
16,001 - 18,000	136,529	2.9%	38,349	18,427,689	184,335	31,336,901
18,001 - 20,000	125,191	2.7%	35,317	16,407,167	168,605	28,662,790
20,001 - 25,000	286,081	6.1%	81,090	35,817,576	401,906	68,324,035
25,001 - 30,000	253,237	5.4%	72,205	30,229,210	381,538	64,861,539
30,001 - 35,000	220,942	4.7%	60,695	24,242,352	349,596	59,431,302
35,001 - 40,000	196,396	4.2%	51,219	19,944,040	322,707	54,860,225
40,001 - 45,000	171,950	3.7%	39,190	12,840,346	292,809	49,777,453
45,001 - 50,000	154,352	3.3%	29,271	4,835,955	272,791	46,374,436
50,001 - 55,000	140,966	3.0%	2,667	444,467	245,558	41,744,812
55,001 - 60,000	132,416	2.8%	428	98,178	254,551	43,273,661
60,001 - 70,000	233,757	5.0%	187	71,996	480,143	81,624,337
70,001 - 80,000	200,570	4.3%	68	35,343	447,998	76,159,712
80,001 - 90,000	170,314	3.6%	53	29,948	399,160	67,857,169
90,001 - 100,000	143,867	3.1%	39	23,214	351,071	59,682,131
Over 100,000	<u>699,800</u>	<u>14.9%</u>	<u>125</u>	<u>87,616</u>	<u>1,831,932</u>	<u>311,428,509</u>
<b>TOTAL</b>	4,687,709	100.0%	633,603	\$274,075,347	7,300,793	\$1,241,134,816

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

<sup>(2)</sup> Includes 78,639 credit-only returns.

**Exhibit 14**  
**Effective Income Tax Rates by Income Class, CY 2014<sup>(1)</sup>**

<u>Adjusted Gross Income</u>	<u>Total Adjusted Gross Income</u>	<u>Total Income Tax Paid</u>	<u>Effective Tax Rate</u>
Zero Income <sup>(2)</sup>	(\$5,450,680,707)	(\$24,491,505)	
\$0 - 2,000	143,097,574	(58,818,593)	-41.10%
2,001 - 4,000	472,642,429	(22,585,623)	-4.78%
4,001 - 6,000	773,263,539	(19,514,801)	-2.52%
6,001 - 8,000	1,070,543,806	(17,176,316)	-1.60%
8,001 - 10,000	1,489,180,833	(21,685,692)	-1.46%
10,001 - 12,000	1,731,539,821	(15,625,584)	-0.90%
12,001 - 14,000	2,088,103,240	(16,278,226)	-0.78%
14,001 - 16,000	2,284,362,066	(7,050,081)	-0.31%
16,001 - 18,000	2,318,890,872	5,944,752	0.26%
18,001 - 20,000	2,377,709,010	16,683,370	0.70%
20,001 - 25,000	6,421,303,106	76,560,470	1.19%
25,001 - 30,000	6,952,597,113	118,584,320	1.71%
30,001 - 35,000	7,168,020,528	148,994,786	2.08%
35,001 - 40,000	7,354,583,299	172,251,273	2.34%
40,001 - 45,000	7,300,335,817	184,889,740	2.53%
45,001 - 50,000	7,326,616,370	199,782,345	2.73%
50,001 - 55,000	7,396,358,956	207,705,114	2.81%
55,001 - 60,000	7,611,529,450	213,980,879	2.81%
60,001 - 70,000	15,163,984,032	431,743,057	2.85%
70,001 - 80,000	15,014,181,170	436,604,191	2.91%
80,001 - 90,000	14,452,651,801	425,831,351	2.95%
90,001 - 100,000	13,645,532,259	409,106,802	3.00%
Over 100,000	<u>197,045,279,912</u>	<u>4,644,597,283</u>	<u>2.36%</u>
<b>TOTAL</b>	<b>\$322,151,626,296</b>	<b>\$7,490,033,312</b>	<b>2.33%</b>

Effective rate excluding zero income AGI and Taxes Paid 2.29%

Effective rate excluding zero income AGI 2.29%

(1) Values in this table are based on a sample of the 4,609,070 MI-1040 and MI-1040CR returns.

(2) Includes 78,639 credit-only returns (zero income).

**Exhibit 15**  
**Tax Expenditures as a Percent of Adjusted Gross Income, CY 2014**

Adjusted Gross Income	Effective Exemptions <sup>(1)</sup>	Adjustments to Income	Nonrefundable Credits <sup>(2)</sup>	Prop. Tax Credits
Less Than \$2,000	483.0%	35.8%	0.1%	855.0%
2,001 - 4,000	118.1%	28.0%	0.1%	113.9%
4,001 - 6,000	81.2%	24.5%	0.0%	73.2%
6,001 - 8,000	65.3%	26.2%	0.0%	57.4%
8,001 - 10,000	59.1%	21.8%	0.1%	50.9%
10,001 - 12,000	52.1%	24.0%	0.1%	43.1%
12,001 - 14,000	51.0%	22.1%	0.0%	38.1%
14,001 - 16,000	46.1%	22.1%	0.0%	32.7%
16,001 - 18,000	40.6%	21.5%	0.1%	27.1%
18,001 - 20,000	36.1%	21.9%	0.0%	23.0%
20,001 - 25,000	31.2%	21.9%	0.1%	17.9%
25,001 - 30,000	26.4%	20.4%	0.1%	13.1%
30,001 - 35,000	22.9%	19.3%	0.1%	9.6%
35,001 - 40,000	20.2%	18.5%	0.2%	7.4%
40,001 - 45,000	18.4%	18.9%	0.2%	4.7%
45,001 - 50,000	16.8%	18.8%	0.2%	1.8%
50,001 - 55,000	15.7%	20.5%	0.0%	0.2%
55,001 - 60,000	14.8%	20.3%	0.2%	0.0%
60,001 - 70,000	13.7%	20.2%	0.2%	0.0%
70,001 - 80,000	12.7%	19.4%	0.2%	0.0%
80,001 - 90,000	11.8%	19.4%	0.3%	0.0%
90,001 - 100,000	10.9%	18.9%	0.2%	0.0%
Over 100,000	4.1%	40.5%	0.3%	0.0%

- (1) The effective exemption number includes special exemptions (e.g., disabled exemption).
- (2) Income tax credits were divided by the tax rate (4.25%) to determine the equivalent tax deduction. Nonrefundable credits include the credit for taxes paid to other states, and the historic preservation credit.

**Exhibit 16**  
**Property Tax Credits by County, CY 2014**

<u>County</u>	<u>General</u>		<u>Seniors</u>		<u>Veterans</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
ALCONA	300	\$94,000	400	\$176,200	< 50	\$1,600
ALGER	300	100,000	300	128,000	< 50	900
ALLEGAN	5,000	1,758,000	3,100	1,726,100	< 50	2,800
ALPENA	1,300	363,400	1,200	514,800	100	5,500
ANTRIM	1,000	346,200	800	430,400	< 50	1,700
ARENAC	600	186,600	600	273,900	< 50	1,300
BARAGA	200	62,000	200	88,800	< 50	1,400
BARRY	2,200	836,000	1,600	872,400	< 50	2,800
BAY	6,300	2,023,900	4,600	2,387,500	100	11,800
BENZIE	800	266,400	600	272,000	< 50	1,700
BERRIEN	9,000	3,153,100	5,800	3,223,700	100	4,400
BRANCH	2,000	667,700	1,300	676,400	< 50	1,800
CALHOUN	8,000	2,911,800	4,600	2,675,300	100	8,000
CASS	1,800	612,800	1,200	620,000	< 50	2,700
CHARLEVOIX	1,500	532,600	1,100	596,800	< 50	1,100
CHEBOYGAN	1,100	312,000	800	340,500	< 50	3,100
CHIPPEWA	1,500	471,300	1,000	469,900	< 50	3,300
CLARE	1,300	380,500	900	383,800	< 50	3,300
CLINTON	2,500	1,003,900	1,900	1,170,100	< 50	700
CRAWFORD	500	147,600	400	165,900	< 50	2,900
DELTA	1,700	534,700	1,400	694,300	100	7,200
DICKINSON	1,300	407,000	1,100	574,300	< 50	6,000
EATON	7,000	2,869,300	4,300	2,599,700	< 50	3,700
EMMET	2,300	794,200	1,200	655,700	< 50	1,100
GENESEE	26,300	9,379,800	11,600	5,572,900	100	18,800
GLADWIN	1,000	304,800	1,000	451,800	< 50	2,600
GOGEBIC	600	175,800	600	261,900	< 50	5,200
GRAND TRAVERSE	6,700	2,810,200	3,400	2,161,400	< 50	3,200
GRATIOT	1,900	619,400	1,300	699,300	< 50	2,100
HILLSDALE	1,800	660,600	1,300	640,200	100	4,600
HOUGHTON	1,300	402,900	800	361,200	100	6,600
HURON	1,500	579,100	1,700	958,000	< 50	3,000
INGHAM	22,200	9,386,700	8,100	5,152,800	100	6,600
IONIA	2,800	932,500	1,600	825,900	< 50	1,300
IOSCO	1,000	288,100	900	368,000	100	4,500
IRON	400	117,800	500	197,400	< 50	3,800
ISABELLA	3,400	1,204,100	1,300	763,900	< 50	1,800
JACKSON	8,500	3,037,400	5,100	2,728,100	100	7,900
KALAMAZOO	17,300	6,773,100	7,700	4,697,700	< 50	5,600
KALKASKA	800	242,500	500	207,600	< 50	1,600
KENT	45,200	17,563,800	18,000	10,587,100	100	14,100
KEWEENAW	100	14,200	0	13,900	< 50	400

### Exhibit 16 (Continued)

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	400	\$135,700	400	\$163,100	< 50	\$2,300
LAPEER	3,700	1,348,700	2,200	1,048,700	< 50	2,000
LEELANAU	700	247,500	500	285,200	< 50	500
LENAWEE	5,400	1,985,400	3,600	2,004,200	< 50	4,000
LIVINGSTON	400	135,700	400	163,100	< 50	2,300
LUCE	200	41,800	100	26,500	< 50	1,200
MACKINAC	500	158,500	300	168,700	< 50	1,100
MACOMB	64,200	32,843,600	36,900	24,500,800	100	19,800
MANISTEE	1,100	355,800	1,100	560,600	< 50	2,300
MARQUETTE	3,400	1,096,600	1,600	782,100	100	9,300
MASON	1,800	580,600	1,300	769,500	< 50	1,200
MECOSTA	1,600	550,900	1,000	435,000	< 50	3,000
MENOMINEE	900	273,400	700	345,600	< 50	3,800
MIDLAND	4,000	1,394,700	2,300	1,216,200	100	5,400
MISSAUKEE	500	164,000	400	186,400	< 50	600
MONROE	5,700	2,140,400	4,100	2,086,600	< 50	2,900
MONTCALM	3,400	1,142,900	2,200	1,188,700	< 50	3,100
MONTMORENCY	400	117,500	300	137,200	< 50	2,100
MUSKEGON	10,900	3,816,200	6,200	3,419,300	100	10,300
NEWAYGO	2,000	696,500	1,500	824,100	< 50	4,200
OAKLAND	66,700	35,244,500	34,900	24,504,300	100	16,000
OCEANA	1,300	421,700	1,000	539,700	< 50	2,600
OGEMAW	900	264,700	800	372,400	< 50	2,300
ONTONAGON	200	63,200	200	96,400	< 50	2,400
OSCEOLA	900	294,200	800	426,100	< 50	3,100
OSCODA	200	62,700	200	53,500	< 50	1,000
OTSEGO	1,300	406,300	700	322,700	< 50	1,400
OTTAWA	14,100	5,339,500	8,400	4,791,100	< 50	3,600
PRESQUE ISLE	500	136,900	500	255,900	< 50	3,500
ROSCOMMON	1,100	329,400	1,000	425,200	< 50	3,400
SAGINAW	11,200	3,596,000	6,000	2,778,800	100	15,400
ST. CLAIR	9,300	3,467,900	5,800	3,103,700	100	11,800
ST. JOSEPH	2,900	953,300	1,800	935,400	< 50	2,100
SANILAC	1,900	715,400	1,400	726,900	< 50	3,400
SCHOOLCRAFT	300	77,800	200	89,400	< 50	1,300
SHIAWASSEE	4,000	1,323,600	2,700	1,341,600	< 50	4,500
TUSCOLA	2,600	822,900	1,800	888,600	< 50	4,500
VAN BUREN	4,500	1,600,800	2,800	1,674,800	< 50	3,200
WASHTENAW	21,300	10,855,400	7,100	5,232,300	< 50	5,100
WAYNE LESS DETROIT	72,700	37,459,400	37,500	25,643,600	100	20,600
WEXFORD	1,900	609,000	1,200	578,600	< 50	3,200
OUTSIDE OF MICHIGAN	5,100	2,119,600	1,900	1,195,600	< 50	3,600
DETROIT	89,500	40,626,600	21,100	12,400,800	100	34,300
<b>TOTAL</b>	<b>633,600</b>	<b>\$274,075,300</b>	<b>316,200</b>	<b>\$189,265,400</b>	<b>3,500</b>	<b>\$407,900</b>

### Exhibit 16 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	100	\$21,400	< 50	\$9,700	800	\$303,000
ALGER	100	23,200	< 50	500	700	252,600
ALLEGAN	700	401,600	100	804,000	8,900	4,692,500
ALPENA	400	169,900	< 50	17,500	2,900	1,071,000
ANTRIM	100	68,200	< 50	24,600	2,000	871,100
ARENAC	200	66,700	100	249,400	1,400	777,900
BARAGA	< 50	17,900	< 50	0	500	170,000
BARRY	300	158,000	100	376,400	4,100	2,245,700
BAY	1,300	708,000	200	1,476,000	12,500	6,607,100
BENZIE	100	50,500	< 50	3,000	1,500	593,600
BERRIEN	1,400	781,000	100	266,300	16,400	7,428,400
BRANCH	300	139,900	200	959,200	3,800	2,445,000
CALHOUN	1,700	973,400	200	939,600	14,400	7,508,200
CASS	200	121,500	100	674,400	3,400	2,031,400
CHARLEVOIX	100	69,300	< 50	35,600	2,800	1,235,400
CHEBOYGAN	200	99,500	< 50	17,700	2,200	772,800
CHIPPEWA	200	101,600	< 50	26,300	2,800	1,072,500
CLARE	300	125,700	< 50	114,500	2,600	1,007,800
CLINTON	300	170,900	200	761,000	4,900	3,106,500
CRAWFORD	100	46,900	< 50	0	1,000	363,300
DELTA	400	167,400	< 50	59,400	3,600	1,463,100
DICKINSON	200	85,200	< 50	15,000	2,600	1,087,400
EATON	800	509,100	100	718,500	12,300	6,700,300
EMMET	200	109,900	< 50	12,200	3,700	1,573,100
GENESEE	5,000	2,807,200	100	382,500	43,100	18,161,300
GLADWIN	200	102,500	< 50	42,800	2,300	904,500
GOGEBIC	100	48,400	< 50	0	1,300	491,300
GRAND TRAVERSE	600	380,700	< 50	67,100	10,800	5,422,600
GRATIOT	300	159,200	400	2,140,500	3,900	3,620,500
HILLSDALE	400	156,700	200	613,700	3,800	2,075,800
HOUGHTON	200	64,800	< 50	0	2,300	835,500
HURON	200	113,900	900	6,249,800	4,400	7,903,700
INGHAM	2,800	1,779,400	100	1,158,500	33,200	17,483,800
IONIA	500	227,800	100	647,600	5,000	2,635,100
IOSCO	200	90,500	< 50	46,900	2,300	798,100
IRON	100	42,400	< 50	4,200	1,000	365,600
ISABELLA	400	189,300	100	525,500	5,200	2,684,700
JACKSON	1,700	909,700	100	330,600	15,300	7,013,700
KALAMAZOO	2,200	1,354,800	100	540,000	27,300	13,371,300
KALKASKA	100	57,300	< 50	4,200	1,400	513,300
KENT	5,100	3,116,900	100	699,800	68,600	31,981,600
KEWEENAW	< 50	3,500	< 50	0	100	32,000

### Exhibit 16 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	200	\$72,500	< 50	\$6,000	1,000	\$379,600
LAPEER	500	277,100	100	222,700	6,400	2,899,100
LEELANAU	100	30,200	< 50	58,600	1,300	621,900
LENAWEE	1,000	533,400	400	2,186,400	10,400	6,713,400
LIVINGSTON	600	373,800	< 50	6,000	11,100	5,849,900
LUCE	< 50	10,500	< 50	0	300	80,000
MACKINAC	100	25,400	< 50	7,700	900	361,300
MACOMB	7,600	5,545,700	< 50	125,600	108,900	63,035,500
MANISTEE	200	95,800	< 50	7,700	2,400	1,022,400
MARQUETTE	300	179,500	< 50	2,600	5,400	2,070,000
MASON	300	147,500	< 50	234,100	3,500	1,733,000
MECOSTA	300	127,100	< 50	157,200	2,900	1,273,200
MENOMINEE	100	43,400	< 50	63,900	1,700	730,100
MIDLAND	600	320,000	< 50	237,600	7,000	3,173,900
MISSAUKEE	100	43,300	100	505,200	1,100	899,400
MONROE	900	475,900	100	661,900	10,900	5,367,700
MONTCALM	600	308,900	200	848,100	6,400	3,491,800
MONTMORENCY	100	30,700	< 50	12,400	800	300,000
MUSKEGON	2,400	1,364,000	< 50	291,800	19,600	8,901,500
NEWAYGO	500	220,600	100	219,500	4,000	1,964,900
OAKLAND	6,500	4,646,700	< 50	140,700	108,300	64,552,200
OCEANA	200	115,800	< 50	237,300	2,600	1,317,100
OGEMAW	200	105,500	< 50	73,300	2,000	818,200
ONTONAGON	100	18,600	< 50	1,600	500	182,200
OSCEOLA	200	86,200	< 50	226,700	2,000	1,036,200
OSCODA	100	19,000	< 50	0	500	136,200
OTSEGO	100	71,600	< 50	0	2,100	802,100
OTTAWA	1,500	875,800	200	1,437,900	24,200	12,447,800
PRESQUE ISLE	100	46,400	< 50	27,200	1,200	469,900
ROSCOMMON	300	118,100	< 50	14,900	2,400	891,000
SAGINAW	2,300	1,172,200	500	2,328,200	20,000	9,890,500
ST. CLAIR	1,500	853,400	< 50	188,000	16,700	7,624,800
ST. JOSEPH	500	226,200	100	733,900	5,400	2,850,800
SANILAC	300	147,800	500	2,057,100	4,200	3,650,600
SCHOOLCRAFT	100	21,100	< 50	3,300	600	193,000
SHIAWASSEE	800	417,500	200	870,500	7,700	3,957,700
TUSCOLA	500	216,100	600	3,365,600	5,500	5,297,600
VAN BUREN	700	398,800	100	377,700	8,100	4,055,300
WASHTENAW	1,700	1,189,100	200	1,238,100	30,300	18,520,000
WAYNE LESS DETROIT	9,300	6,989,200	< 50	134,600	119,700	70,247,400
WEXFORD	400	177,900	< 50	31,900	3,400	1,400,700
OUTSIDE OF MICHIGAN	500	307,000	< 50	245,400	7,600	3,871,100
DETROIT	11,800	8,034,700	< 50	0	122,500	61,096,500
<b>TOTAL</b>	<b>85,900</b>	<b>\$53,271,600</b>	<b>7,200</b>	<b>\$40,831,400</b>	<b>1,046,400</b>	<b>\$557,851,600</b>

**FY 2018 Estimate**

<b>Income Maintenance Benefits</b>	\$2,880,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
<b>Individual Retirement Accounts</b>	\$326,880,000
Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. The maximum contribution is \$5,500 for 2016. Only persons with an AGI below \$98,000 on a joint return (\$61,000 on a single return) or those not covered by an employer retirement plan can take the full \$5,500 deduction. A partial deduction, phased out according to income, is available between \$98,000-\$118,000 for joint filers and \$61,000-\$71,000 for single filers.	
<b>Interest on Life Insurance Savings</b>	\$111,060,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	
<b>Medical Care Savings Account</b>	\$29,000,000
Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	
<b>Railroad Retirement Benefits</b>	\$1,380,000
Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).	
<b>Social Security Benefits</b>	\$345,190,000
Exempts most social security benefits. Federal social security benefits are not taxable 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.	
<b>Student Loan Deduction</b>	\$11,580,000
Allows a deduction for interest paid on qualified education loans.	
<b>Veterans' Benefits</b>	\$76,610,000
Excludes veterans' benefits administered by the Veterans' Administration from AGI.	

**FY 2018 Estimate**

**Workers' Compensation**

\$49,550,000

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 rise modestly, increasing from \$52.82 million in FY 2017 to \$59.75 million in FY 2018. Transportation tax expenditure estimates were based on FY 2014 and FY 2015 data.

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

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

#### Transportation Tax Expenditure Changes

**Public Act 176 of 2015** amended the Motor Fuel Tax Act to raise the tax on gasoline, diesel fuel, and alternative fuel (as defined in the Act) to 26.3 cents per gallon, beginning January 1, 2017. The Act also adjusts the tax rate for inflation, beginning January 1, 2022, and each January 1 following. The Act made other administrative changes and added several definitions.

**Public Acts 177 and 178 of 2015** amended the Streamlined Sales and Use Tax Revenue Equalization Act and the Motor Carrier Fuel Tax Act, respectively, to incorporate the higher tax rates enacted under Public Act 176 and apply those tax rates to taxpayers affected by the these Acts.

#### 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 2018.

#### 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 2018, the

aviation fuel tax is projected to yield \$5.6 million, which is deposited into the state's Aeronautics Fund.

	<u><b>FY 2018 Estimate</b></u>
<b>Federally-Owned Aircraft</b>	\$323,000
Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.	

	<u><b>FY 2018 Estimate</b></u>
<b>Interstate Flight Refund</b>	\$3,600,000
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.

	<u><b>FY 2018 Estimate</b></u>
<b>Marine Vessel Exemption</b>	\$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 was 19 cents per gallon. The diesel fuel tax rate was 15 cents per gallon. Legislation enacted in 2015 raised both the tax on gasoline and the tax on diesel fuel

to 26.3 cents per gallon, effective January 1, 2017. 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 2018, motor fuel taxes will yield an estimated \$1,439.6 million including the new revenue from the higher tax rates.

**FY 2018 Estimate**

<b>Diesel Fuel for Railroads</b>	n.a.
Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	
<b>Evaporation and Loss Allowance</b>	\$17,930,000
The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.	
<b>Fuel for Job Sites and Charter Firms</b>	\$5,955,000
Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.	
<b>Fuel for Off-Road Use</b>	\$1,500,000
Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	
<b>Municipal Franchise Vehicles</b>	\$550,000
Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	
<b>Public Vehicles</b>	\$15,084,000
Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	
<b>Tribal Tax Agreements</b>	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. Legislation enacted in 2015 raised the registration fees for most passenger cars, vans, light trucks and large commercial trucks by 20 percent, beginning January 1, 2017. For FY 2018, the motor vehicle registration fee is projected to yield \$1,281.8 million, including the higher fees.

### FY 2018 Estimate

<b>Disabled Veterans' Vehicles</b>	\$700,000
Provides totally disabled veterans free vehicle license plates.	
<b>Handicapper Vans</b>	n.a.
Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	
<b>Intercity Commercial Buses</b>	n.a.
Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.	
<b>Public and Nonprofit Vehicles</b>	\$13,350,000
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 2018 Estimate

<b>Publicly-Owned Watercraft</b>	\$14,500
Levies a special fee of \$1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.	

## CHAPTER 8

### PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 1.9 percent from \$10,189.9 million in FY 2017 to \$10,382.3 million in FY 2018. Estimates related to property taxes have stopped decreasing due to the stabilization of property values in many parts of the state. Estimates were based on FY 2014 and FY 2015 data.

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

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

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

#### Property and Other Local Tax Expenditure Changes

**Public Act 19 of 2015** amended the General Property Tax Act to exclude certain conveyances of swamp land from a transfer of ownership, thus preventing a change in taxable value due to the conveyance.

**Public Act 107 of 2015** amended the General Property Tax Act to allow property that contains both productive forest and agricultural use property to be designated as qualified forest property exempt from the tax levied for local school operating purposes under certain conditions.

**Public Act 119 of 2015** amended the General Property Tax Act to revise the administration of exemptions for eligible manufacturing personal property.

**Public Act 120 of 2015** amended the State Essential Services Assessment Act to revise the year of ownership used to calculate the assessment and make changes regarding the administration of the assessment.

**Public Act 121 of 2015** amended the Alternative State Essential Services Assessment Act to revise the year or ownership used to calculate the assessment and make changes regarding the administration of the assessment.

**Public Act 122 of 2015** amended the Local Community Stabilization Authority Act to allow the small taxpayer exemption loss to be based on the change in taxable value between 2013 and 2015, revise certain loss calculations for municipality boundary changes, and make other changes in the administration of the Act.

**Public Act 123 of 2015** amended the Plant Rehabilitation and Industrial Development District Act to require the holder of industrial facilities exemption certificate that has been extended to notify the local assessor by February 20 of the first year that the personal property is eligible personal property under the State Essential Services Assessment Act.

**Public Act 125 of 2015** amended the Local Development Financing Act to allow for the designation of an additional six satellite SmartZones. A SmartZone designation allows for the capture of taxes due to incremental growth in taxable value within the zone.

**Public Act 217 of 2015** amended the Real Estate Transfer Tax Act to add a qualification that a sales transaction be for a price at which a willing buyer and a willing seller would arrive at through an arms-length negotiation to the exemption from the transfer tax for sales where the state equalized value has not increased since the date of acquisition. The Act also eliminated a penalty if the sales price in such a transaction was for a value other than true cash value.

**Public Act 218 of 2015** amended the Commercial Rehabilitation Act to extend the sunset for new exemption certificates to be issued until December 31, 2020. The previous authority to issue exemption certificates expired on December 31, 2015.

**Public Act 243 of 2015** amended the General Property Tax Act to allow residential real property that was subject to a life estate or life lease to be transferred to certain relatives after the estate or lease has ended without being considered a transfer of ownership for purposes of adjusting the property's taxable value.

### **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 2018 collections are projected to total \$36.0 million.

**FY 2018 Estimate**

**Broadband Investment Credit** \$24,800,000

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** \$36,000,000

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>Non-homestead 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	33.13	50.40	39.70
2011	33.68	50.97	40.00
2012	33.47	51.24	40.40
2013	33.53	51.47	40.47
2014	33.92	51.77	40.79
2015	34.21	52.33	41.12

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Non-homestead millage rates from Office of Revenue and Tax Analysis, Michigan Department of Treasury.

### FY 2018 Estimate

#### **Agricultural Transfers**

\$40,400,000

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

**FY 2018 Estimate**

<b>Air and Water Pollution Control</b>	\$130,000,000
Exempts air and water pollution control equipment from the property tax after approval and certification by the State Tax Commission.	
<b>Cultural Organizations</b>	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. Data are not available to estimate this item.	
<b>Disabled Veteran Homestead Exemption</b>	\$22,500,000
Exempts from property taxes real property used and owned by a disabled veteran who is entitled to veterans' benefits at the 100 percent rate, has received or is receiving assistance due to disability for specially adapted housing, or has been rated by the U.S. Department of Veterans Affairs as unemployable.	
<b>Energy Conservation Devices</b>	\$40,000
Exempts energy conservation devices from property tax. This exemption must be approved and certified by the State Tax Commission.	
<b>Fairground Property</b>	n.a.
Exempts property owned by an agricultural society and used primarily for fair purposes.	
<b>Homestead Exemption</b>	\$3,300,000,000
Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills, generally 18 mills.	
<b>Homestead Exemption for Farm Property</b>	\$180,400,000
Exempts qualified agricultural property, including houses, from local school operating mills.	
<b>Industrial Facilities Development</b>	\$240,500,000
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. The full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 18 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.

<b>Neighborhood Enterprise Zones</b>	\$28,600,000
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, 24 cities participate in this program.	
<b>Next Energy Exemption</b>	\$3,800,000
Provides an exemption for alternative energy personal property certified by the Michigan Next Energy Authority from personal property taxes. The exemption is intended to help promote the research, development, and manufacturing of alternative energy technologies in Michigan.	
<b>Obsolete Property Rehabilitation Exemption</b>	\$12,800,000
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.	
<b>Personal Property Ad Valorem Exemptions</b>	\$378,700,000
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.	
<b>Personal Property Industrial Facilities</b>	\$71,300,000
Provides an exemption from the industrial facilities tax equal to the portion of the tax attributable to the 6 mills for state education tax and the 18 mills for school operations.	

**FY 2018 Estimate**

**Small Taxpayer Exemption/Eligible Manufacturing Personal Property** \$410,500,000

The small taxpayer exemption provides an exemption for personal property classified as industrial or commercial personal property if, among other qualifications, the true cash value of all industrial and commercial personal property owned by, leased by or in the possession of the owner in a tax collecting unit is less than \$80,000.

Eligible Manufacturing Personal Property (EMPP) is personal property used at least 50% of the time in industrial processing or direct integrated support. EMPP is exempt if placed in service after 2012 or more than 10 years before the tax year, e.g. for 2017, placed in service before 2007. Exempt EMPP is subject to the state Essential Services Assessment.

**Poverty Exemption** \$9,100,000

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** \$67,000,000

Exempts homeowners in a Renaissance Zone or a business that is located and conducts business activity within a Renaissance Zone from most property taxes.

**Tax-Exempt Property** \$1,837,000,000

Exhibit 18 reports the results from the 2014 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 17 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 \$34.7 billion. If taxed at the 2015 average nonhomestead statewide rate of 52.33 mills, tax-exempt property would have yielded \$1.82 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.

**FY 2018 Estimate**

<b>Tax-Exempt Acreage</b>	n.a.
Exhibit 19 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 571,025 acres in 2015.	
<b>Tax-Exempt County and Municipal Property</b>	\$252,000,000
Exempts real property owned by counties, townships, cities, villages, and school districts.	
<b>Tax-Exempt Federal Property</b>	\$336,000,000
Exempts real property belonging to the United States government.	
<b>Tax-Exempt Other Real Tax Exempt Property</b>	\$182,000,000
Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.	
<b>Tax-Exempt Personal Property</b>	\$406,000,000
Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment.	
Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.	
<b>Tax-Exempt Public Education Property</b>	\$485,000,000
Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.	
<b>Tax-Exempt Specifically-Taxed Property</b>	n.a.
Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure.	
<b>Tax-Exempt State Property</b>	\$176,000,000
Exempts real property owned by the State of Michigan.	

**FY 2018 Estimate**

**Tax Increment Financing**

\$335,000,000

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**

\$2,937,600,000

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 were previously on the tax rolls.

**Water Softeners and Water Coolers**

\$1,310,000

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

**Iron Ore Specific Tax**

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$13.5 million in FY 2016. The state's share of the iron ore specific tax is deposited into the School Aid Fund. The state received \$7.7 million in FY 2016.

# Exhibit 17 Counties of Michigan



**Exhibit 18**  
**Estimated Taxable Value of Exempt Real and Personal Property by County, 2015**  
**(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	\$210,400	\$97,198	\$7,143	\$24,099	\$15,649
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN *	120,594	0	0	0	0
ALPENA *	8,372	9,094	68,954	103,000	68,200
ANTRIM *	0	0	0	0	0
ARENAC	1,247	517	4,553	1,437	1,150
BARAGA *	3,168	20,100	39,143	20,860	24,515
BARRY	5,578	800	53,680	24,542	51,179
BAY *	144,357	15,669	13,958	19,377	212,856
BENZIE *	0	33,116	85,394	20,320	5,463
BERRIEN	49,046	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN	193,926	n.a	n.a	n.a	n.a
CASS *	22,739	10	3,419	20,837	133,043
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 *	915	28,545	330,000	6,233	21,150
DELTA *	20,090	56,950	14,051	12,450	27,608
DICKINSON	15,757	4,441	8,477	10,200	47,000
EATON	143,175	319	20,427	126,606	44,685
EMMET	7,139	0	61,189	324	2,308
GENESEE	52,084	18,714	62,575	535,494	624,452
GLADWIN	6,300	0	25,000	13,000	31,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	6,778	8,954	45,046	114,401	37,472
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	50,577	270	3,700	21,000	75,000
HOUGHTON	0	17,472	99,056	13,302	134,815
HURON*	56,841	39,400	10,542	85,700	0
INGHAM *	186,082	n.a.	n.a	n.a.	n.a.
IONIA *	16,624	0	3,297	17,255	21,800
IOSCO *	0	7,893	49,295	3,394	185
IRON	1,680	16,800	12,600	3,552	2,420
ISABELLA	13,581	n.a.	n.a.	n.a.	n.a.
JACKSON *	94,089	2,000	201,000	38,000	98,000
KALAMAZOO	165,126	40,151	408,192	862,108	1,598,560
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	543,538	24,450	23,766	174,895	484,900
KEWEENAW	0	72,689	8,196	11,409	1,727

### Exhibit 18 (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	\$850	\$144,939	\$742,912	16.3%
ALGER*	55,000	0	88,568	\$369,336	19.3%
ALLEGAN *	113,900	0	113,900	\$4,402,665	2.5%
ALPENA *	174,760	0	424,008	\$906,860	31.9%
ANTRIM *	0	0	0	\$1,738,648	0.0%
ARENAC	32,737	0	40,395	\$558,316	6.7%
BARAGA *	53,017	125,669	283,304	\$248,920	53.2%
BARRY	67,958	37,198	235,357	\$2,005,640	10.5%
BAY *	255,154	2,593	519,607	\$2,847,130	15.4%
BENZIE *	0	15,503	159,796	\$1,158,547	12.1%
BERRIEN	1,653	0	1,653	\$7,436,838	0.0%
BRANCH *	0	6,500	22,304	\$1,354,299	1.6%
CALHOUN	n.a	n.a	0	\$3,631,214	0.0%
CASS *	0	0	157,309	\$1,981,762	7.4%
CHARLEVOIX *	3,526	13	95,653	\$2,031,837	4.5%
CHEBOYGAN *	28,393	9,494	171,493	\$1,355,502	11.2%
CHIPPEWA *	21,200	3,500	1,374,928	\$1,094,634	55.7%
CLARE *	72,638	0	139,129	\$1,009,853	12.1%
CLINTON *	43,215	0	86,430	\$2,547,205	3.3%
CRAWFORD *	53,403	20,000	459,331	\$537,771	46.1%
DELTA *	0	0	111,059	\$1,206,605	8.4%
DICKINSON	6,188	32,583	108,889	\$1,000,015	9.8%
EATON	211,871	154,268	558,176	\$3,353,543	14.3%
EMMET	0	0	63,821	\$2,694,572	2.3%
GENESEE	511,345	0	1,752,580	\$8,708,327	16.8%
GLADWIN	6,315	2,460	77,775	\$942,702	7.6%
GOGEBIC *	330	302	44,759	\$502,637	8.2%
GRAND TRAVERSE *	13	17,587	223,473	\$4,620,529	4.6%
GRATIOT *	135,000	10,000	349,600	\$1,288,021	21.3%
HILLSDALE	53,885	42,500	196,355	\$1,292,178	13.2%
HOUGHTON	2,604	9,946	277,195	\$852,538	24.5%
HURON*	0	0	135,642	\$2,194,992	5.8%
INGHAM *	n.a.	n.a.	n.a.	\$7,277,681	n.a.
IONIA *	3,900	0	46,252	\$1,525,820	2.9%
IOSCO *	0	597	61,364	\$1,131,037	5.1%
IRON	0	0	35,372	\$486,818	6.8%
ISABELLA	n.a.	n.a.	0	\$1,711,806	0.0%
JACKSON *	200,000	5,000	544,000	\$4,317,954	11.2%
KALAMAZOO	146,954	116,844	3,172,809	\$8,170,844	28.0%
KALKASKA *	100,000	55,000	451,000	\$732,416	38.1%
KENT *	1,840,872	158,010	2,706,893	\$21,007,675	11.4%
KEWEENAW	383	63,840	158,244	\$134,765	54.0%

**Exhibit 18 (Continued)**

<u>County</u>	<b>Industrial Facilities</b>			<b>County and Public Education</b>	
	<u>Tax</u>	<u>Federal</u>	<u>State</u>	<u>Municipal</u>	<u>Education</u>
LAKE *	\$118	\$73,422	\$41,768	\$8,266	\$9,252
LAPEER *	57,151	3,272	16,794	140,854	98,456
LEELANAU *	5	429,884	6,064	29,543	14,000
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON	99,500	453	3,282	183,061	185,054
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB *	795,737	2,939,414	82,904	461,687	880,193
MANISTEE	11,458	134,182	41,362	36,789	39,469
MARQUETTE *	20,100	63,000	45,000	24,000	210,000
MASON *	6,068	136,000	33,300	89,300	171,000
MECOSTA	121	7,500	4,000	11,000	400,000
MENOMINEE	4,473	0	74,966	94	705
MIDLAND *	162,044	335	9,130	75,210	90,150
MISSAUKEE	2,449	36	58,053	4,714	20,373
MONROE *	132,623	145	10,908	80,528	177,373
MONTCALM	6,851	n.a.	0	n.a.	n.a.
MONTMORENCY *	360	120,000	36,000	20,000	13,000
MUSKEGON	86,401	17,203	85,847	144,474	261,309
NEWAYGO *	3,172	n.a.	n.a.	n.a.	n.a.
OAKLAND	260,561	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	558	222,685	28,213	4,518	11,401
OSCEOLA	12,442	0	4,689	5,580	23,316
OSCODA *	734	279,766	96,109	21,910	33,483
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	558,689	19,029	28,333	189,310	795,443
PRESQUE ISLE *	373,177	0	40,315	108,911	n.a.
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW	170,879	26,368	156,500	212,800	696,000
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH *	104,296	n.a.	n.a.	n.a.	n.a.
SANILAC	8,502	n.a.	n.a.	n.a.	n.a.
SCHOOLCRAFT *	10,039	n.a.	n.a.	n.a.	48,867
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	18,230	n.a.	n.a.	n.a.	0
<b>TOTAL</b>	<b>\$5,671,240</b>	<b>\$6,352,357</b>	<b>\$3,323,708</b>	<b>\$4,764,526</b>	<b>\$9,158,475</b>

Note: Wayne and Ingham Counties are not in totals. 2014 taxable value for Wayne County was \$40.0 billion.

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

### Exhibit 18 (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 *	\$680	\$5,462	\$138,850	\$547,934	20.2%
LAPEER *	184,151	0	443,527	\$2,689,657	14.2%
LEELANAU *	0	45,833	525,324	\$2,523,729	17.2%
LENAWEE *	0	21,000	362,400	\$3,198,853	10.2%
LIVINGSTON	59,031	84,661	515,542	\$8,053,583	6.0%
LUCE *	650	1,749	17,321	\$188,660	8.4%
MACKINAC *	7,817	2,164	131,295	\$996,402	11.6%
MACOMB *	159,121	415,808	4,939,127	\$25,559,369	16.2%
MANISTEE	51,783	56,992	360,577	\$1,114,840	24.4%
MARQUETTE *	0	242,000	584,000	\$2,285,219	20.4%
MASON *	0	80,800	510,400	\$1,705,609	23.0%
MECOSTA	76,268	4,264	503,032	\$1,246,835	28.7%
MENOMINEE	0	4,431	80,196	\$728,673	9.9%
MIDLAND *	154,540	110,240	439,605	\$3,684,556	10.7%
MISSAUKEE	0	0	83,176	\$577,196	12.6%
MONROE *	0	8,671	277,625	\$5,683,925	4.7%
MONTCALM	89,554	0	89,554	\$1,728,250	4.9%
MONTMORENCY *	0	175,000	364,000	\$494,985	42.4%
MUSKEGON	567,395	0	1,076,228	\$4,351,224	19.8%
NEWAYGO *	n.a.	n.a.	0	\$1,470,210	0.0%
OAKLAND	145,114	n.a.	145,114	\$51,900,870	0.3%
OCEANA *	4,100	0	43,900	\$1,162,981	3.6%
OGEMAW *	0	2,844	36,331	\$817,582	4.3%
ONTONAGON	28,344	116,596	411,757	\$255,268	61.7%
OSCEOLA	188,275	6,630	228,490	\$699,672	24.6%
OSCODA *	7,365	7,552	446,185	\$388,408	53.5%
OTSEGO *	45,800	3,665	160,066	\$1,137,047	12.3%
OTTAWA	0	723,923	1,756,038	\$10,297,570	14.6%
PRESQUE ISLE *	n.a.	n.a.	149,226	\$654,948	18.6%
ROSCOMMON*	8,400	9,514	285,832	\$1,256,513	18.5%
SAGINAW	1,551,145	245,700	2,888,513	\$4,926,214	37.0%
SAINT CLAIR*	129,346	178,053	850,371	5,628,255	13.1%
SAINT JOSEPH *	n.a.	n.a.	0	1,959,155	0.0%
SANILAC	n.a.	n.a.	0	1,539,745	0.0%
SCHOOLCRAFT *	n.a.	n.a.	48,867	356,852	12.0%
SHIAWASSEE *	12,000	0	192,175	1,701,037	10.2%
TUSCOLA*	0	0	0	1,765,660	0.0%
VAN BUREN *	1,500	0	22,500	3,170,045	0.7%
WASHTENAW *	774	647	12,384	14,925,391	0.1%
WEXFORD	n.a.	n.a.	0	934,894	0.0%
<b>TOTAL</b>	<b>\$7,669,368</b>	<b>\$3,444,456</b>	<b>\$34,712,889</b>	<b>\$280,143,499</b>	<b>11.0%</b>

Note: Wayne and Ingham Counties are not in totals. 2014 taxable value for Wayne County was \$40.0 billion.

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

**Exhibit 19**  
**General Property Tax – Estimated Exempt Acreage by County, 2015**

<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 *	2,675
ALPENA *	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON	220
ARENAC	23,112	LUCE *	2,300
BARAGA	56,703	MACKINAC *	240
BARRY *	31,269	MACOMB *	5,467
BAY*	3,650	MANISTEE	4,500
BENZIE *	554	MARQUETTE *	190
BERRIEN *	6,812	MASON *	620
BRANCH *	425	MECOSTA	2,700
CALHOUN *	5,670	MENOMINEE	80,196
CASS *	773	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	900
CHEBOYGAN *	10,950	MONROE *	3,200
CHIPPEWA *	1,500	MONTCALM *	7,000
CLARE *	172	MONTMORENCY *	200
CLINTON *	100	MUSKEGON	2,100
CRAWFORD *	1,519	NEWAYGO *	6,800
DELTA *	700	OAKLAND *	4,725
DICKINSON	250	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 *	2,490	OTTAWA	7,300
GRATIOT *	300	PRESQUE ISLE *	92,659
HILLSDALE	2,900	ROSCOMMON *	1,398
HOUGHTON	6,985	SAGINAW	4,500
HURON *	341	SAINT CLAIR *	11,972
INGHAM *	n.a.	SAINT JOSEPH *	8,712
IONIA *	544	SANILAC *	0
IOSCO *	32,857	SCHOOLCRAFT *	n.a.
IRON	50	SHIAWASSEE *	325
ISABELLA *	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN *	4,530
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA *	340	WEXFORD	<u>343</u>
KENT *	3,200		
KEWEENAW	12,008	TOTAL	571,025

\* Based on a previous year's survey.

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 2016 state share of this tax totaled \$3.2 million indicating \$4.7 million in total state and local collections. Exhibit 20 only shows the county share of the tax.

### FY 2018 Estimate

#### **Mobile Home Tax Expenditure**

\$60,200,000

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.

## Essential Services Assessment Tax

Enacted in 2014, the Essential Services Assessment (ESA) is imposed on manufacturing personal property otherwise exempt from the general property tax. The tax is imposed at a declining rate based on increasing age. The Michigan Strategic Fund may exempt property from the regular rate of the ESA and either subject the property to the alternative rate (1/2 of the regular rate) or exempt the property entirely, based on certain conditions. The tax is due by August 15<sup>th</sup> and is deposited into the General Fund. The ESA is projected to yield \$82.1 million in FY 2018.

### FY 2018 Estimate

#### **Exempt Property**

\$3,900,000

Partial or full exemptions from the ESA may be granted by the Michigan Strategic Fund for personal property that is part of a broader business plan that includes at least \$25 million in personal property investment.

## **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 \$35.3 million in 2014 (see Exhibit 20).

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 \$315.7 million in FY 2018.

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 \$21.6 million in 2014 (see Exhibit 20).

## **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 2015, city income taxes totaled \$500.0 million after raising \$462.5 million in 2014 (see Exhibit 22). 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 2018 Estimate**

<b>Federal Deductions</b>	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.	
<b>Net Profits of Financial Institutions</b>	n.a.
Exempts net profits of financial institutions and insurance companies from the city income tax. No statewide estimate is available.	
<b>Nonresident Reduced Rate</b>	\$240,513,000
Nonresidents' income is taxed at half the rate paid by residents.	
<b>Pensions, Annuities, and Retirement Plans</b>	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.	
<b>Personal Exemption</b>	\$10,300,000
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.	
<b>Supplemental Unemployment Benefits</b>	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 600,000 or more. Currently, Detroit is the only city in Michigan 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 \$37.9 million in 2015.

**Exhibit 20**  
**Miscellaneous Local Taxes Kept by Counties, 2014**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA *	\$0	\$135	\$43,471
ALGER	0	160	28,995
ALLEGAN *	0	29,436	453,342
ALPENA	0	715	64,582
ANTRIM	0	261	150,459
ARENAC	0	1,652	46,280
BARAGA	0	0	17,999
BARRY *	0	4,233	198,876
BAY *	0	13,780	185,739
BENZIE	0	422	112,021
BERRIEN	0	0	676,479
BRANCH	0	3,155	118,292
CALHOUN	1,279,065	16,437	0
CASS *	0	3,509	176,691
CHARLEVOIX	0	2,835	119,657
CHEBOYGAN	0	1,021	89,602
CHIPPEWA	0	2,170	62,031
CLARE	0	2,011	69,711
CLINTON	0	10,021	259,067
CRAWFORD	0	0	29,808
DELTA *	0	4,182	78,040
DICKINSON	0	2,240	60,985
EATON	0	8,237	321,152
EMMET	0	1,919	333,823
GENESEE	1,309,443	49,883	936,102
GLADWIN *	0	1,901	75,676
GOGEBIC	0	131	39,629
GRAND TRAVERSE	0	9,543	571,435
GRATIOT	0	4,511	98,620
HILLSDALE *	0	2,281	118,334
HOUGHTON	0	0	106,116
HURON	0	2,666	126,152
INGHAM *	122,456	808	14,150
IONIA	0	5,245	140,320
IOSCO	0	423	70,204
IRON	0	226	25,732
ISABELLA	0	4,994	155,913
JACKSON	0	22,092	334,432
KALAMAZOO *	2,332,566	19,363	879,570
KALKASKA	0	160	55,942
KENT	7,660,224	50,989	3,077,951
KEWEENAW	0	0	15,319

**Exhibit 20 (Continued)**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$38,573
LAPEER *	0	11,507	226,346
LEELANAU *	0	632	268,589
LENAWEE	0	10,541	282,344
LIVINGSTON	0	20,295	1,017,001
LUCE	0	0	16,218
MACKINAC *	0	65	56,687
MACOMB	0	67,791	2,794,557
MANISTEE	0	156	76,811
MARQUETTE	0	2,691	172,529
MASON	0	2,934	101,379
MECOSTA	0	2,402	93,171
MENOMINEE	0	957	49,948
MIDLAND *	0	6,024	286,222
MISSAUKEE *	0	45	32,163
MONROE	0	30,616	499,093
MONTCALM	0	4,238	1,268,869
MONTMORENCY	0	69	31,333
MUSKEGON *	914,573	18,686	398,847
NEWAYGO	0	4,924	160,217
OAKLAND	0	84,319	7,447,033
OCEANA *	0	2,681	97,396
OGEMAW *	0	457	38,328
ONTONAGON	0	0	14,484
OSCEOLA	0	828	51,768
OSCODA	0	18	27,270
OTSEGO	0	524	95,071
OTTAWA	0	30,243	1,347,403
PRESQUE ISLE *	0	354	32,736
ROSCOMMON	0	1,957	100,138
SAGINAW	2,731,436	12,088	344,048
SAINT CLAIR *	0	84,992	479,913
SAINT JOSEPH	0	5,117	169,625
SANILAC	0	6,402	127,945
SCHOOLCRAFT *	0	24	20,228
SHIAWASSEE	0	8,821	135,574
TUSCOLA	0	3,373	109,366
VAN BUREN	0	4,396	261,726
WASHTENAW	5,208,377	30,647	1,898,267
WAYNE *	0	76,019	4,062,968
WEXFORD	0	2,227	64,002
<b>TOTAL</b>	<b>\$21,558,139</b>	<b>\$823,793</b>	<b>\$35,334,880</b>

\* Figures carried forward from a previous year.

**Exhibit 21**  
**Estimated Tax Expenditures From**  
**City Income Tax Personal Exemptions, 2014**

<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	13,341	\$80,046	2,964	\$10,429
Battle Creek	42,654	319,905	40,412	151,545
Big Rapids	2,623	15,738	13,683	41,049
Detroit *	172,652	2,486,189	247,900	1,784,880
Flint	37,262	223,572	59,071	177,213
Grand Rapids	122,000	1,098,000	160,349	721,571
Grayling	810	24,300	3,935	59,025
Hamtramck	14,436	86,616	8,787	26,361
Highland Park	6,625	79,500	6,181	37,086
Hudson *	1,762	17,620	1,251	6,255
Ionia	5,305	37,135	12,562	43,967
Jackson	15,927	95,562	30,354	91,062
Lansing *	75,693	454,158	99,892	299,676
Lapeer	6,066	36,396	16,319	48,957
Muskegon	11,880	71,280	27,243	81,729
Muskegon Heights *	1,427	8,562	4,005	12,015
Pontiac *	17,733	106,398	48,713	146,139
Port Huron	17,295	103,770	20,309	60,927
Portland	2,894	28,940	2,057	10,285
Saginaw	21,168	238,140	37,728	212,220
Springfield	4,020	30,150	6,049	22,684
Walker	19,864	119,184	34,722	104,166
<b>TOTAL</b>	<b>613,437</b>	<b>\$5,761,161</b>	<b>884,486</b>	<b>\$4,149,240</b>

\* Used from previous year's survey

**Exhibit 22**  
**City Tax Rates and Exemption Allowances, 2014**

<u>City</u>	<u>City Income Tax Rate</u>			<u>Personal Exemption</u>	<u>Collections (000s)</u>
	<u>Resident</u>	<u>Non-Resident</u>	<u>Corporation</u>		
Albion	1.00%	0.50%	1.00%	\$600	\$1,051
Battle Creek	1.00%	0.50%	1.00%	750	16,419
Big Rapids	1.00%	0.50%	1.00%	600	2,021
Detroit	2.40%	1.20%	2.00%	600	250,760
Flint	1.00%	0.50%	1.00%	600	14,954
Grand Rapids	1.50%	0.75%	1.50%	600	77,359
Grayling	1.00%	0.50%	1.00%	3,000	489
Hamtramck	1.00%	0.50%	1.00%	600	1,879
Highland Park	2.00%	1.00%	2.00%	600	3,070
Hudson	1.00%	0.50%	1.00%	1,000	471
Ionia	1.00%	0.50%	1.00%	700	2,201
Jackson	1.00%	0.50%	1.00%	600	8,284
Lansing	1.00%	0.50%	1.00%	600	31,013
Lapeer	1.00%	0.50%	1.00%	600	2,832
Muskegon	1.00%	0.50%	1.00%	600	7,986
Muskegon Heights	1.00%	0.50%	1.00%	600	971
Pontiac	1.00%	0.50%	1.00%	600	10,682
Port Huron	1.00%	0.50%	1.00%	600	6,264
Portland	1.00%	0.50%	1.00%	1,000	599
Saginaw	1.50%	0.75%	1.50%	750	12,291
Springfield	1.00%	0.50%	1.00%	750	788
Walker	1.00%	0.50%	1.00%	600	10,119
<b>TOTAL</b>					<b>\$462,503</b>