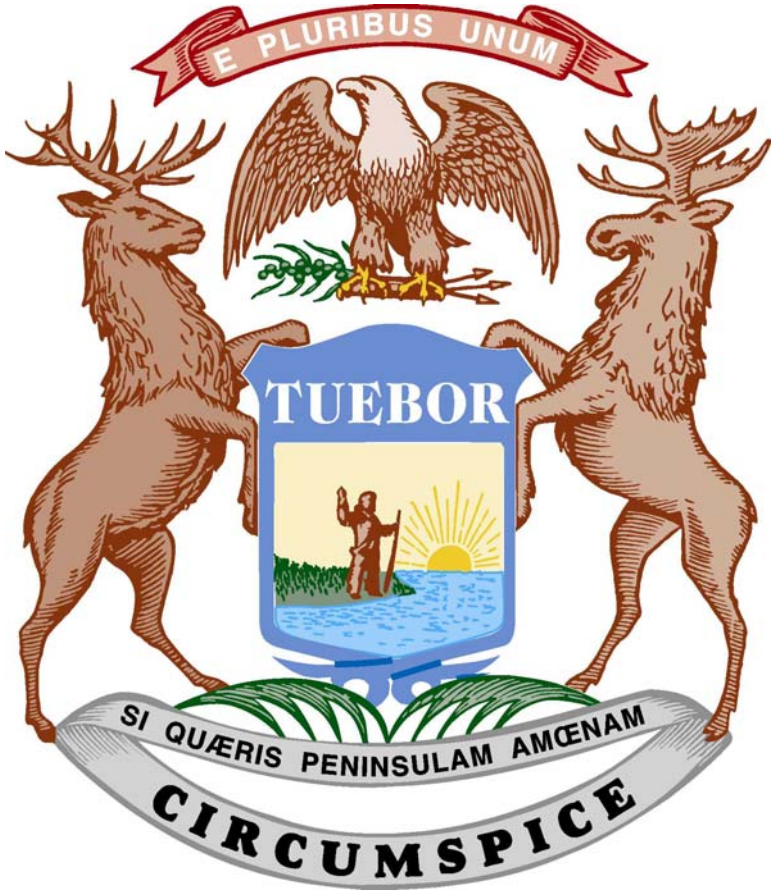
MICHIGAN'S SALES AND USE TAXES 2010



Tax Analysis Division
Office of Revenue and Tax Analysis
Michigan Department of Treasury
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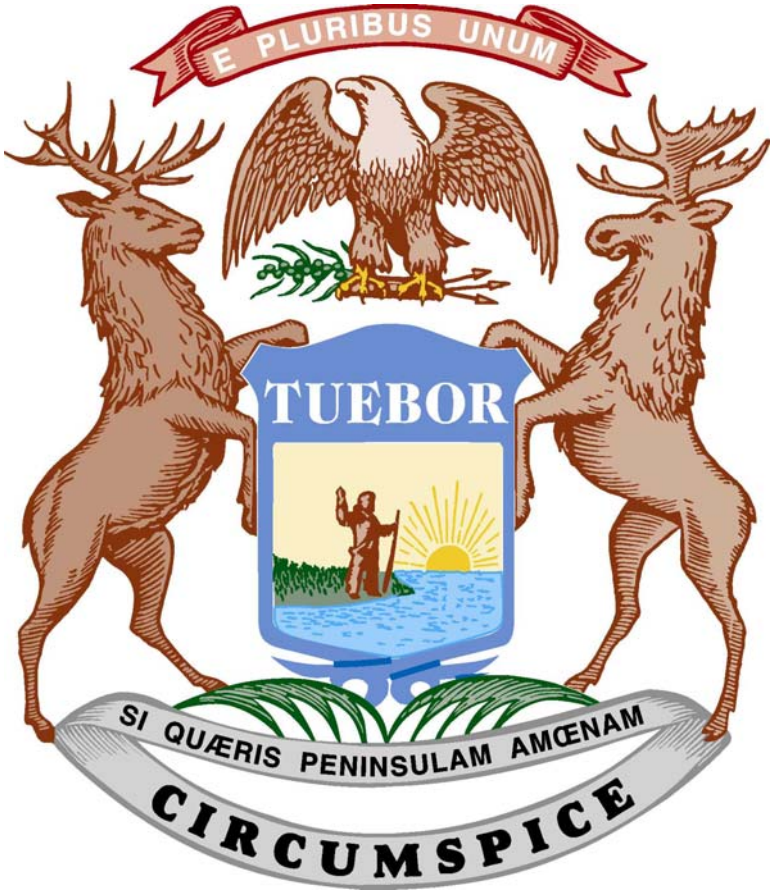

Acknowledgments

Scott Darragh prepared this report under the direction of Howard Heideman, Director of the Tax Analysis Division, Office of Revenue and Tax Analysis, Michigan Department of Treasury. Michael Eschelbach of the Tax Policy Division previously provided assistance on the Streamlined Sales and Use Tax Agreement.

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I. EXECUTIVE SUMMARY

- Michigan sales and use tax revenue totaled $7.751 billion in Fiscal Year (FY) 2010, an increase of 5.1 percent from FY 2009. FY 2010 sales tax revenue was $6.177 billion and FY 2010 use tax revenue was $1.574 billion. The increase in use tax revenue (22.6 percent) was due to both an increase in use tax collections overall and FY 2010 being the first full year of the expansion of the use tax to health maintenance organizations that serve Medicaid recipients.

- Most Michigan sales tax revenue is dedicated to the state School Aid Fund (73.3 percent) and local government revenue sharing (24.2 percent). Michigan use tax revenue is dedicated to the General Fund (66.7 percent) and School Aid Fund (33.3 percent).

- Exemptions and other tax expenditures reduced sales and use tax collections by an estimated $13.8 billion in FY 2010. Untaxed services remain the largest single source of tax expenditures.

- The automotive retail sector remits the largest share of sales tax revenue at $1.81 billion. The telecommunications sector provides the largest share of use tax revenue at $250.5 million.

- The sales and use tax revenue base is being eroded by rapidly growing remote sales (mail order and Internet). Michigan's tax revenue losses from consumer remote sales are estimated at $368 million in FY 2010. The estimated revenue losses are projected to grow to $451 million in FY 2013.

- Tennessee has the highest average effective combined state and local sales tax rate at 9.01 percent. However, the highest combined state and local statutory sales tax rate is 12.0 percent, levied in Arab, Alabama. With an effective rate of 6.0 percent, Michigan and four other states rank 11th lowest among the 45 states with a sales tax.

- Washington has the highest amount of general sales tax revenue as a percent of personal income at 4.87 percent. Michigan ranks 27th highest at 2.34 percent, below the national average of 2.49 percent.

II. INTRODUCTION

This report provides a brief history of the Michigan sales and use taxes and examines data on sales and use tax revenue. The impact of remote sales on sales and use tax revenue is also discussed.

History

The first sales tax in the United States was enacted by the state of Mississippi in 1932. Michigan followed the next year by enacting Public Act 167 of 1933, which levied a three percent tax on all retail sales of personal property. Initially, the only exemptions from the Michigan sales tax were sales to federal and state governments and sales of goods for later resale. Eight other states also enacted a sales tax in 1933. Currently, 45 states and the District of Columbia levy a sales tax. Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a sales tax. Additionally, many states allow local governmental units (municipalities, school districts, and counties) to levy a sales tax. Michigan does not allow any local sales taxes. Although local sales taxes are not expressly prohibited by the Michigan Constitution, the Michigan Attorney General has interpreted the Constitution as effectively prohibiting them. The maximum sales tax rate under the Constitution is 6 percent, the current tax rate levied by the state.

In 1933, the Michigan sales tax rate was 3 percent, and was limited by the Michigan Constitution. A 1960 constitutional amendment increased the maximum sales tax rate to 4 percent effective January 1, 1961. A constitutional amendment was passed in 1994 that raised the maximum sales tax rate to 6 percent, as a partial revenue replacement for property and income tax reductions.

In 1937, Michigan enacted Public Act 94 that created the use tax to correspond with the Michigan sales tax. The purpose of the use tax was to prevent Michigan residents from avoiding the sales tax by purchasing taxable items in another state or country. The use tax applies to the use, storage, or consumption of tangible personal property. The use tax applies to items that are rented, leased, or purchased from outside Michigan for use in Michigan. The Michigan use tax rate has always been the same as the sales tax rate.

Interstate Comparisons

Sales and use tax rates vary widely among the states. California now has the highest state sales tax rate at 7.25 percent, with Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee close behind at 7 percent. Of states with a sales tax, Colorado has the lowest sales tax rate at 2.9 percent. Thirty-six states have local units that levy a sales tax. The highest combined state and local sales tax rate that is levied within at least one jurisdiction in a state is 12 percent, levied in Arab, Alabama. Jurisdictions in four other states (Arkansas, Illinois, Louisiana, and Oklahoma) levy combined state and local taxes of at least 11 percent. This report attempts to consider only tax rates levied throughout a local jurisdiction.

Revenue

Sales and use taxes are the largest source of tax revenue for the State of Michigan. In Fiscal Year (FY) 2010, sales and use taxes totaled $7.75 billion, or 35.5 percent of Michigan tax revenue. The personal income tax, by comparison, accounted for 25.3 percent of tax revenue. Before the passage of school-finance reform in 1994, Michigan sales and use taxes made up approximately 29 percent of total state tax revenue and the income tax provided approximately 35 percent of the total.

The sales tax generated $6,176.8 million in FY 2010, an increase of $87.7 million (1.4 percent) from FY 2009. While sales tax revenue increased from FY 2009 to 2010, the FY 2010 total was the lowest revenue total of the decade except for 2009. Sales tax revenue accounted for 28.3 percent of total state taxes in FY 2010. Despite the low revenue total generated by the sales tax in the past couple of years, the share of total state taxes provided by the sales tax has risen due to impact of the poor economy on other state taxes.

The use tax generated $1,573.7 million in FY 2010, an increase of $290.0 million (22.6 percent) from FY 2009. The increase in use tax revenue included approximately $199 million in additional revenue from the use tax on health maintenance organizations (HMOs) that provided Medicaid services. This expansion of the use tax was enacted in 2008 to raise funds to maintain Medicaid services and took effect on April 1, 2009. FY 2010 represented the first full year the expansion was in place. Use tax revenue increased by 8.2 percent in FY 2010 excluding the new tax on Medicaid HMOs. The use tax accounted for 7.2 percent of total state tax revenue in FY 2010. Exhibits 3, 4, and 5 provide a history of sales and use tax revenue and the percentage of total state taxes each tax comprises.

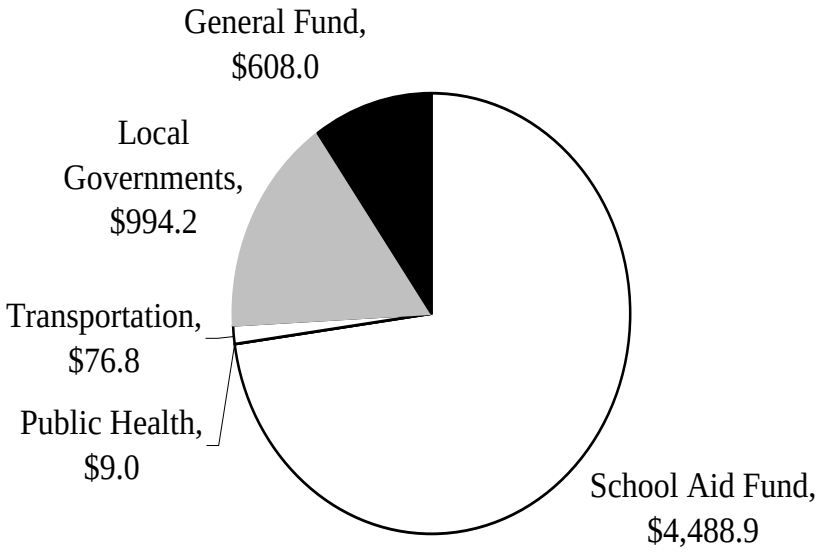
Distribution

Michigan sales and use taxes are levied similarly, but the revenue from the two taxes is distributed differently. Two-thirds of use tax revenue is deposited in the General Fund, while one-third is deposited in the School Aid Fund (SAF). Sales tax revenue is constitutionally and statutorily earmarked to several funds. The Michigan Legislature passed the Sales Tax Diversion Amendment in 1946, which provided a formula for the distribution of sales tax revenue to schools, local governments, and the General Fund. School-finance reform enacted in 1994 earmarked all the revenue from the 2 percent increase in the sales and use tax rates to the SAF. Also, legislation enacted in 1996 made the sales tax the only source of funding for local revenue sharing which had previously received funds from four different taxes.

As stated previously, the 2 percent increase in the sales tax rate enacted in 1994 is constitutionally dedicated to the SAF, along with 60 percent of the tax generated by the sales tax at the 4 percent rate. Of the remaining revenue generated by the sales tax at the 4 percent rate, 15 percent is constitutionally earmarked to revenue sharing for local governments on a per capita basis, with another 21.3 percent earmarked to local governments based on a statutory allocation. The statutory allocation is subject to legislative appropriation. The remaining 3.7 percent of sales tax revenue raised by the 4 percent rate is deposited into the General Fund, except that 27.9

percent of one percent generated from automotive-related sales is deposited into the Comprehensive Transportation Fund (CTF). Additionally, an amount equal to the sales tax on sales of computer software must be deposited into a fund for the Michigan Public Health Initiative. The amount earmarked to the Public Health Initiative is required by law to be at least $9 million and no more than $12 million each year. The General Fund has received an increased share of sales tax collections in recent years due to reductions in the amount of statutory revenue sharing appropriated by the Legislature, and to the temporary elimination of revenue sharing payments to counties as part of the acceleration of county property tax collections into the summer. The shift of county tax collections allowed counties to gradually draw down the accelerated collections as a replacement for revenue sharing. Some counties have begun receiving revenue sharing payments again, resulting in larger appropriations for revenue sharing and a smaller portion of sales tax collections available to the General Fund. The distribution of sales tax revenue for FY 2010 is shown in Exhibit 1.

Exhibit 1
Sales Tax Revenue Distribution
Fiscal Year 2010



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exemptions

The Michigan sales and use tax bases have become narrower since the inception of these taxes due to exemptions. A chronology of the major legislative changes to the sales and use tax is shown in Exhibit 2. The narrowing of the tax bases results in a large loss of potential revenue to the state.

Exhibit 2
Chronology of the Michigan Sales and Use Tax
Changes in Statute

1933 The Michigan sales tax is enacted under Public Act 167 of 1933. Exempts only sales to federal and state governments and sales of goods that would be resold. Services are generally exempt.

1935 Exempts sales of tangible personal property for use in industrial processing or agricultural production along with sales to nonprofit organizations.

1937 The Michigan use tax is enacted under Public Act 94 of 1937. The use tax base exempts property already subject to the Michigan sales tax, property exempt under state or federal law, and property that is temporarily brought into the state by a nonresident. Does not tax services.

1939 Exempts transactions involving commercial vessels.

1946 The Michigan Legislature passes the Sales Tax Diversion Amendment. This amendment to the Michigan Constitution established a formula for allocating sales tax revenue between the General Fund, school districts, and local governments.

1950 Exempts newspapers and periodicals from the sales tax base.

1952 Exempts sales to operators of commercial radio and television stations.

1955 Exempts sales of artificial limbs and eyes, sales of new motor vehicles to be used outside of the state, and purchases of water in bulk.

1958 Exempts sales of used motor vehicles to be used outside of the state.

1959 Imposes use tax on intrastate telephone, telegraph, and leased wire communications, as well as rental charges for hotel and motel rooms. Also imposes use tax on purchases by contractors working for the state of Michigan.

1961 Increases sales and use tax rates from 3 percent to 4 percent.

1974 Exempts sales of food and prescription drugs.

1978 Exempts components of air and water pollution control facilities. Also exempts sales of hearing aids, contact lenses, eyeglasses, and equipment to substitute for part of the human body or to assist the disabled.

1983 Amends the use tax to increase the tax on personal property modified and affixed to real estate by construction contractors.

1985 Exempts sales of computers used for industrial processing.

1986 Exempts sales of property used in a "qualified business activity" as defined in the Enterprise Zone Act and sales of property to a business engaged in a high technology activity located in a central city and subject to tax increment financing. These provisions are no longer effective, having expired or been repealed.

1987 Taxes computer software that is offered for sale to the public, or modified or adapted to the user's needs by the seller, but only if the software is available for sale as is or as an end product without modification.

1989 Exempts sales of property purchased by a licensed radio or television station and used to originate or integrate programs for radio or television transmission.

1992 Exempts from use tax the sale of parts and materials affixed in Michigan to commercial passenger or cargo aircraft.

1994 Increases the Michigan sales and use tax rate from 4 percent to 6 percent. This change was approved by the voters and became effective May 1, 1994. Sales tax on utilities for residential use remained at 4 percent. Imposes tax on interstate phone calls, excluding WATS and international calls.

1996 Michigan Legislature changes the earmarking of revenue to local governments by making the sales tax the only major tax source dedicated to revenue sharing.

1999 Codifies the practice of basing exemptions on the proportion of exempt versus total use. Expands the industrial processing exemption. Creates a bad debt deduction for the use tax. Eliminates the sunset on the use tax exemption for rolling stock (trucks) and expanded the exemption to the sales tax.

2000 Enacts an exemption for nonalcoholic vended beverages. Provides an exemption for meals given by restaurants to employees for free or at a reduced rate during working hours.

2001 Exempts from the sales and use taxes the sale of an aircraft to a person for the subsequent lease to a domestic air carrier for use in the regular transport of passengers.

2002 Codifies the long-standing method of taxing demonstration vehicles that exceed the number of vehicles a dealer may hold tax exempt. Eliminates the sales tax license fee. Allows taxpayers that lease the use of aircraft an extended deadline to make the required election whether to pay sales tax on the aircraft or use tax on lease payments. Exempts certain property sold to resident tribal members for use within a tribal agreement area. Subjects sales of diesel fuel to the use tax.

2003 Creates a presumed exemption for property purchased outside of Michigan and subsequently brought into the state. Enacts a two-year reduction in the earmarking of sales tax revenue from the sales of automotive-related products for public transportation.

2004 Brings Michigan into conformity with the Streamlined Sales Tax Project (SSTP). Creates exemptions for the transfer of vehicles to low-income individuals or families. Adjusts for FY 2005 the portion of sales tax collected on auto-related sales that is transferred to the Comprehensive Transportation Fund.

2006 Exempts aircraft and aircraft parts from sales and use taxes if aircraft is in the state temporarily for repair, pre-purchase inspection, or customization. Exempts delivery charges for delivery of direct mail from sales and use taxes. Creates a tax credit based on production spending in Michigan by a motion picture production company.

2007 Imposes the use tax on additional services. The expansion to the tax base was repealed as it took effect. Clarifies the definition of taxable use in response to litigation. Establishes a deduction for bad debts held by a third-party.

2008 Eliminates the credit for production expenditures by a motion picture production company. Exempts employee discounts on the sale of a motor vehicle. Subjects the use or consumption of medical services provided by Medicaid managed care organizations to the use tax. Expands the definition of extractive operations related to timber extraction. Exempts materials purchased for use in the renovation of Cobo Hall in Detroit from the sales and use taxes.

2009 Expands the exemption from sales and use taxes for aircraft temporarily in the state to include maintenance, improvement, and sale of the aircraft.

2010 Expands the exemption for industrial processing to include equipment used to unload logs and load lumber at sawmills. Allows a taxpayer to claim a refund for sales tax paid on a core charge for heavy earthmoving equipment.

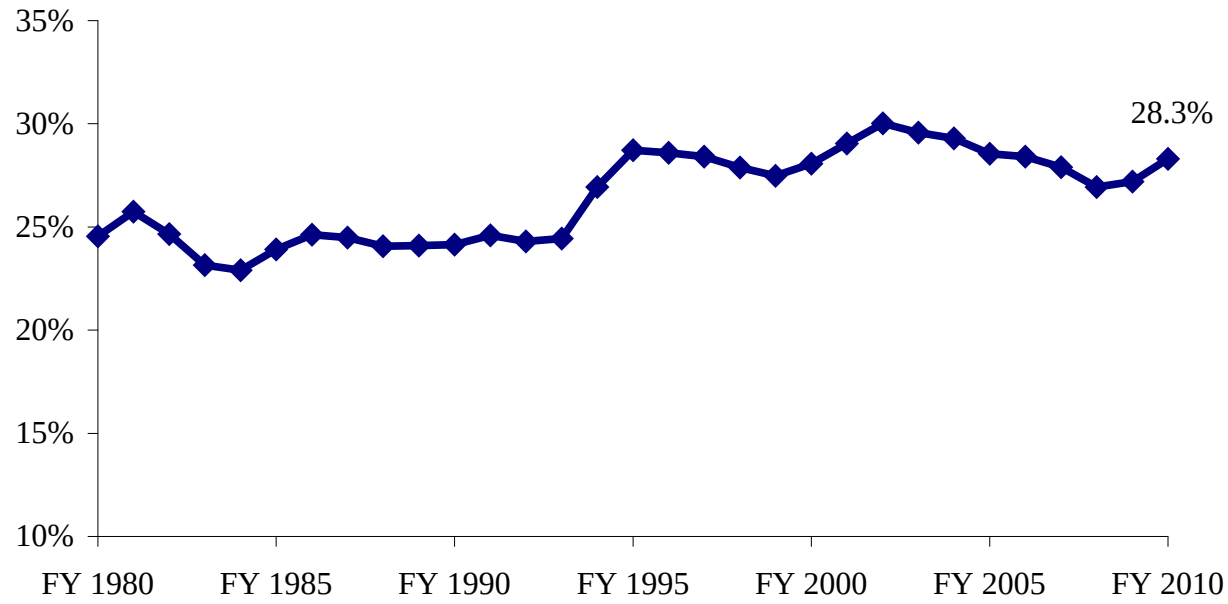
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 3
Sales and Use Tax Revenue
as a Percent of Total State Tax Revenue
FY 1980 to FY 2010

Fiscal Year	Sales Tax Revenue (millions)	Use Tax Revenue (millions)	Total State Tax Revenue (millions)	Sales Tax as a Percent of Total State Taxes	Use Tax as a Percent of Total State Taxes
1980	$1,504.0	$232.9	$6,126.4	24.5%	3.8%
1981	1,595.0	232.3	6,195.0	25.7%	3.8%
1982	1,570.6	247.4	6,371.2	24.7%	3.9%
1983	1,699.0	279.5	7,337.4	23.2%	3.8%
1984	1,925.0	317.3	8,405.7	22.9%	3.8%
1985	2,142.6	341.4	8,958.0	23.9%	3.8%
1986	2,283.1	390.8	9,270.8	24.6%	4.2%
1987	2,348.4	397.8	9,591.7	24.5%	4.1%
1988	2,475.0	419.0	10,285.5	24.1%	4.1%
1989	2,615.2	475.9	10,850.9	24.1%	4.4%
1990	2,671.3	473.9	11,062.4	24.1%	4.3%
1991	2,671.9	474.3	10,865.5	24.6%	4.4%
1992	2,738.1	480.0	11,267.5	24.3%	4.3%
1993	2,905.7	529.5	11,891.1	24.4%	4.5%
1994	3,775.3	725.1	14,014.8	26.9%	5.2%
1995	4,884.2	942.9	17,009.1	28.7%	5.5%
1996	5,171.6	1,034.9	18,090.5	28.6%	5.7%
1997	5,389.8	1,092.2	18,970.3	28.4%	5.8%
1998	5,617.3	1,159.3	20,149.0	27.9%	5.8%
1999	5,901.7	1,283.0	21,472.8	27.5%	6.0%
2000	6,277.5	1,355.4	22,363.4	28.1%	6.1%
2001	6,352.3	1,333.6	21,872.2	29.0%	6.1%
2002	6,439.9	1,306.4	21,455.3	30.0%	6.1%
2003	6,422.6	1,229.8	21,718.2	29.6%	5.7%
2004	6,473.5	1,316.5	22,097.2	29.3%	6.0%
2005	6,599.1	1,402.4	23,121.7	28.5%	6.1%
2006	6,638.1	1,413.8	23,364.9	28.4%	6.1%
2007	6,552.2	1,380.4	23,487.5	27.9%	5.9%
2008	6,773.3	1,377.1	25,143.5	26.9%	5.5%
2009	6,089.1	1,283.7	22,384.9	27.2%	5.7%
2010	6,176.8	1,573.7	21,823.3	28.3%	7.2%

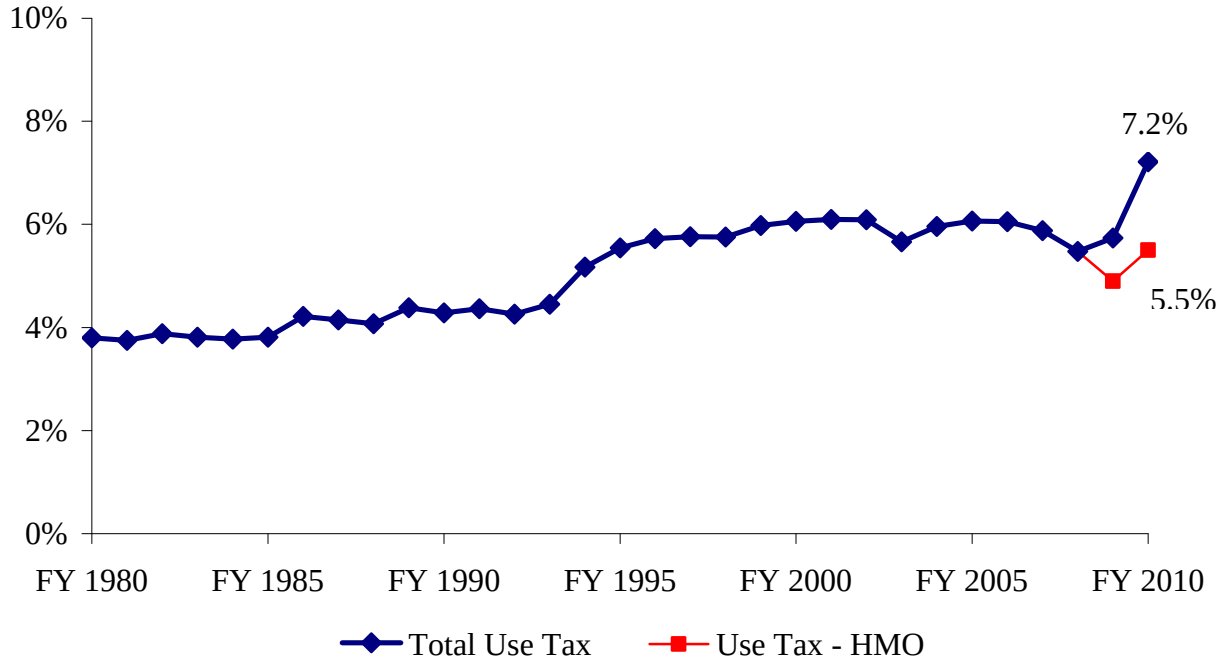
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 4
Michigan Sales Tax as a Percent of Total State Taxes



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 5
Michigan Use Tax as a Percent of Total State Taxes



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

III. ECONOMICS OF SALES TAXATION

The sales tax was enacted in 1933 to provide an additional revenue source for Michigan. As shown in Exhibit 3, the sales tax has been an important source of state revenue for funding schools and local governments. This section of the report briefly examines some of the issues in levying a sales tax.

Consumer Behavior

The imposition of a sales tax may change or affect the behavior of consumers and firms in three ways. First, if a sales tax does not apply to all goods equally, it may affect the types of goods consumers purchase. Second, it may influence a consumer's decision on whether or not to purchase a good at all, because the imposition of a sales tax often results in a higher final price. Finally, the sales tax will also cause a divergence between the price paid by consumers and the price received by the sellers of the product.

Not all goods sold in the State of Michigan are subject to sales tax. This may influence a consumer's decision on which goods to purchase. For example, suppose a consumer is faced with a choice of purchasing a $5.00 magazine, which is not subject to sales tax, or a $5.00 paperback novel, which is subject to the sales tax. The consumer's final cost of the magazine is $5.00. The consumer's final cost of the novel is $5.30: $5.00 for the novel plus the $0.30 sales tax. The price differential may influence the consumer to buy the magazine instead of the novel.

A retail sales tax also affects consumer decisions by reducing the amount each consumer may spend. Assuming that final retail prices increase to reflect the new sales tax, the imposition of a sales tax will make each consumer relatively poorer. The consumer can no longer buy as many goods after the tax is imposed as before. The consumer may be willing to buy a new car for $20,000 before the tax is imposed, but may not be willing to pay $21,200, the final cost of the car after the sales tax is imposed, given the consumer's other spending choices. In this case, the imposition of the sales tax may prevent a consumer from making a purchase he/she would have made if there were no sales tax.

A sales tax also creates a difference between the price offered to the buyer and the price received by the seller. In effect, a sales tax drives a wedge between the buyer's price and the seller's price. The difference between the price paid by the buyer and the price received by the seller will result in a reduction in economic activity, as some mutually beneficial trades no longer occur due to the sales tax. Consider the car example above. Without the sales tax, both the buyer and the seller were willing to participate in the transaction for $20,000. With the imposition of a 6-percent sales tax, the transaction may not take place. The seller, formerly willing to accept $20,000 for the car, now requires a larger payment ($21,200). The buyer may now be unwilling to pay the higher price since the sales tax has resulted in higher prices for many goods he/she wants to buy.

Equity

Another important issue in taxation is the equity or fairness of the tax. One problem with analyzing this issue is that fairness cannot be objectively defined, as it involves moral judgments and, therefore, is open to dispute. The discussion here will focus on two basic types of equity of concern to economists: vertical and horizontal equity.

Horizontal equity requires individuals in the same situation to pay the same amount of tax. The measurement of an individual's situation is generally based on family size and either income, consumption level, or wealth. Imposing a sales tax that does not encompass all sales at the retail level may result in horizontal inequity. For example, the Michigan sales tax exempts the purchase of food to be consumed at home, while the purchase of meals at a restaurant is taxable. If Justin and Jeremy are both single and have similar incomes, we would ideally like them to pay approximately the same amount of tax in order to achieve horizontal equity. If Jeremy purchases all of his meals in restaurants, he will have to pay tax on all of his meals. Conversely, if Justin prefers to cook at home, there will not be any sales tax on these meals. This will lead to horizontal inequity because Jeremy will pay more tax than Justin, even though both are in similar situations with regard to income and marital status.

The principle of vertical equity means that tax burdens should be distributed fairly across individuals with different abilities to pay. While "fairness" and "ability to pay" are concepts that require value judgments about which reasonable individuals can disagree, vertical equity is often interpreted to mean the percentage of income paid in taxes rises with income. As might be expected, the saving rate increases with income. Consumers with lower incomes have lower rates of saving, and thus spend a higher share of their incomes on items subject to the sales tax. Since consumers with higher incomes save more, the amount of sales tax they pay is a smaller percentage of their incomes. This is the main reason the sales tax is believed to have less vertical equity than other taxes. Most states, including Michigan, exempt food and prescription drugs from the sales tax in an attempt to make the sales tax more equitable. These exemptions increase vertical equity because these items make up a larger portion of spending by low-income consumers.

Sales Tax Incidence

Incidence refers to who pays the sales tax. It is important to distinguish between statutory incidence and economic incidence. Statutory incidence refers to the individual or groups of individuals who are supposed to remit the tax under the law, while economic incidence refers to those who actually end up bearing the burden of the tax.

Under the Michigan sales tax, the statutory incidence of the sales tax is on retailers for the privilege of doing business in Michigan. Every Michigan retailer must file a sales tax return and remit the sales tax. However, retailers may shift the sales tax burden onto consumers. In most cases, it is believed that retailers simply add the tax to any consumer purchase of taxable items.

While the question of statutory incidence is fairly straightforward, the question of economic incidence is less clear. When a sales tax is imposed, firms can either increase their prices or accept less in payment for the goods they sell net of the new tax.[1] If firms choose to raise their prices, consumers (whose incomes do not rise along with the sales tax) are no longer able to buy as many goods and total consumer purchases decline. If firms opt to not raise their prices, then the amount the firms receive for the goods they sell after they pay the tax declines. With lower sales revenue after paying the tax, there is now less money to pay workers and less profit for the owners. This translates into lower incomes for consumers, since labor income (wages) and capital income (dividends from profits, interest, rent, etc.) are the main sources of income for consumers. If consumers have lower incomes, they have less to spend. So the economic incidence of a higher sales tax generally falls on consumers who are able to purchase fewer goods.

To demonstrate that the assumption above (where the sales tax does not result in higher prices) is not critical to the eventual conclusion, consider what happens when firms raise their prices to recoup the sales tax. Workers and business owners have the same incomes, but now prices are higher. However, the higher prices are entirely due to higher taxes, so there is no additional amount to pay workers or increase profits. The income earned from labor and capital now buys fewer goods and services at the higher prices. As a result, spending falls and consumers, who finance their spending through labor and capital income, are able to purchase fewer goods after a sales tax is imposed.

A few notes are necessary regarding the above analysis. First, the analysis assumes that all goods are taxed at a uniform rate. The analysis becomes much more complex when exempt sectors are included, or when multiple tax rates are included. An extreme example of multiple tax rates is the variation between Washington (6.5 percent) and Oregon (zero). Second, the analysis does not attempt to separate the effects on different groups of consumers. The extent to which wage earners or capital owners face larger declines in their purchasing power will determine the segment of the population that bears the larger burden of the tax. The division of the tax burden between labor and capital income will determine exactly who (which particular groups of consumers) bears more of the burden of the sales tax.

Finally, the analysis above says nothing about how the government uses the additional tax revenue raised by the higher sales tax. To the extent the government uses the tax to make investments that improve future productivity, the higher tax may provide long-term economic benefits. Examples of these types of expenditures include education or transportation infrastructure, such as roads, bridges, and airports.

It is possible to measure the amount of sales tax paid by different income groups. If the proportion of income paid in sales tax rises with income, the tax is progressive. If the proportion of income paid in sales tax falls as income rises, the tax is regressive. As discussed above, the principle of vertical equity would require that a tax not be regressive. Historically, sales taxes have been considered regressive for two reasons. First, on an annual basis, higher-income

[1] In competitive markets prices should rise by no more, and generally somewhat less, than the amount of the new tax. However, research by Besley and Rosen (1999) indicates that some prices actually increase by more than the amount of the tax, a sign that some retail markets do not completely fit the economic model of perfect competition.

individuals save more as a percentage of income. Second, lower-income individuals tend to spend a larger portion of their annual income on taxable items.

There is considerable debate among economists regarding the degree of vertical inequity that exists with the sales tax.[2] Many studies analyzing the regressivity of the sales tax look only at annual data. Since annual data treat temporary fluctuations in income as permanent, a better measure of regressivity would look at permanent or lifetime income. Metcalf (1994) compared how the estimates of the incidence of sales taxes vary, based on whether an annual or lifetime measure of income is used. Metcalf computes the average sales tax burden for consumers ranked by income group, from lowest income to highest, for two years (1984 and 1989). Using annual income, the average sales tax burden was 2.7 times higher for the lowest income group in 1984, and 1.8 times higher in 1989. This would support the view that the sales tax is regressive. However, using annual consumption to proxy for lifetime income resulted in much lower ratios. For both 1984 and 1989, the average sales tax burden of the lowest income group was 0.6 times as high as for the highest income group using this measure of lifetime income. So when a longer-term view of income is considered, the sales tax is somewhat progressive.

The final issue under the heading of incidence is the exporting of the tax burden. Tax exporting occurs when the burden of a tax is shifted to another party outside the jurisdiction receiving the tax revenue. Michigan is able to export the sales tax when out-of-state visitors purchase taxable items in Michigan. States with large tourism industries, such as Florida, Hawaii, and Nevada, are estimated to export as much as 25 percent of the sales tax burden to out-of-state residents. Estimates indicate that approximately 3 percent to 7 percent of the sales tax burden for Michigan is exported.[3]

[2]For a fuller discussion, see Slemrod and Bakija (2000), pp. 175-177, or Browning and Browning (1994), pp. 420-422.

[3]See Blume (1982).

IV. SALES TAX BASE

Michigan's sales and use taxes are designed to tax retail sales within the state as well as the out-of-state purchase of taxable products that are used within the state. The Michigan sales tax is referred to as a consumption or general sales tax, but in reality, it is neither.

A pure consumption tax would tax all uses of income with exclusions for savings and investments. The sales tax base would consist of all purchases of goods and services; it would also tax imputed consumption, such as consumption of owner-occupied housing. The Michigan sales tax base, along with the base of most other states, is much narrower in scope due to the numerous exemptions for items such as food and prescription drugs. However, the Michigan sales tax also taxes some items that would be excluded from a pure consumption tax base, such as business inputs that are not used directly in industrial processing.

Tax Expenditures

Tax exemptions, exclusions, deductions, credits, or preferential tax rates are called tax expenditures. Tax expenditures reduce revenue by providing preferential treatment for certain commodities, individuals, or industries. Tax expenditures have two main purposes: (1) to reduce the tax burden for certain individuals or firms by altering the incidence of a tax; and (2) to give an incentive for individuals or firms to change their behavior. An example of the first type of tax expenditure is the prescription-drug exemption, which was designed to reduce the incidence of the sales tax on low-income senior citizens. An example of the second type is the Enterprise Zone exemption, which encouraged economic development in poor areas by lowering the tax burden on investments in these areas. Exhibit 6 provides the revenue impact for sales and use tax expenditures for FY 2010.

Services are the largest single exclusion from the Michigan sales tax base. When the Michigan sales tax was enacted, the service sector of the economy was small relative to the goods sector of the economy. As the service sector has grown in economic importance, the cost of excluding services has increased relative to the existing base of the sales tax. The estimated loss of Michigan sales tax revenue due to the exemption of services was $10.0 billion in FY 2010. Health care and social assistance services comprised the largest sector of service tax expenditures at $3,058 million, or 31 percent. Professional, scientific, and technical services followed next at $2,013 million, or 20 percent of total service tax expenditures. These estimates include all services consumed by businesses and individuals.

Exhibit 7 shows the general tax treatment of services by state. Attempts by states to extend sales taxes to services have been unsuccessful generally. Ohio is a notable exception, having enacted legislation in 2003 that expanded the sales tax base to include a number of services including storage facilities, satellite broadcasting, and certain personal care services. Public Act 93 of 2007 expanded the use tax to several services consumed in Michigan, effective December 1, 2007. The list of newly taxed services included several personal and business services, and the expanded tax base was sharply criticized. The expanded use tax was repealed as it was scheduled to take effect and the projected revenue was replaced by a business tax surcharge.

Exhibit 6
Michigan Sales and Use Tax Expenditures
(Millions)

Tax Expenditure	FY 2010 Revenue Impact
Air and Water Pollution	$48.0
Aircraft Parts	8.1
Bad Debts	56.0
Cargo Aircraft	30.0
Churches	6.6
Collection Fees	32.4
Commercial Domestic Aircraft	5.0
Communication and Telephone Exemption	37.0
Donated Vehicles	0.1
Driver Training	0.4
Employee Meals	13.4
Food	1,113.7
Food for Students	19.5
Government or Red Cross	164.4
Gratuities and Tips	52.2
Horticultural and Agricultural Products	252.9
Imported Property	3.2
Industrial Processing	828.0
Inmate Purchases	0.5
Interstate Telecommunications	11.6
Interstate Trucks and Trailers	23.1
Investment Coins	2.5
Military Post-Exchange Sales	0.8
Newspapers, Periodicals, and Films	94.2
Nonprofit Hospital or Housing Construction	1.1
Nonprofit Organizations	164.3
Ophthalmic and Orthopedic Products	51.8
Prescription Drugs	510.3
Radio and Television	4.4
Rail Rolling Stock	1.5
Residential Utilities	153.0
Returned Vehicles	1.1
Sale of Water	62.7
Services	10,005.9
Telephone Services	13.1
Vehicle and Aircraft Transfer	33.2
Vending Machines and Mobile Facilities	15.6
Total	$13,821.6

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 7
State Sales Taxation of Services

	General Treatment	Cleaning Services	Transportation Services	Repair Services	Professional & Personal Services
Alabama	NT	E	E	E	E
Alaska			No Sales Tax		
Arizona	MT	E	T	E	E
Arkansas	MT	T	E	T	E
California	NT	E	E	E	E
Colorado	NT	E	E	E	E
Connecticut	MT	T	T	T	T
Delaware			No Sales Tax		
District of Columbia	MT	T	E	T	E
Florida	MT	T	E	E	E
Georgia	NT	E	T	E	E
Hawaii	GT	T	T	T	T
Idaho	NT	E	E	E	E
Illinois	NT	E	E	E	E
Indiana	NT	E	E	E	E
Iowa	MT	T	E	T	T
Kansas	MT	E	E	T	E
Kentucky	NT	E	E	E	E
Louisiana	NT	E	E	T	E
Maine	NT	E	E	E	E
Maryland	NT	T	E	E	E
Massachusetts	NT	E	E	E	E
Michigan	NT	E	E	E	E
Minnesota	MT	T	E	E	E
Mississippi	MT	T	E	T	E
Missouri	NT	E	T	E	E
Montana			No Sales Tax		
Nebraska	NT	T	E	T	E
Nevada	NT	E	E	E	E
New Hampshire			No Sales Tax		
New Jersey	MT	T	E	T	E
New Mexico	GT	T	T	T	T
New York	MT	E	T	T	E
North Carolina	NT	E	E	E	E
North Dakota	NT	E	E	E	E
Ohio	MT	T	T	T	E
Oklahoma	MT	E	T	E	E
Oregon			No Sales Tax		
Pennsylvania	MT	T	E	T	E
Rhode Island	NT	E	E	E	E
South Carolina	NT	E	E	E	E
South Dakota	GT	T	T	T	T
Tennessee	NT	E	E	T	E
Texas	MT	T	E	T	E
Utah	MT	E	E	T	E
Vermont	NT	E	E	E	E
Virginia	NT	E	E	E	E
Washington	MT	E	E	T	E
West Virginia	GT	T	T	T	E
Wisconsin	MT	E	T	T	E
Wyoming	NT	E	T	T	E

Key: NT = "not taxable" - the state taxes only a few specified services.
MT = "many taxable"- law provides only specified services are taxable and the state has chosen to tax many of them.
GT = "generally taxable" - tax imposed generally on the provision of services although certain services may be exempt.
T = "taxable" generally and E = "exempt" generally.

Sources: *State Tax Guide* , Commerce Clearing House, Inc. and state Web sites.

Food for home consumption is another major item excluded from most states' sales tax bases. The primary reason for excluding food from taxation is to reduce the short-term regressivity of the sales tax. According to the 2009 Consumer Expenditure Survey by the Bureau of Labor Statistics, purchases of food for home consumption account for 11.4 percent of expenditures for consumers in the lowest 20 percent of income. In contrast, for consumers in the highest 20 percent of income, purchases of food for home consumption account for only 6.0 percent of expenditures. If food consumed at home were included in the tax base, low-income consumers would pay an even larger percentage of their incomes in sales tax relative to consumers with higher incomes. The tax expenditure loss in FY 2010 for exempting food consumed at home from the Michigan sales tax was $1.1 billion. Exhibit 8 provides information on the sales tax treatment of food and meals by state.

Prescription drugs are exempt from the sales tax base. As in the case of the food exemption, exempting prescription drugs is intended to reduce the short-term regressivity of the Michigan sales tax. The cost of this exemption is estimated to be about $510 million in FY 2010.

The exemptions for food and prescription drugs highlight several difficulties with exempting certain products from the sales tax. The exemptions may be expensive. The exemptions for food and prescription drugs together total approximately 1/4 of all sales tax revenue. Also, the exemptions are not limited to the targeted group, since all consumers receive the exemption. In fact, consumers with higher incomes receive the largest tax exemptions. The amount consumers in the highest 20 percent of the income distribution spend on food ($5,629 on average) is more than double the amount spent by consumers in the lowest 20 percent of the income distribution ($2,463). Using the difference in annual expenditure between the two groups implies that consumers with the highest income receive an additional $190 per year in tax savings from the food exemption. Replacing the sales tax exemption on food with a transfer payment, perhaps in the form of a refundable income tax credit, to all families would also offset the burden of the sales tax on low-income families, but would allow the tax relief to be targeted more precisely to families in need.

Inputs used in agricultural and industrial production are exempt from the Michigan sales tax. Commonly known as the industrial processing exemption, the main purpose of this exemption is to avoid the double taxation of goods. By exempting inputs, only the final product is taxed and not each sale of an intermediate good used in the production process. In order for a good to qualify for this exemption, a product must be directly used in the production process.

The Michigan sales tax base is further reduced by the exemptions for certain purchases and sales by nonprofit organizations, and federal, state, and local government purchases. The exemption for purchases made by the federal government is required by the U.S. Constitution. Imposing a sales tax on purchases made by the State of Michigan would not raise any revenue, since the state would both pay and receive the tax.

In total, exemptions in Michigan's sales tax base reduced state revenue by $13.8 billion in FY 2010. Eliminating all of these exemptions (assuming such a reform were possible or desirable) would increase Michigan's sales tax revenue by approximately 200 percent, allowing the tax rate to drop to around 2 percent while maintaining current revenue.

Exhibit 8
State Sales Taxation of Food and Meals

	Grocery Food	Meals	Sales by Caterers
Alabama	T	T	T
Alaska		No Sales Tax	
Arizona	E	T	T
Arkansas*	T	T	T
California	E	T	T
Colorado	E	T	T
Connecticut	E	T	T
Delaware		No Sales Tax	
District of Columbia	E	T	T
Florida	E	T	T
Georgia	E	T	T
Hawaii	T	T	T
Idaho	T	T	T
Illinois*	T	T	T
Indiana	E	T	T
Iowa	E	T	T
Kansas	T	T	T
Kentucky	E	T	T
Louisiana	E	T	T
Maine	E	T	T
Maryland	E	T	T
Massachusetts	E	T	T
Michigan	E	T	T
Minnesota	E	T	T
Mississippi	T	T	T
Missouri*	T	T	T
Montana		No Sales Tax	
Nebraska	E	T	T
Nevada	E	T	T
New Hampshire		No Sales Tax	
New Jersey	E	T	T
New Mexico	E	T	T
New York	E	T	T
North Carolina	E	T	T
North Dakota	E	T	T
Ohio	E	T	T
Oklahoma	T	T	T
Oregon		No Sales Tax	
Pennsylvania	E	T	T
Rhode Island	E	T	T
South Carolina	E	T	T
South Dakota	T	T	T
Tennessee*	T	T	T
Texas	E	T	T
Utah*	T	T	T
Vermont	E	E	E
Virginia*	T	T	T
Washington	E	T	T
West Virginia*	T	T	T
Wisconsin	E	T	T
Wyoming	E	T	T

Key: T = "taxable" - designation is for a general nature.
E = "exempt" - designation is for a general nature.
*Groceries are taxed at a reduced rate
Source: *State Tax Guide* , Commerce Clearing House, Inc.

V. SALES AND USE TAX REVENUE

Sales Tax Revenue

Michigan's sales tax revenue in FY 2010 was $6,176.8 million, up $87.7 million (1.4 percent) from FY 2009. The 1994 increase in the sales tax rate from 4 percent to 6 percent resulted in the sales tax generating an increased share of total state revenue (see Exhibit 3). The shrinking sales tax base, as well as other emerging issues (for example, the taxation of Internet purchases), will affect Michigan's ability to rely on sales tax revenue to finance government expenditures.

During the early 1990s, sales tax revenue totaled approximately 24 percent of total state tax revenue. In FY 1995, sales tax revenue was 28.7 percent of total state tax revenue, the highest amount since the 1970s, before the food and prescription drug exemptions were enacted. Sales tax revenue represented 28.3 percent of total state taxes in FY 2010 (see Exhibits 3 and 4).

Nominal sales tax revenue has increased 26.5 percent since FY 1995, the first full fiscal year with a sales tax rate of 6 percent. However, sales tax revenue adjusted for inflation has shrunk over time. Real sales tax revenue was lower in 2009 and 2010 than at any time since the tax rate was raised to 6 percent in 1994. Real sales tax revenue for FY 2010 was almost $1.5 billion below real tax revenue in FY 2000. The economic decline Michigan has experienced over the past decade is the primary reason real sales tax revenue has fallen.

One way to measure the effective burden of the sales tax is to compare tax revenue with personal income. Sales tax revenue has generally accounted for 2 percent or more of Michigan personal income since tax reform was enacted in 1994. In FY 2010, sales tax revenue as a percent of personal income was 1.77 percent, the lowest percentage since 1994 when the tax rate increased to 6 percent for the final five months of the year (see Exhibit 11).

The automotive sector provides the largest share of sales tax revenue, with total sales tax revenue of $1,811.2 million in FY 2010 (see Exhibit 12). Collections in the automotive sector for 2010 decreased by $11 million. Taxable sales in the automotive sector accounted for 29.5 percent of total sales tax revenue in 2010. The food sector was responsible for $927.7 million of sales tax revenue or 15.1 percent in FY 2010, mostly from sales in restaurants and taxable items sold at grocery stores. General merchandise stores accounted for $640.6 million, or 10.4 percent of total sales tax revenue.

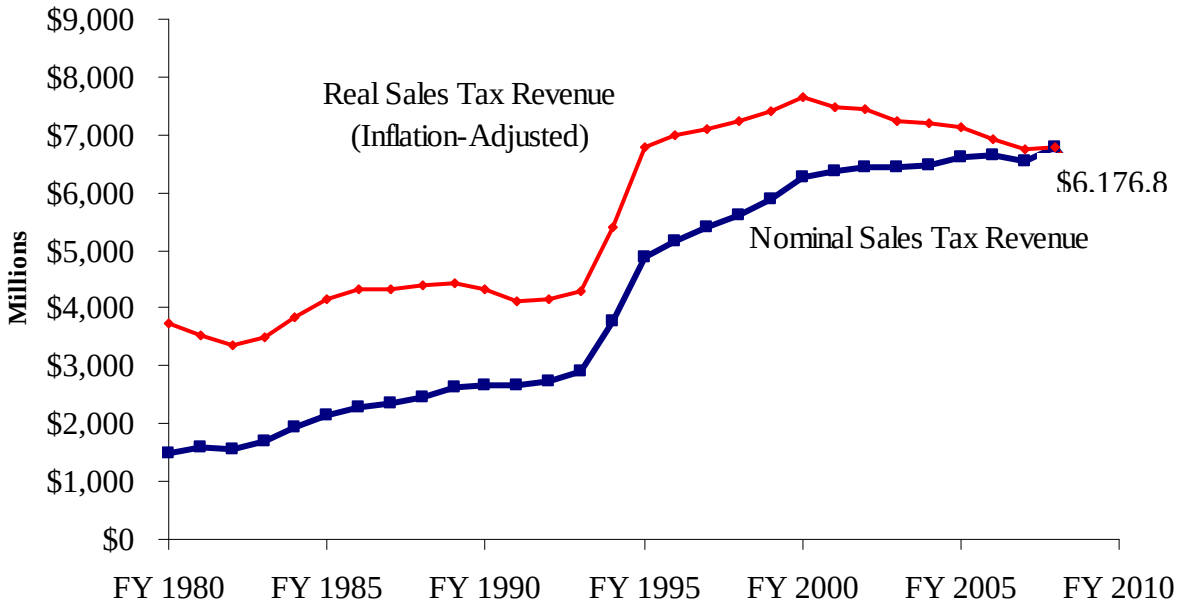
Over the past 10 years, the distribution of sales tax revenue by retail sector has remained fairly stable (see Exhibit 13). Since 2000, the automotive sector has captured an increased share of sales tax revenue. The increase in the share of sales tax revenue coming from building, lumber, and hardware observed during the 1990s disappeared between 2006 and 2008, due to the contraction in residential construction. The largest declines in sales tax collections over the past four years have occurred among non-retail businesses and businesses in the building, lumber, and hardware sector.

Exhibit 9
Michigan Sales Tax Revenue
FY 1980 to FY 2010

Fiscal Year	Fiscal Year Personal Income (millions)	Sales Tax Revenue (millions)	Sales Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Sales Tax Revenue in 2010 $ (millions)
1980	$93,122	$1,504.0	1.62%	82.3	$3,742.6
1981	101,008	1,595.0	1.58%	92.1	3,544.3
1982	104,320	1,570.6	1.51%	95.8	3,357.8
1983	108,939	1,699.0	1.56%	99.4	3,500.6
1984	120,052	1,925.0	1.60%	102.4	3,849.4
1985	130,580	2,142.6	1.64%	105.8	4,144.5
1986	140,210	2,283.1	1.63%	108.1	4,323.1
1987	145,279	2,348.4	1.62%	110.7	4,341.5
1988	153,112	2,475.0	1.62%	114.8	4,412.3
1989	164,688	2,615.2	1.59%	120.8	4,433.4
1990	172,839	2,671.3	1.55%	126.8	4,311.8
1991	177,981	2,671.9	1.50%	132.4	4,131.4
1992	187,694	2,738.1	1.46%	135.1	4,147.6
1993	198,362	2,905.7	1.46%	138.6	4,290.9
1994	212,778	3,775.3	1.77%	142.9	5,407.6
1995	225,215	4,884.2	2.17%	147.5	6,780.4
1996	233,651	5,171.6	2.21%	151.6	6,985.3
1997	246,004	5,389.8	2.19%	155.4	7,099.5
1998	260,440	5,617.3	2.16%	158.9	7,237.4
1999	272,711	5,901.7	2.16%	162.8	7,421.2
2000	290,085	6,277.5	2.16%	168.3	7,636.7
2001	298,194	6,352.3	2.13%	173.8	7,480.8
2002	301,496	6,439.9	2.14%	177.5	7,426.7
2003	310,689	6,422.6	2.07%	182.0	7,223.7
2004	318,669	6,473.5	2.03%	184.4	7,186.2
2005	324,576	6,599.1	2.03%	189.0	7,147.3
2006	332,698	6,638.1	2.00%	195.9	6,936.3
2007	342,003	6,552.2	1.92%	199.0	6,739.9
2008	351,798	6,773.3	1.93%	204.6	6,776.6
2009	343,937	6,089.1	1.77%	202.8	6,146.2
2010	348,484	6,176.8	1.77%	204.7	6,176.8

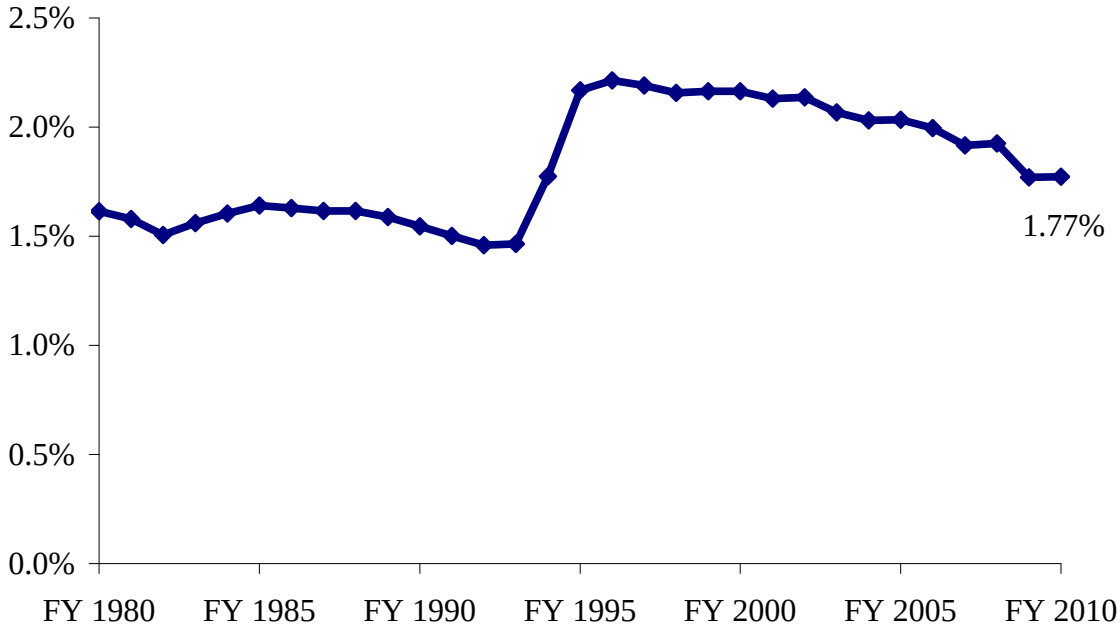
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 10
Michigan Sales Tax Nominal and Real Revenue



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 11
Sales Tax Revenue as a Percent of Personal Income



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 12
Michigan Sales Tax Revenue by Retail Sector
FY 2000 to FY 2010

Fiscal Year	Auto	Percent Change	Food	Percent Change	General Merchandise	Percent Change
2000	1,579.6	10.2%	856.2	4.2%	620.1	13.1%
2001	1,660.0	5.1%	885.9	3.5%	611.0	-1.5%
2002	1,763.9	6.3%	907.8	2.5%	641.7	5.0%
2003	1,778.5	0.8%	903.5	-0.5%	622.7	-3.0%
2004	1,693.6	-4.8%	936.2	3.6%	638.4	2.5%
2005	1,741.0	2.8%	916.7	-2.1%	696.3	9.1%
2006	1,723.9	-1.0%	919.5	0.3%	686.5	-1.4%
2007	1,735.5	0.7%	941.4	2.4%	716.2	4.3%
2008	1,924.9	10.9%	970.5	3.1%	705.0	-1.6%
2009	1,822.0	-5.3%	894.7	-7.8%	601.9	-14.6%
2010	1,811.2	-0.6%	927.7	3.7%	640.6	6.4%

Fiscal Year	Building Lumber & Hardware	Percent Change	Furniture	Percent Change	Apparel	Percent Change
2000	506.4	4.1%	250.4	9.9%	220.9	5.8%
2001	509.8	0.7%	243.8	-2.6%	224.4	1.6%
2002	534.5	4.8%	240.0	-1.5%	221.5	-1.3%
2003	532.7	-0.3%	235.6	-1.8%	222.6	0.5%
2004	591.5	11.0%	239.9	1.8%	231.7	4.1%
2005	610.7	3.2%	236.8	-1.3%	232.9	0.5%
2006	575.5	-5.8%	224.9	-5.0%	231.0	-0.8%
2007	511.0	-11.2%	221.9	-1.3%	240.7	4.2%
2008	488.8	-4.3%	208.7	-5.9%	235.8	-2.0%
2009	415.2	-15.1%	163.9	-21.5%	212.9	-9.7%
2010	382.2	-7.9%	181.5	10.7%	221.5	4.0%

Fiscal Year	Miscellaneous Retail	Percent Change	Non-Retail	Percent Change	Total	Percent Change
2000	664.5	8.3%	1,514.9	9.1%	6,213.0	8.5%
2001	682.9	2.8%	1,520.5	0.4%	6,338.4	2.0%
2002	645.4	-5.5%	1,469.5	-3.4%	6,424.3	1.4%
2003	649.5	0.6%	1,457.9	-0.8%	6,402.9	-0.3%
2004	656.8	1.1%	1,461.9	0.3%	6,450.0	0.7%
2005	648.7	-1.2%	1,513.2	3.5%	6,596.3	2.3%
2006	641.6	-1.1%	1,513.6	0.0%	6,516.6	-1.2%
2007	641.1	-0.1%	1,518.2	0.3%	6,526.1	0.1%
2008	660.7	3.1%	1,537.7	1.3%	6,732.1	3.2%
2009	610.2	-7.6%	1,456.2	-5.3%	6,177.0	-8.2%
2010	647.1	6.0%	1,337.5	-8.2%	6,149.2	-0.5%

Note: Figures do not include use tax.
Total sales tax differs slightly due to differences between accrual and cash accounting methods.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 13
Share of Sales Tax Revenue by Retail Sector
FY 2000 to FY 2010

Fiscal Year	Auto	Food	General Merchandise	Building Lumber & Hardware
2000	25.4%	13.8%	10.0%	8.2%
2001	26.2%	14.0%	9.6%	8.0%
2002	27.5%	14.1%	10.0%	8.3%
2003	27.8%	14.1%	9.7%	8.3%
2004	26.3%	14.5%	9.9%	9.2%
2005	26.4%	13.9%	10.6%	9.3%
2006	26.5%	14.1%	10.5%	8.8%
2007	26.6%	14.4%	11.0%	7.8%
2008	28.6%	14.4%	10.5%	7.3%
2009	29.5%	14.5%	9.7%	6.7%
2010	29.5%	15.1%	10.4%	6.2%

Fiscal Year	Furniture	Apparel	Miscellaneous Retail	Non-Retail
2000	4.0%	3.6%	10.7%	24.4%
2001	3.8%	3.5%	10.8%	24.0%
2002	3.7%	3.4%	10.0%	22.9%
2003	3.7%	3.5%	10.1%	22.8%
2004	3.7%	3.6%	10.2%	22.7%
2005	3.6%	3.5%	9.8%	22.9%
2006	3.5%	3.5%	9.8%	23.2%
2007	3.4%	3.7%	9.8%	23.3%
2008	3.1%	3.5%	9.8%	22.8%
2009	2.7%	3.4%	9.9%	23.6%
2010	3.0%	3.6%	10.5%	21.8%

Note: Figures do not include use tax. May not total 100% due to rounding.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Use Tax Revenue

Michigan use tax revenue totaled $1,573.7 million in FY 2010, up $290.0 million (22.6 percent) from FY 2009. The substantial increase in use tax revenue is due primarily to the expansion of the use tax base to include Medicaid services provided by HMOs that took effect on April 1, 2009. FY 2010 was the first full year with the expanded tax base, and these services provided an additional $198.6 million in use tax revenue in FY 2010 with the remaining $91.4 million of revenue growth coming from the remaining use tax base. In FY 2010, use tax revenue accounted for 7.2 percent of total state tax revenue, 5.5 percent excluding the additional revenue from the tax on Medicaid HMOs.

When nominal use tax revenue is adjusted for inflation, the pattern looks very similar to the pattern for sales tax revenue. Following the rate increase in 1994, inflation-adjusted revenue grew through FY 2000 and then began to decline. The expansion in the use tax base to Medicaid HMOs raised revenue for FY 2009 and FY 2010. (see Exhibits 14 and 15).

The effective burden of the use tax can be measured by comparing Michigan use tax revenue to Michigan personal income. From FY 1980 until the tax rate increased to 6 percent, use tax revenue as a percent of personal income ranged from 0.23 percent to 0.29 percent. Without the expanded tax on Medicaid HMOs, use tax revenue as a percent of personal income was 0.35 percent in FY 2010, similar to the levels seen in recent years. Exhibit 16 shows use tax revenue as a percent of personal income both with and without the tax on Medicaid HMOs. Use tax revenue as a percentage of personal income remains noticeably below the levels reached in 1999 and 2000.

Different sectors of the economy remit use tax compared to the sales tax. Excluding the use tax from Medicaid HMOs, the telecommunications sector provided the largest share of use tax revenue with tax payments of $250.5 million in FY 2010 (see Exhibit 17). This accounts for 19.6 percent of total use tax revenue, with most of these payments collected from telephone bills. The automotive sector was responsible for $159.4 million of use tax revenue, or 12.5 percent, in FY 2010, generally from leasing and private sales of motor vehicles. Use tax collections from hotels and motels are an indicator of tourism activity in Michigan, which has been the subject of active debate in the State Legislature, specifically over the Pure Michigan advertising campaign. However, use tax revenue from hotels and motels has been between $58 million and $65 million for the past ten years except for a relatively strong period between 2006 and 2008. The expansion of the advertising campaign in 2009 and 2010 does not appear to have had a significant impact on collections.

Between 2000 and 2010, the distribution of use tax revenue shifted away from the automobile and transportation manufacturing sectors, and toward other business sectors (see Exhibit 18). Many businesses owe use tax on purchases made from outside Michigan, and this has been a growing part of use tax collections. The share of use tax revenue coming from telephone and communication has remained relatively stable over the decade.

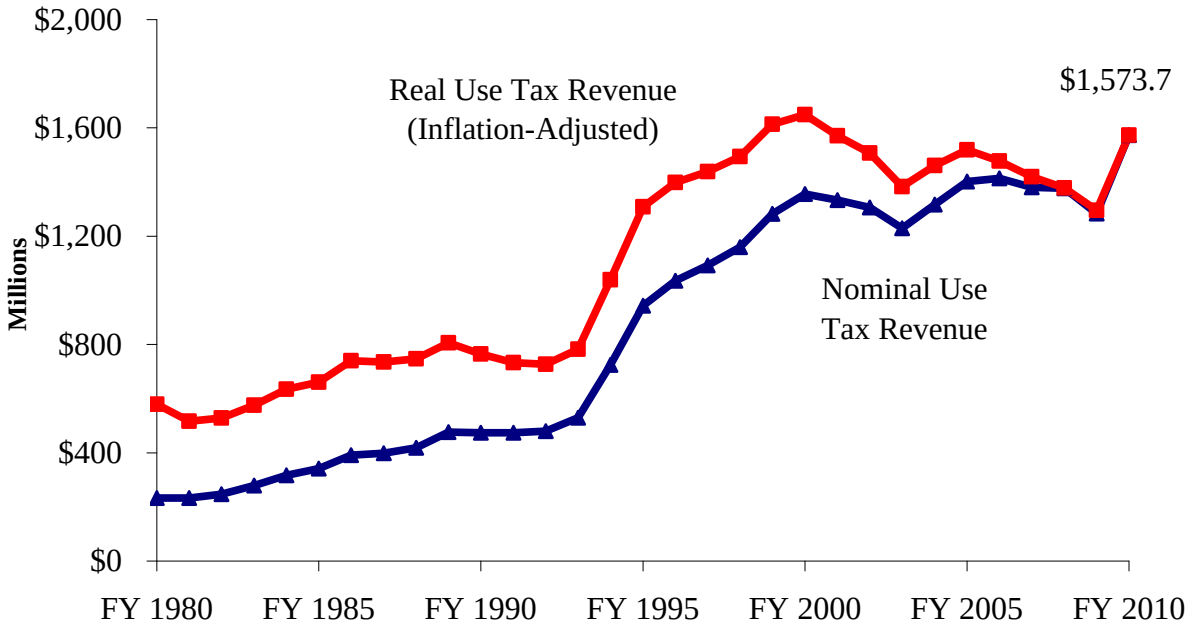
While the use tax is generally paid by businesses, individuals may incur a use tax liability on mail order or Internet purchases since the retailer may not collect Michigan sales tax. Beginning in tax year 1999, a line was added to the Michigan income tax form to aid taxpayers in meeting their use tax liability. The taxation of remote sales is discussed in greater detail in Chapter VI.

Exhibit 14
Michigan Use Tax Revenue
FY 1980 to FY 2010

Fiscal Year	Fiscal Year Personal Income (millions)	Use Tax Revenue (millions)	Use Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Use Tax Revenue in 2010 $ (millions)
1980	$93,122	$232.9	0.25%	82.3	$579.6
1981	101,008	232.3	0.23%	92.1	516.3
1982	104,320	247.4	0.24%	95.8	528.8
1983	108,939	279.5	0.26%	99.4	575.9
1984	120,052	317.3	0.26%	102.4	634.6
1985	130,580	341.4	0.26%	105.8	660.4
1986	140,210	390.8	0.28%	108.1	740.0
1987	145,279	397.8	0.27%	110.7	735.4
1988	153,112	419.0	0.27%	114.8	746.9
1989	164,688	475.9	0.29%	120.8	806.7
1990	172,839	473.9	0.27%	126.8	765.0
1991	177,981	474.3	0.27%	132.4	733.4
1992	187,694	480.0	0.26%	135.1	727.0
1993	198,362	529.5	0.27%	138.6	782.0
1994	212,778	725.1	0.34%	142.9	1,038.6
1995	225,215	942.9	0.42%	147.5	1,308.9
1996	233,651	1,034.9	0.44%	151.6	1,397.8
1997	246,004	1,092.2	0.44%	155.4	1,438.7
1998	260,440	1,159.3	0.45%	158.9	1,493.6
1999	272,711	1,283.0	0.47%	162.8	1,613.4
2000	290,085	1,355.4	0.47%	168.3	1,648.9
2001	298,194	1,333.6	0.45%	173.8	1,570.5
2002	301,496	1,306.4	0.43%	177.5	1,506.6
2003	310,689	1,229.8	0.40%	182.0	1,383.2
2004	318,669	1,316.5	0.41%	184.4	1,461.4
2005	324,576	1,402.4	0.43%	189.0	1,518.9
2006	332,698	1,413.8	0.42%	195.9	1,477.3
2007	342,003	1,380.4	0.40%	199.0	1,419.9
2008	351,798	1,377.1	0.39%	204.6	1,377.8
2009	343,937	1,283.7	0.37%	202.8	1,295.7
2010	348,484	1,573.7	0.45%	204.7	1,573.7

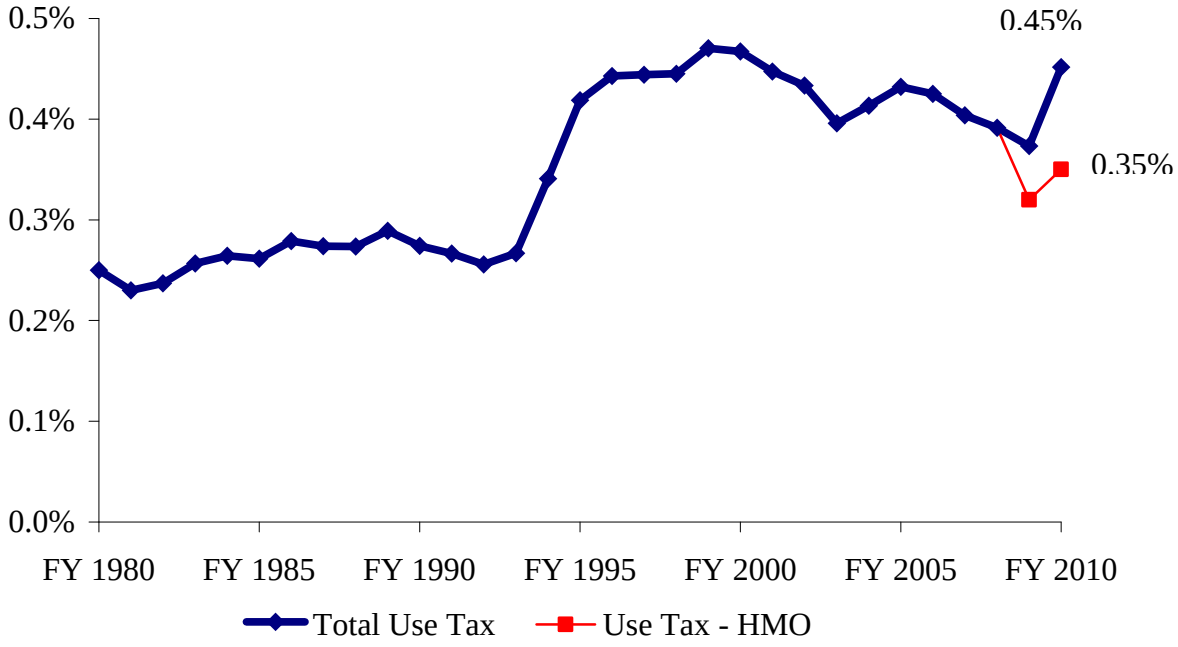
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 15
Michigan Use Tax Nominal and Real Revenue



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 16
Use Tax Revenue as a Percent of Personal Income



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 17
Michigan Use Tax Revenue by Various Sectors
FY 2000 to FY 2010
(Millions)

Fiscal Year	Telephone & Communication	Percent Change	Auto	Percent Change	Business Services	Percent Change
2000	257.4	-8.3%	208.3	0.5%	206.7	17.6%
2001	288.9	12.2%	196.3	-5.8%	192.2	-7.0%
2002	289.5	0.2%	236.4	20.5%	199.1	3.6%
2003	261.9	-9.5%	216.9	-8.3%	165.3	-17.0%
2004	299.5	14.4%	225.5	4.0%	152.9	-7.5%
2005	298.1	-0.5%	221.2	-1.9%	180.6	18.2%
2006	283.0	-5.1%	216.7	-2.0%	151.5	-16.1%
2007	276.8	-2.2%	207.2	-4.4%	153.6	1.4%
2008	254.1	-8.2%	203.8	-1.6%	160.1	4.2%
2009	245.2	-3.5%	141.7	-30.5%	162.2	1.3%
2010	250.5	2.1%	159.4	12.5%	132.0	-18.6%

Fiscal Year	Hotels & Motels	Percent Change	Transportation Manufacturing	Percent Change	General Merchandise	Percent Change
2000	62.0	2.6%	56.3	-15.6%	30.5	-3.8%
2001	64.0	3.3%	69.8	24.0%	32.1	5.3%
2002	59.3	-7.3%	69.7	-0.1%	30.7	-4.3%
2003	58.4	-1.5%	66.4	-4.8%	28.0	-8.8%
2004	61.0	4.4%	71.2	7.2%	31.5	12.3%
2005	61.9	1.6%	52.4	-26.4%	46.2	46.7%
2006	66.8	7.8%	44.1	-15.8%	49.9	8.1%
2007	67.1	0.6%	32.2	-26.9%	40.5	-18.9%
2008	69.2	3.1%	8.2	-74.6%	40.3	-0.4%
2009	62.4	-9.8%	-36.1	N/A	37.2	-7.7%
2010	64.7	3.7%	24.4	N/A	42.9	15.1%

Fiscal Year	Machinery	Percent Change	Other	Percent Change	Total	Percent Change
2000	27.3	-0.8%	478.2	8.2%	1,326.7	2.7%
2001	29.8	9.2%	487.4	1.9%	1,360.5	2.5%
2002	24.1	-19.0%	410.7	-15.8%	1,319.6	-3.0%
2003	25.2	4.2%	431.4	5.0%	1,253.3	-5.0%
2004	22.5	-10.5%	450.9	4.5%	1,314.8	4.9%
2005	22.2	-1.4%	533.8	18.4%	1,416.4	7.7%
2006	25.7	15.5%	568.1	6.4%	1,405.7	-0.8%
2007	25.0	-2.5%	621.1	9.3%	1,423.6	1.3%
2008	28.5	13.9%	681.7	9.7%	1,445.9	1.6%
2009	22.8	-19.8%	538.9	-21.0%	1,174.3	-18.8%
2010	28.8	25.9%	573.4	6.4%	1,276.0	8.7%

Note: Total use tax differs slightly due to differences between accrual and cash accounting methods.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 18
Share of Use Tax Revenue by Various Sectors
FY 2000 to FY 2010

Fiscal Year	Telephone & Communication	Auto	Business Services	Hotels & Motels
2000	19.4%	15.7%	15.6%	4.7%
2001	21.2%	14.4%	14.1%	4.7%
2002	21.9%	17.9%	15.1%	4.5%
2003	20.9%	17.3%	13.2%	4.7%
2004	22.8%	17.1%	11.6%	4.6%
2005	21.0%	15.6%	12.8%	4.4%
2006	20.1%	15.4%	10.8%	4.7%
2007	19.4%	14.6%	10.8%	4.7%
2008	17.6%	14.1%	11.1%	4.8%
2009	20.9%	12.1%	13.8%	5.3%
2010	19.6%	12.5%	10.3%	5.1%

Fiscal Year	Transportation Manufacturing	General Merchandise	Machinery	Other
2000	4.2%	2.3%	2.1%	36.0%
2001	5.1%	2.4%	2.2%	35.8%
2002	5.3%	2.3%	1.8%	31.1%
2003	5.3%	2.2%	2.0%	34.4%
2004	5.4%	2.4%	1.7%	34.3%
2005	3.7%	3.3%	1.6%	37.7%
2006	3.1%	3.6%	1.8%	40.4%
2007	2.3%	2.8%	1.8%	43.6%
2008	0.6%	2.8%	2.0%	47.1%
2009	N/A	3.2%	1.9%	45.9%
2010	1.9%	3.4%	2.3%	44.9%

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

VI. REMOTE SALES TAXATION

Currently, mail order and Internet (e-commerce) firms that do not have nexus within a state are not required to collect sales taxes on purchases from consumers within that state. Nexus is defined as a minimum physical presence or link to a state that would allow a business to be subject to a state's tax system, and be required to collect and remit taxes.

Currently a firm with mail order or Internet sales is not required to collect sales tax for sales in a state in which the firm does not have nexus. Some businesses voluntarily collect sales taxes on remote sales. Others will only collect if there is an act of Congress or a ruling by the U.S. Supreme Court requiring collection.

Increasingly, sales and use tax revenue is being eroded by remote sales (mail order and Internet or e-commerce). In part, many multi-state businesses seek to avoid collecting sales and use taxes because of the burden of complying with the thousands of different administrative requirements in the more than 7,500 state and local sales tax jurisdictions. However, businesses with nexus in a state, and thus collecting sales tax, are forced to compete with firms without nexus who do not collect the tax. With the continuing increase in e-commerce, the issue of remote sales is becoming a more serious fiscal matter for businesses and state and local governments. In response, state governments working with major retailers have entered into the Streamlined Sales and Use Tax Agreement to simplify state sales taxes and to encourage Congress to enact laws allowing the collection of sales taxes by firms making remote sales.

Current Law

The issue of taxation on mail order sales goes back decades. Mail order firms that did not have nexus within a state would not collect sales taxes on mail order purchases. States, on the other hand, felt that the contact mail order firms made through sending catalogs and delivering merchandise through the mail established nexus. An important court decision that helped define nexus for mail order firms was a ruling by the U.S. Supreme Court in 1967 *(Bellas Hess v Illinois)*. This ruling established that taxing mail order firms whose only connection was shipping flyers and catalogs, and delivering merchandise through a common carrier or the U.S. Postal Service, would violate the Due Process Clause and the Commerce Clause. Physical presence, not just an economic presence, was necessary for nexus. The Due Process Clause was violated because the tax was not related to benefits received from the state. Taxation of mail order sales violated the Commerce Clause because of the undue burden on commerce that would result from collecting sales taxes on mail order purchases.

In a more recent court case (*North Dakota v Quill, 1992*), the Due Process Clause barrier for the taxation of mail order sales was removed. Quill Corporation also sent catalogs and shipped goods by common carrier to customers. North Dakota felt that this economic presence was enough to establish nexus because sales were over $1 million. North Dakota also argued that since Quill offered a "money-back" guarantee, Quill had established a physical presence in the state. The U.S. Supreme Court ruled that economic presence did satisfy the Due Process Clause

because sales were of a sufficient magnitude and the tax was related to benefits received by Quill. Businesses that do not exceed contact by common carrier with the taxing state lack the substantial nexus required to compel the collection of use tax. However, once a business establishes a physical presence through a small sales force, plant or office in the taxing state, the substantial nexus requirement has been met. The Court noted that multiple state rates, unique exemptions and administrative requirements by thousands of sales tax jurisdictions in the U.S. unduly burdened interstate commerce. With the *Quill* ruling, Congress could pass legislation removing the Commerce Clause barrier and require the collection of sales/use taxes by all businesses engaging in remote sales.

The same nexus standards that apply to mail order firms also apply to e-commerce firms. To further restrict the taxation of Internet firms, Congress passed the Internet Tax Freedom Act (ITFA) in 1998. The ITFA barred any state and local taxes on Internet access and any discriminatory taxes on the Internet for a three-year period ending October 1, 2001. Taxes levied on Internet access before ITFA were still allowed. The ITFA did not affect the legal status of state and local sales and use taxes. Sales and use taxes were still allowed on products sold through the Internet. The distinction that Internet-based retail sales are subject to taxation while Internet access is not has caused much confusion. The ITFA was subsequently extended through November 1, 2014.

Rapid growth of e-commerce is a threat to the viability of the sales tax. As computer technology becomes more prevalent in everyday life, shopping through the Internet is growing rapidly. The erosion of the sales tax base threatens the ability of states to raise revenue with a sales/use tax. In an effort to reduce the compliance burden of the sales tax and remove the Commerce Clause barrier, the Streamlined Sales Tax Project was formed.

Streamlined Sales Tax Project

Created by state governments with the full participation of local governments and the business sector, the Streamlined Sales and Use Tax Agreement (SSUTA or Agreement) is designed to simplify and standardize sales and use tax administration and collection procedures nationwide. The concept is a win-win approach where traditional retailers, remote sellers, and state and local tax administrators all benefit. Business taxpayers' registration to collect and remit tax under the Agreement is voluntary.

Key provisions of the Agreement are state level administration of sales and use taxes, uniform definitions, rate simplification, uniform sourcing and audit procedures, simplified exemption administration, and a reduction in the financial burden on sellers registering under the Agreement. To facilitate the collection of sales taxes, technological models have been developed to aid all businesses, especially remote sellers. These models include certified service providers able to perform all sales tax functions for a seller, and software systems that will make remittance and audit procedures simpler. The cost of implementing these new technological models will be at least partially underwritten by the participating states through compensation programs based on a percentage of the tax collected.

On November 12, 2002 delegates from thirty states and the District of Columbia approved the Agreement. The approval of the Agreement did not modify the laws of any state. The determination as to whether and how to implement the terms of the Agreement rests with each state. Since approval of the Agreement, 20 states have been certified as full members. Another 3 states are associate members, having complied with many of the provisions of the Agreement. The Agreement took effect on October 1, 2005, when at least 10 states comprising at least 20 percent of the overall population of all states with a sales tax were deemed to be in compliance with the Agreement. Currently 24 states, including Michigan, are members (either full or associate) of the Agreement.

In June 2004, Michigan enacted the Streamlined Sales and Use Tax Administration Act as well as several changes to the Sales Tax and Use Tax Acts in order to comply with the Agreement. The administration act allows Michigan to appoint a four-member delegation to represent the State at meetings of the governing board of the SSUTA. Also included in the administration act are provisions that allow sellers to register under the Agreement, describe how different technological models of collecting and remitting use tax to member states will be established, and protect personal information obtained during the administration of taxes under the Agreement. Michigan may withdraw from the Agreement by decision of the State Treasurer or by resolution of the State Legislature.

Additional information on the Agreement can be found at www.streamlinedsalestax.org.

Remote Sales Revenue Impact

Estimates of the loss of tax revenue from remote sales vary widely. This is due to the fast growth of e-commerce. There are two types of e-commerce to consider when estimating the revenue loss: business-to-business e-commerce and business-to-consumer e-commerce. The tax revenue loss estimates presented in this report are only for business-to-consumer remote sales. Because of business tax audits, direct tax payment agreements between Michigan businesses and the State of Michigan, voluntary compliance with tax laws, and tax exemptions for business production inputs (industrial processing), the current revenue loss from business-to-business remote sales is small. However, due to the high volume of business-to-business transactions compared to business-to-consumer purchases over the Internet predicted for the future, small losses now could lead to greater losses if use tax law is not strongly enforced.

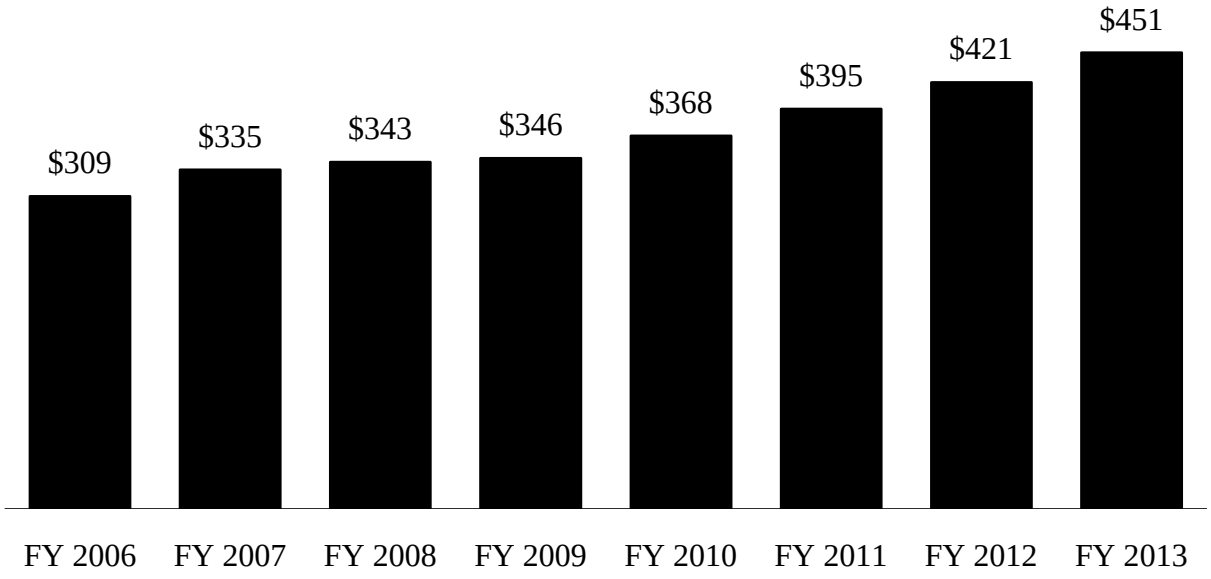
Michigan's use tax revenue losses from consumer remote sales are estimated to be $368 million in FY 2010. This loss will grow to $451 million in FY 2013, primarily due to the growth of e-commerce (see Exhibit 19). Over this period, the revenue loss from traditional mail order sales is expected to increase from $189 million to $209 million (see Exhibit 20 and Exhibit 21). This estimate assumes that mail order retailers collect Michigan sales tax on one-third of sales to Michigan residents. Due to the rapid rate of growth of e-commerce, the expected revenue loss will also increase for Michigan. The revenue loss due to consumer e-commerce is expected to increase from $180 million in FY 2010 to $242 million in FY 2013 (see Exhibit 20 and Exhibit 21).

Various studies have attempted to estimate the tax loss for remote sales. One study by the Center for Business and Economic Research at the University of Tennessee forecasted the sales and use tax loss due to e-commerce sales for the entire U.S. at over $14 billion in 2003.[4] An update of this study was prepared in 2009.[5] However, some alternative estimates have produced much smaller revenue losses.[6]

Beginning with tax year 1999, Michigan added a line on the personal income tax form for taxpayers to include use tax due on remote sales to make it easier for Michigan income tax filers to pay any use tax that they owe. Taxpayers have the option of reporting actual use tax due or using a table provided in the income tax form that estimates use tax liability based on income. For any single purchase over $1,000, the actual use tax due must be reported. For tax returns processed during 2010, approximately 104,000 taxpayers reported $5.25 million of use tax due on their Michigan income tax returns. This amount is approximately 1.3 percent of the estimated tax liability that goes uncollected on remote sales. State officials hope that as more taxpayers become educated on their use tax responsibility, compliance will increase.

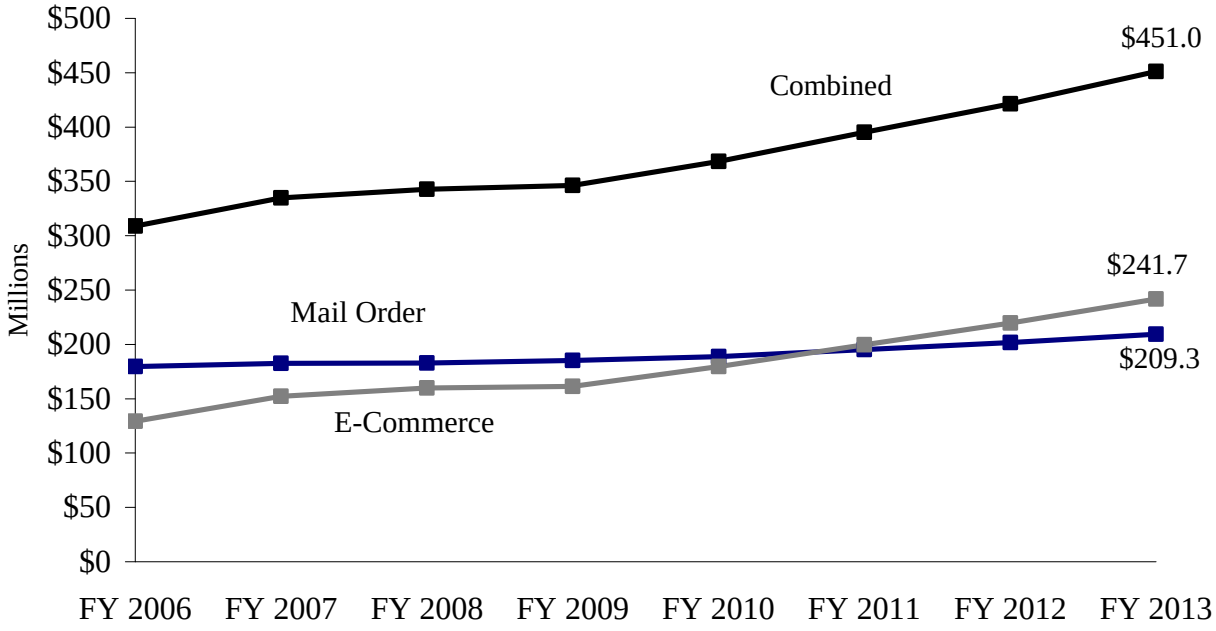
[4] See "State and Local Sales Tax Revenue Losses from E-Commerce: Updated Estimates" by Donald Bruce and William F. Fox, University of Tennessee, September 2001.
[5] See "State and Local Government Sales Tax Revenue Losses from Electronic Commerce" by Donald Bruce, William F. Fox, and LeAnn Luna, University of Tennessee, April 13, 2009.
[6] See "A Current Calculation of Uncollected Sales Tax Arising from Internet Growth" by Peter A. Johnson, Direct Marketing Association, March 2003.

Exhibit 19
Michigan Consumer Remote Sales and Use Tax Loss Impact
(Millions)



Source: U.S. Census Bureau. Compiled by the Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 20
Michigan Revenue Loss Impact
Consumer Mail Order and E-Commerce



Source: U.S. Census Bureau. Compiled by the Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 21
Michigan Use Tax Revenue Loss
From Consumer Remote Sales
(Millions)

	Revenue Impact					
Fiscal Year	Traditional Mail Order	Percent Change	E-Commerce	Percent Change	Total Remote Sales	Percent Change
2005	$171.1	4.9%	$106.1	24.8%	$277.3	11.7%
2006	179.5	4.9%	129.2	21.8%	308.7	11.4%
2007	182.6	1.7%	152.3	17.9%	334.9	8.5%
2008	182.8	0.1%	159.9	5.0%	342.7	2.3%
2009	185.2	1.3%	161.2	0.8%	346.4	1.1%
2010	188.7	1.9%	179.7	11.5%	368.5	6.4%
2011	195.4	3.5%	199.8	11.1%	395.1	7.2%
2012	201.7	3.2%	219.8	10.0%	421.4	6.7%
2013	209.3	3.8%	241.7	10.0%	451.0	7.0%

Source: U.S. Census Bureau. Compiled by the Office of Revenue and Tax Analysis, Michigan Department of Treasury.

VII. MICHIGAN COUNTIES AND INTERSTATE COMPARISONS

This section estimates Michigan sales tax revenue by county and compares Michigan's sales tax structure to the sales tax in other states.

Michigan Counties

This report presents estimates of the sales tax paid by residents of each Michigan county in 2009 (see Exhibit 22). These estimates are based on personal income by county, adjusted for the food and prescription drug exemptions and sales of residential utilities. These estimates were prepared using a different methodology from reports prepared in previous years, and so the estimates are not comparable with those earlier estimates. The advantage of the new methodology is that, by using income instead of estimates of retail sales by county, the estimates attempt to match up sales tax payments with the income of the residents of each county. High-income counties should have higher payment amounts than counties with lower income levels. Using retail sales attributes sales tax collections to the county where the sales take place, which inflates collections in counties with a high concentration of retail businesses or tourist attractions.

Michigan has a single tax rate that is imposed statewide, unlike most states that also have local sales taxes. As a result of the single tax rate, taxpayers with multiple locations across the state (e.g., Meijer, Walmart, and Target) may report all of their sales on one return filed from a single location. This centralized reporting, while perhaps more convenient for taxpayers, prevents the Department of Treasury from compiling sales tax payments by location.

The estimates of county sales tax revenue range from a high of $1,094.7 million in Wayne County to a low of $1.3 million in Keweenaw County. Oakland County ranked first in sales tax payments per person at $896, while Oscoda County ranked last with $397 per-person sales tax payments.

Interstate Comparisons

A sales tax is levied by 45 states and the District of Columbia. Exhibit 23 compares current state and local sales tax rates. California levies the highest state tax rate at 7.25 percent, following by Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee 7 percent. Of states with a sales tax, Colorado levied the lowest state sales tax at 2.9 percent. For 2011, Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a state sales tax, although Alaska allows local sales taxes.

In the 36 states that allow local sales taxes, the tax rate a consumer faces depends on the combined state and local tax rates. The local rates listed are the maximum tax rates effective in that state; therefore, some localities within a state may have a lower combined state and local sales tax rate. Currently, the highest state and local tax rate is 12 percent, which is levied in

Arab, Alabama. Arkansas, Illinois, Louisiana, and Oklahoma all have at least one jurisdiction that levies a combined state and local sales tax of at least 11.0 percent.

One measure of the effective state and local sales tax rate in each state is the average combined state and local sales tax rate for each state. For states with local sales taxes, an effective state and local tax rate is calculated by dividing total sales tax revenue by state sales tax revenue and multiplying by the state sales tax rate. Exhibit 24 reveals Tennessee had the highest effective average state and local tax rate at 9.01 percent, based on data from 2008. Of the states with a sales tax, Michigan and four other states rank 11th lowest at 6.0 percent.

A second measure of the effective sales tax rate in each state is state and local sales tax revenue as a percentage of personal income. Washington has the highest percentage of sales tax revenue as a percent of personal income at 4.87 percent in FY 2008. Michigan ranked 27th highest for sales tax revenue as a percent of personal income at 2.34 percent (see Exhibit 24). The U.S. average for all states was 2.49 percent, while the average for states with at least some sales tax collections was 2.55 percent. Alaska, which only levies a local sales tax, was the lowest for states with a sales tax at 0.73 percent. One problem with this measure is that it assumes only residents in that state paid the sales tax. Because states with a large tourism industry, such as Hawaii, are able to export a high amount of sales tax revenue to residents of other states, the true effective rate will be overstated.

Exhibit 22
Estimated Michigan Sales Tax Revenue by County
2009

County	Population (thousands)	Personal Income (thousands)	Personal Income Per Person	Estimated Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Alcona	11.1	$292,172	$26,343	$4,973	75	$448	74
Alger	9.3	227,183	24,465	$3,992	78	430	78
Allegan	113.4	3,499,136	30,843	$62,462	19	551	30
Alpena	29.3	950,612	32,456	$16,700	47	570	22
Antrim	23.8	738,406	30,981	$12,946	56	543	32
Arenac	16.1	453,942	28,209	$7,973	67	495	52
Baraga	8.6	226,041	26,272	$3,991	79	464	66
Barry	58.4	1,886,594	32,286	$33,580	30	575	20
Bay	107.4	3,348,135	31,165	$59,280	21	552	29
Benzie	17.2	518,577	30,103	$9,106	65	529	38
Berrien	160.5	5,376,891	33,507	$95,267	12	594	17
Branch	44.7	1,175,834	26,283	$20,876	40	467	65
Calhoun	135.6	4,370,436	32,227	$77,603	17	572	21
Cass	49.9	1,569,425	31,436	$27,883	33	558	26
Charlevoix	25.8	927,289	35,947	$16,384	48	635	10
Cheboygan	26.1	744,152	28,505	$13,046	55	500	50
Chippewa	38.7	995,593	25,705	$17,690	45	457	70
Clare	30.1	822,844	27,333	$14,435	53	480	58
Clinton	69.9	2,500,980	35,783	$44,588	25	638	9
Crawford	14.2	346,300	24,382	$6,081	73	428	79
Delta	36.9	1,137,589	30,814	$20,005	42	542	34
Dickinson	26.7	919,608	34,454	$16,160	49	605	13
Eaton	106.1	3,546,095	33,429	$63,141	18	595	16
Emmet	33.6	1,266,681	37,644	$22,418	37	666	6
Genesee	424.0	12,520,111	29,526	$222,919	6	526	39
Gladwin	25.7	649,197	25,237	$11,321	62	440	76
Gogebic	15.9	457,644	28,718	$7,981	66	501	49
Grand Traverse	86.3	3,119,045	36,128	$55,382	22	641	7
Gratiot	41.9	1,152,036	27,463	$20,467	41	488	54
Hillsdale	45.7	1,216,228	26,642	$21,543	38	472	63
Houghton	35.3	955,884	27,054	$16,947	46	480	57
Huron	32.2	1,103,838	34,242	$19,312	43	599	15
Ingham	277.6	9,462,429	34,083	$169,312	7	610	12
Ionia	62.6	1,600,185	25,573	$28,677	32	458	68
Iosco	25.8	696,353	26,973	$12,068	60	467	64
Iron	11.6	361,721	31,094	$6,281	70	540	35
Isabella	67.2	1,884,249	28,049	$33,804	29	503	48
Jackson	159.8	4,713,086	29,488	$83,853	16	525	41
Kalamazoo	248.4	8,570,563	34,502	$152,899	8	616	11
Kalkaska	16.9	418,483	24,776	$7,414	68	439	77
Kent	608.3	20,460,840	33,635	$366,022	4	602	14
Keweenaw	2.3	73,181	31,749	$1,279	83	555	28
Lake	10.9	286,766	26,246	$4,997	74	457	69
Lapeer	90.0	2,738,663	30,438	$48,892	24	543	31

Exhibit 22 (continued)
Estimated Michigan Sales Tax Revenue by County
2009

County	Population (thousands)	Personal Income (thousands)	Personal Income Per Person	Estimated Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Leelanau	21.9	$871,908	$39,815	$15,335	50	$700	3
Lenawee	99.8	2,952,352	29,572	$52,452	23	525	40
Livingston	183.1	6,956,100	37,987	$124,405	10	679	4
Luce	6.5	153,111	23,490	$2,701	82	414	82
Mackinac	10.6	355,939	33,608	$6,218	71	587	18
Macomb	831.4	29,934,384	36,004	$532,092	3	640	8
Manistee	24.4	707,857	28,964	$12,416	59	508	46
Marquette	65.7	2,067,100	31,461	$36,691	27	558	27
Mason	28.6	846,017	29,543	$14,863	52	519	43
Mecosta	41.8	1,071,142	25,641	$18,996	44	455	73
Menominee	24.0	676,769	28,235	$11,901	61	497	51
Midland	82.5	3,454,868	41,853	$61,383	20	744	2
Missaukee	14.8	350,251	23,605	$6,187	72	417	80
Monroe	152.7	4,881,043	31,961	$87,021	14	570	23
Montcalm	62.7	1,468,304	23,406	$26,141	34	417	81
Montmorency	10.1	259,438	25,702	$4,457	76	442	75
Muskegon	174.0	4,834,425	27,792	$86,105	15	495	53
Newaygo	48.7	1,294,880	26,597	$23,003	36	472	62
Oakland	1,205.5	60,677,507	50,334	$1,080,487	2	896	1
Oceana	27.6	743,208	26,950	$13,169	54	478	60
Ogemaw	21.2	554,578	26,117	$9,675	64	456	71
Ontonagon	6.6	199,069	30,304	$3,433	81	523	42
Osceola	22.7	586,034	25,813	$10,341	63	455	72
Oscoda	8.7	199,683	22,934	$3,453	80	397	83
Otsego	23.4	707,577	30,223	$12,501	57	534	37
Ottawa	262.0	8,470,102	32,334	$151,404	9	578	19
Presque Isle	13.4	370,449	27,571	$6,400	69	476	61
Roscommon	24.7	718,955	29,129	$12,425	58	503	47
Saginaw	200.1	6,028,933	30,137	$106,955	11	535	36
Sanilac	42.1	1,221,046	29,028	$21,539	39	512	44
Schoolcraft	8.1	252,423	31,060	$4,414	77	543	33
Shiawassee	70.0	1,912,681	27,322	$34,004	28	486	55
St. Clair	167.6	5,290,584	31,574	$94,110	13	562	25
St. Joseph	61.7	1,660,285	26,899	$29,517	31	478	59
Tuscola	55.4	1,445,494	26,094	$25,617	35	462	67
Van Buren	78.2	2,232,950	28,544	$39,762	26	508	45
Washtenaw	347.6	13,158,533	37,859	$235,721	5	678	5
Wayne	1,925.8	61,411,399	31,888	$1,094,725	1	568	24
Wexford	31.6	855,628	27,117	$15,139	51	480	56
Totals	9,969.7	342,114,023	$34,315	$6,089,106		$611	

Source: Bureau of Economic Analysis. Calculated and compiled by Office of Revenue and Tax Analysis.

Exhibit 23
2011 State and Local Sales Tax Rates

State	State Sales Tax Rate	Maximum Local Tax Rate	Maximum State & Local Tax Rate
Alabama	4.00%	8.00%	12.00%
Alaska	No Tax	7.00%	7.00%
Arizona	6.60%	5.125%	11.725%
Arkansas	6.00%	5.125%	11.125%
California	7.25%	2.50%	9.75%
Colorado	2.90%	7.10%	10.00%
Connecticut	6.00%	None	6.00%
Delaware	No Tax	None	No Tax
Florida	6.00%	1.50%	7.50%
Georgia	4.00%	4.00%	8.00%
Hawaii	4.00%	0.50%	4.50%
Idaho	6.00%	3.00%	9.00%
Illinois	6.25%	3.75%	10.00%
Indiana	7.00%	None	7.00%
Iowa	6.00%	1.00%	7.00%
Kansas	6.30%	3.50%	9.80%
Kentucky	6.00%	None	6.00%
Louisiana	4.00%	7.00%	11.00%
Maine	5.00%	None	5.00%
Maryland	6.00%	None	6.00%
Massachusetts	6.25%	None	6.25%
Michigan	**6.00%**	**None**	**6.00%**
Minnesota	6.875%	1.00%	7.875%
Mississippi	7.00%	0.25%	7.25%
Missouri	4.225%	4.75%	8.98%
Montana	No Tax	None	No Tax
Nebraska	5.50%	1.50%	7.00%
Nevada	6.85%	1.25%	8.10%
New Hampshire	No Tax	None	No Tax
New Jersey	7.00%	None	7.00%
New Mexico	5.125%	3.563%	8.688%
New York	4.00%	4.875%	8.875%
North Carolina	5.75%	2.50%	8.25%
North Dakota	5.00%	2.50%	7.50%
Ohio	5.50%	2.25%	7.75%
Oklahoma	4.50%	6.50%	11.00%
Oregon	No Tax	None	No Tax
Pennsylvania	6.00%	2.00%	8.00%
Rhode Island	7.00%	None	7.00%
South Carolina	6.00%	2.50%	8.50%
South Dakota	4.00%	2.00%	6.00%
Tennessee	7.00%	2.75%	9.75%
Texas	6.25%	2.00%	8.25%
Utah	4.70%	3.65%	8.35%
Vermont	6.00%	1.00%	7.00%
Virginia	4.00%	1.00%	5.00%

Exhibit 23 (continued)
2011 State and Local Sales Tax Rates

State	State Sales Tax Rate	Maximum Local Tax Rate	Maximum State & Local Tax Rate
Washington	6.50%	3.00%	9.50%
West Virginia	6.00%	None	6.00%
Wisconsin	5.00%	0.60%	5.60%
Wyoming	4.00%	2.00%	6.00%

Sources: State Internet sites and "Average U.S. Sales Tax Rate Hits Record High" on Forbes.com. Rates as of January 2011 where available.
Compiled by Office of Revenue and Tax Analysis.

Note: Table attempts to capture the highest rate charged in a municipal jurisdiction. Some states (e.g., Kansas and Missouri) have districts that charge separate sales taxes. These are not included to make comparisons across states consistent.

Exhibit 24
Effective State and Local Sales Tax Rates and Revenue
FY 2008

	State & Local Taxes on Sales/ Gross Receipts (millions)	Personal Income (millions)	Sales Tax Revenue as % of Income	Rank	State Tax Rate	Effective State & Local Sales Tax Rate	Rank
Alabama	$4,148.2	$157,963.3	2.63%	20	4.0%	7.25%	11
Alaska	$214.6	$29,356.0	0.73%	46	No Tax	NA	46
Arizona	$9,109.0	$222,639.5	4.09%	6	5.6%	7.93%	6
Arkansas	$3,715.9	$92,462.3	4.02%	8	6.00%	7.94%	5
California	$41,089.5	$1,592,831.5	2.58%	22	6.25%	8.03%	4
Colorado	$5,259.6	$211,750.8	2.48%	24	2.9%	6.60%	24
Connecticut	$3,545.7	$199,652.3	1.78%	40	6.0%	6.00%	31
Delaware	$0.0	$35,216.3	0.00%	47	No Tax	NA	46
Florida	$22,852.6	$733,972.5	3.11%	12	6.0%	6.37%	25
Georgia	$9,770.9	$338,616.0	2.89%	14	4.0%	6.74%	18
Hawaii	$2,619.6	$53,998.0	4.85%	2	4.0%	4.00%	45
Idaho	$1,347.5	$50,147.0	2.69%	18	6.0%	6.00%	30
Illinois	$9,309.3	$547,311.5	1.70%	41	6.25%	7.33%	10
Indiana	$5,738.8	$220,042.5	2.61%	21	6.0%	6.00%	31
Iowa	$2,431.2	$111,834.8	2.17%	31	5.0%	6.60%	23
Kansas	$3,059.5	$108,871.8	2.81%	16	5.3%	7.16%	12
Kentucky	$2,875.8	$136,105.5	2.11%	34	6.0%	6.00%	31
Louisiana	$7,107.7	$164,108.8	4.33%	4	4.0%	8.22%	2
Maine	$1,060.6	$47,500.3	2.23%	29	5.0%	5.00%	41
Maryland	$3,748.9	$270,357.3	1.39%	43	5.0%	5.00%	41
Massachusetts	$4,098.1	$329,837.5	1.24%	45	5.0%	5.00%	41
Michigan	**$8,225.6**	**$351,798.3**	**2.34%**	**27**	**6.0%**	**6.00%**	**31**
Minnesota	$4,668.5	$222,381.0	2.10%	35	6.500%	6.67%	20
Mississippi	$3,135.4	$89,309.8	3.51%	9	7.0%	7.00%	15
Missouri	$5,055.4	$215,045.0	2.35%	26	4.225%	6.62%	22
Montana	$0.0	$33,501.8	0.00%	47	No Tax	NA	46
Nebraska	$1,875.5	$70,309.3	2.67%	19	5.5%	6.72%	19
Nevada	$3,373.0	$105,468.8	3.20%	11	6.5%	7.12%	13
New Hampshire	$0.0	$57,383.5	0.00%	47	No Tax	NA	46
New Jersey	$8,915.5	$443,866.0	2.01%	36	7.0%	7.00%	15
New Mexico	$2,766.0	$65,327.0	4.23%	5	5.0%	7.09%	14
New York	$23,032.6	$924,302.0	2.49%	23	4.00%	8.16%	3
North Carolina	$7,226.0	$325,434.8	2.22%	30	4.25%	5.83%	37
North Dakota	$622.2	$25,402.5	2.45%	25	5.0%	5.87%	36
Ohio	$9,523.8	$410,754.5	2.32%	28	5.5%	6.66%	21
Oklahoma	$3,611.9	$130,318.3	2.77%	17	4.5%	7.75%	9
Oregon	$0.0	$137,302.3	0.00%	47	No Tax	NA	46
Pennsylvania	$9,190.4	$500,808.3	1.84%	39	6.0%	6.21%	28
Rhode Island	$846.9	$43,483.8	1.95%	38	7.0%	7.00%	15
South Carolina	$3,174.4	$146,366.8	2.17%	33	6.0%	6.24%	27
South Dakota	$1,003.3	$30,900.5	3.25%	10	4.0%	5.48%	38
Tennessee	$8,794.0	$216,872.8	4.05%	7	7.0%	9.01%	1
Texas	$27,076.3	$945,564.6	2.86%	15	6.25%	7.81%	8
Utah	$2,612.8	$87,569.5	2.98%	13	4.75%	6.32%	26
Vermont	$344.4	$24,105.8	1.43%	42	6.0%	6.10%	29
Virginia	$4,736.3	$342,965.3	1.38%	44	4.0%	5.18%	40
Washington	$13,732.9	$281,775.3	4.87%	1	6.5%	7.87%	7
West Virginia	$1,109.8	$55,637.0	1.99%	37	6.0%	6.00%	31
Wisconsin	$4,567.7	$210,545.8	2.17%	32	5.0%	5.35%	39
Wyoming	$1,216.3	$25,652.5	4.74%	3	4.0%	4.96%	44
U.S. Average	$303,540.2	$12,174,727.1	2.49%				

Sources: Bureau of the Census & Bureau of Economic Analysis, U.S. Department of Commerce, and *State Tax Guide* , Commerce Clearing House. Compiled by Office of Revenue and Tax Analysis.

VIII. PUBLIC ACTS IN 2010 – SALES AND USE TAXES

Public Acts 115 and 116 and 2010 amended the Use Tax Act and the General Sales Tax Act, respectively, to include equipment used to unload logs and load lumber at sawmills in the list of items that qualify for an industrial processing exemption.

Public Act 333 of 2010 amended the Streamlined Sales and Use Tax Revenue Equalization Act to allow a refund of the sales tax paid on a "core charge" for heavy earthmoving equipment. A refund could be obtained for the sales tax on a recycling fee, deposit, or disposal fee for a component, part, or battery used on the covered equipment.

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