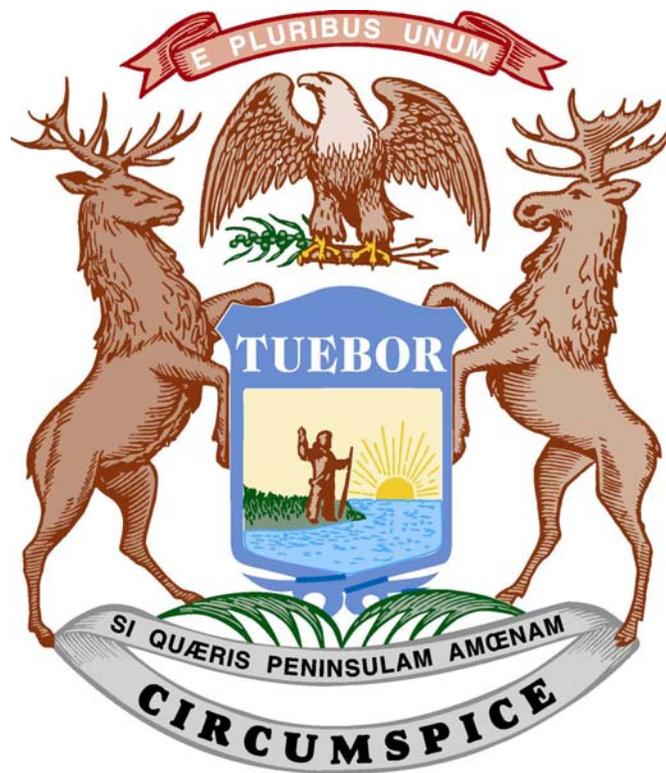


**Executive Budget
Appendix on Tax Credits,
Deductions, and
Exemptions
Fiscal Year 2007**



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

**Executive Budget
Appendix on Tax Credits,
Deductions, and Exemptions
Fiscal Year 2007**



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

ACKNOWLEDGMENTS

Scott Darragh compiled this report under the direction of Howard Heideman, Director of the Tax Analysis Division. Denise Heidt, Andrew Lockwood, and Thomas Patchak-Schuster, economists in the Tax Analysis and Economic and Revenue Forecasting Divisions, prepared significant contributions. Jeffrey Guilfoyle of the Economic and Revenue Forecasting Division also provided assistance. Tim Densmore of the Department of Treasury's Motor Fuel Section, Steve Robinson of the Department of Labor and Economic Growth, and Steve Bendele and Michael Bjorne of the Department of State provided data for various tax credits, deductions, and exemptions.

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.

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

Robert J. Kleine
State Treasurer
Department of Treasury

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
CHAPTER 1: INTRODUCTION TO TAX EXPENDITURES.....	2
Defining Tax Expenditures	2
Technical Issues	4
Measuring Tax Expenditures	5
Cautionary Notes and the Reliability of Estimates	6
Why Report Tax Expenditures?.....	7
CHAPTER 2: SUMMARY OF TAX EXPENDITURES	9
CHAPTER 3: TAX EXPENDITURE BUDGET	20
CHAPTER 4: BUSINESS PRIVILEGE TAX EXPENDITURES.....	30
Business Privilege Tax Expenditure Changes	30
Insurance Company Retaliatory Tax.....	31
Oil and Gas Severance Tax	32
SBT Expenditures	32
CHAPTER 5: CONSUMPTION TAX EXPENDITURES	41
Consumption Tax Expenditure Changes.....	41
Alcoholic Beverage Taxes	41
Tobacco Products Tax.....	42
State Convention Facility Development Tax	43
Sales and Use Tax Expenditures	43
CHAPTER 6: INDIVIDUAL INCOME TAX EXPENDITURES.....	51
Individual Income Tax Expenditure Changes.....	51
State Income Tax Expenditures	52

Federal Income Tax Expenditures	65
CHAPTER 7: TRANSPORTATION TAX EXPENDITURES	68
Transportation Tax Expenditure Changes.....	68
Aircraft Registration and Transfer Fee	68
Aviation Fuel Tax Expenditures	68
Marine Vessel Fuel Tax Expenditures	69
Motor Carrier Privilege Fee	69
Motor Fuel Taxes	69
Motor Vehicle Registration Fee.....	71
Watercraft Registration Fee	71
CHAPTER 8: PROPERTY AND OTHER LOCAL TAX EXPENDITURES	72
Property and Other Local Tax Expenditure Changes	72
Utility Property Tax Expenditures	74
General Property Tax	75
Iron Ore Specific Tax.....	80
Mobile Home Tax	87
Real Estate Property Transfer Tax	87
Accommodations Tax	88
City Income Tax.....	88
City Utility Users' Tax.....	91

LIST OF EXHIBITS

<u>Exhibit</u>	<u>Page</u>
1 Total Tax Expenditures, FY 2006 and FY 2007	9
2 FY 2007 Distribution of Tax Expenditures	10
3 FY 2007 Tax Expenditures and Projected Revenue.....	11
4 Business Privilege Tax Expenditures	12
5 Consumption Tax Expenditures	14
6 Individual Income Tax Expenditures	16
7 Transportation Tax Expenditures	18
8 Local Property and Other Local Tax Expenditures.....	19
9 Tax Expenditure Budget, FY 2007.....	20
10 Comparison of State Tax and Direct Expenditures (From State Resources) for Selected Spending Categories, FY 2006.....	21
11 Fiscal Summary, Tax Expenditure Budget.....	22
12 Tax Expenditure Budget Detail.....	23
13 Single Business Tax Expenditures by Liability Class, 2000-2001.....	36
14 Selected Individual Income Tax Expenditures, CY 2004	55
15 Selected Individual Income Tax Expenditures by Income Class, CY 2004.....	58
16 Effective Income Tax Rates by Income Class, CY 2004	59
17 Tax Expenditures as a Percent of Adjusted Gross Income, CY 2004	60
18 Property Tax Credits by County, CY 2004	61
19 Counties of Michigan	81
20 Estimated Taxable Value of Exempt Real and Personal Property by County, 2005	82
21 General Property Tax – Estimated Exempt Acreage by County, 2005.....	86
22 Miscellaneous Local Taxes Kept by Local Units, 2004.....	89
23 Estimated Tax Expenditures From City Income Tax Personal Exemptions, 2004	92
24 City Tax Rates and Exemption Allowances, 2004.....	93

**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

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS
EXECUTIVE SUMMARY
FY 2007

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 3.7 percent between fiscal year (FY) 2006 and FY 2007, from \$30.0 billion to \$31.1 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 5.4 percent from \$1,324.3 million to \$1,395.2 million. Tax credits granted by the Michigan Economic Growth Authority were the fastest growing business tax expenditure.

Consumption tax expenditures are predicted to increase 5.9 percent between FY 2006 and FY 2007, from \$11,854.1 million to \$12,552.2 million. Growth in tax expenditures related to health care, construction, and professional, scientific, and technical services account for most of the increase. Comparisons between the estimates for consumption tax expenditures contained in this report and those in prior editions of the *Tax Expenditure Appendix* are not valid due to changes in the methodology and data sources used to calculate tax expenditures related to services.

Individual income tax expenditures are predicted to fall from \$6,779.2 million in FY 2006 to \$6,756.3 million in FY 2007, a 0.3 percent decrease. The income tax rate fell to 3.9 percent on July 1, 2004, completing the enacted rate reductions. The reduction in the income tax rate reduces the size of most income tax expenditures, especially exemptions and deductions.

Local tax expenditures are predicted to increase 3.8 percent between FY 2006 and FY 2007, rising from \$9,993.6 million to \$10,371.1 million, as property values rise and new construction adds to the property tax base.

Transportation tax expenditures are predicted to increase 1.0 percent between FY 2006 and FY 2007, from \$53.0 million to \$53.5 million.

CHAPTER 1

INTRODUCTION TO TAX EXPENDITURES

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

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

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

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

Defining Tax Expenditures

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

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

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

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

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

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

However, the allocation of government resources through the tax system suffers from some drawbacks. First, because tax expenditures accomplish their goals indirectly, they 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 2005, individual Michigan taxpayers could claim a \$3,200 personal exemption for themselves and each of their dependents. The personal exemption is classified as a tax expenditure in this report. Some contend that the exemption is essential for determining an appropriate income tax base and should not be considered a tax expenditure. Yet even using a

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

Industrial Processing Exemption From Sales Tax

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

Measuring Tax Expenditures

The estimates in this report for fiscal year (FY) 2006 and FY 2007 are based on the most recent data available. Tax year 2004 income tax data (returns processed in the spring of 2005) are used, as are 2004 property and sales tax data, and tax year 2000-2001 SBT data. Most estimates of the cost (in terms of foregone revenue) of credits, deductions, exemptions, and other reductions are based on actual tax return data. However, many exemptions are not reported on tax returns. In these instances, tax expenditure estimates were derived from other sources.

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

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

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

Assumption 2: Each tax expenditure is independent.

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

removing one SBT deduction or credit may allow firms to take greater advantage of other deductions or credits, offsetting 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, the reported estimate for each tax expenditure is an isolated estimate. That is, estimates assume implicitly that no other tax expenditures exist (i.e., there is no interaction) and that all other factors remain constant (i.e., taxpayers do not change their behavior and the repeal of the provision does not affect the economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would generally fall short of the estimates.

Cautionary Notes and the Reliability of Estimates

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

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

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

1. High reliability level.

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

2. Average reliability level.

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

3. Low reliability level.

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

Why Report Tax Expenditures?

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

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

1. Tax Equity.

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

2. Fiscal Discipline.

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

3. Political Accountability.

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

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

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

CHAPTER 2

SUMMARY OF TAX EXPENDITURES

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

Total tax expenditures are projected to increase from \$30.004 billion in FY 2006 to \$31.128 billion in FY 2007, a 3.7 percent increase (see Exhibit 1). Most of the increase in total tax expenditures is due to growth in consumption tax expenditures, specifically the exemption of most service industries from the sales and use taxes.

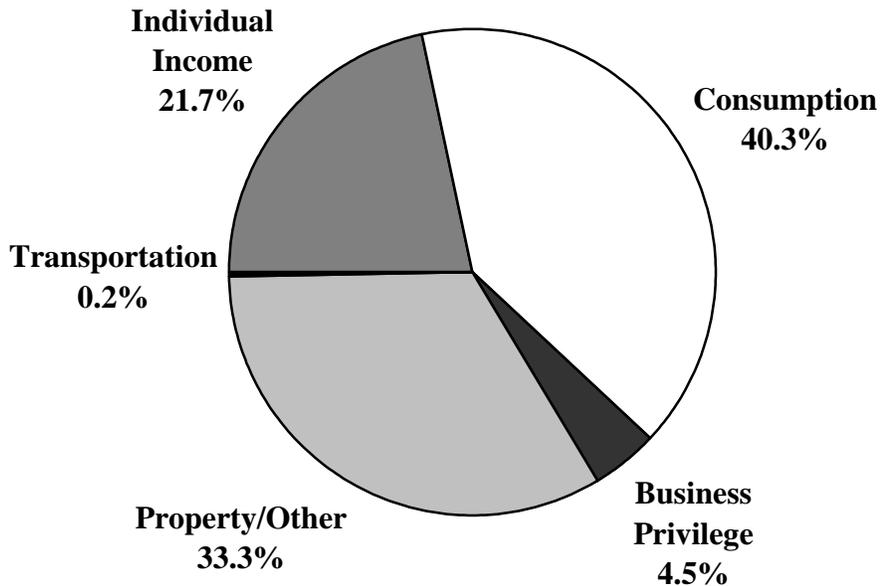
Exhibit 1
Total Tax Expenditures, FY 2006 and FY 2007

<u>Tax Category</u>	<u>FY 2006</u> <u>(000)</u>	<u>FY 2007</u> <u>(000)</u>	<u>Change</u> <u>(000)</u>
Business Privilege	\$1,324,340	\$1,395,215	\$70,875
Consumption	11,854,063	12,552,185	698,122
Individual Income	6,779,164	6,756,322	-22,842
Property	9,810,254	10,186,041	375,787
Other Local (City Income)	183,300	185,100	1,800
Transportation	<u>52,969</u>	<u>53,484</u>	<u>515</u>
TOTAL	\$30,004,090	\$31,128,347	\$1,124,257

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 2007, consumption tax expenditures comprised 40.3 percent of total tax expenditures, while income tax expenditures comprised 21.7 percent and property and other local taxes comprised 33.3 percent. Not surprisingly, taxes that generate significant revenue are also associated with large tax expenditures (see Exhibit 3). Most notable are consumption tax expenditures resulting from the exemptions for food, services, and industrial processing.

Exhibit 2
FY 2007 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2007 Tax Expenditures and Projected Revenue
(millions of dollars)

<u>Tax Category</u>	<u>Tax Expenditure</u>	<u>Projected Revenues*</u>	<u>Percent of Revenues</u>
Business Privilege			
Oil and Gas Severance	\$7.5	\$76.0	9.9%
Single Business	1,387.1	1,885.9	73.5%
Consumption			
Total Alcohol	0.1	168.2	0.1%
Cigarette and Tobacco	28.3	1,158.9	2.4%
Sales and Use	12,523.8	8,426.3	148.6%
Individual Income Tax	4,527.0	6,385.9	70.9%
Transportation			
Aviation Fuel	3.6	7.0	51.7%
Gasoline	29.2	928.0	3.1%
Diesel Fuel	5.4	156.6	3.4%
Motor Vehicle Registration	14.5	927.0	1.6%
City Income Tax	185.1	524.4	35.3%
TOTAL	\$18,711.7	\$20,644.2	90.6%

*From Consensus Revenue Estimating Conference, May 2006.

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.

There were significant revisions to the federal tax expenditure estimates used to calculate the Michigan income tax expenditures presented in Exhibit 6. These revisions were released after the Michigan estimates for FY 2006 were prepared (and released in last year's report) and the revised federal estimates were used to prepare the Michigan estimates for FY 2007. Among the tax expenditure estimates that have changed significantly are employer provided pensions, individual retirement accounts, and the exclusion of capital gains on the sale of a primary residence.

**Exhibit 4
Business Privilege Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2006 (000)</u>	<u>FY 2007 (000)</u>
Insurance Company Retaliatory		
Supplemental Workers' Compensation	\$664	\$615
Oil and Gas Severance Tax		
Marginal Wells	3,825	4,017
Public Land	3,429	3,532
SUBTOTAL	\$7,254	\$7,549
Single Business Tax Expenditure		
Agricultural Producers	\$12,332	\$12,948
Apprenticeship Tax Credit	793	808
Brownfield Zone Credit	25,591	29,428
Business Loss Deduction	48,031	48,837
Community Foundation Credit	719	755
Compensation Exemption	151,274	155,813
Corporate Farm Property Tax Credit	1,336	1,376
Donated Vehicle Credit	118	130
Enterprise Zone Credit	955	983
Excess Compensation Reduction	194,152	197,410
Floor Plan Interest Deduction	1,500	1,500
Government Utilities Exemption	15,565	16,311
Gross Receipts Reduction	108,313	110,130
Gross Receipts Threshold	79,345	81,611
Health Insurance Deduction	22,200	31,200
Higher Education Contributions Credit	1,876	1,914
Historic Preservation Credits	1,830	2,013
Homeless/Food Bank Credit	551	578
Insurer's Exemption From Gross Receipts	1,267	1,305
Insurer's Facility Assessment Credit	50,524	52,169
Investment Tax Credit	87,332	89,413
Iron Ore Credit	1,716	1,716
Minority Venture Capital Credit	0	0
Michigan Economic Growth Authority*	39,489	62,094
Multiple Employer Welfare Arrangement	24	26
New Hire Credit	\$883	\$0

Exhibit 4 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2006</u> <u>(000)</u>	<u>FY 2007</u> <u>(000)</u>
Next Energy Credit	8,213	8,351
Nonprofit Organizations	107,314	109,114
Officer Compensation	3,022	3,073
Personal Property Tax Credit*	95,200	87,700
Pharmaceutical Research Credit	8,861	9,203
Property Transfer Credit*	0	15,000
Renaissance Zones	19,930	21,058
Research Funds Exclusion	76	79
Small Business Credit	110,015	111,860
Start-up Business Credit	1,200	1,300
Statutory Exemption	7,989	8,123
Supplemental Workers' Compensation	4,078	3,775
Tribal Tax Agreement	n.a.	n.a.
Unincorporated Business Credit	95,022	99,773
Utility Property Tax Credit	7,786	8,175
SUBTOTAL	\$1,316,422	\$1,387,051
TOTAL	\$1,324,340	\$1,395,215

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

Exhibit 5
Consumption Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2006</u> <u>(000)</u>	<u>FY 2007</u> <u>(000)</u>
Alcoholic Beverages Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Homemade Wine	n.a.	n.a.
Small Brewer's Credit	\$100	\$100
SUBTOTAL	\$100	\$100
Cigarette Tax		
Bad Debt Deduction	\$800	\$800
Licensee Expenses	17,483	17,171
Sales on Military Bases and Reservations	10,566	10,355
SUBTOTAL	\$28,849	\$28,326
Sales and Use Tax Expenditures		
Air and Water Pollution	\$42,000	\$44,000
Aircraft Parts	8,436	8,652
Bad Debts	61,713	64,037
Cargo Aircraft	30,000	30,000
Church Construction	3,200	3,200
Church Cars	4,232	4,391
Collection Fee	16,169	16,778
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Damaged Beer	n.a.	n.a.
Donated Property	n.a.	n.a.
Donated Vehicles	500	500
Driver Training	642	642
Employee Meals	8,111	8,416
Enterprise Zone Credit	n.a.	n.a.
Food	1,006,993	1,044,917
Food for Students	32,076	32,271
Government or Red Cross	182,024	188,880
Gratuity and Tips	59,549	61,791
Horticultural and Agricultural Products	130,275	130,275
Imported Property from Other States	3,200	3,200

Exhibit 5 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2006 (000)</u>	<u>FY 2007 (000)</u>
Industrial Processing	\$717,165	\$744,173
Inmate Purchases	554	553
Interstate Communications	21,354	22,158
Interstate Trucks and Trailers	39,368	40,851
Investment Coins	400	400
Isolated Sales	n.a.	n.a.
Military PX Sales	1,886	1,957
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	98,965	102,692
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	10,640	11,041
Nonprofit Organizations	172,261	178,748
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	48,697	50,158
Prescription Drugs	547,669	606,324
Radio and TV	4,400	4,400
Rail Rolling Stock	1,652	1,714
Residential Utilities	137,500	133,000
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	68,454	69,516
Services (Including Nonprofits)	8,237,207	8,783,276
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	17,929	18,288
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	41,593	43,160
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	25,200	26,300
SUBTOTAL	\$11,825,114	\$12,523,759
TOTAL	\$11,854,063	\$12,552,185

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

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

**Exhibit 6
Individual Income Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2006 (000)</u>	<u>FY 2007 (000)</u>
State Income Tax		
Adjustments to Income	\$2,319,239	\$2,396,340
Adoption Credit	1,627	1,753
Child Deduction	51,017	51,528
City Income Tax Credit	33,856	34,194
College Savings Accounts	12,726	13,261
Community Foundation Credit	3,223	3,384
Dependent Exemption	20,695	20,902
Donated Vehicle Credit	118	125
Farmland Credit	31,464	33,037
Higher Education/Public Contributions Credit	25,846	26,105
Historic Preservation Credit	734	880
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	70	72
Homeless/Food Bank Credit	18,632	19,638
Homestead Property Tax Credit	820,275	861,289
Income Tax Paid to Other State Credit	38,910	40,466
Military Pay and Pensions	31,514	34,895
Personal Exemption	927,887	937,166
Renaissance Zones	300	300
Special Exemption	36,232	37,682
Tribal Tax Agreements	n.a.	n.a.
Tuition Credit	13,477	14,016
TOTAL STATE	\$4,387,842	\$4,527,033
Federal Adjustments		
Accelerated Depreciation	-\$38,046	-\$43,489
Employer Contributions to Insurance	755,845	809,809
Employer Pension Plans	784,030	597,439
Federal Adjustments to Income	21,616	53,756
Fellowships and Scholarships	9,085	8,932
Gain on Sale of Primary Residence	156,990	226,421
Income Maintenance Benefits	4,208	2,782

Exhibit 6 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2006</u> <u>(000)</u>	<u>FY 2007</u> <u>(000)</u>
Federal Adjustments (continued)		
Individual Retirement Accounts	\$209,848	\$93,726
Interest on Life Insurance Savings	144,684	159,398
Medical Savings Account	5,074	13,430
Railroad Retirement Benefits	1,928	1,820
Social Security Benefits	223,628	214,672
Student Loan Deduction	5,192	4,729
Veterans' Benefits	43,048	40,258
Workers' Compensation	64,192	45,606
TOTAL FEDERAL	\$2,391,322	\$2,229,289
TOTAL STATE AND FEDERAL	\$6,779,164	\$6,756,322

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

Exhibit 7
Transportation Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2006</u> <u>(000)</u>	<u>FY 2007</u> <u>(000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$266	\$272
Interstate Flight Refund	3,290	3,350
Marine Vessel Exemption	720	730
SUBTOTAL	<u>\$4,276</u>	<u>\$4,352</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$5,270	\$5,370
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,000	14,100
Fuel for Off-Road Use	973	993
Municipal Franchise Vehicles	413	420
Public Vehicles	13,500	13,700
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	<u>\$34,156</u>	<u>\$34,583</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$223	\$235
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	14,300	14,300
SUBTOTAL	<u>\$14,523</u>	<u>\$14,535</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	\$14	\$14
TOTAL	<u>\$52,969</u>	<u>\$53,484</u>

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

<u>Tax or Tax Expenditure</u>	<u>FY 2006 (000)</u>	<u>FY 2007 (000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$27,700	\$33,200
Air and Water Pollution Control	120,000	130,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	480	380
Enterprise Zone Credit	1,200	1,300
Fairground Property	n.a.	n.a.
Homestead Exemption	3,060,000	3,140,000
Homestead Exemption for Farm Property	140,000	140,000
Industrial Facilities Development	325,000	330,000
Mobile Homes	55,414	57,681
Neighborhood Enterprise Zones	7,700	8,900
Next Energy Exemption	800	1,000
Obsolete Property Rehabilitation	2,300	3,100
Poverty Exemption	2,400	2,500
Railroad Right-of-Way/Broadband Credit	41,100	42,800
Renaissance Zones*	80,000	100,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,995,000	2,044,000
Tax Increment Financing	290,000	300,000
Taxable Value Cap	3,660,000	3,850,000
Water Softeners	1,160	1,180
SUBTOTAL	<u>\$9,810,254</u>	<u>\$10,186,041</u>
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$162,600	\$164,200
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	20,700	20,900
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	<u>\$183,300</u>	<u>\$185,100</u>
TOTAL	\$9,993,554	\$10,371,141

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

CHAPTER 3

TAX EXPENDITURE BUDGET

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

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

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

Exhibit 9
Tax Expenditure Budget, FY 2007

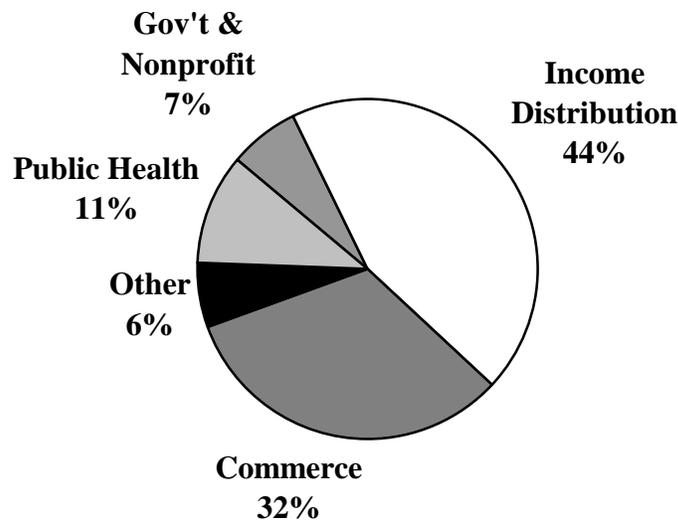


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2006

<u>Spending Category</u>	<u>Tax Expenditure (000)</u>	<u>Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$175,407	\$76,090	\$251,497	69.7%
Commerce (DLEG)	7,911,958	400,237	8,312,194	95.2%
Higher Education	317,650	1,730,444	2,048,094	15.5%
Income Distribution (DHS)	8,001,111	1,152,388	9,153,499	87.4%
Military Affairs	88,437	65,150	153,587	57.6%
Natural Resources	42,000	228,172	270,172	15.5%
Public (Community) Health	3,054,908	4,467,908	7,522,817	40.6%
Transportation	49,960	2,184,113	2,234,073	2.2%
TOTAL	\$19,641,431	\$10,304,501	\$29,945,933	65.6%

Note: FY 2006 expenditure figures from *FY 2005-2006 Appropriations Report*, Senate Fiscal Agency.

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

Exhibit 11
Fiscal Summary, Tax Expenditure Budget

<u>Budget Category</u>	<u>FY 2006</u> <u>(000)</u>	<u>FY 2007</u> <u>(000)</u>
Agriculture	\$672,507	\$697,336
Commerce	9,553,932	10,116,630
Education	846,650	868,443
Government and Nonprofit Organizations	2,059,505	2,116,952
Income Distribution	13,515,711	13,729,162
Military Affairs	88,437	88,900
Natural Resources	162,480	174,380
Public Health	3,054,908	3,285,225
Transportation	49,960	51,319
TOTAL	\$30,004,090	\$31,128,347

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

See Exhibit 12 for a detailed list of tax expenditures.

**Exhibit 12
Tax Expenditure Budget Detail**

Tax/Tax Expenditure	FY 2006 (000)	FY 2007 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	\$27,700	\$33,200
Homestead Exemption for Farm Property	140,000	140,000
Taxable Value Cap	329,400	346,500
Income Tax		
Farmland Development Credit (PA 116)	31,464	33,037
Sales and Use Taxes		
Horticultural or Agricultural Products	130,275	130,275
Single Business Tax		
Agricultural Producers	12,332	12,948
Corporate Farm Property Tax Credit	1,336	1,376
TOTAL	\$672,507	\$697,336
Commerce		
Alcoholic Beverage Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Small Brewer's Credit	\$100	\$100
Cigarette Tax		
Bad Debt Deduction	800	800
Licensee Expenses	17,483	17,171
Income Tax		
Accelerated Depreciation	-38,046	-43,489
Renaissance Zone Credit	300	300
Insurance Company Retaliatory Tax		
Supplemental Workers' Compensation Credits	664	615
Motor Vehicle Registration Tax		
Intercity Commercial Buses	n.a.	n.a.
Oil and Gas Severance Tax		
Marginal Wells	3,825	4,017
Property Tax		
Broadband Investment Credit	18,100	18,800
Enterprise Zone	1,200	1,300
Industrial Facilities Development	325,000	330,000
Mobile Homes	55,414	57,681

Tax/Tax Expenditure	FY 2006 (000)	FY 2007 (000)
Commerce (Continued)		
Neighborhood Enterprise Zones	\$7,700	\$8,900
Next Energy Exemption	800	1,000
Obsolete Property Rehabilitation	2,300	3,100
Renaissance Zones	80,000	100,000
Tax Increment Financing	290,000	300,000
Taxable Value Cap	878,400	924,000
Water Softeners	1,160	1,180
Sales and Use Taxes		
Aircraft Parts	8,436	8,652
Bad Debts	61,713	64,037
Cargo Aircraft	30,000	30,000
Collection Fee	16,169	16,778
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Employee Meals	8,111	8,416
Enterprise Zone	n.a.	n.a.
Gratuities and Tips	59,549	61,791
Imported Property from Other States	3,200	3,200
Industrial Processing	717,165	744,173
Interstate Telecommunications	21,354	22,158
Interstate Trucks and Trailers	39,368	40,851
Investment Coins	400	400
Newspapers, Periodicals, and Films	98,965	102,692
Nonresident Merchandise Transfer	n.a.	n.a.
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Business	n.a.	n.a.
Sale of Water	68,454	69,516
Services (except education, health, and nonprofits)	5,469,638	5,842,139
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	17,929	18,288
Vehicle and Aircraft Transfers	41,593	43,160
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines	25,200	26,300

Tax/Tax Expenditure	FY 2006 (000)	FY 2007 (000)
Commerce (Continued)		
Single Business Tax		
Brownfield Zone Credit	\$25,591	\$29,428
Business Loss Deduction	48,031	48,837
Compensation Exemption	151,274	155,813
Enterprise Zone Credit	955	983
Excess Compensation Reduction	194,152	197,410
Floor Plan Internal Expense	1,500	1,500
Gross Receipts Reduction	108,313	110,130
Gross Receipts Threshold	79,345	81,611
Health Insurance Deduction	22,200	31,200
Insurer's Exemption From Gross Receipts	1,267	1,305
Insurer's Facility Assessment Credit	50,524	52,169
Investment Tax Credit	87,332	89,413
Iron Ore Credit	1,716	1,716
MEGA	39,489	62,094
Minority Venture Capital Credit	0	0
Multiple Employer Welfare Arrangement	24	26
New Hire Credit	883	0
Next Energy Credit	8,213	8,351
Officer Compensation	3,022	3,073
Personal Property Tax Credit	95,200	87,700
Pharmaceutical Research Credit	8,861	9,203
Property Transfer Credit	0	15,000
Renaissance Zone Credit	19,930	21,058
Research Funds Exclusion	76	79
Small Business Low-Profit Credit	110,015	111,860
Start-up Business Credit	1,200	1,300
Statutory Exemption	7,989	8,123
Supplemental Workers' Compensation Credit	4,078	3,775
Unincorporated Business Credit	95,022	99,773
Utility Property Tax Credit	7,786	8,175
TOTAL	\$9,553,932	\$10,116,630
Education		
Income Tax		
College Savings Account	12,726	13,261
Fellowships and Scholarships	9,085	8,932

Tax/Tax Expenditure	FY 2006 (000)	FY 2007 (000)
Education (Continued)		
Higher Education/Public Contribution Credit	\$25,846	\$26,105
Tuition Credit	13,477	14,016
Property Tax		
Exempt Public Education Property	529,000	540,000
Sales Tax		
Services	253,847	263,407
Textbooks Sold by Schools	n.a.	n.a.
Single Business Tax		
Apprenticeship Tax Credit	\$793	\$808
Higher Education and Library Credit	1,876	1,914
TOTAL	\$846,650	\$868,443
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	266	272
Income Tax		
Community Foundation	3,223	3,384
Historic Preservation Credit	734	880
Motor Fuel Taxes		
Public Vehicles	13,500	13,700
Motor Vehicle Weight Tax		
Handicapper Vans	n.a.	n.a.
Public and Nonprofit Vehicles	14,300	14,300
Oil and Gas Severance Tax		
Public Land	3,429	3,532
Property Tax		
Church Transfers	n.a.	n.a.
Tax Exempt Property	1,466,000	1,504,000
Sales and Use Taxes		
Church Cars	4,232	4,391
Church Construction	3,200	3,200
Donated Property	n.a.	n.a.
Government or Red Cross	182,024	188,880
Nonprofit Organizations	172,261	178,748
Nonprofit Sales	n.a.	n.a.
Services	70,894	73,458
Single Business Tax		
Community Foundation Credit	719	755
Government Utilities	15,565	16,311

Tax/Tax Expenditure	FY 2006 (000)	FY 2007 (000)
Government and Nonprofit Organizations (Continued)		
Historic Preservation Credit	\$1,830	\$2,013
Nonprofit Organizations	107,314	109,114
Watercraft Registration Fee		
Publicly Owned Watercraft	14	14
TOTAL	\$2,059,505	\$2,116,952

Income Distribution

City Income Tax		
Nonresident Reduced Rate	162,600	164,200
Personal Exemption	20,700	20,900
General Property Tax		
Homestead Exemption	3,060,000	3,140,000
Poverty Exemption	2,400	2,500
Taxable Value Cap	2,452,200	2,579,500
Income Tax		
Adjustments to Income (except military)	2,319,239	2,396,340
Adjustments to Income (federal)	21,616	53,756
Adoption Credit	1,627	1,753
Child Deduction	51,017	51,528
City Income Tax Credit	33,856	34,194
Dependent Exemption	20,695	20,902
Donated Vehicle Credit	118	125
Employer Contributions to Health and Life Insurance	755,845	809,809
Employer Pension Plans	784,030	597,439
Gain on Sale of Primary Residence	156,990	226,421
Holocaust Survivor	n.a.	n.a.
Home Heating Assistance Credit	70	72
Homeless Credit	18,632	19,638
Homestead Property Tax Credit (excluding veterans)	819,075	860,089
Income Maintenance Benefits	4,208	2,782
Individual Retirement Account	209,848	93,726
Interest on Life Insurance Savings	144,684	159,398
Other State Tax Credit	38,910	40,466
Personal Exemption	927,887	937,166
Railroad Retirement Benefits	1,928	1,820
Social Security Benefits	223,628	214,672

Tax/Tax Expenditure	FY 2006 (000)	FY 2007 (000)
Income Distribution (Continued)		
Special Exemption	\$36,232	\$37,682
Student Loan Deduction	5,192	4,729
Workers' Compensation	64,192	45,606
Sales and Use Taxes		
Donated Vehicles	500	500
Food	1,006,993	1,044,917
Food for Students	32,076	32,271
Inmate Purchases	554	553
Residential Utilities	137,500	133,000
Single Business Tax		
Donated Vehicle Credit	118	130
Homeless Shelter Food Bank Credit	551	578
TOTAL	\$13,515,711	\$13,729,162
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	10,566	10,355
Income Tax		
Military Pay and Pension	31,514	34,895
Veterans' Benefits	43,048	40,258
Veterans' Property Tax Credit	1,200	1,200
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	223	235
Sales and Use Taxes		
Military Post-Exchange Sales	1,886	1,957
Military Vehicle Sales (nonresident)	n.a.	n.a.
Military Vehicle Sales (resident out-of-state)	n.a.	n.a.
TOTAL	\$88,437	\$88,900
Natural Resources		
Property Tax		
Air and Water Pollution	120,000	130,000
Energy Conservation Devices	480	380
Sales and Use Taxes		
Air and Water Pollution	42,000	44,000
TOTAL	\$162,480	\$174,380

Tax/Tax Expenditure	FY 2006 (000)	FY 2007 (000)
Public Health		
Income Tax		
Medical Care Savings - Federal	\$5,074	\$13,430
Sales and Use Taxes		
Medical Services	2,442,828	2,604,272
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital Construction	10,640	11,041
Ophthalmic and Orthopedic Products	48,697	50,158
Prescription Drugs	547,669	606,324
TOTAL	\$3,054,908	\$3,285,225
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	3,290	3,350
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,270	5,370
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,000	14,100
Fuel for Off-Road Use	973	993
Marine Vessel Fuel	720	730
Municipal Franchise Vehicles	413	420
Sales and Use Taxes		
Driver Training	642	642
Rail Rolling Stock	1,652	1,714
Utility Property Tax		
Railroad Right-of-Way	23,000	24,000
TOTAL	\$49,960	\$51,319

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and SBT expenditures. Business privilege tax expenditures are projected to increase 3.1 percent from \$1,324.3 million in FY 2006 to \$1,395.2 million in FY 2007. As discussed above, the SBT phase out was paused for 2003 since the budget stabilization fund dropped below \$250 million. Data from FY 2001 were used to derive SBT tax expenditure estimates. Other tax expenditure estimates from business privilege taxes were based on 2003 data.

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

Most of the tax expenditure estimates for business privilege taxes are fairly accurate. SBT expenditure estimates were based on the entire population of 2000-2001 SBT returns. These returns represent the most recent 12-month period where at least 99 percent of returns have been cleared. Because the SBT base is relatively stable, it is possible to adjust these data in a reliable fashion in order to derive estimates for FY 2006 and FY 2007. Additionally, many SBT expenditures are credits or deductions that filers must claim, as opposed to unreported exemptions, which are much more difficult to estimate. Insurance company retaliatory and oil and gas severance tax expenditure estimates are also reliable because they were based on recent data collected by the state.

Business Privilege Tax Expenditure Changes

Public Act 102 of 2005 amends the Michigan Early Stage Venture Investment Act to provide that tax benefits available under the Single Business Tax and Individual Income Tax Acts would

shift from refundable tax credits to transferable tax vouchers issued by the Michigan Early Stage Venture Investment Corporation and certified by the Michigan Department of Treasury.

Public Act 185 of 2005 amends the Michigan Economic Growth Authority (MEGA) Act to allow the Authority, prior to 2007, to enter into an agreement to provide a tax credit against the single business tax under certain conditions. The Act is specifically designed to create incentives for new ownership to retain certain business activity within Michigan.

Public Acts 233 and 234 of 2005 amend the Single Business Tax Act and Income Tax Act, respectively, to allow for taxpayers to use vouchers obtained through contributions under the Michigan Early Stage Venture Investment Act to pay tax liability incurred under either tax. The new Public Acts would establish criteria and limits for the use of the vouchers.

Public Acts 289 through 292 of 2005 amend the Single Business Tax Act to create a refundable credit against the single business tax equal to 15 percent of the amount paid in property taxes on industrial personal property. The credit is available for tax years that begin after 2005 and before 2010.

Public Acts 293 and 294 of 2005 amend the Single Business Tax Act to provide a credit equal to 100 percent of the personal property taxes directly related to the transfer of jobs into the state. The credit would be available for the taxes paid in the first year related to the transferred jobs, and could only be claimed for taxes paid in tax years 2007 through 2009. To claim the credit a taxpayer would be required to enter into an agreement with the Michigan Economic Growth Authority.

Public Act 295 of 2005 amends the Single Business Tax Act to modify the apportionment of a taxpayer's tax base from the current 90 percent sales factor to a 92.5 percent sales factor for 2006 and 2007, and a 95 percent sales factor thereafter.

Public Act 296 of 2005 amends the Single Business Tax Act to extend a provision that allows a spun off corporation, as defined in the Single Business Tax Act, to exclude sales made to its former parent corporation when calculating its sales factor to be used in apportioning the spun off corporation's tax base to Michigan. The Act also modifies the amount of new investment within Michigan that is required in order to remain eligible for the alternative calculation of its sales factor.

Insurance Company Retaliatory Tax

Effective August 3, 1987, the Michigan tax on insurance premiums was replaced with a tax on gross receipts. The tax is levied on all insurers under the SBT and the rate is 1.0735 percent for tax year 2005. Foreign companies are also subject to a retaliatory tax, which requires them to pay the same tax that a Michigan-based insurer would have to pay in the firm's home state. Foreign insurers pay the SBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$246.0 million for FY 2007; revenue goes to the State General Fund.

FY 2007 Estimate

Supplemental Workers Compensation Credit

\$615,000

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

Oil and Gas Severance Tax

Enacted in 1929, the oil and gas severance tax is levied on the privilege of producing oil and gas. The base is the gross cash market value of oil and gas that is severed from the ground. The tax rate is 6.6 percent for normal oil production, 5.0 percent for natural gas production, and 4.0 percent for stripper wells and marginal properties. The estimated yield is \$76.0 million for FY 2007; revenue goes to the State General Fund.

FY 2007 Estimate

Marginal Wells

\$4,017,000

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

Public Land

\$3,532,000

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

SBT Expenditures

Enacted in 1976, the SBT was enacted as a consumption-type, value-added tax that has numerous adjustments to provide tax relief to businesses. A value-added tax is a levy on the value firms add to goods and services purchased from other firms. The SBT base is equal to the sum of business income, labor compensation, net interest, and depreciation. Deductions and credits are then applied to determine final tax liability. Public Act 531 of 2002 repealed the SBT for tax years beginning after 2009. The estimated yield for FY 2007 is \$1,885.9 million; revenue goes to the State General Fund.

SBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the gross receipts reduction and the excess compensation reduction. Because most estimates were derived assuming no interaction between tax expenditures, most estimates should not be interpreted as the tax revenue that would be realized if a particular exemption were eliminated. Exhibit 13 presents a breakdown for certain SBT tax expenditures based on calendar year returns for 2000 and returns for fiscal years ending in December 2000 through November 2001.

FY 2007 Estimate

Agricultural Producers	\$12,948,000
Exempts agricultural production from the SBT.	
Apprenticeship Tax Credit	\$808,000
Provides an SBT credit equal to 50 percent of the salary, wage and fringe benefits, plus 100 percent of classroom and related expenses for apprentices employed by businesses. The credit may not exceed \$4,000 per apprentice per year for apprentices in the tool and die industry or \$2,000 per apprentice per year for other industries.	
Brownfield Zone Credit	\$29,428,000
Permits firms to claim an SBT credit equal to 10 percent of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in brownfield development zones.	
Business Loss Deduction	\$48,837,000
Permits a business that had a negative adjusted tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted tax bases may be carried forward for up to 10 years.	
Community Foundation Credit	\$755,000
Provides a 50 percent credit for contributions made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to 5 percent of tax liability before credits or \$5,000, whichever is less.	
Compensation Exemption	\$155,813,000
Removes unemployment insurance, workers' compensation, and social security payments from the SBT tax base.	
Corporate Farm Property Tax Credit	\$1,376,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Part 361 of Public Act 451 of 1994.	
Donated Vehicle Credit	\$130,000
Provides a credit equal to 50 percent of the fair market value up to \$100 per vehicle of vehicles donated to qualified organizations.	

FY 2007 Estimate

Enterprise Zone Credit	\$983,000
<p>Provides a credit for tax liability attributable to qualified business activity in an enterprise zone established before 1994. The city of Benton Harbor is the only enterprise zone under the Enterprise Zone Act (Public Act 224 of 1985) established before 1994. The Benton Harbor Enterprise Zone program ceased to enlist new businesses after December 31, 1996.</p>	
Excess Compensation Reduction	\$197,410,000
<p>Reduces the adjusted tax base by the percentage that labor compensation exceeds 63 percent of the total tax base, providing relief for labor-intensive businesses. This estimate accounts for interaction with the gross receipts deduction. In FY 2001, 49,396 firms used this provision. (See Exhibit 13.)</p>	
Floor Plan Interest Deduction	\$1,500,000
<p>Provides a deduction for interest payments on credits made by a motor vehicle manufacturer to a retailer to defray the retailer's expense of maintaining an inventory of cars.</p>	
Government Utilities Exemption	\$16,311,000
<p>Exempts the value added of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.</p>	
Gross Receipts Reduction	\$110,130,000
<p>Reduces the adjusted tax base by the amount the tax base exceeds 50 percent of adjusted (apportioned) gross receipts. This estimate accounts for interaction with the excess compensation deduction. In FY 2001, 19,735 taxpayers used this filing method. (See Exhibit 13.)</p>	
Gross Receipts Threshold	\$81,611,000
<p>Exempts from the SBT firms with adjusted (apportioned) gross receipts less than \$350,000 for tax years beginning after 2002.</p>	
Health Insurance Deduction	\$31,200,000
<p>Provides a deduction for payments made to health benefit plans that provide benefits to Michigan residents. For tax years beginning in 2004, 5 percent of payments are deductible. The deductible percentage increases to 20 percent for 2005, 40 percent for 2006, and 50 percent for tax years beginning after 2006.</p>	

FY 2007 Estimate

Higher Education Contribution Credit	\$1,914,000
Provides a 50 percent credit for contributions made to Michigan colleges, libraries, public broadcasting stations, and other educational institutions. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less. In FY 2001, 1,709 taxpayers used this credit. (See Exhibit 13.)	
Historic Preservation Credit	\$2,013,000
Public Act 534 of 1998 provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. Tax year 1999 was the first year the credit was available.	
Homeless Shelter/Food Bank Credit	\$578,000
Provides a 50 percent credit for contributions made to a qualified homeless shelter, food bank, or food kitchen. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less.	
Insurers' Exemption From Gross Receipts	\$1,305,000
Provides that the SBT base and adjusted tax base of an insurance company is equal to one quarter of the company's apportioned adjusted receipts. Formerly, the base was equal to one quarter of apportioned gross receipts, excluding receipts on the sale of annuities and on reinsurance transactions. The calculation of adjusted receipts also excludes interest, dividends, proceeds from the sale of assets, and certain other receipts from affiliated insurers, nonprofit corporations, or agents or employees of a company. The provision is retroactive to January 1, 1991.	
Insurers' Facility Assessment Credit	\$52,169,000
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.	

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

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

Tax Liability Class (in thousands)	Small Business Credit		Unincorporated Business Credit		Higher Education Contribution Credit	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Less than \$0.1	12,500	\$35,818.9	2,500	\$401.4	n.a.	n.a.
\$0.1 - \$0.5	7,720	14,811.0	7,152	\$446.4	32	\$0.6
\$0.5 - \$1.0	8,235	19,929.4	7,204	\$982.7	n.a.	n.a.
\$1.0 - \$5.0	22,017	75,490.9	23,991	\$8,081.9	266	32.0
\$5.0 - \$10.0	1,477	8,474.7	7,009	\$6,441.5	189	56.1
\$10.0 - \$50.0	447	3,195.0	7,443	\$21,083.3	581	413.4
\$50.0 - \$100.0	25	90.3	1,177	\$10,838.9	265	358.7
\$100.0 - \$500.0	n.a.	n.a.	789	\$18,571.1	247	737.8
\$500.0 - \$1,000.0	n.a.	n.a.	57	\$4,875.3	44	145.3
Over \$1,000	n.a.	n.a.	27	\$7,592.7	51	231.5
TOTAL	52,437	\$157,902.9	57,349	\$79,315.2	1,709	\$1,980.8

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

FY 2007 Estimate

Investment Tax Credit

\$89,413,000

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

Iron Ore Credit

\$1,716,000

Provides a credit for taxpayers that consume qualified low-grade hematite in an industrial or manufacturing process.

Michigan Economic Growth Authority (MEGA)

\$62,094,000

Provides a credit for new or expanding firms based on additional payroll costs or additional business activity costs associated with an expansion or new location.

Minority Venture Capital Credit

\$0

Provides a 50 percent credit for investments in a minority venture capital company or federally-licensed small business investment company, if the company is certified as eligible by the Michigan Strategic Fund.

Multiple Employer Welfare Arrangement

\$26,000

For tax years beginning after 2000, the portion of the SBT tax base attributable to a Multiple Employer Welfare Arrangement (MEWA) that provides only dental benefits and that is registered at the Michigan Office of Financial and Insurance Services is exempt from the SBT.

New Hire Credit

\$0

Provides a credit equal to a percentage of compensation paid to new employees as a result of investment in technology and manufacturing industries. The applicable percentage is tied to new capital investments made by the business within Michigan during the tax year.

FY 2007 Estimate

Next Energy Credit	\$8,351,000
Allows an eligible taxpayer certified under the Michigan Next Energy Authority Act to claim both a nonrefundable and a refundable SBT credit for tax years beginning after December 31, 2002. The nonrefundable credit is based on the increase in qualified business activity realized since tax year 2001. The refundable credit is based on the taxpayer's qualified payroll amount.	
Nonprofit Organizations	\$109,114,000
Exempts the value added of most firms exempt from the federal corporate income tax.	
Officer Compensation	\$3,073,000
Officer compensation paid by professional employer organizations (PEOs) is considered compensation of the PEO rather than compensation of the firm hiring the PEO.	
Personal Property Tax Credit	\$87,700,000
Provides a refundable credit equal to 15 percent of the personal property taxes paid on industrial property. The credit is available for tax years that begin after 2005 and before 2010.	
Pharmaceutical Research Credit	\$9,203,000
Taxpayers engaged in pharmaceutical research in Michigan may claim a credit equal to 6.5 percent of the taxpayer's increase in qualified expenses from pharmaceutical research activity in Michigan compared with their average qualified expenses from the same activity in the three preceding tax years.	
Property Transfer Credit	\$15,000,000
Provides a refundable credit equal to 100 percent of the personal property taxes directly related to the transfer of jobs into the state. The credit would be available for the taxes paid in the first year related to the transferred jobs, and could only be claimed for taxes paid in tax years 2007 through 2009.	
Renaissance Zones	\$21,058,000
Provides a credit for the portion of tax attributable to business activity in a renaissance zone.	
Research Funds Exclusion	\$79,000
Provides a deduction for certain research grants, to the extent the grant is included in federal taxable income.	

FY 2007 Estimate

Small Business-Low Profit Credit (Alternate Tax Rate)	\$111,860,000
For qualifying firms, provides an SBT reduction when adjusted business income is less than 45 percent of the adjusted tax base. In FY 2001, 19,821 SBT filers claimed a small business-low profit credit. An additional 32,616 firms used the alternate tax rate method, paying tax on 2 percent of adjusted business income. (See Exhibit 13.)	
Start-up Business Credit	\$1,300,000
Provides a credit equal to the SBT liability for certain new businesses for up to five years if the business has no business income.	
Statutory Exemption	\$8,123,000
Provides an exemption of up to \$45,000. Partnerships receive an additional exemption of \$12,000 per partner up to a limit of \$48,000. This exemption is reduced by \$2 for every \$1 that modified business income exceeds these amounts.	
Supplemental Workers Compensation Credit	\$3,775,000
Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Previously, firms were reimbursed through the appropriations process for these payments.	
Tribal Tax Agreements	n.a.
Agreements between the State of Michigan and seven American Indian tribes clarify how the SBT will be applied to tribes, and resident tribal members within the specific areas of the state that are covered by the agreements.	
Unincorporated Business Credit	\$99,773,000
Provides a credit with a ceiling of 20 percent of the SBT liability for business income up to \$20,000 and a floor of 10 percent for business income over \$40,000. This credit exists to provide a more equal treatment of business income.	
In a corporation, business income may be divided into salaries, dividends, and retained earnings. While retained earnings are subject to the SBT, they are not subject to the individual income tax. However, the business income of an unincorporated business is subject to both single business and individual income taxes. This provision was used by 57,349 taxpayers in FY 2001. (See Exhibit 13.)	

FY 2007 Estimate

Utility Property Tax Credit

\$8,175,000

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

CHAPTER 5

CONSUMPTION TAX EXPENDITURES

Consumption tax expenditures include tax expenditures associated with alcohol, cigarette, and sales and use taxes. Total consumption tax expenditures are projected to increase to \$12,552.2 million in FY 2007, a 5.9 percent increase over the FY 2006 level of \$11,854.1 million. The growth in sales and use tax expenditures associated with health care, construction, and professional, scientific, and technical services account for most of the growth between FY 2006 and FY 2007. Readers are cautioned that changes in the estimation methodology make comparisons between this version and previous versions of this report difficult. Sales and use tax expenditure estimates are based on FY 2000 through FY 2004 data. Alcohol and cigarette tax expenditure estimates were based on FY 2005 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 238 of 2005 amends the Tobacco Products Tax Act to extend the criminal penalties contained in the Act to activity related to counterfeit cigarette papers, gray market cigarettes or cigarette papers, or falsifying a manufacturer's label on gray market or counterfeit cigarette papers. Gray market cigarettes are intended to be sold, distributed, or used outside the United States.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2007 (millions of dollars).

**Alcoholic Beverage Taxes
(millions)**

<u>Tax</u>	<u>Location of Deposit</u>	<u>FY 2007 Revenue</u>
Beer and Wine Excise	General Fund	\$52.0
4.0 Percent Liquor Excise	School Aid Fund	\$34.5
4.0 Percent Liquor Specific	General Fund	\$34.5
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	\$12.7
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$34.5

FY 2007 Estimate

Beer Shipped Out-of-State n.a.

Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state.

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 \$100,000

Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced.

Tobacco Products Tax

In 1947, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers. The tax rate is currently \$2.00 per pack of 20 cigarettes. Cigarette tax revenues are mainly distributed to the School Aid Fund, the Medicaid Benefits Trust Fund, and the General Fund-General Purpose account. In FY 2007, the tax on cigarettes will yield an estimated \$1,114.5 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$44.4 million.

FY 2007 Estimate

Bad Debt Deduction \$800,000

Allows cigarette wholesalers to deduct any losses from bad debts.

FY 2007 Estimate

Licensee Expenses	\$17,171,000
Exempts 1.5 percent of the total tax due from licensees to cover their expenses in administering the tax.	
Sales on Military Bases and Reservations	\$10,355,000
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 2007 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 \$6,958.7 million in FY 2007. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. State law earmarks 4.65 percent of the sales tax on transportation-related items to the Comprehensive Transportation Fund (CTF). For FY 2006 only, the amount of the transfer to the CTF is reduced by \$11.1 million. 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 \$1,467.6 million in FY 2007. Due to their complementary nature, sales and use tax expenditures are reported together.

	<u>FY 2007 Estimate</u>
Air and Water Pollution	\$44,000,000
Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	
Aircraft Parts	\$8,652,000
Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	
Bad Debts	\$64,037,000
Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible.	
Cargo Aircraft	\$30,000,000
Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.	
Church Construction	\$3,200,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
Church Cars	\$4,391,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	
Collection Fee	\$16,778,000
Sales and use tax returns are due by the 20th of the month for sales made the previous month. A seller may retain 0.75 percent of the tax (not to exceed \$20,000) if proceeds are remitted by the 12th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 13th through the 20th of the month.	
Commercial Domestic Aircraft	\$5,000,000
Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	

FY 2007 Estimate

Commercial Vessels	n.a.
Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce.	
Communication and Telephone Exemption	\$37,000,000
Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds.	
Damaged Beer	n.a.
Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale.	
Donated Property	n.a.
Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations.	
Donated Vehicles	\$500,000
Exempts certain vehicle transfers from the sales or use taxes when the vehicle is transferred from a qualifying organization to certain low-income families.	
Driver Training	\$642,000
Exempts property used for demonstration or driver training programs.	
Employee Meals	\$8,416,000
Exempts meals provided by employers to their employees starting in 2002.	
Enterprise Zone Credit	n.a.
Upon certification by the Enterprise Zone Authority, exempts qualified businesses from sales and use tax on property used in a qualified business activity in an enterprise zone.	
Food	\$1,044,917,000
Exempts food for human consumption, except prepared food intended for immediate consumption.	

	<u>FY 2007 Estimate</u>
Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students.	\$32,271,000
Government or Red Cross Exempts sales to the United States or agencies or instrumentalities wholly owned by the U.S.; the American Red Cross; and the State of Michigan, its departments, institutions, and political subdivisions.	\$188,880,000
Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	\$61,791,000
Horticultural and Agricultural Products Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	\$130,275,000
Imported Property Exempts property that is not an aircraft purchased by a nonresident and brought into Michigan more than 90 days after purchase from the use tax. Property purchased by a resident and brought into the state more than 360 days after purchase receives a similar exemption.	\$3,200,000
Industrial Processing Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate only includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	\$744,173,000
Inmate Purchases Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	\$553,000
International Telecommunications Exempts international and WATS calls from the use tax.	\$22,158,000
Interstate Trucks and Trailers Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax. An exemption based on out-of-state usage would lower the tax expenditure to \$17,000,000.	\$40,851,000

	<u>FY 2007 Estimate</u>
Investment Coins	\$400,000
Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins.	
Isolated Sales	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
Military PX Sales	\$1,957,000
Exempts military post-exchange sales.	
Military Vehicle Sales	n.a.
Exempts vehicle sales to nonresidents serving in the U.S. armed forces.	
Military Vehicle Sales (Resident-Out-of-State)	n.a.
Exempts an automobile purchased in another state by a Michigan resident in the military service who pays a sales tax in the state where the automobile is purchased.	
Newspapers, Periodicals, and Films	\$102,692,000
Exempts sales of copyrighted motion picture films, newspapers, and periodicals.	
Nonprofit Ambulance and Fire Service	n.a.
Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	
Nonprofit Hospital or Housing Construction	\$11,041,000
Exempts tangible personal property used by contractors where the property is affixed to and made a structural part of the real estate of a nonprofit hospital or nonprofit housing.	
Nonprofit Organizations	\$178,748,000
Exempts sales to nonprofit schools, hospitals, homes for the care of children or aged persons, and other benevolent institutions operated by an entity of government, a regularly-organized church, a religious or fraternal organization, a veteran's organization, a nonprofit corporation, or a parent-cooperative preschool.	
Nonprofit Sales Under \$5,000	n.a.
Exempts aggregate calendar year sales under \$5,000 for qualified nonprofit organizations.	

	<u>FY 2007 Estimate</u>
Nonresident Merchandise Transfer	n.a.
Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	
Nonresident Property	n.a.
Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	
Ophthalmic and Orthopedic Products	\$50,158,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	
Prescription Drugs	\$606,324,000
Exempts prescription drugs for human consumption.	
Radio and TV	\$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.	
Rail Rolling Stock	\$1,714,000
Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	
Residential Utilities	\$133,000,000
Exempts the residential use of electricity, natural gas, and home heating fuels from the two percent increase (May 1994) in the sales and use tax rate.	
Returned Vehicles	\$1,100,000
Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	
Sale of Business	n.a.
Excludes from the use tax non-inventoried property purchased as part of a business.	
Sale of Water	\$69,516,000
Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	
Services	\$8,783,276,000
Exempts services for items listed in the following table:	

Service Tax Expenditures, FY 2007
(millions)

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$12.7	\$0.0	\$12.7
Admin., Support, and Waste Mgmt.	1,060.2	15.0	1,075.2
Arts, Entertainment, and Recreation	285.5	47.3	332.8
Construction	1,331.8	0.0	1,331.8
Educational Services	32.6	230.8	263.4
Health Care and Social Assistance	1,093.2	1,511.1	2,604.3
Information	426.8	0.0	426.8
Other Services (except Public Admin.)	312.0	72.7	384.7
Professional, Scientific, and Technical	1,777.5	14.9	1,792.4
Real Estate and Rental and Leasing	431.8	0.0	431.8
Transportation and Warehousing	45.4	8.5	53.9
Utilities	<u>0.0</u>	<u>73.5</u>	<u>73.5</u>
TOTAL	\$6,809.5	\$1,973.8	\$8,783.3

Source: Calculations by the Tax Analysis Division using the *2002 Economic Census: Geographic Area Series, Michigan*, U.S. Department of Commerce. Totals may differ from other exhibits due to rounding.

FY 2007 Estimate

Small Out-of-State Purchases	n.a.
Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.	
Telephone Services	\$18,288,000
Exempts tangible personal property located on the premises of the subscriber and central office equipment or wireless equipment directly used in transmitting, receiving, or switching, or in the monitoring or switching of a two-way interactive device.	
Textbooks Sold by Schools	n.a.
Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program.	
Tribal Tax Agreements	n.a.
Exempts certain sales of tangible personal property to tribes and tribal members for use within a designated agreement area, while providing for increased collections on sales to non-members.	

FY 2007 Estimate

Vehicle and Aircraft Transfers

\$43,160,000

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

Vehicles Purchased for Use in Another State

n.a.

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

Vending Machines and Mobile Facilities

\$26,300,000

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

CHAPTER 6

INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 3.2 percent from \$4,387.8 million in FY 2006 to \$4,527.0 million in FY 2007. Federal income tax expenditures are projected to decrease 6.8 percent from \$2,391.3 million in FY 2006 to \$2,229.3 million in FY 2007. Individual income tax expenditure estimates were based on tax year 2004 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 2004. In addition, most state income tax expenditures are credits that are relatively stable from year to year.

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

Individual Income Tax Expenditure Changes

Public Act 102 of 2005 amends the Michigan Early Stage Venture Investment Act to provide that tax benefits available under the Single Business Tax and Individual Income Tax Acts would shift from refundable tax credits to transferable tax vouchers issued by the Michigan Early Stage Venture Investment Corporation and certified by the Michigan Department of Treasury.

Public Act 214 of 2005 creates an individual income tax deduction equal to all or a portion of any gain realized from certain investments if the initial investment plus all or a portion of the realized gain were reinvested in a qualified business, as defined in the Income Tax Act. This deduction may be claimed for tax years beginning after 2006, and the initial investment must be made prior to 2010.

Public Acts 233 and 234 of 2005 amend the Single Business Tax Act and Income Tax Act, respectively, to allow for taxpayers to use vouchers obtained through contributions under the Michigan Early Stage Venture Investment Act to pay tax liability incurred under either tax. The new Public Acts establish criteria and limits for the use of the vouchers.

State Income Tax Expenditures

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. The tax rate was 4.0 percent for tax year 2003. The tax rate fell to 3.9 percent on July 1, 2004, completing the rate reductions enacted in 1999. For FY 2007, the State of Michigan will collect an estimated \$6,385.9 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 2004, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 3.95 percent to an average effective rate of 2.2 percent. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.)

FY 2007 Estimate

Adjustments to Income

\$2,396,340,000

Subtractions from income include interest on U.S. Government bonds and obligations, military pay and retirement benefits, income attributable to another state, most retirement and pension benefits, the portion of Social Security benefits included in AGI, income eligible for the federal elderly and disabled credit, and a portion of interest and dividend income of senior citizens not claiming a pension subtraction. Additions to income include interest on bonds or obligations issued by states other than Michigan and their political subdivisions. The net amount of additions and subtractions reduced taxable income by \$57.1 billion in calendar year 2004. This reduced 2004 income taxes by \$2,256.0 million.

Adoption Credit

\$1,753,000

Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. The federal credit is equal to 100 percent of the first \$10,630 dollars of adoption expenses for tax year 2005. The Michigan adoption credit applies to the first \$1,200 in adoption expenses over the \$10,630 federal credit.

Child Deduction

\$51,528,000

The child deduction, which was expanded by Public Act 42 of 2000, provides a deduction from AGI of \$600 for each dependent child 18 years or younger.

City Income Tax Credit

\$34,194,000

Provides a credit to individuals for income taxes paid to cities. For tax year 2004, city income tax credits totaled \$33.7 million (see Exhibit 14).

FY 2007 Estimate

College Savings Account

\$13,261,000

Provides a deduction of up to \$10,000 for contributions to a Michigan Education Savings Program account. Earnings on an account and withdrawals made to pay qualified educational expenses are also exempt from taxation.

Community Foundation Credit

\$3,384,000

Provides a credit for 50 percent of the contribution made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to \$100 for a single return or \$200 for a joint return.

Dependent Exemption

\$20,902,000

Taxpayers claimed as a dependent on another taxpayer's return may not claim the full personal exemption for themselves when filing their own tax return. However, they may claim a dependent exemption equal to \$1,500. Public Act 301 of 2000 increased the dependent exemption from \$1,000 to \$1,500.

Donated Vehicle Credit

\$125,000

Provides a credit to individuals equal to 50 percent of the fair market value of automobiles donated during the tax year to qualified organizations. The credit is limited to \$50 on a single return or \$100 on a joint return.

Farmland Development Credit

\$33,037,000

Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses (see Exhibit 18). This credit was expanded by Public Act 421 of 2000.

Higher Education/Public Contributions Tax Credit

\$26,105,000

Provides a credit against income tax liability for contributions to Michigan colleges and universities, public libraries, public broadcasting stations, the State Art in Public Places Fund, municipal art institutes, and the State of Michigan Museum. The credit is equal to 50 percent of these contributions, not to exceed \$100 for a single return or \$200 on a joint return. Credit for resident estates or trusts cannot exceed 10 percent of tax liability or \$5,000, whichever is less. For tax year 2004, the higher education/public contributions tax credit totaled \$25.4 million (see Exhibit 14).

FY 2007 Estimate

Historic Preservation Credit

\$880,000

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

\$72,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2005, these credits totaled an estimated \$68.1 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$69,000 in FY 2005.

Homestead Property Tax Credit

\$861,289,000

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

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2004, homestead credits, excluding the farmland credit itemized separately, totaled \$781.2 million (Exhibit 18). Of the homestead credits, 56.5 percent went to general taxpayers, 39.0 percent went to senior citizens, and the remaining 4.4 percent went to veterans and blind and disabled persons.

Exhibit 14
Selected Individual Income Tax Expenditures, CY 2004

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than \$2,000*	420,727	9.2%	11,796	\$94,978	2,363	\$127,658
2,001 - 4,000	184,937	4.0%	23,426	177,715	2,232	81,578
4,001 - 6,000	177,766	3.9%	26,780	291,988	2,602	113,512
6,001 - 8,000	171,135	3.7%	27,730	371,703	2,890	143,606
8,001 - 10,000	159,071	3.5%	26,996	432,204	3,020	155,927
10,001 - 12,000	157,407	3.4%	27,451	495,462	3,353	186,079
12,001 - 14,000	146,887	3.2%	26,547	539,921	3,417	197,653
14,001 - 16,000	140,323	3.1%	26,049	582,331	3,588	214,589
16,001 - 18,000	132,183	2.9%	25,799	625,438	3,639	222,696
18,001 - 20,000	124,745	2.7%	25,391	675,531	3,770	237,482
20,001 - 25,000	282,600	6.1%	62,373	1,830,648	9,500	606,208
25,001 - 30,000	255,110	5.5%	58,054	1,939,265	10,274	688,529
30,001 - 35,000	227,617	5.0%	51,168	1,805,580	10,596	726,826
35,001 - 40,000	200,065	4.4%	45,479	1,665,409	10,907	773,766
40,001 - 45,000	179,537	3.9%	42,288	1,648,386	11,185	800,404
45,001 - 50,000	162,822	3.5%	38,493	1,567,814	11,363	840,720
50,001 - 55,000	149,141	3.2%	35,746	1,486,865	11,436	867,963
55,001 - 60,000	140,362	3.1%	34,414	1,487,608	11,648	908,329
60,001 - 70,000	251,188	5.5%	62,844	2,781,942	22,629	1,837,384
70,001 - 80,000	204,886	4.5%	51,578	2,368,926	21,746	1,852,590
80,001 - 90,000	163,175	3.5%	42,130	1,990,854	19,870	1,767,787
90,001 - 100,000	125,672	2.7%	32,810	1,638,302	17,474	1,616,360
Over 100,000	<u>439,246</u>	<u>9.6%</u>	<u>107,170</u>	<u>7,198,696</u>	<u>92,215</u>	<u>10,432,079</u>
TOTAL	4,596,602	100.0%	912,512	\$33,697,565	291,717	\$25,399,725

*Includes 206,302 credit-only returns (zero income).

FY 2007 Estimate

Homeless/Food Bank Credit

\$19,638,000

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

Other State Tax Credit

\$40,466,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2004, taxpayers claimed \$36.8 million in credits.

Personal Exemption

\$937,166,000

Exempts \$3,100 (tax year 2004) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption increases in \$100 increments based on the rate of inflation. For tax year 2005, the personal exemption is \$3,200. The personal exemption reduced tax year 2004 revenue by approximately \$937.4 million.

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

Renaissance Zones

\$300,000

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

Special Exemption

\$37,682,000

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

FY 2007 Estimate

Tribal Tax Agreements

n.a.

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

Tuition Credit

\$14,016,000

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

Exhibit 15
Selected Individual Income Tax Expenditures by Income Class, CY 2004

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions ⁽¹⁾	
	Number	Percent	Number	Amount	Number	Amount
Zero Income ⁽²⁾	262,239	5.7%	27,212	\$16,996,984	0	\$0
\$0 - 2,000	158,488	3.4%	15,903	7,612,537	23,025	2,819,428
2,001 - 4,000	184,937	4.0%	23,055	9,647,705	66,931	8,195,758
4,001 - 6,000	177,766	3.9%	30,181	12,805,343	93,590	11,460,095
6,001 - 8,000	171,135	3.7%	38,597	17,000,200	122,119	14,953,525
8,001 - 10,000	159,071	3.5%	40,710	18,498,592	136,706	16,739,608
10,001 - 12,000	157,407	3.4%	45,550	21,029,870	166,032	20,330,601
12,001 - 14,000	146,887	3.2%	43,525	19,795,213	167,137	20,465,960
14,001 - 16,000	140,323	3.1%	42,195	18,790,306	169,218	20,720,780
16,001 - 18,000	132,183	2.9%	41,089	17,728,028	169,046	20,699,673
18,001 - 20,000	124,745	2.7%	40,775	17,240,203	173,562	21,252,688
20,001 - 25,000	282,600	6.1%	96,420	40,262,071	433,257	53,052,267
25,001 - 30,000	255,110	5.5%	86,897	35,966,560	409,574	50,152,381
30,001 - 35,000	227,617	5.0%	74,559	31,493,402	388,229	47,538,650
35,001 - 40,000	200,065	4.4%	62,602	27,473,887	365,561	44,762,965
40,001 - 45,000	179,537	3.9%	53,321	24,334,202	355,341	43,511,503
45,001 - 50,000	162,822	3.5%	44,962	21,265,888	345,387	42,292,697
50,001 - 55,000	149,141	3.2%	37,997	18,488,505	331,031	40,534,724
55,001 - 60,000	140,362	3.1%	33,133	16,569,587	324,840	39,776,630
60,001 - 70,000	251,188	5.5%	54,811	28,517,781	625,043	76,536,563
70,001 - 80,000	204,886	4.5%	39,333	17,774,635	540,436	66,176,424
80,001 - 90,000	163,175	3.5%	9,775	1,712,823	451,677	55,307,842
90,001 - 100,000	125,672	2.7%	313	140,462	359,757	44,052,189
Over 100,000	<u>439,246</u>	<u>9.6%</u>	<u>496</u>	<u>306,965</u>	<u>1,437,774</u>	<u>176,055,377</u>
TOTAL	4,596,602	100.0%	983,411	\$441,451,749	7,655,274	\$937,388,328

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

⁽²⁾ Includes 206,302 credit-only returns.

Exhibit 16
Effective Income Tax Rates by Income Class, CY 2004⁽¹⁾

<u>Adjusted Gross Income</u>	<u>Total Adjusted Gross Income</u>	<u>Total Income Tax Paid</u>	<u>Effective Tax Rate</u>
Zero Income ⁽²⁾	(\$2,575,326,369)	(\$96,153,396)	
\$0 - 2,000	168,790,648	(33,504,128)	-19.85%
2,001 - 4,000	554,703,774	(26,148,765)	-4.71%
4,001 - 6,000	887,329,776	(23,835,277)	-2.69%
6,001 - 8,000	1,199,183,892	(24,514,163)	-2.04%
8,001 - 10,000	1,430,434,130	(21,406,225)	-1.50%
10,001 - 12,000	1,729,757,245	(18,496,162)	-1.07%
12,001 - 14,000	1,908,300,708	(9,331,524)	-0.49%
14,001 - 16,000	2,104,048,839	(383,774)	-0.02%
16,001 - 18,000	2,246,408,763	8,582,141	0.38%
18,001 - 20,000	2,368,891,562	17,781,141	0.75%
20,001 - 25,000	6,344,720,175	78,886,177	1.24%
25,001 - 30,000	7,008,027,367	115,077,024	1.64%
30,001 - 35,000	7,388,513,253	139,543,425	1.89%
35,001 - 40,000	7,490,968,215	156,315,043	2.09%
40,001 - 45,000	7,621,493,574	170,685,157	2.24%
45,001 - 50,000	7,728,701,065	181,438,467	2.35%
50,001 - 55,000	7,825,905,569	190,310,401	2.43%
55,001 - 60,000	8,067,372,491	203,430,050	2.52%
60,001 - 70,000	16,288,869,250	428,555,778	2.63%
70,001 - 80,000	15,326,073,490	424,039,254	2.77%
80,001 - 90,000	13,840,904,060	411,603,808	2.97%
90,001 - 100,000	11,907,482,211	362,926,975	3.05%
Over 100,000	<u>112,558,054,651</u>	<u>2,697,964,907</u>	<u>2.40%</u>
TOTAL	\$241,419,608,339	\$5,333,366,334	2.21%

Effective rate excluding zero income AGI and Taxes Paid 2.23%

Effective rate excluding zero income AGI 2.19%

(1) Values in this table are based on a sample of the 4,390,300 MI-1040 and MI-1040CR returns.

(2) Includes 206,302 credit-only returns (zero income).

Exhibit 17
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2004

Adjusted Gross Income	Effective Exemptions⁽¹⁾	Adjustments to Income	Nonrefundable Credits⁽²⁾	Prop. Tax Credits
Less Than \$2,000	334.5%	23.2%	-1.9%	385.8%
2,001 - 4,000	119.8%	15.6%	0.1%	110.2%
4,001 - 6,000	82.3%	17.0%	1.2%	80.8%
6,001 - 8,000	67.6%	20.2%	1.5%	71.1%
8,001 - 10,000	59.0%	23.2%	1.4%	62.3%
10,001 - 12,000	54.5%	24.3%	1.0%	54.4%
12,001 - 14,000	47.2%	24.7%	1.5%	45.8%
14,001 - 16,000	42.1%	25.2%	1.5%	38.6%
16,001 - 18,000	37.9%	24.2%	1.5%	33.0%
18,001 - 20,000	34.6%	21.6%	1.5%	28.2%
20,001 - 25,000	29.6%	18.3%	1.5%	22.3%
25,001 - 30,000	24.6%	18.0%	1.4%	17.1%
30,001 - 35,000	21.1%	17.9%	1.3%	13.6%
35,001 - 40,000	18.9%	16.7%	1.3%	11.4%
40,001 - 45,000	17.6%	15.5%	1.3%	9.7%
45,001 - 50,000	16.5%	15.0%	1.2%	8.4%
50,001 - 55,000	15.6%	15.0%	1.3%	7.2%
55,001 - 60,000	14.8%	14.4%	1.3%	6.2%
60,001 - 70,000	13.8%	13.4%	1.3%	5.2%
70,001 - 80,000	12.6%	13.0%	1.3%	3.3%
80,001 - 90,000	11.6%	11.8%	1.3%	0.3%
90,001 - 100,000	10.6%	11.1%	1.4%	0.0%
Over 100,000	4.0%	34.2%	0.7%	0.0%

(1) The effective exemption number includes special exemptions (e.g., disabled exemption).

(2) Income tax credits were divided by the tax rate (3.95%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, and the homeless food bank credit.

Exhibit 18
Property Tax Credits by County, CY 2004

<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	600	\$178,000	500	\$232,900	100	\$4,500
ALGER	500	143,900	300	131,600	< 50	3,800
ALLEGAN	8,000	3,142,300	3,400	2,299,600	100	10,900
ALPENA	1,900	574,100	1,600	817,700	100	9,800
ANTRIM	1,700	651,900	1,200	827,200	< 50	4,700
ARENAC	1,000	356,200	700	440,900	< 50	4,100
BARAGA	300	78,600	200	118,700	< 50	4,900
BARRY	3,500	1,324,400	1,700	1,099,700	100	7,300
BAY	9,100	3,024,000	6,100	3,598,700	200	27,300
BENZIE	1,200	411,600	600	372,600	< 50	3,700
BERRIEN	12,600	4,128,900	6,800	3,893,600	100	14,600
BRANCH	3,000	1,047,000	1,500	915,800	100	7,300
CALHOUN	12,400	4,603,200	6,100	4,025,300	200	23,900
CASS	2,400	861,100	1,500	898,100	< 50	5,800
CHARLEVOIX	2,400	918,500	1,300	820,500	< 50	3,500
CHEBOYGAN	1,600	481,400	800	436,900	100	8,700
CHIPPEWA	4,000	967,600	1,000	501,700	100	16,700
CLARE	1,700	506,400	1,000	403,100	100	7,600
CLINTON	4,700	2,036,300	2,300	1,585,600	< 50	3,100
CRAWFORD	700	186,500	300	154,900	< 50	3,900
DELTA	2,400	703,100	1,500	699,300	200	22,600
DICKINSON	1,600	485,800	1,400	769,900	100	14,500
EATON	11,600	4,763,900	5,200	3,654,000	100	13,100
EMMET	3,100	1,179,600	1,400	965,500	< 50	4,200
GENESEE	39,900	14,355,300	15,100	8,996,200	400	47,400
GLADWIN	1,700	529,300	1,200	603,800	100	6,700
GOGEBIC	600	169,000	600	251,400	100	20,200
GRAND TRAVERSE	9,000	3,609,300	4,000	2,887,100	100	11,200
GRATIOT	2,500	848,800	1,400	841,000	100	7,100
HILLSDALE	2,900	1,044,200	1,600	884,800	100	8,300
HOUGHTON	1,300	393,700	900	421,300	100	16,200
HURON	2,600	1,252,600	2,600	1,768,200	100	6,400
INGHAM	35,100	15,474,100	10,400	7,927,300	200	26,200
IONIA	4,100	1,499,600	1,900	1,123,500	< 50	5,000
IOSCO	1,600	449,800	1,200	585,000	200	15,200
IRON	600	155,300	500	225,900	100	12,000
ISABELLA	5,500	2,061,600	2,000	1,296,100	100	5,600
JACKSON	12,000	4,383,700	5,500	3,186,200	200	19,500
KALAMAZOO	24,700	9,066,600	9,100	6,209,100	200	23,100
KALKASKA	1,100	352,700	500	281,700	< 50	3,200
KENT	60,700	23,338,700	21,500	14,728,100	300	38,600
KEWEENAW	100	20,600	0	18,600	< 50	1,400

Exhibit 18 (Continued)

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	700	\$181,100	400	\$167,600	< 50	\$4,700
LAPEER	5,900	2,454,400	2,500	1,531,200	100	6,800
LEELANAU	1,300	571,500	900	687,100	< 50	1,300
LENAWEE	8,000	3,215,000	4,400	3,024,000	100	10,500
LIVINGSTON	700	181,100	400	167,600	< 50	4,700
LUCE	300	69,000	100	28,900	< 50	3,800
MACKINAC	1,300	347,300	400	209,000	< 50	2,700
MACOMB	94,600	47,865,000	49,000	39,651,200	400	54,800
MANISTEE	1,700	571,600	1,300	672,400	100	7,500
MARQUETTE	3,500	905,100	1,700	820,100	300	36,100
MASON	2,300	748,900	1,400	890,600	100	5,700
MECOSTA	2,300	772,700	1,200	625,800	100	5,900
MENOMINEE	1,200	341,800	800	361,500	100	10,300
MIDLAND	5,500	1,880,300	2,700	1,598,800	100	12,300
MISSAUKEE	800	307,300	500	276,300	< 50	3,600
MONROE	9,700	3,921,700	5,500	3,543,800	100	11,700
MONTCALM	4,100	1,385,700	2,300	1,300,100	100	10,400
MONTMORENCY	500	151,800	300	138,800	100	4,200
MUSKEGON	14,500	4,870,000	7,000	4,210,500	300	32,400
NEWAYGO	3,000	1,090,800	1,600	928,500	100	6,400
OAKLAND	123,200	71,489,400	51,400	45,173,400	300	49,600
OCEANA	1,700	618,500	1,100	634,000	100	6,100
OGEMAW	1,400	417,800	900	419,700	100	7,500
ONTONAGON	300	68,000	200	81,800	< 50	5,700
OSCEOLA	1,400	453,200	900	448,500	100	6,800
OSCODA	300	79,700	200	68,700	< 50	2,000
OTSEGO	1,400	443,100	700	345,400	< 50	3,400
OTTAWA	20,600	7,845,500	9,900	6,729,800	100	13,600
PRESQUE ISLE	700	201,700	700	323,600	100	5,700
ROSCOMMON	1,800	554,900	1,300	609,300	100	7,900
SAGINAW	15,600	4,914,600	7,600	4,341,700	300	37,600
ST. CLAIR	15,700	6,279,800	7,600	5,175,700	200	25,100
ST. JOSEPH	3,900	1,262,800	2,100	1,126,900	100	9,300
SANILAC	3,300	1,323,900	2,100	1,337,200	100	7,800
SCHOOLCRAFT	500	112,800	200	65,800	< 50	4,500
SHIAWASSEE	6,000	2,087,600	3,100	1,781,800	100	11,300
TUSCOLA	4,200	1,543,800	2,500	1,624,300	100	13,200
VAN BUREN	6,700	2,552,700	3,300	2,182,000	100	8,500
WASHTENAW	38,500	21,895,100	10,400	9,440,400	100	11,400
WAYNE LESS DETROIT	118,200	63,065,400	56,300	48,877,000	400	63,200
WEXFORD	2,800	949,000	1,300	759,500	100	10,100
OUTSIDE OF MICHIGAN	15,200	7,210,400	6,900	5,472,700	100	13,400
DETROIT	130,800	57,801,200	30,800	21,736,200	500	115,400
TOTAL	983,400	\$441,451,700	418,200	\$304,368,700	9,300	\$1,183,000

Exhibit 18 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	< 50	\$200	< 50	\$13,800	1,100	\$429,500
ALGER	< 50	200	< 50	1,200	800	280,500
ALLEGAN	< 50	1,300	100	677,700	11,700	6,131,900
ALPENA	< 50	1,500	< 50	11,200	3,700	1,414,300
ANTRIM	< 50	500	< 50	41,400	2,900	1,525,700
ARENAC	< 50	600	100	235,100	1,900	1,036,700
BARAGA	< 50	300	< 50	0	500	202,500
BARRY	< 50	800	< 50	179,200	5,400	2,611,400
BAY	< 50	2,800	300	1,000,300	15,600	7,653,100
BENZIE	< 50	600	< 50	2,200	1,900	790,700
BERRIEN	< 50	3,700	100	277,500	19,600	8,318,300
BRANCH	< 50	2,000	200	622,100	4,800	2,594,200
CALHOUN	< 50	4,100	200	635,400	18,900	9,292,000
CASS	< 50	1,100	100	667,800	4,100	2,433,900
CHARLEVOIX	< 50	0	< 50	22,400	3,700	1,764,900
CHEBOYGAN	< 50	600	< 50	11,100	2,600	938,800
CHIPPEWA	< 50	1,600	< 50	17,000	5,100	1,504,700
CLARE	< 50	1,200	< 50	70,500	2,800	988,800
CLINTON	< 50	500	200	544,800	7,200	4,170,300
CRAWFORD	< 50	500	< 50	0	1,000	345,800
DELTA	< 50	2,000	< 50	53,800	4,100	1,480,800
DICKINSON	< 50	600	< 50	10,000	3,100	1,280,800
EATON	< 50	2,300	100	470,600	17,100	8,903,900
EMMET	< 50	700	< 50	2,400	4,600	2,152,400
GENESEE	100	9,600	100	177,800	55,500	23,586,300
GLADWIN	< 50	600	< 50	44,000	3,000	1,184,400
GOGEBIC	< 50	700	< 50	0	1,400	441,200
GRAND TRAVERSE	< 50	900	< 50	37,900	13,100	6,546,300
GRATIOT	< 50	1,300	400	1,258,100	4,400	2,956,300
HILLSDALE	< 50	1,400	200	498,200	4,800	2,436,900
HOUGHTON	< 50	1,200	< 50	600	2,400	833,000
HURON	< 50	1,000	1,000	4,481,500	6,200	7,509,700
INGHAM	< 50	9,400	100	893,300	45,900	24,330,300
IONIA	< 50	300	100	503,500	6,200	3,132,000
IOSCO	< 50	1,000	< 50	39,700	3,000	1,090,700
IRON	< 50	600	< 50	4,400	1,200	398,200
ISABELLA	< 50	600	100	366,900	7,700	3,730,700
JACKSON	< 50	2,900	100	247,100	17,800	7,839,500
KALAMAZOO	< 50	4,300	100	486,700	34,100	15,789,700
KALKASKA	< 50	300	< 50	6,400	1,700	644,300
KENT	100	8,100	100	435,200	82,700	38,548,800
KEWEENAW	< 50	0	< 50	0	100	40,500

Exhibit 18 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	< 50	\$400	< 50	\$5,600	1,100	\$359,400
LAPEER	< 50	900	100	173,300	8,500	4,166,500
LEELANAU	< 50	300	< 50	40,700	2,200	1,300,900
LENAWEE	< 50	700	500	1,698,700	13,000	7,949,000
LIVINGSTON	< 50	600	< 50	5,600	14,300	8,093,100
LUCE	< 50	500	< 50	0	400	102,300
MACKINAC	< 50	300	< 50	2,400	1,700	561,800
MACOMB	100	8,800	< 50	45,500	144,100	87,625,300
MANISTEE	< 50	1,100	< 50	9,000	3,100	1,261,600
MARQUETTE	< 50	1,600	< 50	7,800	5,500	1,770,600
MASON	< 50	700	< 50	169,400	3,800	1,815,200
MECOSTA	< 50	900	< 50	117,800	3,600	1,523,200
MENOMINEE	< 50	900	< 50	67,000	2,200	781,600
MIDLAND	< 50	800	< 50	159,500	8,400	3,651,800
MISSAUKEE	< 50	700	100	302,900	1,500	890,800
MONROE	< 50	2,500	200	526,900	15,500	8,006,500
MONTCALM	< 50	1,000	200	631,300	6,600	3,328,600
MONTMORENCY	< 50	300	< 50	17,300	900	312,400
MUSKEGON	< 50	2,700	< 50	243,800	21,800	9,359,500
NEWAYGO	< 50	500	100	208,600	4,700	2,234,800
OAKLAND	100	6,900	< 50	88,800	175,000	116,808,100
OCEANA	< 50	600	100	218,500	3,000	1,477,800
OGEMAW	< 50	600	< 50	88,700	2,300	934,300
ONTONAGON	< 50	500	< 50	1,700	500	157,700
OSCEOLA	< 50	1,200	100	147,400	2,400	1,057,100
OSCODA	< 50	200	< 50	2,400	500	153,000
OTSEGO	< 50	400	< 50	1,600	2,200	793,900
OTTAWA	< 50	2,100	200	926,700	30,800	15,517,800
PRESQUE ISLE	< 50	200	< 50	25,800	1,500	557,000
ROSCOMMON	< 50	1,000	< 50	15,800	3,200	1,188,900
SAGINAW	< 50	4,600	500	1,675,100	24,100	10,973,500
ST. CLAIR	< 50	3,400	< 50	117,100	23,500	11,601,100
ST. JOSEPH	< 50	1,500	200	686,000	6,300	3,086,600
SANILAC	< 50	600	500	1,462,600	5,900	4,132,100
SCHOOLCRAFT	< 50	200	< 50	3,800	700	187,200
SHIAWASSEE	< 50	1,100	200	612,500	9,400	4,494,400
TUSCOLA	< 50	1,100	700	2,820,300	7,500	6,002,700
VAN BUREN	< 50	1,200	100	458,000	10,200	5,202,300
WASHTENAW	< 50	900	100	680,600	49,200	32,028,300
WAYNE LESS DETROIT	100	8,600	< 50	99,000	175,000	112,113,100
WEXFORD	< 50	700	< 50	25,300	4,200	1,744,700
OUTSIDE OF MICHIGAN	< 50	2,800	100	163,900	22,300	12,863,300
DETROIT	100	32,600	< 50	2,200	162,300	79,687,700
TOTAL	1,400	\$173,300	8,100	\$29,965,300	1,420,500	\$777,142,100

Federal Income Tax Expenditures

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

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

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

Federal government estimates are from the *Budget of the United States Government Fiscal Year 2006*. Previous editions of the *Tax Expenditure Report* have used tax expenditure estimates generated by the Joint Committee on Taxation. Generally, the estimates in the *Budget of the United States Government* are slightly larger than the estimates produced by the Joint Committee.

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

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

FY 2007 Estimate

Accelerated Depreciation

- \$43,489,000

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. Since the deductions for depreciation under the tax law are less than the estimated economic depreciation, the tax expenditure is negative.

FY 2007 Estimate

Employer Contributions to Health and Life Insurance	\$809,809,000
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	\$597,439,000
Exempts employer payments into qualified employee pension plans from taxation.	
Federal Adjustments to Income	\$53,756,000
Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	
Fellowships and Scholarships	\$8,932,000
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	\$226,421,000
Excludes from AGI a gain from the sale of a primary residence. To qualify for the full exemption, the taxpayer must have owned and lived in the home for at least two of the past five years and not claimed a similar exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.	
Income Maintenance Benefits	\$2,782,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
Individual Retirement Accounts	\$93,726,000
Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. In 1987, this deduction was reduced or eliminated for some taxpayers. Federal tax legislation enacted in 2001 increased the maximum contribution limit to \$4,000 for 2005. Only persons with an AGI below \$75,000 on a joint return (\$50,000 on a single return) or not covered by an employer retirement plan can take the full \$4,000 deduction. A partial deduction, phased out according to income, is available between \$75,000-\$85,000 for joint filers and \$50,000-\$60,000 for single filers.	
Interest on Life Insurance Savings	\$159,398,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	

	<u>FY 2007 Estimate</u>
Medical Care Savings Account Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	\$13,430,000
Railroad Retirement Benefits Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).	\$1,820,000
Social Security Benefits Exempts most social security benefits. Federal social security benefits are not taxable under federal law unless half of these benefits plus modified AGI exceed \$32,000 on a joint return or \$25,000 on an individual return. If benefits exceed this amount, a portion (generally no more than 50 percent but potentially up to 85 percent of social security benefits) is taxable under federal law.	\$214,672,000
Student Loan Deduction Allows a deduction for interest paid on qualified education loans. The Federal Taxpayer Relief Act of 1997 provides a maximum deduction of \$2,500 for tax year 2001 and following.	\$4,729,000
Veterans' Benefits Excludes veterans' benefits administered by the Veterans' Administration from AGI.	\$40,258,000
Workers' Compensation Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.	\$45,606,000

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 1.3 percent from \$53.0 million in FY 2006 to \$53.5 million in FY 2007. Transportation tax expenditure estimates were based on FY 2004 and FY 2005 data.

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

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

Transportation Tax Expenditure Changes

No changes enacted during 2005.

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 \$300,000 to the state's Aeronautics Fund in FY 2007.

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 2007, the aviation fuel tax is projected to yield \$7.0 million, which is deposited into the state's Aeronautics Fund.

FY 2007 Estimate

Federally-Owned Aircraft

\$272,000

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

Interstate Flight Refund

\$3,350,000

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

Marine Vessel Fuel Tax Expenditures

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

FY 2007 Estimate

Marine Vessel Exemption

\$730,000

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

Motor Carrier Privilege Fee

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

Motor Fuel Taxes

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum gas taxes. The tax rate on gasoline is 19 cents per gallon. The diesel fuel tax rate is 15 cents per gallon. Revenue is earmarked to the Michigan Transportation Fund, and distributed to the state, counties, and cities to maintain roads, and to the Comprehensive Transportation Fund to help finance public transportation. In FY 2007, motor fuel taxes will yield an estimated \$1,084.6 million.

FY 2007 Estimate

Diesel Fuel for Railroads	n.a.
Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	
Evaporation and Loss Allowance	\$14,100,000
The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.	
Fuel for Job Sites and Charter Firms	\$5,370,000
Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.	
Fuel for Off-Road Use	\$993,000
Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	
Municipal Franchise Vehicles	\$420,000
Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	
Public Vehicles	\$13,700,000
Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	
Tribal Tax Agreements	n.a.
Provides for tribes to obtain tax-free motor fuel for use by the tribe, tribal entities, and resident tribal members. Sales to other parties made by tribal retailers will be fully taxed.	

Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, the registration fee for passenger vehicles became based on the vehicle's value rather than its weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2007, the motor vehicle registration fee is projected to yield \$927.0 million.

FY 2007 Estimate

Disabled Veterans' Vehicles	\$235,000
Provides totally disabled veterans free vehicle license plates.	
Handicapper Vans	n.a.
Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	
Intercity Commercial Buses	n.a.
Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.	
Public and Nonprofit Vehicles	\$14,300,000
Motor vehicles owned and operated by the state, a state institution, a municipality, a nonprofit college or university, or other nonprofit organization pay a lower rate of \$5 for license plates with a five-year registration period.	

Watercraft Registration Fee

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

FY 2007 Estimate

Publicly-Owned Watercraft	\$14,000
Levies a special fee of \$1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.	

CHAPTER 8

PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 3.8 percent from \$9,993.6 million in FY 2006 to \$10,371.1 million in FY 2007. Estimates were based on FY 2004 and FY 2005 data.

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

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

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

Property and Other Local Tax Expenditure Changes

Public Act 13 of 2005 amends the definition of tax increment revenues to include certain revenues from the tax levied under the State Education Tax Act. The Act would only apply to a city with a population of 750,000; limit the amount of revenue affected to not more than \$8.0 million; and could be used only to pay for the demolition of buildings within a downtown development area.

Public Act 24 of 2005 amends the General Property Tax Act to raise the income threshold for eligibility to defer summer property taxes from \$25,000 to \$35,000, beginning in 2005. In order to qualify for a deferral, a taxpayer must be below the income threshold and meet one of the following: (1) have a qualified disability; (2) be an eligible serviceperson, veteran, or a widow/widower of an eligible veteran; or (3) be 62 years old or older or the unmarried surviving spouse of a person who was at least 62 years old at the time of death.

Public Act 29 of 2005 amends the Tax Increment Finance Authority Act to expand the definition of eligible obligation to include certain contracts entered into previously. The Act was intended to allow an existing practice to continue through 2015.

Public Act 101 of 2005 amends the Brownfield Redevelopment Financing Act to include certain interest payments in eligible reimbursements and to include in the definition of eligible activities certain activities at a landfill facility that meets the criteria enumerated in the Act.

Public Act 114 of 2005 amends the General Property Tax Act to raise the income threshold amended by Public Act 24 of 2005 to \$40,000 over two years. For taxes levied during 2006 the threshold increases to \$37,000, and the threshold increases to \$40,000 for taxes levied after 2006.

Public Act 115 of 2005 amends the Downtown Development Authority Act to allow a municipality with a downtown development authority to enter into an agreement with an adjoining township to operate the authority within the township. Previously, the authority could not operate in the township even if the downtown business district extended into the adjoining township.

Public Act 118 of 2005 amends the Plant Rehabilitation and Industrial Development Districts Act to include in the definition of industrial property the operation of a logistical optimization center. Public Act 118 contains several qualifications that a sorting and distribution center must satisfy in order to qualify for the tax abatements available under the existing Act.

Public Acts 164 and 165 of 2005 amend the Michigan Renaissance Zone Act and General Property Tax Act, respectively, to exempt an owner of residential rental property from the requirement to file an annual affidavit in order to qualify for certain tax exemptions. Existing law required the owner of eligible property to file an affidavit certifying that the property is in compliance with state and local zoning, building, and housing laws. The Acts eliminate the required affidavit if the property was in compliance on December 31 of the preceding tax year.

Public Act 210 of 2005 creates the Commercial Redevelopment Act. Under the Act, a city, village, or township, subject to the disapproval of the affected county, would be allowed to establish a commercial rehabilitation district consisting of a qualified facility. The owner of a qualified facility would be allowed to apply for a commercial rehabilitation exemption certificate that would allow the owner to pay taxes other than school operating taxes on the taxable value of the property prior to any renovation or redevelopment in lieu of paying property taxes based on the current taxable value. This would effectively eliminate any tax other than school operating tax on the increase in taxable value for the duration of the exemption certificate. A qualified facility would be a building or group of buildings containing at least 1 million square feet, used in commercial activity, was 40 percent or more vacant in the 12 months prior to consideration for a commercial rehabilitation exemption, and was at least 15 years old.

Public Act 267 of 2005 amends the Plant Rehabilitation and Industrial Development Act to require the State Tax Commission to issue an industrial facilities exemption certificate if a local government unit had passed a resolution approving an exemption certificate for a new facility on October 14, 2003, for a certificate that expired in December 2002. The certificate would be for

the period December 30, 2002, to December 30, 2009. The Act also amends the definition of industrial property to include property whose primary purpose and use is qualified commercial activity, as defined in the Act.

Public Acts 275 and 276 of 2005 amend the Michigan Renaissance Zone Act to increase the number of tool and die renaissance recovery zones that the board of the Michigan Strategic Fund may designate across the state. Public Act 276 also makes numerous changes to the eligibility criteria for tool and die renaissance recovery zones.

Public Act 280 of 2005 creates the Corridor Improvement Authority Act. The Act would allow cities, townships, and villages to create special authorities to use tax increment financing to redevelop commercial corridors that are at least 30 years old. The provisions of the Act generally follow those contained in the Downtown Development Authority Act.

Public Acts 338 through 340 of 2005 amend the Neighborhood Enterprise Zone Act to allow a neighborhood enterprise zone certificate to be issued for an owner-occupied homestead facility. The facility, but not the land on which it is located, would be exempt from the general property tax. Instead the facility would be subject to the neighborhood enterprise zone tax, which reduces the amount of tax levied on the facility by one-half the number of mills levied for operating purposes by the local government unit and the county in which the facility is located. These Acts are intended to lower the tax burden on eligible residential property to help certain local units to attract and retain homeowners.

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 2007 collections are projected to total \$80.0 million.

FY 2007 Estimate

Broadband Investment Credit	\$18,800,000
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	\$24,000,000
Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan.	

General Property Tax

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

Average Statewide Millage Rates

<u>Calendar Year</u>	<u>Homestead Property</u>	<u>Nonhomestead Property</u>	<u>All Property</u>
1990	n.a.	n.a.	57.17
1991	n.a.	n.a.	57.34
1992	n.a.	n.a.	58.09
1993	n.a.	n.a.	56.64
1994	30.22	48.17	38.19
1995	31.00	48.79	38.88
1996	31.36	49.54	39.32
1997	31.36	49.63	39.25
1998	31.43	49.68	39.27
1999	31.40	49.76	39.16
2000	31.54	50.10	39.32
2001	32.12	50.72	39.78
2002	32.60	51.00	40.17
2003	31.52	50.06	39.00
2004	32.71 (est)	50.81 (est)	40.00

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

FY 2007 Estimate

Agricultural Transfers

\$33,200,000

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

Air and Water Pollution Control

\$130,000,000

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

Cultural Organizations

n.a.

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

Energy Conservation Devices

\$380,000

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

Enterprise Zone

\$1,300,000

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

Fairground Property

n.a.

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

FY 2007 Estimate

Homestead Exemption

\$3,960,000,000

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

Homestead Exemption for Farm Property

\$140,000,000

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

Industrial Facilities Development

\$330,000,000

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

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

Neighborhood Enterprise Zones

\$8,900,000

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

Next Energy Exemption

\$1,000,000

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

FY 2007 Estimate

Obsolete Property Rehabilitation Exemption

\$3,100,000

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

Poverty Exemption

\$2,500,000

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

Renaissance Zones

\$100,000,000

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

Tax-Exempt Property

\$2,044,000,000

Exhibit 20 reports the results from the 2005 County Survey of Tax-Exempt Property. The survey includes seven categories of tax-exempt property reported by county. These estimates of the taxable value of exempt property were provided by county equalization departments, as required by Public Act 155 of 1925. Exhibit 19 contains a map of Michigan's counties.

The total estimated taxable value of exempt property (not including tax-exempt property for industrial facility development) reported was \$38.1 billion. If taxed at the 2004 average nonhomestead statewide rate of 50.81 mills, tax-exempt property would have yielded \$1.94 billion in property tax revenue.

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

Tax-Exempt Acreage

n.a.

Exhibit 21 shows exempt nonprofit religious or educational property by county. Properties are exempt under Article IX, Sec. 4, of the State Constitution. Tax-exempt acreage totaled 379,691 acres in 2004.

	<u>FY 2007 Estimate</u>
Tax-Exempt County and Municipal Property Exempts real property owned by counties, townships, cities, villages, and school districts.	\$293,000,000
Tax-Exempt Federal Property Exempts real property belonging to the United States government.	\$397,000,000
Tax-Exempt Other Real Tax Exempt Property Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.	\$181,000,000
Tax-Exempt Personal Property Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment. Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, insurance companies, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.	\$439,000,000
Tax-Exempt Public Education Property Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.	\$540,000,000
Tax-Exempt Specifically-Taxed Property Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure.	n.a.
Tax-Exempt State Property Exempts real property owned by the State of Michigan.	\$194,000,000

FY 2007 Estimate

Tax Increment Financing

\$300,000,000

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

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

Taxable Value Cap

\$3,850,000,000

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

Veterans' Organizations

n.a.

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

Water Softeners and Water Coolers

\$1,180,000

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

Iron Ore Specific Tax

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$3.4 million in FY 2005, \$0.6 million of which was remitted to the state. The state's share of the iron ore specific tax is deposited into the School Aid Fund. Public Act 443 of 2002 reduced the tax rate for five years to 0.75 percent.

Exhibit 19 Counties of Michigan



Exhibit 20
Estimated Taxable Value of Exempt Real and Personal Property by County, 2005
(Taxable Value in Thousands)

<u>County</u>	<u>Industrial Facilities Tax</u>	<u>Federal</u>	<u>State</u>	<u>County and Municipal</u>	<u>Public Education</u>
ALCONA	\$0	\$92,224	\$14,367	\$22,483	\$14,621
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN*	205,645	0	0	0	0
ALPENA*	8,873	7,612	57,882	86,775	57,290
ANTRIM*	0	0	0	0	0
ARENAC*	1,540	517	32,700	2,420	1,150
BARAGA	0	19,494	38,224	20,384	23,804
BARRY *	7,707	0	6,389	20,684	48,976
BAY*	144,357	15,669	13,958	19,377	212,856
BENZIE*	0	33,116	85,394	20,320	5,463
BERRIEN	100,363	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN *	330,553	35,000	4,200	68,500	100,000
CASS *	23,121	0	46,075	116,775	116,813
CHARLEVOIX*	101,829	979	22,066	24,426	44,643
CHEBOYGAN	0	2,366	84,466	41,002	23,079
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE*	5,783	827	22,313	3,071	33,102
CLINTON*	18,343	15	3,200	15,000	25,000
CRAWFORD *	2,775	28,545	230,000	6,233	21,150
DELTA	20,229	53,435	12,937	11,606	25,806
DICKINSON	15,317	8,000	9,300	8,100	29,000
EATON	114,896	336	17,818	57,669	44,147
EMMET*	4,596	0	9,000	353	3
GENESEE	120,133	15,158	50,681	433,712	505,761
GLADWIN	3,125	50,000	23,000	12,000	31,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	7,909	2,750	15,000	85,000	66,800
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	50,847	272	650	20,505	71,500
HOUGHTON*	5,075	12,720	80,160	7,925	94,700
HURON*	56,841	39,400	10,542	85,700	0
INGHAM	217,007	n.a.	n.a.	n.a.	n.a.
IONIA	34,000	0	161,935	15,638	19,753
IOSCO	660,000	112,827	37,489	59,874	28,619
IRON*	165	21,800	13,500	6,500	526
ISABELLA	14,638	0	0	0	0
JACKSON*	166,939	2,000	201,000	38,000	98,000
KALAMAZOO*	116,824	31,347	318,681	673,059	1,255,442
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	614,658	24,450	23,766	174,895	484,900
KEWEENAW	0	62,607	7,108	9,948	1,546

Exhibit 20 (Continued)

<u>County</u>	Industrial	County			Public
	Facilities	Federal	State	and	Education
	Tax			Municipal	
LAKE*	\$237	\$83,899	\$42,655	\$6,862	\$10,581
LAPEER*	57,151	3,272	16,794	140,854	98,456
LEELANAU	0	1,104	84	575	14
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON **	26,530	48	1,292	158,949	95,717
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB*	1,091,791	3,162,924	87,361	780,767	1,281,131
MANISTEE	11,655	17,300	33,600	29,800	32,000
MARQUETTE *	14,988	59,000	40,100	18,750	185,000
MASON	55,366	130,902	32,007	86,020	164,381
MECOSTA *	26,678	884,000	74,100	58,500	520,800
MENOMINEE	18,390	0	74,966	94	705
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	5,242	80	1,971	4,299	19,822
MONROE*	262,609	131	10,139	76,452	168,395
MONTCALM	36,867	2,617	6,205	4,092	7,672
MONTMORENCY	360	120,000	36,000	20,000	13,000
MUSKEGON	179,722	17,004	84,852	142,806	258,281
NEWAYGO*	19,589	n.a.	n.a.	n.a.	n.a.
OAKLAND *	828,118	216,940	66,562	781,432	944,339
OCEANA *	7,218	16,500	6,100	2,200	15,000
OGEMAW *	533	6,230	12,830	8,171	6,256
ONTONAGON	4,169	196,829	24,936	3,991	11,369
OSCEOLA	28,477	0	3,786	4,506	18,815
OSCODA*	96	123,333	109,383	2,320	6,054
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	643,918	14,786	30,622	126,506	859,693
PRESQUE ISLE*	42,273	0	0	0	0
ROSCOMMON	1,572	108	218,700	5,445	30,560
SAGINAW	187,236	22,250	135,550	190,000	600,700
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH *	126,315	0	7,759	14,389	38,754
SANILAC *	8,922	109	4,610	6,064	48,510
SCHOOLCRAFT	1,192	311,400	404,300	33,365	33,360
SHIAWASSEE	11,594	735	19,950	73,500	101,850
TUSCOLA*	13,292	0	0	0	0
VAN BUREN*	54,876	0	0	0	0
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD	<u>25,507</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	\$7,437,406	\$7,401,781	\$3,616,947	\$5,474,566	\$10,079,320

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

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

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

Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
ALCONA	\$0	\$807	\$144,502	\$618,654	18.9 %
ALGER*	55,000	0	88,568	249,736	26.2 %
ALLEGAN*	0	0	0	3,407,614	0.0 %
ALPENA*	146,699	0	356,258	791,329	31.0 %
ANTRIM*	0	0	0	1,390,866	0.0 %
ARENAC*	0	612	37,399	454,387	7.6 %
BARAGA	50,726	122,604	275,236	176,007	61.0 %
BARRY *	63,780	34,396	174,225	1,512,668	10.3 %
BAY*	255,154	2,593	519,607	2,651,999	16.4 %
BENZIE*	0	15,503	159,796	805,938	16.5 %
BERRIEN	0	0	0	5,091,433	0.0 %
BRANCH *	0	6,500	22,304	1,060,279	2.1 %
CALHOUN *	725,000	28,000	960,700	3,228,413	22.9 %
CASS *	253,589	0	533,252	1,365,560	28.1 %
CHARLEVOIX*	3,526	13	95,653	1,587,021	5.7 %
CHEBOYGAN	500	9,900	161,313	1,072,943	13.1 %
CHIPPEWA *	21,200	3,500	1,374,928	802,650	63.1 %
CLARE*	97,893	0	157,206	816,510	16.1 %
CLINTON*	0	0	43,215	1,921,281	2.2 %
CRAWFORD *	89,130	20,000	395,058	488,360	44.7 %
DELTA	6,063	0	109,847	915,014	10.7 %
DICKINSON	10,700	0	65,100	776,882	7.7 %
EATON	272,055	130,330	522,355	2,868,821	15.4 %
EMMET*	0	0	9,357	2,259,870	0.4 %
GENESEE	413,659	0	1,418,971	10,108,084	12.3 %
GLADWIN	0	0	116,000	754,410	13.3 %
GOGEBIC *	330	302	44,759	366,069	10.9 %
GRAND TRAVERSE *	118,200	51,400	339,150	3,322,297	9.3 %
GRATIOT *	135,000	10,000	349,600	746,190	31.9 %
HILLSDALE	59,300	45,500	197,727	1,129,767	14.9 %
HOUGHTON*	2,180	9,460	207,145	533,131	28.0 %
HURON*	0	0	135,642	1,354,384	9.1 %
INGHAM	n.a.	n.a.	n.a.	6,847,863	n.a.
IONIA	3,909	59	201,294	1,209,828	14.3 %
IOSCO	4,210	43,615	286,634	935,386	23.5 %
IRON*	0	0	42,326	339,554	11.1 %
ISABELLA	0	0	0	1,224,690	0.0 %
JACKSON*	200,000	5,000	544,000	3,790,558	12.6 %
KALAMAZOO*	11,162	91,213	2,380,904	6,757,516	26.1 %
KALKASKA *	100,000	55,000	451,000	614,379	42.3 %
KENT *	1,840,872	158,010	2,706,893	18,015,374	13.1 %
KEWEENAW	56,537	0	137,746	93,967	59.4 %

Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
LAKE*	\$6,900	\$4,500	\$155,397	\$394,665	28.3 %
LAPEER*	184,151	0	443,527	2,632,810	14.4 %
LEELANAU	0	545	2,322	1,700,930	0.1 %
LENAWEE *	0	21,000	362,400	2,779,704	11.5 %
LIVINGSTON **	1,289	9,802	267,097	7,155,612	3.6 %
LUCE *	650	1,749	17,321	145,403	10.6 %
MACKINAC *	7,817	2,164	131,295	719,672	15.4 %
MACOMB*	351,682	476,644	6,140,509	26,980,530	18.5 %
MANISTEE	36,000	24,244	172,944	838,770	17.1 %
MARQUETTE *	0	230,000	532,850	1,401,609	27.5 %
MASON	27,239	48,817	489,366	1,177,623	29.4 %
MECOSTA *	15,400	13,440	1,566,240	1,002,098	61.0 %
MENOMINEE	0	4,431	80,196	479,202	14.3 %
MIDLAND *	154,540	110,240	439,605	3,416,287	11.4 %
MISSAUKEE	72,582	23,277	122,031	420,785	22.5 %
MONROE*	0	8,234	263,351	5,334,377	4.7 %
MONTCALM	0	0	20,586	1,444,154	1.4 %
MONTMORENCY	0	175,000	364,000	400,645	47.6 %
MUSKEGON	559,627	0	1,062,570	3,795,562	21.9 %
NEWAYGO*	0	0	0	1,112,019	0.0 %
OAKLAND *	113,876	11,835	2,134,984	55,986,491	3.7 %
OCEANA *	4,100	0	43,900	810,470	5.1 %
OGEMAW *	0	2,844	36,331	665,492	5.2 %
ONTONAGON	28,264	116,267	381,656	189,609	66.8 %
OSCEOLA	151,905	5,354	184,366	566,650	24.5 %
OSCODA*	1,801	5,564	248,455	301,086	45.2 %
OTSEGO *	45,800	3,665	160,066	1,083,027	12.9 %
OTTAWA	125,529	782,392	1,939,528	8,017,867	19.5 %
PRESQUE ISLE*	0	0	0	507,034	0.0 %
ROSCOMMON	8,000	9,061	271,874	1,090,097	20.0 %
SAGINAW	1,069,045	227,800	2,245,345	4,621,922	32.7 %
SAINT CLAIR*	129,346	178,053	850,371	5,571,093	13.2 %
SAINT JOSEPH *	4,185	4,695	69,782	1,475,311	4.5 %
SANILAC *	66,701	7,277	133,271	1,192,406	10.1 %
SCHOOLCRAFT	21,070	20,500	823,995	261,370	75.9 %
SHIAWASSEE	12,000	0	208,035	1,524,102	12.0 %
TUSCOLA*	0	0	0	1,212,155	0.0 %
VAN BUREN*	0	0	0	2,296,161	0.0 %
WASHTENAW *	774	647	12,384	12,821,033	0.1 %
WEXFORD	<u>0</u>	<u>0</u>	<u>0</u>	<u>796,007</u>	0.0 %
TOTAL	\$8,196,648	\$3,374,357	\$38,143,620	\$251,931,663	13.1 %

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

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

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

Exhibit 21
General Property Tax – Estimated Exempt Acreage by County, 2005

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA	320	LAKE *	1,001
ALGER*	14,000	LAPEER*	4,600
ALLEGAN *	1,000	LEELANAU	2,335
ALPENA*	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	1,478
ARENAC *	195	LUCE *	2,300
BARAGA	7,700	MACKINAC *	240
BARRY *	7,000	MACOMB *	7,127
BAY*	3,650	MANISTEE	2,000
BENZIE *	554	MARQUETTE *	390
BERRIEN *	6,812	MASON	600
BRANCH *	425	MECOSTA *	2,500
CALHOUN *	5,670	MENOMINEE	141
CASS *	60	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	1,504
CHEBOYGAN	8,500	MONROE *	3,200
CHIPPEWA *	1,500	MONTCALM	6,800
CLARE *	164	MONTMORENCY *	200
CLINTON *	100	MUSKEGON *	2,100
CRAWFORD *	1,619	NEWAYGO *	6,800
DELTA	700	OAKLAND *	12,871
DICKINSON	400	OCEANA *	500
EATON	3,047	OGEMAW *	693
EMMET *	1,100	ONTONAGON	200
GENESEE	11,990	OSCEOLA	1,285
GLADWIN	1,000	OSCODA *	529
GOGEBIC *	2,300	OTSEGO *	735
GRAND TRAVERSE *	10,500	OTTAWA	2,324
GRATIOT *	300	PRESQUE ISLE *	85,136
HILLSDALE	1,975	ROSCOMMON	1,398
HOUGHTON*	2,215	SAGINAW	4,150
HURON*	341	SAINT CLAIR *	11,972
INGHAM	1,200	SAINT JOSEPH *	2,600
IONIA	544	SANILAC *	28,500
IOSCO	4,488	SCHOOLCRAFT *	370
IRON *	580	SHIAWASSEE	300
ISABELLA *	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN *	6,312
KALAMAZOO *	40,000	WASHTENAW *	200
KALKASKA *	340	WEXFORD *	500
KENT *	3,200		
KEWEENAW	3,583	TOTAL	379,691

* Based on a previous year's survey.

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

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

Mobile Home Tax

Enacted in 1959, the mobile home tax is levied on mobile homes in lieu of property tax. The tax rate is \$3 per month per occupied mobile home located in licensed mobile home parks. Township or city treasurers administer the mobile home tax. Counties and municipalities keep 50 cents each, while the remaining \$2 is remitted to the state and deposited into the School Aid Fund. The 2005 state share of this tax totaled \$3.0 million indicating \$4.5 million in total state and local collections. Exhibit 22 only shows the county share of the tax.

FY 2007 Estimate

Mobile Home Tax Expenditure

\$57,700,000

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

Out-of-State Coaches

n.a.

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

Real Estate Property Transfer Tax

Enacted in 1966, the county real estate property transfer tax is a tax on the transfer of an interest in real property. The tax is levied at a rate of 55 cents per \$500 (0.11 percent), or fraction thereof, on the fair market value of the property being transferred. The treasurer of the county in which the transfer takes place collects the tax, and the revenue goes to the county general fund. The estimated statewide revenue yield was approximately \$52.0 million in 2004 (see Exhibit 22).

The School Finance Reform Package of 1994 created a state real estate property transfer tax in addition to the county tax. The rate is \$3.75 per \$500 (0.75 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the county treasurer and forwarded to the state. Revenue is deposited into the School Aid Fund. The state real estate transfer tax is projected to yield \$311 million in FY 2007.

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 \$13.0 million in 2004 (see Exhibit 22).

City Income Tax

A city income tax is levied by adoption of a city ordinance subject to referendum upon petition by the voters. Income earned and received by city residents, income earned in the city by nonresidents, and corporate income earned in the city are subject to city income taxes. In CY 2004, city income taxes totaled \$479.9 million. (See Exhibit 24.) Currently, 22 cities levy a city income tax. While rates vary, most cities levy a 1.0 percent tax on residents and corporations and a 0.5 percent tax on nonresidents. Revenue collections go to the general fund of the taxing city, and most revenue comes from city residents.

FY 2007 Estimate

Federal Deductions

n.a.

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

Net Profits of Financial Institutions

n.a.

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

**Exhibit 22
Miscellaneous Local Taxes Kept by Local Units, 2004**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA*	\$0	\$84	\$59,175
ALGER	0	56	77,931
ALLEGAN*	0	28,297	431,745
ALPENA	0	1,153	92,576
ANTRIM	0	354	228,999
ARENAC	0	972	48,187
BARAGA*	0	113	37,383
BARRY	0	7,041	251,805
BAY	0	14,265	291,276
BENZIE	0	915	148,377
BERRIEN	0	18,942	776,110
BRANCH	0	3,827	159,686
CALHOUN	88,328	15,924	544,824
CASS	0	5,464	192,097
CHARLEVOIX	0	5,956	294,817
CHEBOYGAN	0	1,034	161,584
CHIPPEWA	0	2,613	102,746
CLARE*	0	920	95,951
CLINTON	0	13,337	304,718
CRAWFORD	0	260	61,900
DELTA	0	3,732	91,447
DICKINSON	0	2,411	61,207
EATON	0	10,173	411,390
EMMET	0	2,283	384,064
GENESEE	1,248,494	66,364	1,764,434
GLADWIN	0	1,000	111,755
GOGEBIC	0	137	53,248
GRAND TRAVERSE	0	11,652	643,529
GRATIOT	0	4,514	91,931
HILLSDALE	0	2,562	151,260
HOUGHTON	0	183	76,827
HURON	0	2,547	129,386
INGHAM	1,817,884	22,056	1,224,032
IONIA	0	5,670	164,602
IOSCO	0	726	125,871
IRON	0	149	47,778
ISABELLA	0	5,261	161,807
JACKSON	0	23,314	570,176
KALAMAZOO	1,679,091	25,004	1,242,870
KALKASKA	0	326	87,531
KENT	4,197,674	57,224	3,246,274
KEWEENAW	0	0	14,548

Exhibit 22 (Continued)

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$53,365
LAPEER*	0	14,048	363,865
LEELANAU	0	198	290,824
LENAWEE	0	12,093	396,988
LIVINGSTON	0	21,520	1,417,555
LUCE*	0	84	54,380
MACKINAC	0	0	67,393
MACOMB	0	83,210	5,046,750
MANISTEE*	0	866	107,685
MARQUETTE	0	3,092	190,920
MASON	0	1,810	125,804
MECOSTA	0	2,913	147,234
MENOMINEE	0	926	55,166
MIDLAND	0	5,397	329,230
MISSAUKEE	0	40	46,735
MONROE	0	38,084	671,611
MONTCALM	0	1,315	161,118
MONTMORENCY	0	88	48,755
MUSKEGON	758,637	20,389	590,176
NEWAYGO	0	4,970	162,754
OAKLAND	0	107,618	11,195,744
OCEANA	0	1,613	105,964
OGEMAW	0	518	91,332
ONTONAGON	0	30	25,634
OSCEOLA	0	331	64,792
OSCODA	0	0	46,571
OTSEGO	0	515	126,330
OTTAWA	0	27,732	1,394,902
PRESQUE ISLE	0	354	53,870
ROSCOMMON	0	1,404	152,137
SAGINAW	1,804,691	11,612	684,291
SAINT CLAIR	0	31,205	678,320
SAINT JOSEPH	0	5,191	205,101
SANILAC	0	5,105	148,984
SCHOOLCRAFT	0	66	37,773
SHIAWASSEE	0	13,783	210,660
TUSCOLA	0	15,178	151,533
VAN BUREN	0	8,836	309,053
WASHTENAW*	1,205,356	38,340	2,238,318
WAYNE	0	103,377	8,412,666
WEXFORD	158,788	2,641	108,849
TOTAL	\$12,958,943	\$955,293	\$51,988,984

* Figures carried forward from a previous year.

FY 2007 Estimate

Nonresident Reduced Rate \$164,200,000

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

Pensions, Annuities, and Retirement Plans n.a.

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

Personal Exemption \$20,900,000

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

Supplemental Unemployment Benefits n.a.

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

City Utility Users' Tax

The uniform city utility users' tax is based on the privilege of consuming public telephone, electric, steam, or gas services in a city of one million or more. Currently, Detroit is the only Michigan city eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled \$51.4 million in 2004.

Exhibit 23
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2004

<u>City</u>	<u>Resident</u>		<u>Nonresident and Partial-Year Resident</u>	
	<u>Quantity</u>	<u>Amount</u>	<u>Quantity</u>	<u>Amount</u>
Albion	4,910	\$29,460	3,911	\$11,733
Battle Creek	40,298	302,235	43,021	161,329
Big Rapids	3,270	19,620	13,306	39,918
Detroit	472,693	8,862,994	342,293	3,208,997
Flint	50,190	301,140	87,586	262,758
Grand Rapids	156,351	2,032,563	167,732	1,090,258
Grayling	1,198	35,940	4,599	68,985
Hamtramck	16,679	100,074	7,581	22,743
Highland Park*	12,000	144,000	18,000	108,000
Hudson	2,000	20,000	1,500	7,500
Ionia	3,949	27,643	19,604	68,614
Jackson	19,716	118,296	33,393	100,179
Lansing	64,811	388,866	103,997	311,991
Lapeer	7,653	45,918	17,259	51,777
Muskegon	16,749	100,494	36,862	110,586
Muskegon Heights	2,944	17,664	7,365	22,095
Pontiac*	26,500	159,000	83,000	249,000
Port Huron*	21,149	253,788	27,831	166,986
Portland	5,006	50,060	2,458	12,290
Saginaw	30,668	460,020	48,659	364,943
Springfield*	3,036	45,540	4,794	35,955
Walker	17,525	131,438	39,008	146,280
TOTAL	979,295	\$13,646,752	1,113,759	\$6,622,916

* Based on a previous year's survey.

**Exhibit 24
City Tax Rates and Exemption Allowances, 2004**

<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	\$1,012
Battle Creek	1.00 %	0.50 %	1.00 %	750	13,994
Big Rapids	1.00 %	0.50 %	1.00 %	600	1,814
Detroit	2.50 %	1.250 %	1.00 %	750	299,939
Flint	1.00 %	0.50 %	1.00 %	600	19,418
Grand Rapids	1.30 %	0.65 %	1.30 %	1,000	51,595
Grayling	1.00 %	0.50 %	1.00 %	3,000	406
Hamtramck	1.00 %	0.50 %	1.00 %	600	2,894
Highland Park	2.00 %	1.00 %	2.00 %	600	2,445
Hudson	1.00 %	0.50 %	1.00 %	1,000	353
Ionia	1.00 %	0.50 %	1.00 %	700	1,466
Jackson	1.00 %	0.50 %	1.00 %	600	5,997
Lansing	1.00 %	0.50 %	1.00 %	600	27,413
Lapeer	1.00 %	0.50 %	1.00 %	600	2,155
Muskegon	1.00 %	0.50 %	1.00 %	600	6,972
Muskegon Heights	1.00 %	0.50 %	1.00 %	600	914
Pontiac	1.00 %	0.50 %	1.00 %	600	14,180
Port Huron	1.00 %	0.50 %	1.00 %	1,200	5,733
Portland	1.00 %	0.50 %	1.00 %	1,000	578
Saginaw	1.50 %	0.75 %	1.50 %	1,000	12,716
Springfield	1.00 %	0.50 %	1.00 %	1,500	559
Walker	1.00 %	0.50 %	1.00 %	750	7,388
TOTAL					\$479,941