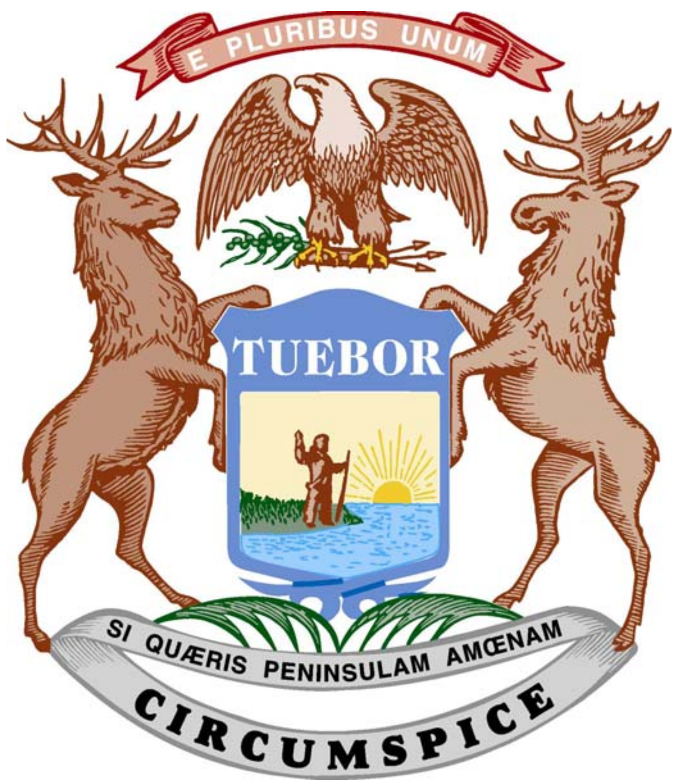
Executive Budget Appendix on Tax Credits, Deductions, and Exemptions

Fiscal Year 2008



State of Michigan
Jennifer M. Granholm, Governor

Executive Budget
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This report is available on the Internet at *http://www.michigan.gov/treasury*.

Robert J. Kleine
State Treasurer
Department of Treasury

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LIST OF EXHIBITS

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

Fiscal Year	Date of Release	Lead Department
1979 - 1980	January 1980	Management and Budget
1981 - 1982	March 1981	Management and Budget
1982 - 1983	April 1982	Management and Budget
1983 - 1984	July 1983	Management and Budget
1984 - 1985	July 1984	Management and Budget
1985 - 1986	December 1985	Management and Budget
1986 - 1987	October 1986	Management and Budget
1987 - 1988	November 1988	Management and Budget
1988 - 1989		
1989 - 1990	February 1991	Treasury
1990 - 1991		
1991 - 1992	March 1993	Treasury
1992 - 1993		
1993 - 1994	June 1994	Treasury
1994 - 1995		
1995 - 1996	April 1995	Treasury
1996 - 1997	March 1996	Treasury
1997 - 1998	June 1997	Treasury
1998 - 1999	May 1998	Treasury
1999 - 2000	February 2000	Treasury
2000 - 2001	April 2000	Treasury
2001 - 2002	July 2001	Treasury
2002 - 2003	April 2002	Treasury
2003 – 2004	March 2003	Treasury
2004 – 2005	August 2004	Treasury
2005 – 2006	May 2005	Treasury
2006 – 2007	May 2006	Treasury
2007 – 2008	September 2007	Treasury

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

EXECUTIVE SUMMARY

FY 2008

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 3.9 percent between fiscal year (FY) 2007 and FY 2008, from $30.7 billion to $31.9 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 $1,376.8 million to $1,451.3 million. Tax credits granted by the Michigan Economic Growth Authority were the fastest growing business tax expenditure.

Consumption tax expenditures are predicted to increase 4.0 percent between FY 2007 and FY 2008, from $12,075.0 million to $12,558.3 million. Growth in tax expenditures related to health care, professional, scientific, and technical services, and food for home use account for most of the increase. Comparisons between the estimates for consumption tax expenditures contained in this report and those in prior editions of the *Tax Expenditure Appendix* are not valid due to changes in the methodology and data sources used to calculate tax expenditures related to services.

Individual income tax expenditures are predicted to rise from $7,337.6 million in FY 2007 to $7,689.7 million in FY 2008, a 4.8 percent increase. The largest increase in tax expenditures for the individual income tax is related to the adjustment for income earned in another state.

Local tax expenditures are predicted to increase 2.9 percent between FY 2007 and FY 2008, rising from $9,827.4 million to $10,111.3 million, as property values rise and new construction adds to the property tax base.

Transportation tax expenditures are predicted to increase 2.1 percent between FY 2007 and FY 2008, from $53.8 million to $55.0 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 2006, individual Michigan taxpayers could claim a $3,300 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) 2007 and FY 2008 are based on the most recent data available. Tax year 2005 income tax data (returns processed in the spring of 2006) are used, as are 2005 property and sales tax data, and tax year 2001-2002 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, each estimate assumes implicitly that no other tax expenditures exist (i.e., there is no interaction) and that all other factors remain constant (i.e., taxpayers do not change their behavior and the repeal of the provision does not affect the overall economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would generally fall short of the estimates.

Cautionary Notes and the Reliability of Estimates

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

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

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

1. High reliability level.

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

2. Average reliability level.

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

3. Low reliability level.

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

Why Report Tax Expenditures?

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

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

1. Tax Equity.

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

2. Fiscal Discipline.

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

3. Political Accountability.

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

The Michigan Legislature has recognized these potential problems and regularly places sunset dates on new tax expenditures, or requires a report on the activity related to the tax break. In addition, the annual publication of this report provides an itemization of 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 $30.671 billion in FY 2007 to $31.866 billion in FY 2008, a 3.9 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.

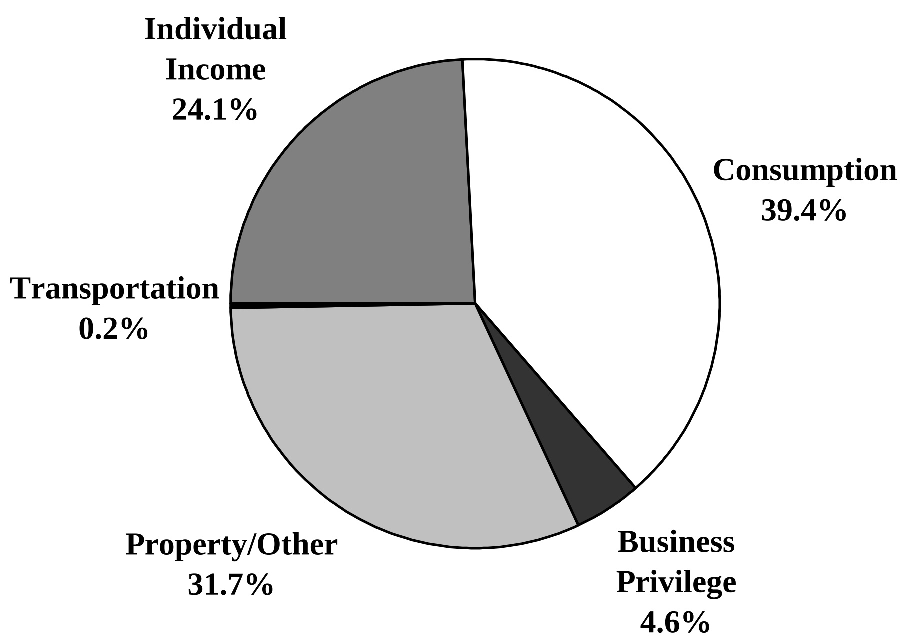
Exhibit 1
Total Tax Expenditures, FY 2007 and FY 2008

Tax Category	FY 2007 (000)	FY 2008 (000)	Change (000)
Business Privilege	$1,376,767	$1,451,339	$74,572
Consumption	12,074,956	12,558,285	483,329
Individual Income	7,337,640	7,689,696	352,056
Property	9,650,543	9,934,600	284,057
Other Local (City Income)	176,900	176,700	-200
Transportation	53,805	54,951	1,146
TOTAL	$30,670,611	$31,865,571	$1,194,960

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 2008, consumption tax expenditures comprised 39.4 percent of total tax expenditures, while income tax expenditures comprised 24.1 percent and property and other local taxes comprised 31.7 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 2008 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2008 Tax Expenditures and Projected Revenue
(millions of dollars)

Tax Category	Tax Expenditure	Projected Revenues*	Percent of Revenues
Business Privilege			
Oil and Gas Severance	$7.7	$59.5	12.9%
Single Business**	1,443.1	1,807.1	79.9%
Consumption			
Total Alcohol	0.1	172.9	0.1%
Cigarette and Tobacco	27.9	1,117.0	2.5%
Sales and Use	12,530.3	8,095.8	154.8%
Individual Income Tax	5,305.0	6,307.7	84.1%
Transportation			
Aviation Fuel	4.0	6.3	64.4%
Gasoline	28.9	891.0	3.2%
Diesel Fuel	5.5	152.1	3.6%
Motor Vehicle Registration	15.8	887.0	1.8%
City Income Tax	176.7	503.7	35.1%
TOTAL	$19,544.9	$20,000.1	97.7%

*From Consensus Revenue Estimating Conference, May 2007.

**Baseline Single Business Tax Revenues without repeal. For comparison only.

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 2007 were prepared (and released in last year's report) and the revised federal estimates were used to prepare the Michigan estimates for FY 2008. Among the tax expenditure estimates that have changed significantly are employer provided pensions, employer contributions to insurance, and accelerated depreciation. The increase in tax expenditures related to the Michigan income tax is due to increases in the homestead property tax credit and adjustments for income attributable to another state.

Exhibit 4
Business Privilege Tax Expenditures

Tax or Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Insurance Company Retaliatory		
Supplemental Workers' Compensation	$650	$605
Oil and Gas Severance Tax		
Marginal Wells	4,222	4,433
Public Land	3,083	3,237
SUBTOTAL	$7,305	$7,670
Single Business Tax Expenditure		
Agricultural Producers	$11,895	$12,489
Apprenticeship Tax Credit	808	825
Brownfield Zone Credit	27,200	31,056
Business Loss Deduction	52,080	51,988
Community Foundation Credit	755	792
Compensation Exemption	128,715	132,576
Corporate Farm Property Tax Credit	1,376	1,417
Donated Vehicle Credit	130	143
Enterprise Zone Credit	503	540
Excess Compensation Reduction	195,216	194,871
Floor Plan Interest Deduction	1,500	1,500
Government Utilities Exemption	14,422	15,113
Gross Receipts Reduction	108,308	108,117
Gross Receipts Threshold	81,242	83,530
Health Insurance Deduction	31,200	34,100
Higher Education Contributions Credit	1,914	1,952
Historic Preservation Credits	1,896	2,086
Homeless/Food Bank Credit	552	580
Insurer's Exemption From Gross Receipts	1,305	1,344
Insurer's Facility Assessment Credit	21,224	26,530
Investment Tax Credit	74,871	76,513
Iron Ore Credit	2,870	2,942
Michigan Economic Growth Authority*	119,086	140,704
Minority Venture Capital Credit	0	0
Multiple Employer Welfare Arrangement	25	25
New Hire Credit	$0	$0

Exhibit 4 (Continued)

Tax or Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Next Energy Credit	8,179	8,164
Nonprofit Organizations	106,865	106,676
Officer Compensation	3,009	3,004
Personal Property Tax Credit*	87,708	113,554
Pharmaceutical Research Credit	9,203	9,442
Property Transfer Credit	15,000	15,000
Renaissance Zones	20,895	22,084
Research Funds Exclusion	74	76
Small Business Credit	126,210	125,987
Start-up Business Credit	1,248	1,298
Statutory Exemption	7,148	7,136
Supplemental Workers' Compensation	3,994	3,715
Tribal Tax Agreement	n.a.	n.a.
Unincorporated Business Credit	94,356	99,074
Utility Property Tax Credit	5,830	6,121
SUBTOTAL	$1,368,812	$1,443,064
TOTAL	$1,376,767	$1,451,339

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

Exhibit 5
Consumption Tax Expenditures

Tax or Tax Expenditure	FY 2007 (000)	FY 2008 (000)
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
Tobacco Products Tax		
Bad Debt Deduction	$800	$800
Licensee Expenses	17,241	16,927
Sales on Military Bases and Reservations	10,355	10,147
SUBTOTAL	$28,396	$27,874
Sales and Use Tax Expenditures		
Air and Water Pollution	$37,000	$39,000
Aircraft Parts	8,370	8,519
Bad Debts	60,999	62,605
Cargo Aircraft	30,000	30,000
Church Construction	3,200	3,200
Church Cars	3,990	4,095
Collection Fee	15,982	16,403
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	499	499
Employee Meals	10,953	11,242
Enterprise Zone Credit	n.a.	n.a.
Food	1,129,023	1,158,750
Food for Students	22,751	23,311
Government or Red Cross	159,016	163,202
Gratuity and Tips	62,691	64,342
Horticultural and Agricultural Products	145,327	147,507
Imported Property from Other States	3,200	3,200

Exhibit 5 (Continued)

Tax or Tax Expenditure	**FY 2007 (000)**	**FY 2008 (000)**
Industrial Processing	$850,897	$873,300
Inmate Purchases	556	556
Interstate Communications	15,613	14,833
Interstate Trucks and Trailers	38,913	39,938
Investment Coins	400	400
Isolated Sales	n.a.	n.a.
Military PX Sales	1,605	1,647
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Motion Picture Credit *	1,000	3,000
Newspapers, Periodicals, and Films	101,515	104,188
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	10,517	10,794
Nonprofit Organizations	170,269	174,752
Nonprofits Sales under $5,000	n.a.	n.a.
Nonresident Merchandise Transfer	n.a.	n.a.
Nonresident Property	n.a.	n.a.
Ophthalmic and Orthopedic Products	51,163	52,698
Prescription Drugs	483,327	519,960
Radio and TV	4,400	4,400
Rail Rolling Stock	1,632	1,675
Residential Utilities	136,500	137,500
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	65,606	66,623
Services (Including Nonprofits)	8,296,464	8,662,002
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	12,070	12,975
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	41,112	42,195
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	26,300	27,400
SUBTOTAL	$12,046,460	$12,530,311
TOTAL	$12,074,956	$12,558,285

* 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

Tax or Tax Expenditure	FY 2007 (000)	FY 2008 (000)
State Income Tax		
Adjustments to Income (except military)	$2,975,994	$3,109,656
Adoption Credit	1,346	1,411
Child Deduction	50,660	51,167
City Income Tax Credit	33,931	34,271
College Savings Accounts	13,261	14,213
Community Foundation Credit	3,484	3,653
Dependent Exemption	18,043	18,223
Donated Vehicle Credit	120	124
Farmland Credit	33,037	34,689
Higher Education/Public Contributions Credit	26,574	26,840
Historic Preservation Credit	802	962
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	236	241
Homeless/Food Bank Credit	20,030	21,179
Homestead Property Tax Credit	849,855	892,347
Income Tax Paid to Other State Credit	41,314	42,966
Military Pay and Pensions	27,479	29,477
Personal Exemption	968,205	977,887
Renaissance Zones	300	300
Special Exemption	39,155	40,721
Tribal Tax Agreements	n.a.	n.a.
Tuition Credit	4,525	4,706
TOTAL STATE	$5,108,351	$5,305,033
Federal Adjustments		
Accelerated Depreciation	-$43,489	$185,264
Employer Contributions to Insurance	809,809	890,298
Employer Pension Plans *	597,439	505,422
Federal Adjustments to Income	53,756	25,212
Fellowships and Scholarships	8,932	10,652
Gain on Sale of Primary Residence	226,421	202,745
Income Maintenance Benefits	2,782	4,810

Exhibit 6 (Continued)

Tax or Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Federal Adjustments (continued)		
Individual Retirement Accounts	$93,726	$124,692
Interest on Life Insurance Savings	159,398	126,465
Medical Savings Account	13,430	9,480
Railroad Retirement Benefits	1,820	1,688
Social Security Benefits	214,672	209,988
Student Loan Deduction	4,729	4,457
Veterans' Benefits	40,258	39,833
Workers' Compensation	45,606	43,657
TOTAL FEDERAL	$2,229,289	$2,384,663
TOTAL STATE AND FEDERAL	$7,337,640	$7,689,696

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

Exhibit 7
Transportation Tax Expenditures

Tax or Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	$272	$277
Interstate Flight Refund	3,700	3,750
Marine Vessel Exemption	730	740
SUBTOTAL	$4,702	$4,767
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	$5,370	$5,480
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	13,570	13,570
Fuel for Off-Road Use	990	1,000
Municipal Franchise Vehicles	420	430
Public Vehicles	13,700	13,900
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	$34,050	$34,380
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	$299	$313
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	14,740	15,477
SUBTOTAL	$15,039	$15,790
Watercraft Registration Fee		
Publicly-Owned Vehicle	$14	$14
TOTAL	$53,805	$54,951

Exhibit 8
Local Property and Other Local Tax Expenditures

Tax or Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Property and Other Local Tax Expenditures		
Agriculture Transfers	$29,500	$33,000
Air and Water Pollution Control	140,000	150,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	380	310
Enterprise Zone Credit	1,100	1,100
Fairground Property	n.a.	n.a.
Homestead Exemption	3,200,000	3,310,000
Homestead Exemption for Farm Property	130,000	140,000
Industrial Facilities Development	300,000	310,000
Mobile Homes	53,883	55,700
Neighborhood Enterprise Zones	10,900	12,700
Next Energy Exemption	1,000	1,200
Obsolete Property Rehabilitation	3,100	3,500
Poverty Exemption	0	0
Railroad Right-of-Way/Broadband Credit	48,510	49,900
Renaissance Zones *	100,000	120,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,721,000	1,756,000
Tax Increment Financing	300,000	300,000
Taxable Value Cap	3,610,000	3,690,000
Water Softeners	1,170	1,190
SUBTOTAL	$9,650,543	$9,934,600
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	$160,400	$160,100
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	16,500	16,600
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	$176,900	$176,700
TOTAL	$9,827,443	$10,111,300

* 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 2008

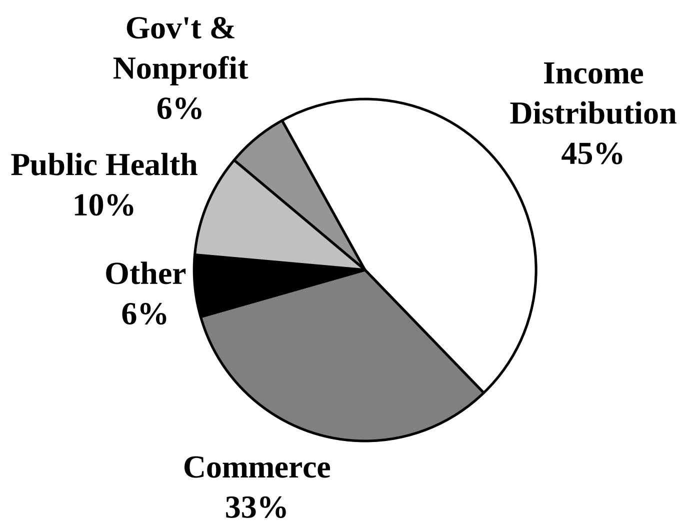


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources) for Selected Spending Categories, FY 2007

Spending Category	Tax Expenditure (000)	Direct Expenditure (000)	Total (000)	Percent Tax Expenditure
Agriculture	$191,635	$79,362	$270,997	70.7%
Commerce (DLEG)	8,113,926	394,506	8,508,432	95.4%
Higher Education	396,550	1,784,491	2,181,041	18.2%
Income Distribution (DHS)	8,674,759	1,265,150	9,939,909	87.3%
Military Affairs	81,196	67,093	148,289	54.8%
Natural Resources	37,000	238,458	275,458	13.4%
Public (Community) Health	2,940,114	4,811,282	7,751,397	37.9%
Transportation	53,511	2,225,029	2,278,540	2.3%
TOTAL	$20,488,691	$10,865,372	$31,354,063	65.3%

Note: FY 2007 expenditure figures from *FY 2006-2007 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

Budget Category	FY 2007 (000)	FY 2008 (000)
Agriculture	$676,035	$701,202
Commerce	9,751,479	10,362,230
Education	842,550	881,596
Government and Nonprofit Organizations	1,854,887	1,897,047
Income Distribution	14,293,459	14,608,767
Military Affairs	81,196	82,617
Natural Resources	177,380	189,310
Public Health	2,940,114	3,088,257
Transportation	53,511	54,544
TOTAL	$30,670,611	$31,865,571

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 2007 (000)	FY 2008 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	$29,500	$33,000
Homestead Exemption for Farm Property	130,000	140,000
Taxable Value Cap	324,900	332,100
Income Tax		
Farmland Development Credit (PA 116)	33,037	34,689
Sales and Use Taxes		
Horticultural or Agricultural Products	145,327	147,507
Single Business Tax		
Agricultural Producers	11,895	12,489
Corporate Farm Property Tax Credit	1,376	1,417
TOTAL	$676,035	$701,202
Commerce		
Alcoholic Beverage Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Small Brewer's Credit	$100	$100
Tobacco Products Tax		
Bad Debt Deduction	800	800
Licensee Expenses	17,241	16,927
Income Tax		
Accelerated Depreciation	-43,489	185,264
Renaissance Zone Credit	300	300
Insurance Company Retaliatory Tax		
Supplemental Workers' Compensation Credits	650	605
Motor Vehicle Registration Tax		
Intercity Commercial Buses	n.a.	n.a.
Oil and Gas Severance Tax		
Marginal Wells	4,222	4,433
Property Tax		
Broadband Investment Credit	21,910	22,500
Enterprise Zone	1,100	1,100
Industrial Facilities Development	300,000	310,000
Mobile Homes	53,883	55,700

Tax/Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Commerce (Continued)		
Neighborhood Enterprise Zones	$10,900	$12,700
Next Energy Exemption	1,000	1,200
Obsolete Property Rehabilitation	3,100	3,500
Renaissance Zones	100,000	120,000
Tax Increment Financing	300,000	300,000
Taxable Value Cap	866,400	885,600
Water Softeners	1,170	1,190
Sales and Use Taxes		
Aircraft Parts	8,370	8,519
Bad Debts	60,999	62,605
Cargo Aircraft	30,000	30,000
Collection Fee	15,982	16,403
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Employee Meals	10,953	11,242
Enterprise Zone	n.a.	n.a.
Gratuities and Tips	62,691	64,342
Imported Property from Other States	3,200	3,200
Industrial Processing	850,897	873,300
Interstate Telecommunications	15,613	14,833
Interstate Trucks and Trailers	38,913	39,938
Investment Coins	400	400
Motion Picture Credit	1,000	3,000
Newspapers, Periodicals, and Films	101,515	104,188
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	65,606	66,623
Services (except education, health, and nonprofits)	5,490,872	5,710,657
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	12,070	12,975
Vehicle and Aircraft Transfers	41,112	42,195
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines	26,300	27,400

Tax/Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Commerce (Continued)		
Single Business Tax		
Brownfield Zone Credit	$27,200	$31,056
Business Loss Deduction	52,080	51,988
Compensation Exemption	128,715	132,576
Enterprise Zone Credit	503	540
Excess Compensation Reduction	195,216	194,871
Floor Plan Internal Expense	1,500	1,500
Gross Receipts Reduction	108,308	108,117
Gross Receipts Threshold	81,242	83,530
Health Insurance Deduction	31,200	34,100
Insurer’s Exemption From Gross Receipts	1,305	1,344
Insurer’s Facility Assessment Credit	21,224	26,530
Investment Tax Credit	74,871	76,513
Iron Ore Credit	2,870	2,942
MEGA	119,086	140,704
Minority Venture Capital Credit	0	0
Multiple Employer Welfare Arrangement	25	25
New Hire Credit	0	0
Next Energy Credit	8,179	8,164
Officer Compensation	3,009	3,004
Personal Property Tax Credit	87,708	113,554
Pharmaceutical Research Credit	9,203	9,442
Property Transfer Credit	15,000	15,000
Renaissance Zone Credit	20,895	22,084
Research Funds Exclusion	74	76
Small Business Low-Profit Credit	126,210	125,987
Start-up Business Credit	1,248	1,298
Statutory Exemption	7,148	7,136
Supplemental Workers’ Compensation Credit	3,994	3,715
Unincorporated Business Credit	94,356	99,074
Utility Property Tax Credit	5,830	6,121
TOTAL	$9,751,479	$10,362,230
Education		
Income Tax		
College Savings Account	13,261	14,213
Fellowships and Scholarships	8,932	10,652

Tax/Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Education (Continued)		
Higher Education/Public Contribution Credit	$26,574	$26,840
Tuition Credit	4,525	4,706
Property Tax		
Exempt Public Education Property	446,000	455,000
Sales Tax		
Services	340,536	367,408
Textbooks Sold by Schools	n.a.	n.a.
Single Business Tax		
Apprenticeship Tax Credit	$808	$825
Higher Education and Library Credit	1,914	1,952
TOTAL	$842,550	$881,596
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	272	277
Income Tax		
Community Foundation	3,484	3,653
Historic Preservation Credit	802	962
Motor Fuel Taxes		
Public Vehicles	13,700	13,900
Motor Vehicle Weight Tax		
Handicapper Vans	n.a.	n.a.
Public and Nonprofit Vehicles	14,740	15,477
Oil and Gas Severance Tax		
Public Land	3,083	3,237
Property Tax		
Church Transfers	n.a.	n.a.
Tax Exempt Property	1,275,000	1,301,000
Sales and Use Taxes		
Church Cars	3,990	4,095
Church Construction	3,200	3,200
Donated Property	n.a.	n.a.
Government or Red Cross	159,016	163,202
Nonprofit Organizations	170,269	174,752
Nonprofit Sales	n.a.	n.a.
Services	83,379	88,611
Single Business Tax		
Community Foundation Credit	755	792
Government Utilities	14,422	15,113

Tax/Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Government and Nonprofit Organizations (Continued)		
Historic Preservation Credit	$1,896	$2,086
Nonprofit Organizations	106,865	106,676
Watercraft Registration Fee		
Publicly Owned Watercraft	14	14
TOTAL	$1,854,887	$1,897,047
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	160,400	160,100
Personal Exemption	16,500	16,600
General Property Tax		
Homestead Exemption	3,200,000	3,310,000
Poverty Exemption	0	0
Taxable Value Cap	2,418,700	2,472,300
Income Tax		
Adjustments to Income (except military)	2,975,994	3,109,656
Adjustments to Income (federal)	53,756	25,212
Adoption Credit	1,346	1,411
Child Deduction	50,660	51,167
City Income Tax Credit	33,931	34,271
Dependent Exemption	18,043	18,223
Donated Vehicle Credit	120	124
Employer Contributions to Health and Life Insurance	809,809	890,298
Employer Pension Plans	597,439	505,422
Gain on Sale of Primary Residence	226,421	202,745
Holocaust Survivor	n.a.	n.a.
Home Heating Assistance Credit	236	241
Homeless Credit	20,030	21,179
Homestead Property Tax Credit (excluding veterans)	848,655	891,147
Income Maintenance Benefits	2,782	4,810
Individual Retirement Account	93,726	124,692
Interest on Life Insurance Savings	159,398	126,465
Other State Tax Credit	41,314	42,966
Personal Exemption	968,205	977,887
Railroad Retirement Benefits	1,820	1,688
Social Security Benefits	214,672	209,988

Tax/Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Income Distribution (Continued)		
Special Exemption	$39,155	$40,721
Student Loan Deduction	4,729	4,457
Workers' Compensation	45,606	43,657
Sales and Use Taxes		
Donated Vehicles	500	500
Food	1,129,023	1,158,750
Food for Students	22,751	23,311
Inmate Purchases	556	556
Residential Utilities	136,500	137,500
Single Business Tax		
Donated Vehicle Credit	130	143
Homeless Shelter Food Bank Credit	552	580
TOTAL	$14,293,459	$14,608,767
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	10,355	10,147
Income Tax		
Military Pay and Pension	27,479	29,477
Veterans' Benefits	40,258	39,833
Veterans' Property Tax Credit	1,200	1,200
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	299	313
Sales and Use Taxes		
Military Post-Exchange Sales	1,605	1,647
Military Vehicle Sales (nonresident)	n.a.	n.a.
Military Vehicle Sales (resident out-of-state)	n.a.	n.a.
TOTAL	$81,196	$82,617
Natural Resources		
Property Tax		
Air and Water Pollution	140,000	150,000
Energy Conservation Devices	380	310
Sales and Use Taxes		
Air and Water Pollution	37,000	39,000
TOTAL	$177,380	$189,310

Tax/Tax Expenditure	FY 2007 (000)	FY 2008 (000)
Public Health		
Income Tax		
Medical Care Savings - Federal	$13,430	$9,480
Sales and Use Taxes		
Medical Services	2,381,677	2,495,325
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital Construction	10,517	10,794
Ophthalmic and Orthopedic Products	51,163	52,698
Prescription Drugs	483,327	519,960
TOTAL	$2,940,114	$3,088,257
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	3,700	3,750
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,370	5,480
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	13,570	13,570
Fuel for Off-Road Use	990	1,000
Marine Vessel Fuel	730	740
Municipal Franchise Vehicles	420	430
Sales and Use Taxes		
Driver Training	499	499
Rail Rolling Stock	1,632	1,675
Utility Property Tax		
Railroad Right-of-Way	26,600	27,400
TOTAL	$53,511	$54,544

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 5.4 percent from $1,376.8 million in FY 2007 to $1,451.3 million in FY 2008. These estimates assume the SBT would be in place for all of FY 2008. However, Public Act 325 of 2006 repealed the SBT, effective December 31, 2007.

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 2001-2002 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 2007 and FY 2008. Additionally, many SBT expenditures are credits or deductions that filers must claim, as opposed to unreported exemptions, which are much more difficult to estimate. Other tax expenditure estimates from business privilege taxes were based on 2005 data. 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 21 of 2006 removes a provision that prohibited benefits under the Michigan Economic Growth Authority (MEGA) Act from being provided to a business site that had been a vaccine laboratory owned by the State of Michigan. The Act allows the owner of the site to qualify for a MEGA tax credit.

Public Act 32 of 2006 amends the Brownfield Redevelopment Financing Act to create economic opportunity zones that would be able to promote new investment through the use of tax increment financing programs, SBT credits, and property tax abatements. To be eligible, one or more parcels of property must have a combined size of 40 acres or more, contain a manufacturing facility of 500,000 square feet or more, and be located in a municipality with a population of 30,000 or less and that is located next to a core community, as defined in the Obsolete Property Rehabilitation Act.

Public Act 53 of 2006 amends the Single Business Tax Act to expand the eligibility criteria for the historic preservation tax credit. This expansion allows certain properties which are located in a local unit of government that had exceeded the population limit in the Single Business Tax Act to remain eligible for the tax credit.

Public Acts 111 through 113 of 2006 amend the Single Business Tax Act to revise the rules and procedures for certain SBT credits related to brownfield redevelopment. The Acts set a maximum of $10 million on the amount of credits that the MEGA chairperson may issue for projects with a total credit of $200,000 or less, establish procedures and deadlines for MEGA to approve these smaller projects, and establish new rules on the assignment and reassignment for credits related to brownfield redevelopment.

Public Act 188 of 2006 amends the Michigan Economic Growth Authority Act to expand the definition of qualified high-technology business. The expanded definition would allow high-technology MEGA tax credits to be claimed by taxpayers with less than 25 percent of their operating expenses used for research and development activities.

Public Act 240 of 2006 amends the Single Business Tax Act to allow a taxpayer eligible for a brownfield redevelopment or historic rehabilitation credit to claim the credit on the taxpayer's final tax return under the Act if the project was pre-approved or certified prior to 2007, the project was completed before 2010, and the SBT is repealed for tax years beginning after 2007.

Public Acts 281 and 283 of 2006 amend the Michigan Economic Growth Authority Act to expand the activities that would qualify for SBT credits issued by MEGA. The Acts lower the employment thresholds for eligibility, allow for greater flexibility when employees are transferred to new firms as a result of a divestiture, and reduce the wage threshold under the MEGA Act's definition of "high-tech wages."

Public Act 323 of 2006 amends the Single Business Tax Act to allow a tax credit against the SBT for taxpayers engaged in research and development of certain hybrid propulsion systems for motor vehicles that entered into an agreement with MEGA before 2007. The credit would equal 3.9 percent of compensation paid to employees for services performed in qualified facility.

Public Act 325 of 2006, an initiated law enacted without the signature of the governor, repealed the single business tax, effective December 31, 2007.

Public Act 472 of 2006 amends the Single Business Tax Act to allow a taxpayer to claim a credit against the SBT equal to 3.9 percent of the compensation paid for research and development services on hybrid vehicles in a qualified city. To be eligible for the credit, the taxpayer must enter into an agreement with MEGA prior to April 1, 2007. This Act repeals the section added by Public Act 323 of 2006 that created a similar credit.

Public Act 484 of 2006 amends the Michigan Economic Growth Authority Act to expand the eligibility criteria for single business tax credits. The Act would apply narrowly and encourage new investment that would likely not occur in Michigan under the old criteria.

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 2006. 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 $162.2 million for FY 2008; revenue goes to the State General Fund.

	FY 2008 Estimate
Supplemental Workers Compensation Credit 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.	$605,000

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 $59.5 million for FY 2008; revenue goes to the State General Fund.

	FY 2008 Estimate
Marginal Wells Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.	$4,433,000
Public Land Exempts oil and gas severed from publicly-owned lands from taxation.	$3,237,000

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. As discussed above, Public Act 325 of 2006 repealed the SBT after December 31, 2007. The estimated yield for FY 2008 is $677.4 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 2001 and returns for fiscal years ending in December 2001 through November 2002.

	FY 2008 Estimate
Agricultural Producers Exempts agricultural production from the SBT.	$12,489,000
Apprenticeship Tax Credit 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.	$825,000
Brownfield Zone Credit 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.	$31,056,000
Business Loss Deduction 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.	$51,988,000

	FY 2008 Estimate
Community Foundation Credit 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.	$792,000
Compensation Exemption Removes unemployment insurance, workers' compensation, and social security payments from the SBT tax base.	$132,576,000
Corporate Farm Property Tax Credit 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.	$1,417,000
Donated Vehicle Credit Provides a credit equal to 50 percent of the fair market value up to $100 per vehicle of vehicles donated to qualified organizations.	$143,000
Enterprise Zone Credit 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.	$540,000
Excess Compensation Reduction 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 2002, 51,786 firms used this provision. (See Exhibit 13.)	$194,871,000
Floor Plan Interest Deduction 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.	$1,500,000
Government Utilities Exemption 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.	$15,113,000

FY 2008 Estimate

Gross Receipts Reduction $108,117,000

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 2002, 21,736 taxpayers used this filing method. (See Exhibit 13.)

Gross Receipts Threshold $83,530,000

Exempts from the SBT firms with adjusted (apportioned) gross receipts less than $350,000 for tax years beginning after 2002.

Health Insurance Deduction $34,100,000

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.

Higher Education Contribution Credit $1,952,000

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 2002, 1,709 taxpayers used this credit. (See Exhibit 13.)

Historic Preservation Credit $2,086,000

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 $580,000

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.

Exhibit 13
Single Business Tax Expenditures by Liability Class, 2001-2002*

Tax Liability Class	Excess Compensation Reduction		Gross Receipts Reduction		Investment Tax Credit	
	Number	Amount	Number	Amount	Number	Amount
$0 - $99	8,814	$14,165,085	2,687	$3,746,500	16,384	$125,525,823
$100 - $499	4,295	1,827,114	306	712,930	4,247	1,969,461
$500 - $999	3,320	2,233,320	398	521,676	4,647	2,098,140
$1,000 - $4,999	13,777	19,454,595	8,392	17,298,174	15,257	7,496,354
$5,000 - $9,999	7,276	21,196,733	4,401	16,855,831	5,286	3,351,536
$10,000 - $49,999	10,864	82,656,614	4,327	46,163,806	8,354	9,784,350
$50,000 - $99,999	1,872	40,441,759	661	22,656,121	1,615	5,904,759
$100,000 - $499,999	1,391	80,340,577	480	45,644,001	1,277	16,122,504
$500,000 - $999,999	111	19,622,657	55	15,790,807	125	6,237,915
Over $1,000,000	66	37,491,702	29	35,897,312	101	76,081,310
TOTAL	51,786	$319,430,156	21,736	$205,287,159	57,293	$254,572,152

Tax Liability Class	Small Business Credit		Unincorporated Business Credit		Higher Education Contribution Credit	
	Number	Amount	Number	Amount	Number	Amount
$0 - $99	12,011	$40,711,608	2,686	$436,901	12	$9,498
$100 - $499	7,887	14,946,572	7,404	460,344	27	457
$500 - $999	8,196	19,075,818	7,605	1,043,536	27	1,924
$1,000 - $4,999	21,604	72,692,553	25,815	8,665,405	266	28,888
$5,000 - $9,999	1,436	7,940,920	7,206	6,684,091	189	51,825
$10,000 - $49,999	425	4,484,612	7,548	21,495,646	581	412,978
$50,000 - $99,999	na	na	1,150	10,637,400	265	380,803
$100,000 - $499,999	na	na	741	17,989,774	247	586,245
$500,000 - $999,999	na	na	54	4,997,576	44	155,762
Over $1,000,000	na	na	22	6,353,291	51	169,467
TOTAL	51,575	$160,221,905	60,231	$78,763,964	1,709	$1,797,847

*Data are from returns for firms with tax year ending in December 2001 through November 2002.

	FY 2008 Estimate
Insurers' Exemption From Gross Receipts 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.	$1,344,000
Insurers' Facility Assessment Credit Provides a credit for payments made to the Michigan workers' compensation placement facility, the Michigan basic property insurance association, the Michigan automobile insurance placement facility, the property and casualty guaranty association, and the life and health guaranty association.	$26,530,000
Investment Tax Credit 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 2002, 57,293 firms claimed the ITC. (See Exhibit 13.)	$76,513,000
Iron Ore Credit Provides a credit for taxpayers that consume qualified low-grade hematite in an industrial or manufacturing process.	$2,942,000
Michigan Economic Growth Authority (MEGA) 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.	$140,704,000

	FY 2008 Estimate
Minority Venture Capital Credit 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.	$0
Multiple Employer Welfare Arrangement 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.	$26,000
New Hire Credit 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.	$0
Next Energy Credit 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.	$8,164,000
Nonprofit Organizations Exempts the value added of most firms exempt from the federal corporate income tax.	$106,676,000
Officer Compensation Officer compensation paid by professional employer organizations (PEOs) is considered compensation of the PEO rather than compensation of the firm hiring the PEO.	$3,004,000
Personal Property Tax Credit 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.	$113,554,000

	FY 2008 Estimate
Pharmaceutical Research Credit 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.	$9,442,000
Property Transfer Credit 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.	$15,000,000
Renaissance Zones Provides a credit for the portion of tax attributable to business activity in a renaissance zone.	$22,084,000
Research Funds Exclusion Provides a deduction for certain research grants, to the extent the grant is included in federal taxable income.	$76,000
Small Business-Low Profit Credit (Alternate Tax Rate) For qualifying firms, provides an SBT reduction when adjusted business income is less than 45 percent of the adjusted tax base. In FY 2002, 21,267 SBT filers claimed a small business-low profit credit. An additional 30,308 firms used the alternate tax rate method, paying tax on 2 percent of adjusted business income. (See Exhibit 13.)	$125,987,000
Start-up Business Credit Provides a credit equal to the SBT liability for certain new businesses for up to five years if the business has no business income.	$1,298,000
Statutory Exemption 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.	$7,136,000

	FY 2008 Estimate
Supplemental Workers Compensation Credit	$3,715,000

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	$99,074,000

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 60,231 taxpayers in FY 2002. (See Exhibit 13.)

Utility Property Tax Credit	$6,121,000

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 $12,558.3 million in FY 2008, a 4.0 percent increase over the FY 2007 level of $12,075.0 million. The growth in sales and use tax expenditures associated with health care; professional, scientific, and technical services; and food for home use account for most of the growth between FY 2007 and FY 2008. 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 2001 through FY 2005 data. Alcohol and cigarette tax expenditure estimates were based on FY 2006 data.

Estimate Reliability	(1)	Alcohol and Cigarette Taxes Residential Utilities Exemption
	(3)	Other Sales and Use Tax Expenditures

Because firms' sales tax returns provide no information regarding most sales of exempt goods or services, sales and use tax expenditures are difficult to estimate. For example, because restaurants do not report the actual gratuities and tips their workers receive, it is not possible to accurately gauge the revenue lost from excluding these payments from the sales tax base. In this and many other instances, it was necessary to base estimates on restrictive assumptions. In addition, many estimates were based on national sales data apportioned to Michigan.

Cigarette tax expenditure estimates were based on recent tax collections. These estimates are reliable.

Consumption Tax Expenditure Changes

Public Acts 17 and 18 of 2006 amend the General Sales Tax and Use Tax Acts to exempt certain aircraft and aircraft parts from the sales and use taxes. The exemptions apply to an aircraft that is temporarily located in Michigan for either pre-purchase inspection or customization done after purchase if the aircraft is not based or registered in Michigan and leaves the state within 15 days after the work is completed. The exemptions for parts and materials apply when the parts and materials are affixed to an aircraft that is not based or registered in Michigan and the aircraft leaves the state within 15 days after the work is completed.

Public Acts 428 and 434 of 2006 amend the General Sales Tax and Use Tax Acts, respectively, to exempt from taxation delivery charges for delivery of direct mail, if those charges are separately stated on the invoice or similar document. Direct mail is often sent through the U.S. Mail, so the exemption primarily affects postage charges.

Public Act 577 of 2006 amends the Streamlined Sales and Use Tax Revenue Equalization Act to allow a nonprofit organization to claim a credit equal to 6 percent of the amount by which the proceeds received from an item sold at a charitable auction exceeded the item's fair market value. The nonprofit organization could either pay the sales tax on the purchase amount and then claim a refund for the credit amount, or use the credit amount to reduce the amount of sales tax due.

Public Acts 590 and 673 of 2006 amend the General Sales Tax and Use Tax Acts, respectively, to extend an exemption for corporate sponsor contracts that include both taxable and non-taxable items sold by an organizing entity that meets certain legal requirements. These Acts sunset on January 1, 2011, and will allow the exemptions to apply to the 2008 PGA Championship, the 2009 Men's Final Four, and the 2010 Men's Frozen Four.

Public Act 657 of 2006 amends the General Sales Tax Act to allow a credit against the sales tax for a motion picture production company based on production spending made in Michigan. The credit is equal to a percentage of production spending, with the credit rate rising with higher levels of production spending. Total tax credits under this Act may not exceed $7.0 million in any one year. The credit expires after December 31, 2010.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2008 (millions of dollars).

Alcoholic Beverage Taxes
(millions)

Tax	Location of Deposit	FY 2008 Revenue
Beer and Wine Excise	General Fund	$52.2
4.0 Percent Liquor Excise	School Aid Fund	$35.7
4.0 Percent Liquor Specific	General Fund	$35.7
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	$13.6
4.0 Percent Liquor Tourism	Convention Facility Development Fund	$35.7

	FY 2008 Estimate
Beer Shipped Out-of-State Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state.	n.a.

	FY 2008 Estimate
Homemade Wine Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.	n.a.
Small Brewer's Credit 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.	$100,000

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 2008, the tax on cigarettes will yield an estimated $1,071.0 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield $46.0 million.

	FY 2008 Estimate
Bad Debt Deduction Allows cigarette wholesalers to deduct any losses from bad debts.	$800,000
Licensee Expenses Exempts 1.5 percent of the total tax due from licensees to cover their expenses in administering the tax.	$16,927,000
Sales on Military Bases and Reservations Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.	$10,147,000
Tribal Tax Agreements Establishes the number of cigarettes that each tribe may obtain tax-free for the tribe's resident members, while requiring retailers in each tribal agreement area to limit tax-free sales to resident members.	n.a.

State Convention Facility Development Tax

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

	FY 2008 Estimate
Small Hotel Exemption Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.	n.a.

Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield $6,661.3 million in FY 2008. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. State law earmarks 4.65 percent of the sales tax on transportation-related items to the Comprehensive Transportation Fund (CTF). The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total $1,434.5 million in FY 2008. Due to their complementary nature, sales and use tax expenditures are reported together.

	FY 2008 Estimate
Air and Water Pollution Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	$39,000,000
Aircraft Parts Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	$8,519,000

	FY 2008 Estimate
Bad Debts 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.	$62,605,000
Cargo Aircraft 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.	$30,000,000
Church Construction Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	$3,200,000
Church Cars Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	$4,095,000
Collection Fee 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.	$16,403,000
Commercial Domestic Aircraft Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	$5,000,000
Commercial Vessels 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.	n.a.
Communication and Telephone Exemption 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.	$37,000,000

	FY 2008 Estimate
Damaged Beer Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale.	n.a.
Donated Property Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations.	n.a.
Donated Vehicles Exempts certain vehicle transfers from the sales or use taxes when the vehicle is transferred from a qualifying organization to certain low-income families.	$500,000
Driver Training Exempts property used for demonstration or driver training programs.	$499,000
Employee Meals Exempts meals provided by employers to their employees starting in 2002.	$11,242,000
Enterprise Zone Credit 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.	n.a.
Food Exempts food for human consumption, except prepared food intended for immediate consumption.	$1,158,750,000
Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students.	$23,311,000
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.	$163,202,000
Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	$64,342,000

	FY 2008 Estimate
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.	$147,507,000
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.	$873,300,000
Inmate Purchases Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	$556,000
International Telecommunications Exempts international and WATS calls from the use tax.	$14,833,000
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.	$39,938,000
Investment Coins 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.	$400,000
Isolated Sales Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	n.a.
Military PX Sales Exempts military post-exchange sales.	$1,647,000

	FY 2008 Estimate
Military Vehicle Sales Exempts vehicle sales to nonresidents serving in the U.S. armed forces, or when purchased by a Michigan resident in military service when sales tax is paid to another state.	n.a.
Motion Picture Credit Provides a credit for expenditures on a motion picture. The credit is equal to a percentage of eligible expenditures, and the percentage rises as expenditures rise.	$3,000,000
Newspapers, Periodicals, and Films Exempts sales of copyrighted films, newspapers, and periodicals.	$104,188,000
Nonprofit Ambulance and Fire Service Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	n.a.
Nonprofit Hospital or Housing Construction 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.	$10,794,000
Nonprofit Organizations 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.	$174,752,000
Nonprofit Sales Under $5,000 Exempts aggregate sales under $5,000 for qualified nonprofit organizations.	n.a.
Nonresident Merchandise Transfer Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	n.a.
Nonresident Property Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	n.a.
Ophthalmic and Orthopedic Products Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	$52,698,000

	FY 2008 Estimate
Prescription Drugs Exempts prescription drugs for human consumption.	$519,960,000
Radio and TV Exempts sales to persons licensed to operate commercial radio or television stations when the property is used as a component of a film, tape, or recording produced for resale or transmission.	$4,400,000
Rail Rolling Stock Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	$1,675,000
Residential Utilities Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	$137,500,000
Returned Vehicles Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	$1,100,000
Sale of Business Excludes from the use tax non-inventoried property purchased as part of a business.	n.a.
Sale of Water Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	$66,623,000
Services Exempts services for items listed in the following table:	$8,662,002,000

Service Tax Expenditures, FY 2008
(millions)

Category	For Profit	Nonprofit	Total
Accommodations and Food Service	$12.0	$0.0	$12.0
Admin., Support, and Waste Mgmt.	847.6	14.7	862.3
Arts, Entertainment, and Recreation	169.7	30.8	200.5
Construction	987.6	0.0	987.6
Educational Services	47.0	320.4	367.4
Health Care and Social Assistance	1,061.0	1,434.3	2,495.3
Information	381.4	0.0	381.4
Other Services (except Public Admin.)	452.3	91.2	543.5
Professional, Scientific, and Technical	1,987.7	14.7	2,002.4
Real Estate and Rental and Leasing	459.3	0.0	459.3
Transportation and Warehousing	249.6	11.9	261.5
Utilities	0.0	88.6	88.6
TOTAL	$6,655.4	$2,006.6	$8,662.0

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 and may not add due to rounding.

FY 2008 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 $12,975,000

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 2008 Estimate
Vehicle and Aircraft Transfers Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft.	$42,195,000
Vehicles Purchased for Use in Another State 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.	n.a.
Vending Machines and Mobile Facilities 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.	$27,400,000

CHAPTER 6

INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 3.9 percent from $5,108.4 million in FY 2007 to $5,305.0 million in FY 2008. Federal income tax expenditures are projected to increase 7.0 percent from $2,229.3 million in FY 2007 to $2,384.7 million in FY 2008. Individual income tax expenditure estimates were based on tax year 2005 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 2005. 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 52 of 2006 amends the Income Tax Act to expand the eligibility criteria for the historic preservation tax credit. This expansion allows certain properties that are located in a local unit of government that had exceeded the population limit in the Income Tax Act to remain eligible for the tax credit.

Public Act 319 of 2006 amends the Income Tax Act to allow a taxpayer to claim a tax credit for the tax year in which the taxpayer has a certificate of stillbirth issued by the Michigan Department of Community Health. The credit is equal to 4.5 percent times the personal exemption amount for the tax year rounded up to the nearest $10.

Public Act 372 of 2006 amends the Income Tax Act to allow a taxpayer to claim a tax credit against the income tax equal to a percentage of the federal earned income tax credit claimed under federal law. The credit is equal to 10 percent of the federal credit amount for tax year 2008, and 20 percent of the federal credit after tax year 2008. The credit is refundable.

Public Act 514 of 2006 amends the Income Tax Act to allow a taxpayer to claim a tax credit against the income tax equal to 75 percent of the contributions made to a reserve fund of a charitable organization that is approved to administer individual or family development accounts. To be eligible for the credit, the taxpayer must not own an individual or family development account. The total amount of tax credits is limited to $1.0 million per tax year.

State Income Tax Expenditures

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. For FY 2008, the State of Michigan will collect an estimated $6,307.7 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 2005, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 3.9 percent to an average effective rate of 2.1 percent. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.

	FY 2008 Estimate
Adjustments to Income	$3,139,133,000
Adoption Credit	$1,411,000

Adjustments to Income — $3,139,133,000

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 $71.6 billion in calendar year 2005. This reduced 2005 income taxes by $2,791.6 million.

Adoption Credit — $1,411,000

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 $11,390 dollars of adoption expenses for tax year 2007. The Michigan adoption credit applies to the first $1,200 in adoption expenses over the $11,390 federal credit.

	FY 2008 Estimate
Child Deduction 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.	$51,167,000
City Income Tax Credit Provides a credit to individuals for income taxes paid to cities. For tax year 2005, city income tax credits totaled $33.3 million (see Exhibit 14).	$34,271,000
College Savings Account 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.	$14,213,000
Community Foundation Credit 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.	$3,653,000
Dependent Exemption 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.	$18,223,000
Donated Vehicle Credit 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.	$124,000
Farmland Development Credit 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.	$34,689,000

	FY 2008 Estimate
Higher Education/Public Contributions Tax Credit 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 2005, the higher education/public contributions tax credit totaled $26.1 million (see Exhibit 14).	$26,840,000
Historic Preservation Credit Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.	$962,000
Holocaust Survivor Asset Recovery Deduction 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.	n.a.
Home Heating Assistance Credit Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2006, these credits totaled an estimated $74.1 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was $231,000 in FY 2006.	$241,000
Homestead Property Tax Credit 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 2005, homestead credits, excluding the farmland credit itemized separately, totaled $809.4 million (Exhibit 18). Of the homestead credits, 57.6 percent went to general taxpayers, 37.8 percent went to senior citizens, and the remaining 4.6 percent went to veterans and blind and disabled persons.	$892,347,000

Exhibit 14
Selected Individual Income Tax Expenditures, CY 2005

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Higher Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than $2,000*	411,832	8.9%	11,262	$94,917	2,314	$135,918
2,001 - 4,000	182,280	3.9%	22,295	165,958	2,231	84,529
4,001 - 6,000	174,701	3.8%	25,776	273,466	2,528	115,632
6,001 - 8,000	169,071	3.7%	27,180	366,047	2,877	147,613
8,001 - 10,000	156,863	3.4%	26,509	431,367	2,831	154,864
10,001 - 12,000	156,229	3.4%	26,629	491,115	3,021	173,848
12,001 - 14,000	145,979	3.2%	25,961	528,772	3,183	185,695
14,001 - 16,000	140,386	3.0%	25,902	572,058	3,389	209,902
16,001 - 18,000	132,571	2.9%	25,148	608,874	3,505	220,014
18,001 - 20,000	124,960	2.7%	25,001	665,122	3,563	228,074
20,001 - 25,000	282,061	6.1%	61,029	1,794,465	9,140	594,182
25,001 - 30,000	254,602	5.5%	56,874	1,876,653	9,828	667,927
30,001 - 35,000	226,005	4.9%	48,899	1,718,938	10,186	708,235
35,001 - 40,000	199,568	4.3%	44,136	1,667,768	10,428	735,506
40,001 - 45,000	178,580	3.9%	41,025	1,614,027	10,506	766,159
45,001 - 50,000	163,031	3.5%	38,027	1,540,352	11,016	819,441
50,001 - 55,000	150,752	3.3%	35,284	1,462,373	11,245	863,126
55,001 - 60,000	140,929	3.0%	33,938	1,442,963	11,221	869,657
60,001 - 70,000	250,696	5.4%	61,297	2,718,905	22,595	1,841,433
70,001 - 80,000	207,734	4.5%	51,097	2,309,412	21,704	1,845,438
80,001 - 90,000	167,310	3.6%	41,702	1,957,694	20,174	1,803,327
90,001 - 100,000	130,694	2.8%	33,537	1,639,262	17,896	1,682,245
Over 100,000	474,471	10.3%	111,452	7,404,776	98,925	11,262,455
TOTAL	4,621,305	100.0%	899,960	$33,345,283	294,306	$26,115,220

*Includes 196,643 credit-only returns (zero income).

	FY 2008 Estimate
Homeless/Food Bank Credit 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.	$21,179,000
Other State Tax Credit Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2005, taxpayers claimed $38.6 million in credits.	$42,966,000
Personal Exemption Exempts $3,200 (tax year 2005) 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 2007, the personal exemption is $3,400. The personal exemption reduced tax year 2005 revenue by approximately $934.8 million. The distribution of effective exemptions across AGI classes is outlined in Exhibit 15. Effective exemptions are exemptions that offset actual income.	$977,887,000
Renaissance Zones 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.	$300,000
Special Exemption Allows a taxpayer and his or her spouse to each claim a $2,200 exemption for tax year 2007 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.	$40,721,000

	FY 2008 Estimate
Tribal Tax Agreements 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.	n.a.
Tuition Credit 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.	$4,706,000

Exhibit 15
Selected Individual Income Tax Expenditures by Income Class, CY 2005

Adjusted	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions[1]	
Gross Income	Number	Percent	Number	Amount	Number	Amount
Zero Income[2]	256,058	5.5%	27,385	$17,596,431	0	$0
$0 - 2,000	155,774	3.4%	14,917	7,321,447	22,544	2,813,464
2,001 - 4,000	182,280	3.9%	21,130	8,880,842	66,426	8,289,970
4,001 - 6,000	174,701	3.8%	27,567	11,847,521	73,641	9,190,456
6,001 - 8,000	169,071	3.7%	36,697	16,313,377	122,339	15,267,901
8,001 - 10,000	156,863	3.4%	39,466	18,327,977	137,200	17,122,580
10,001 - 12,000	156,229	3.4%	45,046	21,443,502	167,419	20,893,912
12,001 - 14,000	145,979	3.2%	43,059	20,131,567	142,833	17,825,515
14,001 - 16,000	140,386	3.0%	42,421	19,711,580	171,176	21,362,786
16,001 - 18,000	132,571	2.9%	41,528	18,644,312	172,240	21,495,536
18,001 - 20,000	124,960	2.7%	41,223	18,256,827	174,732	21,806,533
20,001 - 25,000	282,061	6.1%	97,096	41,960,005	433,324	54,078,788
25,001 - 30,000	254,602	5.5%	88,276	38,063,448	417,506	52,104,773
30,001 - 35,000	226,005	4.9%	76,256	33,783,057	384,998	48,047,789
35,001 - 40,000	199,568	4.3%	65,061	29,839,328	360,163	44,948,315
40,001 - 45,000	178,580	3.9%	55,707	26,525,405	348,692	43,516,703
45,001 - 50,000	163,031	3.5%	47,538	23,514,459	337,848	42,163,443
50,001 - 55,000	150,752	3.3%	41,224	20,807,456	329,032	41,063,183
55,001 - 60,000	140,929	3.0%	36,289	18,780,726	325,271	40,593,763
60,001 - 70,000	250,696	5.4%	58,993	31,668,685	612,339	76,419,947
70,001 - 80,000	207,734	4.5%	43,323	20,133,218	539,763	67,362,413
80,001 - 90,000	167,310	3.6%	11,279	1,982,768	456,433	56,962,860
90,001 - 100,000	130,694	2.8%	346	167,325	369,729	46,142,210
Over 100,000	474,471	10.3%	513	335,645	1,324,909	165,348,618
TOTAL	4,621,305	100.0%	1,002,340	$466,036,908	7,490,557	$934,821,458

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

(2) Includes 196,643 credit-only returns.

Exhibit 16
Effective Income Tax Rates by Income Class, CY 2005[1]

Adjusted Gross Income	Total Adjusted Gross Income	Total Income Tax Paid	Effective Tax Rate
Zero Income[2]	($2,402,595,250)	($110,930,285)	
$0 - 2,000	165,781,212	(35,285,358)	-21.28%
2,001 - 4,000	546,844,863	(26,457,401)	-4.84%
4,001 - 6,000	871,580,086	(23,906,449)	-2.74%
6,001 - 8,000	1,184,733,751	(25,883,791)	-2.18%
8,001 - 10,000	1,409,970,526	(23,296,644)	-1.65%
10,001 - 12,000	1,718,305,604	(22,030,655)	-1.28%
12,001 - 14,000	1,896,537,361	(12,019,984)	-0.63%
14,001 - 16,000	2,104,793,963	(3,632,108)	-0.17%
16,001 - 18,000	2,252,749,788	5,446,341	0.24%
18,001 - 20,000	2,372,820,573	14,663,991	0.62%
20,001 - 25,000	6,331,966,956	70,911,308	1.12%
25,001 - 30,000	6,992,063,274	105,853,278	1.51%
30,001 - 35,000	7,337,816,062	129,033,049	1.76%
35,001 - 40,000	7,472,466,008	146,504,758	1.96%
40,001 - 45,000	7,583,383,628	160,267,858	2.11%
45,001 - 50,000	7,740,270,393	172,116,984	2.22%
50,001 - 55,000	7,910,715,876	182,525,607	2.31%
55,001 - 60,000	8,099,461,921	194,782,346	2.40%
60,001 - 70,000	16,260,348,945	408,264,696	2.51%
70,001 - 80,000	15,545,577,790	413,300,296	2.66%
80,001 - 90,000	14,188,261,059	408,153,197	2.88%
90,001 - 100,000	12,384,682,043	366,583,602	2.96%
Over 100,000	130,636,185,670	2,877,641,486	2.20%
TOTAL	$260,604,722,102	$5,372,606,122	2.06%

Effective rate excluding zero income AGI and Taxes Paid	2.08%
Effective rate excluding zero income AGI	2.04%

(1) Values in this table are based on a sample of the 4,424,662 MI-1040 and MI-1040CR returns.

(2) Includes 196,643 credit-only returns (zero income).

Exhibit 17
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2005

Adjusted Gross Income	Effective Exemptions[1]	Adjustments to Income	Nonrefundable Credits[2]	Prop. Tax Credits
Less Than $2,000	340.8%	23.8%	-1.8%	447.6%
2,001 - 4,000	120.4%	15.5%	0.2%	120.0%
4,001 - 6,000	82.9%	26.3%	1.0%	86.7%
6,001 - 8,000	68.8%	19.7%	1.2%	77.7%
8,001 - 10,000	60.2%	22.5%	1.2%	68.9%
10,001 - 12,000	55.6%	24.0%	1.1%	61.4%
12,001 - 14,000	48.1%	29.6%	1.2%	51.4%
14,001 - 16,000	42.9%	25.0%	1.3%	44.0%
16,001 - 18,000	38.8%	24.1%	1.3%	37.6%
18,001 - 20,000	35.4%	21.7%	1.3%	32.4%
20,001 - 25,000	30.3%	18.7%	1.3%	25.6%
25,001 - 30,000	25.2%	18.0%	1.4%	20.0%
30,001 - 35,000	21.7%	18.5%	1.3%	16.2%
35,001 - 40,000	19.3%	17.6%	1.2%	13.6%
40,001 - 45,000	17.9%	16.5%	1.3%	11.7%
45,001 - 50,000	16.7%	16.1%	1.2%	10.2%
50,001 - 55,000	15.8%	16.0%	1.2%	8.8%
55,001 - 60,000	15.0%	15.3%	1.2%	7.6%
60,001 - 70,000	14.0%	14.7%	1.3%	6.4%
70,001 - 80,000	12.8%	14.3%	1.3%	4.1%
80,001 - 90,000	11.8%	13.2%	1.3%	0.4%
90,001 - 100,000	10.8%	12.3%	1.3%	0.0%
Over 100,000	3.8%	39.3%	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 (3.9%) 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 2005

	General		Seniors		Veterans	
County	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
ALCONA	500	$175,900	500	$235,200	100	$3,900
ALGER	500	147,500	300	129,500	< 50	3,800
ALLEGAN	8,100	3,157,600	3,500	2,299,600	100	10,300
ALPENA	1,900	566,300	1,600	836,500	100	10,300
ANTRIM	1,700	693,400	1,100	809,900	< 50	3,800
ARENAC	1,100	380,900	700	444,600	< 50	3,700
BARAGA	300	82,900	200	120,400	< 50	4,900
BARRY	3,700	1,436,900	1,800	1,137,600	100	6,600
BAY	9,200	3,121,400	6,000	3,571,600	200	28,100
BENZIE	1,200	438,500	600	360,300	< 50	4,300
BERRIEN	12,800	4,286,400	6,700	3,942,700	200	15,700
BRANCH	3,200	1,097,000	1,500	921,200	100	7,200
CALHOUN	12,500	4,814,700	6,200	4,125,800	200	25,300
CASS	2,500	873,500	1,500	899,200	100	5,900
CHARLEVOIX	2,400	997,700	1,300	879,200	< 50	3,100
CHEBOYGAN	1,700	515,400	900	459,000	100	8,400
CHIPPEWA	3,800	1,005,300	1,000	520,500	100	16,600
CLARE	1,800	504,800	1,000	447,900	100	6,700
CLINTON	4,700	2,191,000	2,300	1,635,800	< 50	2,700
CRAWFORD	700	194,700	400	174,900	< 50	4,200
DELTA	2,400	723,800	1,500	742,000	200	25,000
DICKINSON	1,600	496,800	1,400	812,500	100	12,600
EATON	11,900	5,098,100	5,200	3,712,200	100	11,800
EMMET	3,200	1,274,100	1,400	966,400	< 50	5,500
GENESEE	41,100	15,195,400	15,200	9,224,100	400	43,400
GLADWIN	1,700	533,100	1,200	577,300	100	7,600
GOGEBIC	600	166,600	600	249,200	100	19,500
GRAND TRAVERSE	9,400	3,945,100	4,000	2,950,700	100	10,800
GRATIOT	2,500	886,700	1,400	854,100	< 50	5,900
HILLSDALE	3,100	1,109,800	1,600	880,800	100	7,900
HOUGHTON	1,400	416,700	900	420,600	100	16,900
HURON	2,600	1,263,800	2,600	1,787,500	< 50	5,600
INGHAM	35,500	16,279,600	10,400	7,840,500	100	21,100
IONIA	4,400	1,671,500	1,900	1,135,500	< 50	5,200
IOSCO	1,600	457,800	1,200	560,300	200	14,000
IRON	500	138,800	500	224,400	100	12,200
ISABELLA	5,600	2,115,700	2,000	1,254,700	100	6,200
JACKSON	12,700	4,675,800	5,600	3,363,100	200	20,900
KALAMAZOO	25,300	9,779,000	9,300	6,516,500	200	24,500
KALKASKA	1,200	391,000	600	299,800	< 50	3,100
KENT	63,800	25,320,600	21,700	15,089,300	300	38,100
KEWEENAW	100	25,300	0	19,400	< 50	1,400

Exhibit 18 (Continued)

	General		Seniors		Veterans	
County	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
LAKE	600	$186,900	400	$166,400	< 50	$4,800
LAPEER	6,100	2,673,600	2,600	1,575,600	100	6,900
LEELANAU	1,300	582,300	900	684,400	< 50	1,300
LENAWEE	8,300	3,429,600	4,400	3,069,600	100	10,700
LIVINGSTON	600	186,900	400	166,400	< 50	4,800
LUCE	300	65,700	100	27,800	< 50	3,500
MACKINAC	1,300	354,900	400	228,000	< 50	2,900
MACOMB	98,800	52,827,600	49,000	40,692,000	400	52,400
MANISTEE	1,700	607,700	1,200	645,300	100	7,400
MARQUETTE	3,500	932,600	1,700	852,000	300	34,000
MASON	2,300	796,000	1,400	883,400	< 50	5,000
MECOSTA	2,200	787,100	1,200	659,300	100	7,500
MENOMINEE	1,200	349,000	800	356,800	100	10,800
MIDLAND	5,600	1,852,200	2,700	1,620,000	100	12,100
MISSAUKEE	800	309,700	500	283,700	< 50	4,200
MONROE	10,100	4,265,400	5,700	3,712,500	100	13,000
MONTCALM	4,400	1,506,800	2,200	1,308,900	100	10,700
MONTMORENCY	500	150,700	300	140,100	100	4,200
MUSKEGON	15,000	5,196,200	7,100	4,401,800	200	28,400
NEWAYGO	3,100	1,164,500	1,600	962,000	100	6,600
OAKLAND	123,800	73,641,600	51,000	44,689,800	300	38,300
OCEANA	1,900	665,000	1,100	639,900	100	5,800
OGEMAW	1,400	416,900	900	445,200	100	6,600
ONTONAGON	200	67,200	200	90,400	< 50	5,700
OSCEOLA	1,400	462,800	900	460,300	100	6,600
OSCODA	300	85,400	200	57,400	< 50	2,100
OTSEGO	1,500	458,400	700	345,700	< 50	3,200
OTTAWA	21,700	8,473,200	9,900	6,737,100	100	15,100
PRESQUE ISLE	700	207,900	700	335,000	100	5,800
ROSCOMMON	1,700	552,000	1,200	589,500	100	7,200
SAGINAW	15,500	5,048,000	7,400	4,232,600	300	35,200
ST. CLAIR	15,900	6,566,200	7,600	5,234,800	200	23,700
ST. JOSEPH	4,000	1,318,600	2,100	1,144,400	100	8,000
SANILAC	3,300	1,342,500	2,100	1,344,300	100	8,700
SCHOOLCRAFT	500	111,700	200	64,500	100	5,000
SHIAWASSEE	6,300	2,260,300	3,100	1,791,600	100	10,500
TUSCOLA	4,200	1,593,000	2,500	1,652,700	100	13,800
VAN BUREN	7,000	2,718,600	3,300	2,198,800	100	9,700
WASHTENAW	38,500	22,632,800	10,400	9,406,300	100	12,400
WAYNE LESS DETROIT	118,800	65,853,600	54,700	47,350,800	400	57,700
WEXFORD	2,900	994,200	1,400	775,500	100	7,900
OUTSIDE OF MICHIGAN	16,700	8,404,600	7,400	6,009,600	100	11,400
DETROIT	129,800	60,280,200	30,100	21,614,300	400	104,900
TOTAL	1,002,300	$466,036,900	416,400	$306,092,400	9,100	$1,132,000

Exhibit 18 (Continued)

County	Blind and Disabled Number	Blind and Disabled Amount	Farmland Number	Farmland Amount	Total Credits Number	Total Credits Amount
ALCONA	100	$23,300	< 50	$14,500	1,100	$452,700
ALGER	< 50	10,100	< 50	2,300	800	293,100
ALLEGAN	500	263,700	100	686,100	12,400	6,417,200
ALPENA	300	126,700	< 50	11,400	4,000	1,551,200
ANTRIM	100	62,700	< 50	32,600	3,000	1,602,400
ARENAC	100	57,100	100	243,200	2,100	1,129,600
BARAGA	< 50	19,400	< 50	0	600	227,600
BARRY	200	102,000	100	213,100	5,700	2,896,200
BAY	1,000	441,600	300	1,056,600	16,600	8,219,300
BENZIE	100	44,400	< 50	2,400	2,000	849,900
BERRIEN	1,300	596,400	100	288,000	21,000	9,129,100
BRANCH	200	94,700	200	658,700	5,200	2,778,800
CALHOUN	1,200	672,500	200	637,400	20,300	10,275,700
CASS	200	91,100	100	639,300	4,400	2,509,000
CHARLEVOIX	100	58,000	< 50	12,200	3,900	1,950,100
CHEBOYGAN	100	58,000	< 50	12,300	2,800	1,053,100
CHIPPEWA	200	68,000	< 50	12,500	5,200	1,622,900
CLARE	200	83,200	< 50	70,800	3,200	1,113,300
CLINTON	200	119,800	200	557,000	7,500	4,506,200
CRAWFORD	100	37,100	< 50	0	1,200	410,900
DELTA	300	125,700	< 50	65,700	4,400	1,682,200
DICKINSON	100	55,200	< 50	7,000	3,200	1,384,100
EATON	600	336,400	100	519,000	17,900	9,677,600
EMMET	100	63,100	< 50	6,500	4,900	2,315,600
GENESEE	3,600	1,905,500	100	194,700	60,400	26,563,000
GLADWIN	200	86,000	< 50	42,200	3,200	1,246,200
GOGEBIC	100	33,200	< 50	0	1,500	468,600
GRAND TRAVERSE	400	204,200	< 50	39,800	14,000	7,150,500
GRATIOT	200	84,400	400	1,283,400	4,700	3,114,500
HILLSDALE	200	109,900	200	546,300	5,200	2,654,800
HOUGHTON	200	59,600	< 50	0	2,600	913,700
HURON	200	103,700	1,000	4,559,800	6,500	7,720,400
INGHAM	2,000	1,211,200	100	727,000	48,200	26,079,400
IONIA	300	136,500	100	571,900	6,800	3,520,600
IOSCO	200	76,500	< 50	37,900	3,100	1,146,500
IRON	100	29,800	< 50	1,400	1,200	406,600
ISABELLA	300	125,500	100	370,200	8,000	3,872,300
JACKSON	1,000	504,700	100	253,600	19,500	8,818,200
KALAMAZOO	1,500	789,000	100	487,700	36,400	17,596,600
KALKASKA	100	38,400	< 50	4,000	1,900	736,300
KENT	3,100	1,855,800	100	435,000	89,000	42,738,800
KEWEENAW	< 50	4,300	< 50	0	100	50,300

Exhibit 18 (Continued)

County	Blind and Disabled Number	Blind and Disabled Amount	Farmland Number	Farmland Amount	Total Credits Number	Total Credits Amount
LAKE	100	$51,700	< 50	$2,700	1,200	$412,500
LAPEER	300	176,000	100	177,800	9,200	4,609,900
LEELANAU	100	28,500	< 50	35,500	2,300	1,332,100
LENAWEE	600	359,100	500	1,731,400	13,800	8,600,400
LIVINGSTON	400	263,700	< 50	2,700	15,200	8,819,800
LUCE	< 50	4,800	< 50	0	400	101,900
MACKINAC	100	23,100	< 50	3,000	1,800	611,900
MACOMB	4,600	3,293,200	< 50	82,200	152,800	96,947,400
MANISTEE	200	85,300	< 50	8,400	3,200	1,354,000
MARQUETTE	300	132,100	< 50	5,400	5,800	1,956,000
MASON	200	100,900	< 50	138,800	4,100	1,924,000
MECOSTA	200	85,400	< 50	118,900	3,700	1,658,300
MENOMINEE	100	31,500	< 50	63,600	2,200	811,600
MIDLAND	500	215,600	< 50	160,200	9,000	3,860,200
MISSAUKEE	100	37,500	100	311,400	1,500	946,500
MONROE	800	433,600	200	559,000	16,800	8,983,400
MONTCALM	400	188,900	200	632,900	7,300	3,648,100
MONTMORENCY	100	23,700	< 50	13,000	1,000	331,800
MUSKEGON	1,700	849,800	100	251,600	24,100	10,727,800
NEWAYGO	300	128,900	100	234,200	5,000	2,496,100
OAKLAND	4,400	3,235,300	< 50	79,000	179,500	121,683,900
OCEANA	200	78,600	100	230,500	3,300	1,619,900
OGEMAW	200	80,800	< 50	73,100	2,500	1,022,700
ONTONAGON	< 50	10,000	< 50	700	500	174,100
OSCEOLA	200	63,100	100	151,000	2,600	1,143,800
OSCODA	100	19,000	< 50	1,700	600	165,600
OTSEGO	100	51,300	< 50	1,200	2,300	859,900
OTTAWA	1,000	539,000	200	791,900	32,900	16,556,300
PRESQUE ISLE	100	35,700	< 50	25,500	1,500	609,900
ROSCOMMON	300	107,500	< 50	17,300	3,300	1,273,500
SAGINAW	1,800	913,300	500	1,706,200	25,600	11,935,200
ST. CLAIR	1,100	624,500	< 50	118,700	24,800	12,567,900
ST. JOSEPH	300	153,900	200	741,100	6,700	3,366,000
SANILAC	300	126,500	500	1,514,300	6,200	4,336,300
SCHOOLCRAFT	< 50	7,700	< 50	3,900	700	192,900
SHIAWASSEE	500	242,100	200	563,000	10,200	4,867,600
TUSCOLA	400	189,900	700	2,915,600	7,900	6,364,900
VAN BUREN	500	296,100	100	468,000	11,000	5,691,100
WASHTENAW	1,300	939,600	200	717,600	50,400	33,708,800
WAYNE LESS DETROIT	6,000	4,509,100	< 50	86,100	179,800	117,857,400
WEXFORD	300	130,000	< 50	22,200	4,600	1,929,800
OUTSIDE OF MICHIGAN	800	485,700	< 50	155,900	25,000	15,067,200
DETROIT	8,900	5,803,900	< 50	3,400	169,200	87,806,800
TOTAL	61,000	$36,124,200	8,100	$30,395,100	1,496,900	$839,780,500

Federal Income Tax Expenditures

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

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

1. Federal (national) government tax expenditure estimate times Michigan's apportionment factor equals Michigan's share of federal government revenue loss.

2. Michigan's share of federal revenue loss divided by the average marginal tax rate for federal taxpayers equals Michigan income excluded from federal taxation.

3. Michigan income excluded from federal taxation times the state income tax rate equals Michigan's tax expenditure due to federal deductions or exemptions.

Federal government estimates are from the *Budget of the United States Government*.

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

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

	FY 2008 Estimate
Accelerated Depreciation	$185,264,000

When a person buys property to be used in a business or to earn rent and the property has a useful life of more than one year, the cost of the property is typically depreciated over its expected life. For tax purposes, a person may deduct depreciation at an accelerated rate. The federal tax expenditure estimate for depreciation now compares tax law depreciation with the estimated economic depreciation adjusted for inflation.

Employer Contributions to Health and Life Insurance	$890,298,000

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.

	FY 2008 Estimate
Employer Pension Plans Exempts employer payments into qualified employee pension plans from taxation.	$505,422,000
Federal Adjustments to Income Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	$25,212,000
Fellowships and Scholarships Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	$10,652,000
Gain on Sale of Primary Residence 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.	$202,745,000
Income Maintenance Benefits Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	$4,810,000
Individual Retirement Accounts 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 2007. Only persons with an AGI below $83,000 on a joint return ($52,000 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 $83,000-$103,000 for joint filers and $52,000-$62,000 for single filers.	$124,692,000
Interest on Life Insurance Savings Exempts interest earned from life insurance from tax if used to buy additional life insurance.	$126,465,000
Medical Care Savings Account Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	$9,480,000

	FY 2008 Estimate
Railroad Retirement Benefits Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).	$1,688,000
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.	$209,988,000
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.	$4,457,000
Veterans' Benefits Excludes veterans' benefits administered by the Veterans' Administration from AGI.	$39,833,000
Workers' Compensation Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.	$43,657,000

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 2.1 percent from $53.8 million in FY 2007 to $55.0 million in FY 2008. Transportation tax expenditure estimates were based on FY 2005 and FY 2006 data.

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

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

Transportation Tax Expenditure Changes

Public Act 268 of 2006 amends the Motor Fuel Tax Act to reduce the tax rate to 12 cents per gallon of ethanol (at least 70 percent) and biodiesel (at least 5 percent biodiesel). The tax rate on gasoline is 19 cents per gallon generally, and the tax rate on diesel fuel is 15 cents per gallon.

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 $307,000 to the state's Aeronautics Fund in FY 2008.

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 2008, the aviation fuel tax is projected to yield $6.3 million, which is deposited into the state's Aeronautics Fund.

FY 2008 Estimate

Federally-Owned Aircraft $277,000

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

Interstate Flight Refund $3,750,000

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 2008 Estimate

Marine Vessel Exemption $740,000

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

Motor Carrier Privilege Fee

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

Motor Fuel Taxes

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum gas taxes. The tax rate on gasoline is 19 cents per gallon. The diesel fuel tax rate is 15 cents per gallon. Revenue is earmarked to the Michigan Transportation Fund, and distributed to the state, counties, and cities to maintain roads, and to the Comprehensive Transportation Fund to help finance public transportation. In FY 2008, motor fuel taxes will yield an estimated $1,043.1 million.

	FY 2008 Estimate
Diesel Fuel for Railroads Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	n.a.
Evaporation and Loss Allowance The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.	$13,570,000
Fuel for Job Sites and Charter Firms Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.	$5,480,000
Fuel for Off-Road Use Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	$1,000,000
Municipal Franchise Vehicles Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	$430,000
Public Vehicles Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	$13,900,000
Tribal Tax Agreements Provides for tribes to obtain tax-free motor fuel for use by the tribe, tribal entities, and resident tribal members. Sales to other parties made by tribal retailers will be fully taxed.	n.a.

Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, the registration fee for passenger vehicles became based on the vehicle's value rather than its weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2008, the motor vehicle registration fee is projected to yield $887.0 million.

	FY 2008 Estimate
Disabled Veterans' Vehicles Provides totally disabled veterans free vehicle license plates.	$313,000
Handicapper Vans Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	n.a.
Intercity Commercial Buses Intercity commercial buses pay a registration fee of $25 rather than a tax based on weight.	n.a.
Public and Nonprofit Vehicles 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.	$15,477,000

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 2008 Estimate
Publicly-Owned Watercraft Levies a special fee of $1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.	$14,000

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 2.9 percent from $9,827.4 million in FY 2007 to $10,111.3 million in FY 2008. Estimates were based on FY 2005 and FY 2006 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 114 of 2006 amends the General Property Tax Act to allow an individual who is both the sole beneficiary of a trust and totally and permanently disabled to claim a principal residence or qualified agricultural property exemption if the trust owns the property as the principal residence for the beneficiary.

Public Act 214 of 2006 amends the General Property Tax Act to expand the definition of agricultural operations to include operations that harvest deer on a site where at least 60 percent of the deer were born as part of the farming activity. Parcels used entirely or partially for agricultural operations are exempt from the 18-mill property tax for school operations as agricultural real property.

Public Act 278 of 2006 amends the General Property Tax Act to expand the definition of agricultural operations to include operating a game bird hunting preserve. Parcels used entirely or partially for agricultural operations are exempt from the 18-mill property tax for school operations as agricultural real property.

Public Act 284 of 2006 amends the Renaissance Zone Act to increase the number of agricultural processing renaissance zones that may be designated by the State Administrative Board to 40 from 20. The Act also adds an additional criterion for revoking an agricultural processing renaissance zone designation, in addition to creating new guidelines for these zones.

Public Acts 304 and 305 of 2006 amend the Renaissance Zone Act to allow for the designation of up to 10 additional renaissance zones for forest products processing facilities. The definition of a forest products processing facility excludes a facility or operation that relocates to a renaissance zone, as well as excluding a facility or operation that engages primarily in retail sales.

Public Act 326 of 2006 amends the General Property Tax Act to exempt the real and personal property of a federally-qualified health center from property taxes. A federally-qualified health center is defined in federal law, and the tax exemption applies to taxes levied in December 2004 and after.

Public Act 376 of 2006 amends the General Property Tax Act to expand the definition of agricultural operations to include raising, breeding, training, leasing, or boarding horses. Parcels used entirely or partially for agricultural operations are exempt from the 18-mill property tax for school operations as agricultural real property.

Public Acts 378 through 380 of 2006 amend the General Property Tax Act, Qualified Forest Property Recapture Tax Act, and Revised School Code, respectively, to exempt qualified forest property from local taxes levied for school operations. To meet the definition of qualified forest property, a parcel must be subject to an approved forest management plan.

Public Act 381 of 2006 amends the Natural Resources and Environmental Protection Act to lower the specific tax on a sustainable forest conservation easement to 15 cents less than the specific tax on commercial forests. The specific tax on commercial forest property was $1.10 per acre in 2006, and was raised to $1.20 per acre between 2007 and 2011 by Public Act 382 of 2006.

Public Act 382 of 2006 amends the Natural Resources and Environmental Protection Act to increase the commercial forest specific tax on landowners from $1.10 per acre to $1.20 per acre beginning in 2007, and increasing by $0.05 cents per acre every five years thereafter. PA 382 also raises the State of Michigan per acre payment from $1.20 per acre to $1.25 per acre in 2012. The specific tax and state payment have not increased since 1994.

Public Act 436 of 2006 amends the Plant Rehabilitation and Industrial Development Districts Act to allow an exception to general requirement that a district be established by a local unit of government prior to construction of a facility.

Public Act 440 of 2006 amends the Renaissance Zone Act to allow for the designation of up to 10 additional geographic areas by local units of government in which renaissance zones have already been designated in order to increase capital investment and job creation. Each new designation is subject to the approval of the board of the Michigan Strategic Fund.

Public Act 446 of 2006 amends the General Property Tax Act to exclude from the definition of a transfer of ownership the transfer of land to a conservation easement under the Natural Resources and Environmental Protection Act or if the transfer of ownership or a transfer of interest in the land is eligible for a deduction as a conservation contribution under the Internal Revenue Code. The exclusion applies to the transfer of land, but not buildings or structures located on the land.

Public Act 476 of 2006 amends the Michigan Renaissance Zone Act to authorize the Michigan Strategic Fund to designate three additional redevelopment renaissance zones, two by April 2007, and one more by April 2008. The zones to be designated by April 2007 may provide for the payment of some taxes generally not levied in a renaissance zone.

Public Act 550 of 2006 amends the General Property Tax Act to exempt certain equipment used in agricultural operations to control the environmental impact of animal waste and to potentially use the byproduct to generate electricity or heat.

Public Act 554 of 2006 amends the Commercial Rehabilitation Act to expand eligibility for commercial rehabilitation districts by reducing the minimum size of a district, allow multifamily residential property in a district, and delete the size and vacancy criteria for a qualified facility. In a commercial rehabilitation district, renovations or improvements to eligible real property located within the district are tax exempt for 10 years.

Public Act 612 of 2006 amends the General Property Tax Act to allow a local unit of government to exempt certain housing units from ad valorem property taxes for a maximum of two years. To be eligible, single family or duplex housing must be owned by a charitable nonprofit housing organization, and the organization must intend to transfer the housing to a low-income person after construction or renovation is complete.

Public Act 632 of 2006 amends the Next Energy Authority Act to add biomass and thermoelectric energy systems to the definition of alternative energy system and to expand the definition of hybrid vehicle.

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 2008 collections are projected to total $72.0 million.

FY 2008 Estimate

Broadband Investment Credit $22,500,000

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 $27,400,000

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

General Property Tax

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

Average Statewide Millage Rates

Calendar Year	Homestead Property	Nonhomestead Property	All Property
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	32.70	51.20	40.00
2005	32.60 (est)	51.38 (est)	39.88

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 2008 Estimate

Agricultural Transfers — $33,000,000

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 — $150,000,000

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

FY 2008 Estimate

Cultural Organizations n.a.

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

Energy Conservation Devices $310,000

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

Enterprise Zone $1,100,000

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.

Homestead Exemption $3,310,000,000

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 $310,000,000

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

FY 2008 Estimate

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

Neighborhood Enterprise Zones $12,700,000

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 $1,200,000

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

Obsolete Property Rehabilitation Exemption $3,500,000

Under the Obsolete Property Rehabilitation Act (OPRA), commercial buildings in qualified local governmental units may be granted an OPRA abatement certificate, which results in reduced property taxes on the increased value of renovated and redeveloped facilities.

Poverty Exemption $0

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 $120,000,000

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.

	FY 2008 Estimate
Tax-Exempt Property	$1,756,000,000

Exhibit 20 reports the results from the 2006 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 $32.8 billion. If taxed at the 2005 average nonhomestead statewide rate of 51.38 mills, tax-exempt property would have yielded $1.69 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 416,281 acres in 2006.

Tax-Exempt County and Municipal Property — $244,000,000

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

Tax-Exempt Federal Property — $346,000,000

Exempts real property belonging to the United States government.

Tax-Exempt Other Real Tax Exempt Property — $155,000,000

Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.

	FY 2008 Estimate
Tax-Exempt Personal Property	$386,000,000

Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment.

Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, insurance companies, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.

Tax-Exempt Public Education Property — $455,000,000

Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.

Tax-Exempt Specifically-Taxed Property — n.a.

Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure.

Tax-Exempt State Property — $170,000,000

Exempts real property owned by the State of Michigan.

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.

	FY 2008 Estimate
Taxable Value Cap 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.	$3,690,000,000
Veterans' Organizations 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.	n.a.
Water Softeners and Water Coolers Exempts rented or leased water softener equipment and leased bottled water coolers from the personal property tax.	$1,190,000

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 $3.8 million in FY 2006, $1.2 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, 2006
(Taxable Value in Thousands)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
ALCONA	$0	$96,835	$15,085	$24,011	$15,615
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN*	205,645	0	0	0	0
ALPENA	8,112	8,044	61,167	91,700	60,542
ANTRIM*	0	0	0	0	0
ARENAC*	1,540	517	32,700	2,420	1,150
BARAGA	0	20,100	39,143	20,860	24,515
BARRY *	7,707	0	6,389	20,684	48,976
BAY*	144,357	15,669	13,958	19,377	212,856
BENZIE*	0	33,116	85,394	20,320	5,463
BERRIEN *	100,363	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN	225,049	N/A	N/A	N/A	N/A
CASS *	23,121	0	46,075	116,775	116,813
CHARLEVOIX*	101,829	979	22,066	24,426	44,643
CHEBOYGAN	0	2,506	89,483	43,437	24,449
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	19,343	55,091	13,338	11,606	26,605
DICKINSON	14,897	8,100	9,400	8,200	29,000
EATON	150,525	358	19,000	94,000	40,000
EMMET	2,891	0	9,004	321	4
GENESEE	139,230	15,658	52,353	448,024	522,451
GLADWIN	6,279	50,000	25,000	13,000	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	56,648	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	179,036	n.a.	n.a	n.a.	n.a.
IONIA	30,206	0	167,279	16,154	20,405
IOSCO	50	121,832	39,299	32,477	29,240
IRON*	165	21,800	13,500	6,500	526
ISABELLA	12,617	0	0	0	0
JACKSON*	166,939	2,000	201,000	38,000	98,000
KALAMAZOO	135,285	33,126	336,769	711,261	1,326,700
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	614,658	24,450	23,766	174,895	484,900
KEWEENAW	0	64,673	7,343	10,276	1,597

Exhibit 20 (Continued)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
LAKE	$142	$100,659	$57,755	$8,141	$8,895
LAPEER*	57,151	3,272	16,794	140,854	98,456
LEELANAU	0	1,104	84	600	14
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON **	34,801	371	3,989	60,852	68,552
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB	6,775	3,400,000	39,140	20,600	92,700
MANISTEE	11,375	17,900	34,700	30,800	33,100
MARQUETTE *	14,988	59,000	40,100	18,750	185,000
MASON	55,507	134,829	32,967	88,600	169,312
MECOSTA	76,406	1,216	4,250	8,550	171,549
MENOMINEE *	18,390	0	74,966	94	705
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	3,150	80	1,891	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	180,884	17,854	89,095	149,940	271,195
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	3,577	216,512	27,430	4,390	11,710
OSCEOLA	33,973	0	3,910	4,654	19,435
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	1,113	0	0	0	0
ROSCOMMON	1,485	113	230,000	5,717	32,088
SAGINAW	166,083	22,900	139,600	195,700	618,700
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	3,266	0	0	0	35
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 *	25,507	0	0	0	0
TOTAL	$5,660,903	$6,473,388	$3,173,139	$4,555,747	$8,511,148

Note: Wayne and Ingham Counties are not in totals. 2006 taxable value for Wayne County was $50.6 billion.

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

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

Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
ALCONA	$0	$847	$152,393	$618,654	19.8 %
ALGER*	55,000	0	88,568	249,736	26.2 %
ALLEGAN*	0	0	0	3,407,614	0.0 %
ALPENA	155,026	0	376,479	791,329	32.2 %
ANTRIM*	0	0	0	1,390,866	0.0 %
ARENAC*	0	612	37,399	454,387	7.6 %
BARAGA	53,017	125,669	283,304	176,007	61.7 %
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	N/A	N/A	0	3,228,413	0.0 %
CASS *	253,589	0	533,252	1,365,560	28.1 %
CHARLEVOIX*	3,526	13	95,653	1,587,021	5.7 %
CHEBOYGAN	525	10,488	170,888	1,072,943	13.7 %
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	0	0	106,640	915,014	10.4 %
DICKINSON	10,500	0	65,200	776,882	7.7 %
EATON	282,121	135,152	570,631	2,868,821	16.6 %
EMMET	0	0	9,329	2,259,870	0.4 %
GENESEE	427,310	0	1,465,796	10,108,084	12.7 %
GLADWIN	0	0	119,000	754,410	13.6 %
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	61	207,808	1,209,828	14.7 %
IOSCO	3,621	12,356	238,825	935,386	20.3 %
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	11,795	96,390	2,516,041	6,757,516	27.1 %
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	58,403	0	142,292	93,967	60.2 %

Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
LAKE	$745	$5,580	$181,775	$394,665	31.5 %
LAPEER*	184,151	0	443,527	2,632,810	14.4 %
LEELANAU	0	636	2,438	1,700,930	0.1 %
LENAWEE *	0	21,000	362,400	2,779,704	11.5 %
LIVINGSTON **	1,289	24,871	159,924	7,155,612	2.2 %
LUCE *	650	1,749	17,321	145,403	10.6 %
MACKINAC *	7,817	2,164	131,295	719,672	15.4 %
MACOMB	0	30,900	3,583,340	26,980,530	11.7 %
MANISTEE	43,554	31,796	191,850	838,770	18.6 %
MARQUETTE *	0	230,000	532,850	1,401,609	27.5 %
MASON	28,056	50,281	504,045	1,177,623	30.0 %
MECOSTA	24,061	10,675	220,301	1,002,098	18.0 %
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	121,951	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	587,608	0	1,115,692	3,795,562	22.7 %
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	29,112	119,755	408,909	189,609	68.3 %
OSCEOLA	156,917	5,530	190,446	566,650	25.2 %
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	8,400	9,514	285,832	1,090,097	20.8 %
SAGINAW	1,123,945	234,600	2,335,445	4,621,922	33.6 %
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	0	0	35	261,370	0.0 %
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 *	0	0	0	796,007	0.0 %
TOTAL	$7,228,921	$2,895,956	$32,838,299	$251,931,663	11.5 %

Note: Wayne and Ingham Counties are not in totals. 2006 taxable value for Wayne County was $50.6 billion.

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

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

Exhibit 21
General Property Tax – Estimated Exempt Acreage by County, 2006

County	Estimated Acreage	County	Estimated Acreage
ALCONA	410	LAKE	1,022
ALGER*	14,000	LAPEER*	4,600
ALLEGAN *	1,000	LEELANAU	2,353
ALPENA	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	2,675
ARENAC *	195	LUCE *	2,300
BARAGA	7,740	MACKINAC *	240
BARRY *	7,000	MACOMB	300
BAY*	3,650	MANISTEE	4,400
BENZIE *	554	MARQUETTE *	390
BERRIEN *	6,812	MASON	600
BRANCH *	425	MECOSTA	2,604
CALHOUN *	5,670	MENOMINEE *	141
CASS *	60	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	1,424
CHEBOYGAN	8,502	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	3,134	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	93,145
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	35,966	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	3,634	**TOTAL**	416,281

* 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 2006 state share of this tax totaled $3.2 million indicating $4.8 million in total state and local collections. Exhibit 22 only shows the county share of the tax.

	FY 2008 Estimate
Mobile Home Tax Expenditure 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.	$55,700,000
Out-of-State Coaches 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.	n.a.

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 $53.2 million in 2005 (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 $231.0 million in FY 2008.

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 $13.9 million in 2005 (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 2005, city income taxes totaled $461.0 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 2008 Estimate
Federal Deductions 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.	n.a.
Net Profits of Financial Institutions Exempts net profits of financial institutions and insurance companies from the city income tax. No statewide estimate is available.	n.a.

Exhibit 22
Miscellaneous Local Taxes Kept by Local Units, 2005

County	Accommodations	Mobile Home (County Share)	Real Estate Prop. Trans.
ALCONA	$0	$84	$60,171
ALGER	0	154	61,234
ALLEGAN	0	27,148	590,751
ALPENA	0	957	85,868
ANTRIM	0	308	202,176
ARENAC	0	1,099	51,015
BARAGA	0	78	22,375
BARRY	0	5,700	260,818
BAY	0	13,246	282,428
BENZIE	0	650	153,612
BERRIEN	0	17,349	922,380
BRANCH	0	3,372	173,205
CALHOUN	83,911	16,366	413,953
CASS	0	4,237	198,298
CHARLEVOIX	0	3,596	387,798
CHEBOYGAN	0	1,307	141,080
CHIPPEWA	0	3,090	110,283
CLARE	0	3,713	106,799
CLINTON	0	13,772	303,537
CRAWFORD	0	0	52,954
DELTA	0	8,203	108,961
DICKINSON	0	2,391	85,160
EATON	0	10,730	473,265
EMMET	0	1,973	383,051
GENESEE	1,494,900	80,680	2,315,307
GLADWIN	0	923	119,268
GOGEBIC	0	101	67,103
GRAND TRAVERSE	0	8,963	683,969
GRATIOT	0	4,237	101,422
HILLSDALE	0	2,717	157,364
HOUGHTON	0	0	79,883
HURON	0	3,153	116,275
INGHAM	1,807,055	17,020	1,135,889
IONIA	0	6,539	194,419
IOSCO	0	468	122,830
IRON	0	291	63,574
ISABELLA	0	6,372	206,562
JACKSON	0	23,424	589,954
KALAMAZOO	1,749,308	26,589	1,196,813
KALKASKA	0	109	80,362
KENT	4,429,149	54,269	3,324,499
KEWEENAW	0	0	15,737

Exhibit 22 (Continued)

County	Accommodations	Mobile Home (County Share)	Real Estate Prop. Trans.
LAKE	$0	$0	$48,146
LAPEER	0	12,020	426,092
LEELANAU	0	652	307,286
LENAWEE	0	12,033	402,289
LIVINGSTON	0	17,932	1,495,098
LUCE*	0	64	38,440
MACKINAC	0	0	79,176
MACOMB	0	79,274	5,055,872
MANISTEE	0	776	115,733
MARQUETTE	0	3,001	248,486
MASON	0	2,756	127,097
MECOSTA	0	2,924	163,657
MENOMINEE	0	862	59,629
MIDLAND	0	5,368	282,792
MISSAUKEE	0	41	50,634
MONROE	0	37,933	727,377
MONTCALM	0	4,277	205,239
MONTMORENCY	0	88	44,897
MUSKEGON	842,192	19,114	620,042
NEWAYGO	0	7,184	163,368
OAKLAND	0	94,945	10,671,270
OCEANA	0	3,237	6,340
OGEMAW	0	593	84,481
ONTONAGON	0	0	32,058
OSCEOLA	0	444	48,513
OSCODA	0	0	47,713
OTSEGO	0	589	132,252
OTTAWA	0	46,643	1,394,902
PRESQUE ISLE	0	354	54,129
ROSCOMMON	0	1,297	143,234
SAGINAW	1,913,925	16,304	556,730
SAINT CLAIR	0	27,254	798,311
SAINT JOSEPH	0	5,066	217,499
SANILAC	0	7,582	161,905
SCHOOLCRAFT	0	66	34,837
SHIAWASSEE	0	11,703	218,037
TUSCOLA	0	4,789	140,374
VAN BUREN	0	9,782	367,150
WASHTENAW	1,446,109	32,609	2,545,218
WAYNE	0	81,150	8,594,692
WEXFORD	144,944	2,351	126,150
TOTAL	$13,911,492	$928,425	$53,239,545

* Figures carried forward from a previous year.

	FY 2008 Estimate
Nonresident Reduced Rate Nonresidents' income is taxed at half the rate paid by residents.	$160,100,000
Pensions, Annuities, and Retirement Plans 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.	n.a.
Personal Exemption 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.	$16,600,000
Supplemental Unemployment Benefits Exempts supplemental unemployment benefits from the city income tax. A statewide estimate is not available.	n.a.

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 $51.6 million in 2005.

Exhibit 23
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2005

	Resident		Nonresident and Partial-Year Resident	
City	**Quantity**	**Amount**	**Quantity**	**Amount**
Albion	6,300	$37,800	3,919	$11,757
Battle Creek	40,897	306,728	32,579	122,171
Big Rapids	3,269	19,614	13,111	39,333
Detroit	439,713	6,595,695	321,905	2,414,288
Flint	47,701	286,206	85,295	255,885
Grand Rapids	145,313	1,416,802	168,680	822,315
Grayling	1,254	37,620	4,725	70,875
Hamtramck	18,348	110,088	6,461	19,383
Highland Park*	12,000	144,000	18,000	108,000
Hudson*	2,000	20,000	1,500	7,500
Ionia	3,820	26,740	11,224	39,284
Jackson	19,183	115,098	32,713	98,139
Lansing	71,870	431,220	109,240	327,720
Lapeer	6,967	41,802	17,395	52,185
Muskegon	15,901	95,406	36,014	108,042
Muskegon Heights	2,996	17,976	7,134	21,402
Pontiac*	26,500	159,000	83,000	249,000
Port Huron	19,259	231,108	27,064	162,384
Portland	4,749	47,490	2,318	11,590
Saginaw	27,825	313,031	45,958	258,514
Springfield*	11,725	175,875	4,242	31,815
Walker	18,637	139,778	36,759	137,846
TOTAL	946,227	$10,769,076	1,069,236	$5,369,428

* Based on a previous year's survey.

Exhibit 24
City Tax Rates and Exemption Allowances, 2005

City	City Income Tax Rate: Resident	Non-Resident	Corporation	Personal Exemption	Collections (000s)
Albion	1.00 %	0.50 %	1.00 %	$600	$893
Battle Creek	1.00 %	0.50 %	1.00 %	750	13,943
Big Rapids	1.00 %	0.50 %	1.00 %	600	1,643
Detroit	2.50 %	1.250 %	1.00 %	600	279,378
Flint	1.00 %	0.50 %	1.00 %	600	19,487
Grand Rapids	1.30 %	0.65 %	1.30 %	750	53,453
Grayling	1.00 %	0.50 %	1.00 %	3,000	469
Hamtramck	1.00 %	0.50 %	1.00 %	600	2,638
Highland Park	2.00 %	1.00 %	2.00 %	600	2,309
Hudson	1.00 %	0.50 %	1.00 %	1,000	378
Ionia	1.00 %	0.50 %	1.00 %	700	1,458
Jackson	1.00 %	0.50 %	1.00 %	600	5,118
Lansing	1.00 %	0.50 %	1.00 %	600	27,498
Lapeer	1.00 %	0.50 %	1.00 %	600	2,273
Muskegon	1.00 %	0.50 %	1.00 %	600	7,619
Muskegon Heights	1.00 %	0.50 %	1.00 %	600	939
Pontiac	1.00 %	0.50 %	1.00 %	600	13,806
Port Huron	1.00 %	0.50 %	1.00 %	1,200	5,931
Portland	1.00 %	0.50 %	1.00 %	1,000	615
Saginaw	1.50 %	0.75 %	1.50 %	750	13,110
Springfield	1.00 %	0.50 %	1.00 %	1,500	630
Walker	1.00 %	0.50 %	1.00 %	750	7,411
TOTAL					$460,999