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

Fiscal Year 2010

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

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**Michigan Department of Treasury**
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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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**(formerly TAX EXPENDITURE REPORT) PUBLICATION HISTORY**

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|---|---|---|
| 1979 - 1980 | January 1980 | Management and Budget |
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| 1984 - 1985 | July 1984 | Management and Budget |
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| 2008 – 2009 | November 2008 | Treasury |
| 2009 – 2010 | December 2009 | Treasury |

# APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

## EXECUTIVE SUMMARY

## FY 2010

The *Appendix on Tax Credits, Deductions, and Exemptions* (formerly entitled the *Tax Expenditure Appendix*) is a compilation of the revenue cost of the various tax credits, deductions, and exemptions contained in Michigan tax law. Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax credits, deductions, and exemptions along with the annual presentation of the *Executive Budget* to the Legislature. Throughout this report, credits, deductions, and exemptions will often be referred to as tax expenditures.

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as credits, deductions, exemptions, deferrals, exclusions, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system.

Total tax expenditures are projected to increase 2.7 percent between fiscal year (FY) 2009 and FY 2010, from $35.4 billion to $36.4 billion. Tax expenditures are divided into five broad categories: business privilege, consumption, individual income, local property, and transportation.

Business privilege tax expenditures are predicted to increase from $1,901.5 million to $1,921.5 million from FY 2009 to FY 2010. The estimates under the business privilege tax category reflect the implementation of the new Michigan Business Tax.

Consumption tax expenditures are predicted to increase 3.6 percent between FY 2009 and FY 2010, from $13,552.3 million to $14,041.1 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 $9,649.5 million in FY 2009 to $10,156.1 million in FY 2010, a 5.3 percent increase. The estimates for income tax expenditures are higher than in the previous report due to an increase in the amount of Michigan subtractions. Strong growth in income earned outside of Michigan is a likely cause.

Local tax expenditures are predicted to decrease 0.7 percent between FY 2009 and FY 2010, dropping from $10,264.0 million to $10,193.9 million. The decrease for 2010 is due to falling taxable values which reduce the value of many tax exemptions.

Transportation tax expenditures are predicted to increase 0.3 percent between FY 2009 and FY 2010, from $47.9 million to $48.0 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, reductions in tax rates would generally reduce tax revenues but do not fit the definition of a tax expenditure. Changes in the way the tax law apportions income between states would also not qualify as a tax expenditure. Finally, a tax change that requires a change in the recognition of income between subsidiaries (perhaps through unitary or separate reporting) or the recognition of expenses between a client and an employment agency would not be tax expenditures.

Traditionally, tax expenditures have served two purposes. First, they redistribute the tax burden. Tax expenditures such as personal income tax exemptions, sales tax exemptions for food and prescription drug purchases, and Michigan business tax (MBT) 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 2008, individual Michigan taxpayers could claim a $3,500 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) 2009 and FY 2010 are based on the most recent data available. Tax year 2007 income tax data (returns processed in the spring of 2008) are used, as are 2007 property and sales tax data, and tax year 2003-2004 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 particular tax expenditure does not alter economic behavior.**
>
> In many instances, tax expenditures are specifically designed to provide incentives for people and businesses to behave in a certain manner. Elimination of tax expenditures would most likely alter their behavior. For example, if the sales tax exemption for food were eliminated, the final price that consumers pay for food would increase and food purchases would decline. In this case, the elimination of the tax expenditure would be similar to a price increase. This drop in food purchases offsets some of the revenue gain from eliminating the exemption.
>
> **Assumption 2: Each tax expenditure is independent.**
>
> The repeal of certain tax expenditure provisions can increase or decrease the revenue losses associated with other provisions that are kept in place. For example, reducing or

removing one 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, each tax expenditure estimate is an isolated estimate. That is, each estimate assumes implicitly that no other tax expenditures exist (i.e., there is no interaction) and that all other factors remain constant (i.e., taxpayers do not change their behavior and the repeal of the provision does not affect the overall economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would generally fall short of the estimates.

## Cautionary Notes and the Reliability of Estimates

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

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

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

**1. High reliability level.**

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

**2. Average reliability level.**

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

**3. Low reliability level.**

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

## Why Report Tax Expenditures?

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

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

**1. Tax Equity.**

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

**2. Fiscal Discipline.**

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

**3. Political Accountability.**

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

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

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

# CHAPTER 2

## SUMMARY OF TAX EXPENDITURES

Chapter 2 lists tax expenditures by 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 $35.415 billion in FY 2009 to $36.361 billion in FY 2010, a 2.7 percent increase (see Exhibit 1). Most of the increase in total tax expenditures is due to growth in individual income and consumption tax expenditures.

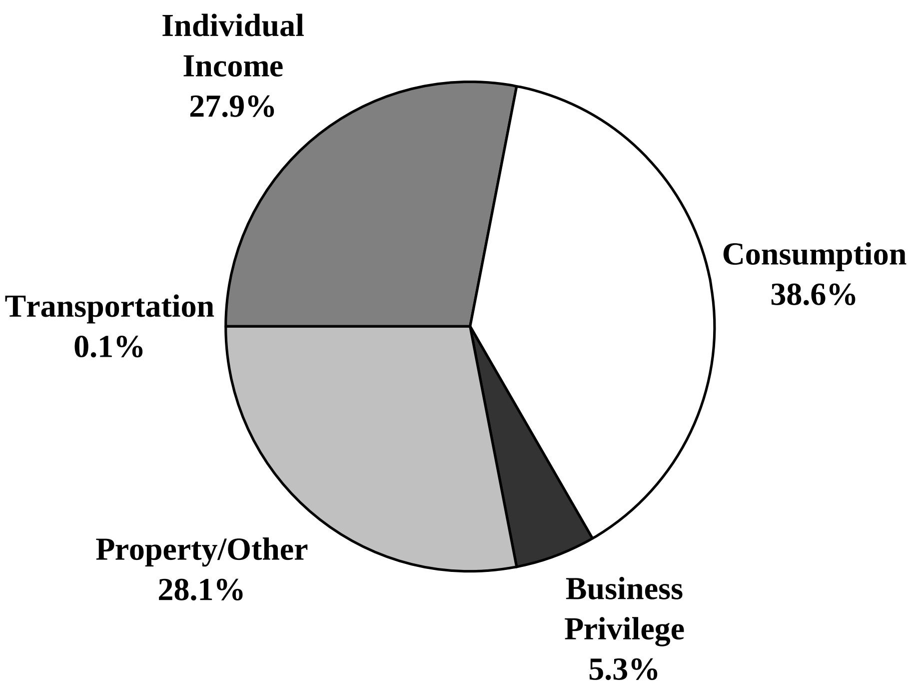
**Exhibit 1**
**Total Tax Expenditures, FY 2009 and FY 2010**

| Tax Category | FY 2009 (000) | FY 2010 (000) | Change (000) |
|---|---|---|---|
| Business Privilege | $1,901,455 | $1,921,480 | $20,025 |
| Consumption | 13,552,294 | 14,041,051 | 488,757 |
| Individual Income | 9,649,451 | 10,156,055 | 506,604 |
| Property | 10,089,150 | 10,018,220 | -70,930 |
| Other Local (City Income) | 174,800 | 175,700 | 900 |
| Transportation | 47,863 | 47,996 | 133 |
| **TOTAL** | $35,415,013 | $36,360,502 | $945,489 |

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 2010, consumption tax expenditures comprise 38.6 percent of total tax expenditures, while income tax expenditures comprise 27.9 percent and property and other local taxes comprise 28.1 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 2010 Distribution of Tax Expenditures**




Total may not equal 100 percent due to rounding.

**Exhibit 3**
**FY 2010 Tax Expenditures and Projected Revenue**
**(millions of dollars)**

| Tax Category | Tax Expenditure | Projected Revenues* | Percent of Revenues |
|---|---|---|---|
| Business Privilege | | | |
| Oil and Gas Severance | $6.6 | $63.0 | 10.5% |
| Michigan Business | 1,876.3 | 2,234.0 | 84.0% |
| Consumption | | | |
| Total Alcohol | 0.1 | 175.3 | 0.1% |
| Cigarette and Tobacco | 24.6 | 1,019.0 | 2.4% |
| Sales and Use | 14,016.4 | 7,261.3 | 193.0% |
| Individual Income Tax | 7,454.6 | 5,353.9 | 139.2% |
| Transportation | | | |
| Aviation Fuel | 3.4 | 4.6 | 73.7% |
| Gasoline | 27.6 | 821.0 | 3.4% |
| Diesel Fuel | 5.2 | 131.4 | 4.0% |
| Motor Vehicle Registration | 11.1 | 830.0 | 1.3% |
| City Income Tax | 175.7 | 450.0 | 39.0% |
| **TOTAL** | $23,601.4 | $18,343.5 | 128.7% |

*From Consensus Revenue Estimating Conference, May 2009. City income taxes are not a consensus estimate.

Exhibits 4 through 8 provide a breakdown of individual tax expenditures across the five tax categories. An asterisk denotes a new tax expenditure or one that has been modified by legislation since the publication of the previous report. For more detailed information regarding these changes, consult the specific chapter relating to the tax expenditure.

**Exhibit 4**
**Business Privilege Tax Expenditures**

| Tax or Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| Insurance Company | | |
| Disability Insurance Exclusion | $12,900 | $13,300 |
| Michigan Association and Facilities Credit | 17,900 | $19,700 |
| Michigan Examination Fees Credit * | 5,000 | 5,000 |
| Supplemental Workers' Compensation | 500 | 600 |
| **SUBTOTAL** | $36,300 | $38,600 |
| Oil and Gas Severance Tax | | |
| Marginal Wells | $7,500 | $4,300 |
| Public Land | 4,600 | 2,300 |
| **SUBTOTAL** | $12,100 | $6,600 |
| Michigan Business Tax Expenditure | | |
| Affordable Housing | $3,300 | $4,000 |
| Agricultural Producers | 35,200 | 35,500 |
| Arts and Culture Credit | 14,200 | 14,500 |
| Bad Debts Gross Receipts Exclusion * | 18,700 | 13,100 |
| Biodiesel Infrastructure Credit * | 125 | 250 |
| Bonus Depreciation Credit * | 0 | 10,100 |
| Bottle Deposit Administration Credit | 4,900 | 5,000 |
| Bottle Deposit Gross Receipts Exclusion * | 5,300 | 3,700 |
| Brownfield Redevelopment Credit | 72,500 | 78,200 |
| Business Loss Deduction | 23,900 | 45,300 |
| Certain Taxes/Fees Gross Receipts Exclusion * | 53,000 | 36,900 |
| Community/Education Foundation Credit | 3,300 | 3,300 |
| Compensation Credit | 191,900 | 185,000 |
| Construction Subcontractor Payments Exemption | 23,000 | 23,000 |
| Entrepreneurial Credit | 1,000 | 2,000 |
| Farmland Preservation Credit | 1,300 | 1,300 |
| Film Credits | 116,600 | 155,100 |
| Floor Plan Interest Deduction | 2,200 | 2,600 |
| Food Retailer Credits | 8,800 | 8,800 |
| Foreign Dividends Gross Receipts Exclusion * | 8,800 | 6,100 |
| Foreign Persons * | 8,100 | 5,000 |
| Government Securities' Income Exclusion | 4,900 | 3,000 |

**Exhibit 4 (Continued)**

| Tax or Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| Government Utilities Exemption | 21,300 | 22,300 |
| Gross Receipts Filing Threshold | 36,700 | 35,300 |
| Gross Receipts Filing Threshold Credit | $47,100 | $45,400 |
| Historic Preservation Credit | 700 | 2,700 |
| Homeless Shelter/Food Bank Credit | 500 | 500 |
| Hybrid Technology R & D Credit | 1,900 | 2,300 |
| International Auto Show Credit * | 300 | 100 |
| Investment Tax Credit | 111,400 | 107,400 |
| Low-Grade Hematite Credit | 3,000 | 3,100 |
| Michigan Economic Growth Authority (MEGA) | 94,600 | 105,600 |
| Motion Picture Gross Receipts Exclusion | 600 | 1,700 |
| Multiple Employer Welfare Arrangement | 30 | 30 |
| NASCAR Safety Credit | 1,900 | 5,000 |
| NASCAR Speedway Credit | 1,700 | 2,100 |
| New Motor Vehicle Dealer Inventory Credit | 5,800 | 6,700 |
| Next Energy Credit | 20,100 | 22,700 |
| Nonprofit Organizations | 134,600 | 137,300 |
| Pass-Through Entity Gross Receipts Exclusion * | 16,300 | 10,100 |
| Personal Property Tax Credit | 153,600 | 152,600 |
| Public Contribution Credit | 2,000 | 1,800 |
| Renaissance Zone Credit | 28,900 | 29,500 |
| Research and Development Credit | 54,900 | 52,900 |
| Self-Employment Net Earnings Deduction | 110,700 | 106,700 |
| Single Business Tax Credit Carryforwards | 42,000 | 30,000 |
| Small Business Alternate Tax Credit | 319,600 | 308,100 |
| Stadium Credit | 3,400 | 3,400 |
| Staffing Company Gross Receipts Exclusion | 35,500 | 35,500 |
| Workers' Disability Supplemental Benefit Credit | 2,900 | 3,700 |
| **SUBTOTAL** | $1,853,055 | $1,876,280 |
| **TOTAL** | $1,901,455 | $1,921,480 |

* Indicates a new or expanded tax expenditure not included in the previous report.

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

| Tax or Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| Alcoholic Beverages Taxes | | |
| Beer Shipped Out-of-State | n.a. | n.a. |
| Damaged Beer | n.a. | n.a. |
| Homemade Wine | n.a. | n.a. |
| Small Brewer's Credit | $90 | $90 |
| **SUBTOTAL** | $90 | $90 |
| Tobacco Products Tax | | |
| Bad Debt Deduction | $400 | $400 |
| Licensee Expenses | 15,222 | 14,440 |
| Sales on Military Bases and Reservations | 9,944 | 9,746 |
| **SUBTOTAL** | $25,566 | $24,586 |
| Sales and Use Tax Expenditures | | |
| Air and Water Pollution | $52,000 | $55,000 |
| Aircraft Parts | 8,105 | 8,184 |
| Bad Debts | 56,430 | 57,254 |
| Cargo Aircraft | 30,000 | 30,000 |
| Church Construction | 3,200 | 3,200 |
| Church Cars | 3,706 | 3,760 |
| Collection Fee | 28,342 | 28,755 |
| Commercial Domestic Aircraft | 5,000 | 5,000 |
| Commercial Vessels | n.a. | n.a. |
| Communication and Telephone Exemption | 37,000 | 37,000 |
| Donated Property | n.a. | n.a. |
| Donated Vehicles | 500 | 500 |
| Driver Training | 372 | 372 |
| Employee Meals | 12,314 | 12,413 |
| Enterprise Zone Credit | n.a. | n.a. |
| Food | 1,132,437 | 1,141,588 |
| Food for Students | 19,334 | 19,463 |
| Government or Red Cross | 150,572 | 152,768 |
| Gratuity and Tips | 52,554 | 52,979 |
| Horticultural and Agricultural Products | 235,229 | 252,880 |
| Imported Property from Other States | 3,200 | 3,200 |

**Exhibit 5 (Continued)**

| Tax or Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| Industrial Processing | $807,969 | $847,626 |
| Inmate Purchases | 553 | 554 |
| Interstate Communications | 18,000 | 18,000 |
| Interstate Trucks and Trailers | 35,266 | 35,780 |
| Investment Coins | 1,100 | 1,100 |
| Isolated Sales | n.a. | n.a. |
| Military PX Sales | 1,533 | 1,555 |
| Military Vehicles Sales | n.a. | n.a. |
| Military Vehicles Sales (Residents Out-of-State) | n.a. | n.a. |
| Motion Picture Credit * | 0 | 0 |
| Newspapers, Periodicals, and Films | 98,767 | 99,565 |
| Nonprofit Ambulance and Fire Services | n.a. | n.a. |
| Nonprofit Hospital or Housing Construction | 1,727 | 1,752 |
| Nonprofit Organizations | 162,327 | 163,639 |
| 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 | 53,564 | 55,171 |
| Prescription Drugs | 514,080 | 537,390 |
| Radio and TV | 4,400 | 4,400 |
| Rail Rolling Stock | 1,556 | 1,579 |
| Residential Utilities | 152,500 | 152,500 |
| Returned Vehicles | 1,100 | 1,100 |
| Sales of Business | n.a. | n.a. |
| Sale of Water | 67,657 | 68,706 |
| Services (Including Nonprofits) | 9,709,740 | 10,096,211 |
| Small Out-of-State Purchases | n.a. | n.a. |
| Telephone Services | 12,852 | 13,109 |
| Textbooks Sold by Schools | n.a. | n.a. |
| Tribal Tax Agreement | n.a. | n.a. |
| Vehicles and Aircraft Transfers | 33,533 | 34,022 |
| Vehicles Purchased for Use in Another State | n.a. | n.a. |
| Vending Machines and Mobile Facilities | 18,120 | 18,300 |
| **SUBTOTAL** | $13,526,637 | $14,016,376 |
| **TOTAL** | $13,552,293 | $14,041,051 |

* 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 2009 (000) | FY 2010 (000) |
|---|---|---|
| State Income Tax | | |
| Adjustments to Income (except military) | $4,389,048 | $4,603,497 |
| Adoption Credit | 1,015 | 1,053 |
| Child Deduction | 55,381 | 55,935 |
| City Income Tax Credit | 33,000 | 33,330 |
| College Savings Accounts | 9,576 | 14,320 |
| Community Foundation Credit | 3,455 | 3,525 |
| Dependent Exemption | 20,613 | 20,820 |
| Donated Vehicle Credit | 166 | 172 |
| Earned Income Credit | 140,000 | 333,000 |
| Farmland Credit | 35,114 | 36,519 |
| Higher Education/Public Contributions Credit | 25,237 | 25,299 |
| Historic Preservation Credit | 631 | 661 |
| Holocaust Survivor Subtraction | n.a. | n.a. |
| Home Heating Assistance Credit | 215 | 219 |
| Homeless/Food Bank Credit | 19,153 | 19,804 |
| Homestead Property Tax Credit | 940,454 | 987,477 |
| Income Tax Paid to Other State Credit | 45,843 | 47,860 |
| Military Pay and Pensions | 33,145 | 35,555 |
| Personal Exemption | 1,153,684 | 1,165,221 |
| Renaissance Zones | 300 | 300 |
| Special Exemption | 57,072 | 59,355 |
| Stillbirth Credit | 41 | 41 |
| Tribal Tax Agreements | n.a. | n.a. |
| Tuition Credit | 10,204 | 10,613 |
| **TOTAL STATE** | $6,973,347 | $7,454,574 |
| Federal Adjustments | | |
| Accelerated Depreciation | $148,508 | $146,536 |
| Employer Contributions to Insurance | 1,029,705 | 1,049,355 |
| Employer Pension Plans | 582,012 | 555,035 |
| Federal Adjustments to Income | 29,550 | 34,290 |
| Fellowships and Scholarships | 12,427 | 11,439 |
| Gain on Sale of Primary Residence | 193,096 | 212,811 |
| Income Maintenance Benefits | 5,990 | 5,232 |

**Exhibit 6 (Continued)**

| **Tax or Tax Expenditure** | **FY 2009 (000)** | **FY 2010 (000)** |
|---|---|---|
| Federal Adjustments (continued) | | |
| Individual Retirement Accounts | $185,289 | $187,785 |
| Interest on Life Insurance Savings | 143,995 | 143,253 |
| Medical Savings Account | 7,904 | 7,463 |
| Railroad Retirement Benefits | 1,876 | 1,734 |
| Social Security Benefits | 249,367 | 252,472 |
| Student Loan Deduction | 5,031 | 4,469 |
| Veterans' Benefits | 29,717 | 42,083 |
| Workers' Compensation | 51,635 | 47,521 |
| **TOTAL FEDERAL** | $2,676,104 | $2,701,481 |
| **TOTAL STATE AND FEDERAL** | $9,649,451 | $10,156,055 |

## Exhibit 7
## Transportation Tax Expenditures

| Tax or Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| Aviation Gasoline and Marine Fuel | | |
| Federally Owned Aircraft | $283 | $288 |
| Interstate Flight Refund | 2,900 | 3,100 |
| Marine Vessel Exemption | 740 | 740 |
| **SUBTOTAL** | $3,923 | $4,128 |
| | | |
| Motor Fuel Taxes | | |
| Diesel Fuel for Jobsites and Charter Firms | $5,210 | $5,210 |
| Diesel Fuel for Railroads | n.a. | n.a. |
| Evaporation and Loss Allowance | 12,650 | 12,500 |
| Fuel for Off-Road Use | 1,000 | 1,000 |
| Municipal Franchise Vehicles | 450 | 460 |
| Public Vehicles | 13,760 | 13,620 |
| Tribal Tax Agreements | n.a. | n.a. |
| **SUBTOTAL** | $33,070 | $32,790 |
| | | |
| Motor Vehicles Registration Fee | | |
| Disabled Veterans' Vehicles | $340 | $378 |
| Handicapper Vans | n.a. | n.a. |
| Intercity Commercial Buses | n.a. | n.a. |
| Public and Nonprofit Vehicles | 10,517 | 10,687 |
| **SUBTOTAL** | $10,857 | $11,065 |
| | | |
| Watercraft Registration Fee | | |
| Publicly-Owned Vehicle | $13 | $13 |
| | | |
| **TOTAL** | $47,863 | $47,996 |

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

| Tax or Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| Property and Other Local Tax Expenditures | | |
| Agriculture Transfers | $31,200 | $31,900 |
| Air and Water Pollution Control | 120,000 | 130,000 |
| Church Transfers | n.a. | n.a. |
| Cultural Organizations | n.a. | n.a. |
| Energy Conservation Devices | 240 | 200 |
| Enterprise Zone Credit | 900 | 900 |
| Fairground Property | n.a. | n.a. |
| Homestead Exemption | 3,570,000 | 3,520,000 |
| Homestead Exemption for Farm Property | 150,000 | 150,000 |
| Industrial Facilities Development * | 256,000 | 256,000 |
| Mobile Homes | 65,300 | 67,500 |
| Neighborhood Enterprise Zones | 17,800 | 19,500 |
| Next Energy Exemption | 900 | 1,000 |
| Obsolete Property Rehabilitation * | 4,300 | 4,800 |
| Personal Property - Indust./Commercial Ad Valorem * | 385,300 | 383,100 |
| Personal Property - Industrial Facilities * | 55,100 | 61,600 |
| Poverty Exemption * | 6,000 | 7,000 |
| Railroad Right-of-Way/Broadband Credit | 47,900 | 49,000 |
| Renaissance Zones * | 75,000 | 82,500 |
| Specifically-Taxed Property | n.a. | n.a. |
| Tax-Exempt Property | 1,512,000 | 1,542,000 |
| Tax Increment Financing | 310,000 | 310,000 |
| Taxable Value Cap | 3,480,000 | 3,400,000 |
| Water Softeners | 1,210 | 1,220 |
| **SUBTOTAL** | $10,089,150 | $10,018,220 |
| City Income Tax | | |
| Federal Deductions | n.a. | n.a. |
| Net Profits of Financial Institutions | n.a. | n.a. |
| Nonresident Reduced Rate | $159,100 | $159,900 |
| Pensions, Annuities, and Retirement | n.a. | n.a. |
| Personal Exemption | 15,700 | 15,800 |
| Supplemental Unemployment Benefits | n.a. | n.a. |
| **SUBTOTAL** | $174,800 | $175,700 |
| **TOTAL** | $10,263,950 | $10,193,920 |

* 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 2010**

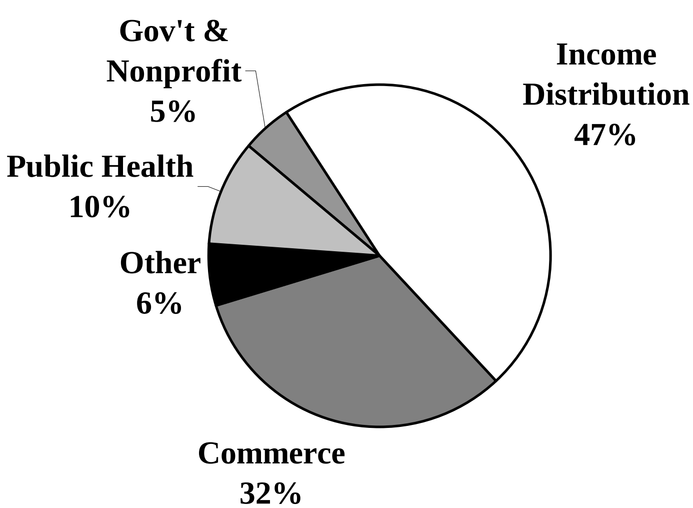


**Exhibit 10**
**Comparison of State Tax and Direct Expenditures (From State Resources)**
**for Selected Spending Categories, FY 2009**

| Spending Category | Tax Expenditure (000) | Direct Expenditure (000) | Total (000) | Percent Tax Expenditure |
|---|---|---|---|---|
| Agriculture | $306,843 | $69,284 | $376,127 | 81.6% |
| Commerce (DLEG) | 9,536,875 | 460,475 | 9,997,349 | 95.4% |
| Higher Education | 503,565 | 1,761,705 | 2,265,271 | 22.2% |
| Income Distribution (DHS) | 10,815,957 | 1,346,056 | 12,162,013 | 88.9% |
| Military Affairs | 75,879 | 69,390 | 145,270 | 52.2% |
| Natural Resources | 52,000 | 228,978 | 280,978 | 18.5% |
| Public (Community) Health | 3,417,544 | 4,958,007 | 8,375,551 | 40.8% |
| Transportation | 52,678 | 2,079,609 | 2,132,287 | 2.5% |
| **TOTAL** | $24,761,342 | $10,973,505 | $35,734,846 | 69.3% |

Note: FY 2009 expenditure figures from *FY 2008-2009 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 2009 (000) | FY 2010 (000) |
|---|---|---|
| Agriculture | $801,243 | $814,099 |
| Commerce | 11,543,885 | 11,794,833 |
| Education | 922,565 | 965,711 |
| Government and Nonprofit Organizations | 1,705,421 | 1,738,553 |
| Income Distribution | 16,723,557 | 17,120,348 |
| Military Affairs | 75,879 | 90,517 |
| Natural Resources | 172,240 | 185,200 |
| Public Health | 3,417,544 | 3,597,481 |
| Transportation | 52,678 | 53,761 |
| **TOTAL** | $35,415,013 | $36,360,502 |

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 2009 (000) | FY 2010 (000) |
|---|---|---|
| **Agriculture** | | |
| General Property Tax | | |
| Agriculture Transfer | $31,200 | $31,900 |
| Homestead Exemption for Farm Property | 150,000 | 150,000 |
| Taxable Value Cap | 313,200 | 306,000 |
| Income Tax | | |
| Farmland Development Credit (PA 116) | 35,114 | 36,519 |
| Michigan Business Tax | | |
| Agricultural Producers | 35,200 | 35,500 |
| Corporate Farm Preservation Credit | 1,300 | 1,300 |
| Sales and Use Taxes | | |
| Horticultural or Agricultural Products | 235,229 | 252,880 |
| **TOTAL** | $801,243 | $814,099 |
| **Commerce** | | |
| Alcoholic Beverage Taxes | | |
| Small Brewer's Credit | $90 | $90 |
| Tobacco Products Tax | | |
| Bad Debt Deduction | 400 | 400 |
| Licensee Expenses | 15,222 | 14,440 |
| Income Tax | | |
| Accelerated Depreciation | 148,508 | 146,536 |
| Renaissance Zone Credit | 300 | 300 |
| Insurance Company Retaliatory Tax | | |
| Disability Insurance Exclusion | 12,900 | 13,300 |
| Michigan Association and Facilities Credit | 17,900 | 19,700 |
| Michigan Examination Fees Credit | 5,000 | 5,000 |
| Supplemental Workers' Compensation Credits | 500 | 600 |
| Michigan Business Tax | | |
| Bad Debts Gross Receipts Exclusion | 18,700 | 13,100 |
| Biodiesel Infrastructure Credit | 125 | 250 |
| Bonus Depreciation Credit | 0 | 10,100 |
| Bottle Deposit Administration Credit | 4,900 | 5,000 |
| Bottle Deposit Gross Receipts Exclusion | 5,300 | 3,700 |
| Brownfield Redevelopment Credit | 72,500 | 78,200 |
| Business Loss Deduction | 23,900 | 45,300 |
| Certain Taxes/Fees Gross Receipts Exclusion | 53,000 | 36,900 |

| Tax/Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| **Commerce (Continued)** | | |
| Compensation Credit | $191,900 | $185,000 |
| Construction Subcontractor Payments Exemption | 23,000 | 23,000 |
| Entrepreneurial Credit | 1,000 | 2,000 |
| Film Credits | 116,600 | 155,100 |
| Floor Plan Interest Deduction | 2,200 | 2,600 |
| Food Retailer Credits | 8,800 | 8,800 |
| Foreign Dividends Gross Receipts Exclusion | 8,800 | 6,100 |
| Foreign Persons | 8,100 | 5,000 |
| Gevernment Securities' Income Exclusion | 4,900 | 3,000 |
| Gross Receipts Filing Threshold | 36,700 | 35,300 |
| Gross Receipts Filing Threshold Credit | 47,100 | 45,400 |
| International Auto Show Credit | 300 | 100 |
| Investment Tax Credit | 111,400 | 107,400 |
| Low-Grade Hematite Credit | 3,000 | 3,100 |
| Michigan Economic Growth Authority (MEGA) | 94,600 | 105,600 |
| Motion Picture Gross Receipts Exclusion | 600 | 1,700 |
| Multiple Employer Welfare Arrangement | 30 | 30 |
| NASCAR Safety Credit | 1,900 | 5,000 |
| NASCAR Speedway Credit | 1,700 | 2,100 |
| New Motor Vehicle Dealer Inventory Credit | 5,800 | 6,700 |
| Next Energy Credit | 20,100 | 22,700 |
| Pass-Through Entity Gross Receipts Exclusion | 16,300 | 10,100 |
| Personal Property Tax Credit | 153,600 | 152,600 |
| Renaissance Zone Credit | 28,900 | 29,500 |
| Research and Development Credit | 54,900 | 52,900 |
| Self-Employment Net Earnings Deduction | 110,700 | 106,700 |
| Single Business Tax Credit Carryforwards | 42,000 | 30,000 |
| Small Business Alternate Tax Credit | 319,600 | 308,100 |
| Stadium Credit | 3,400 | 3,400 |
| Staffing Company Gross Receipts Exclusion | 35,500 | 35,500 |
| Workers' Disability Supplemental Benefit Credit | 2,900 | 3,700 |
| Oil and Gas Severance Tax | | |
| Marginal Wells | 7,500 | 4,300 |
| Property Tax | | |
| Broadband Investment Credit | 22,000 | 22,500 |
| Enterprise Zone | 900 | 900 |
| Industrial Facilities Development | 256,000 | 256,000 |
| Mobile Homes | 65,300 | 67,500 |
| Neighborhood Enterprise Zones | 17,800 | 19,500 |
| Next Energy Exemption | 900 | 1,000 |

| Tax/Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| **Commerce (Continued)** | | |
| Obsolete Property Rehabilitation | $4,300 | $4,800 |
| Personal Property - Indust./Commercial Ad Valorem | 385,300 | 383,100 |
| Personal Property - Industrial Facilities | 55,100 | 61,600 |
| Renaissance Zones | 75,000 | 82,500 |
| Tax Increment Financing | 310,000 | 310,000 |
| Taxable Value Cap | 835,200 | 816,000 |
| Water Softeners | 1,210 | 1,220 |
| Sales and Use Taxes | | |
| Aircraft Parts | 8,105 | 8,184 |
| Bad Debts | 56,430 | 57,254 |
| Cargo Aircraft | 30,000 | 30,000 |
| Collection Fee | 28,342 | 28,755 |
| Commercial Domestic Aircraft | 5,000 | 5,000 |
| Communication and Telephone Exemption | 37,000 | 37,000 |
| Employee Meals | 12,314 | 12,413 |
| Gratuities and Tips | 52,554 | 52,979 |
| Imported Property from Other States | 3,200 | 3,200 |
| Industrial Processing | 807,969 | 847,626 |
| Interstate Telecommunications | 18,000 | 18,000 |
| Interstate Trucks and Trailers | 35,266 | 35,780 |
| Investment Coins | 1,100 | 1,100 |
| Newspapers, Periodicals, and Films | 98,767 | 99,565 |
| Radio and TV | 4,400 | 4,400 |
| Returned Vehicles | 1,100 | 1,100 |
| Sale of Water | 67,657 | 68,706 |
| Services (except education, health, and nonprofits) | 6,340,091 | 6,536,273 |
| Telephone Services | 12,852 | 13,109 |
| Vehicle and Aircraft Transfers | 33,533 | 34,022 |
| Vending Machines | 18,120 | 18,300 |
| **TOTAL** | $11,543,885 | $11,794,833 |
| **Education** | | |
| Income Tax | | |
| College Savings Account | $9,576 | $14,320 |
| Fellowships and Scholarships | 12,427 | 11,439 |
| Higher Education/Public Contribution Credit | 25,237 | 25,299 |
| Tuition Credit | 10,204 | 10,613 |

| Tax/Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| **Education (Continued)** | | |
| Michigan Business Tax | | |
| Community/Education Foundation Credit | $3,300 | $3,300 |
| Public Contribution Credit | 2,000 | 1,800 |
| Property Tax | | |
| Exempt Public Education Property | 419,000 | 428,000 |
| Sales Tax | | |
| Services | 440,821 | 470,941 |
| **TOTAL** | $922,565 | $965,711 |
| **Government and Nonprofit Organizations** | | |
| Aviation Gasoline Tax | | |
| Federally Owned Aircraft | $283 | $288 |
| Income Tax | | |
| Community Foundation | 3,455 | 3,525 |
| Historic Preservation Credit | 631 | 661 |
| Michigan Business Tax | | |
| Arts and Culture Credit | 14,200 | 14,500 |
| Government Utilities Exemption | 21,300 | 22,300 |
| Historic Preservation Credit | 700 | 2,700 |
| Nonprofit Organizations | 134,600 | 137,300 |
| Motor Fuel Taxes | | |
| Public Vehicles | 13,760 | 13,620 |
| Motor Vehicle Weight Tax | | |
| Public and Nonprofit Vehicles | 10,517 | 10,687 |
| Oil and Gas Severance Tax | | |
| Public Land | 4,600 | 2,300 |
| Property Tax | | |
| Tax Exempt Property | 1,093,000 | 1,114,000 |
| Sales and Use Taxes | | |
| Church Cars | 3,706 | 3,760 |
| Church Construction | 3,200 | 3,200 |
| Government or Red Cross | 150,572 | 152,768 |
| Nonprofit Organizations | 162,327 | 163,639 |
| Services | 88,557 | 93,292 |
| Watercraft Registration Fee | | |
| Publicly Owned Watercraft | $13 | $13 |
| **TOTAL** | $1,705,421 | $1,738,553 |

| Tax/Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| **Income Distribution** | | |
| City Income Tax | | |
| Nonresident Reduced Rate | $159,100 | $159,900 |
| Personal Exemption | 15,700 | 15,800 |
| General Property Tax | | |
| Homestead Exemption | 3,570,000 | 3,520,000 |
| Poverty Exemption | 6,000 | 7,000 |
| Taxable Value Cap | 2,331,600 | 2,278,000 |
| Income Tax | | |
| Adjustments to Income (except military) | 4,389,048 | 4,603,497 |
| Adjustments to Income (federal) | 29,550 | 34,290 |
| Adoption Credit | 1,015 | 1,053 |
| Child Deduction | 55,381 | 55,935 |
| City Income Tax Credit | 33,000 | 33,330 |
| Dependent Exemption | 20,613 | 20,820 |
| Donated Vehicle Credit | 166 | 172 |
| Earned Income Tax Credit | 140,000 | 333,000 |
| Employer Contributions to Health and Life Insurance | 1,029,705 | 1,049,355 |
| Employer Pension Plans | 582,012 | 555,035 |
| Gain on Sale of Primary Residence | 193,096 | 212,811 |
| Home Heating Assistance Credit | 215 | 219 |
| Homeless Credit | 19,153 | 19,804 |
| Homestead Property Tax Credit (excluding veterans) | 939,254 | 986,277 |
| Income Maintenance Benefits | 5,990 | 5,232 |
| Individual Retirement Account | 185,289 | 187,785 |
| Interest on Life Insurance Savings | 143,995 | 143,253 |
| Other State Tax Credit | 45,843 | 47,860 |
| Personal Exemption | 1,153,684 | 1,165,221 |
| Railroad Retirement Benefits | 1,876 | 1,734 |
| Social Security Benefits | 249,367 | 252,472 |
| Special Exemption | 57,072 | 59,355 |
| Stillbirth Credit | $41 | $41 |
| Student Loan Deduction | 5,031 | 4,469 |
| Workers' Compensation | 51,635 | 47,521 |
| Michigan Business Tax | | |
| Affordable Housing | 3,300 | 4,000 |
| Homeless Shelter Food Bank Credit | 500 | 500 |
| Sales and Use Taxes | | |
| Donated Vehicles | 500 | 500 |

| Tax/Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| **Income Distribution (Continued)** | | |
| Food | $1,132,437 | $1,141,588 |
| Food for Students | 19,334 | 19,463 |
| Inmate Purchases | 553 | 554 |
| Residential Utilities | 152,500 | 152,500 |
| **TOTAL** | $16,723,557 | $17,120,348 |
| **Military Affairs** | | |
| Cigarette Tax | | |
| Sales on Military Bases and Reservations | $9,944 | $9,746 |
| Income Tax | | |
| Military Pay and Pension | 33,145 | 35,555 |
| Veterans' Benefits | 29,717 | 42,083 |
| Veterans' Property Tax Credit | 1,200 | 1,200 |
| Motor Vehicle Weight Tax | | |
| Disabled Veteran Vehicles | 340 | 378 |
| Sales and Use Taxes | | |
| Military Post-Exchange Sales | 1,533 | 1,555 |
| **TOTAL** | $75,879 | $90,517 |
| **Natural Resources** | | |
| Property Tax | | |
| Air and Water Pollution | $120,000 | $130,000 |
| Energy Conservation Devices | 240 | 200 |
| Sales and Use Taxes | | |
| Air and Water Pollution | 52,000 | 55,000 |
| **TOTAL** | $172,240 | $185,200 |
| **Public Health** | | |
| Income Tax | | |
| Medical Care Savings | $7,904 | $7,463 |
| Sales and Use Taxes | | |
| Medical Services | 2,840,270 | 2,995,705 |
| Nonprofit Hospital Construction | 1,727 | 1,752 |
| Ophthalmic and Orthopedic Products | 53,564 | 55,171 |
| Prescription Drugs | 514,080 | 537,390 |
| **TOTAL** | $3,417,544 | $3,597,481 |

| Tax/Tax Expenditure | FY 2009 (000) | FY 2010 (000) |
|---|---|---|
| **Transportation** | | |
| Aviation Gasoline Tax | | |
| Interstate Flight Refund | $2,900 | $3,100 |
| Michigan Business Tax | | |
| Hybrid Technology R & D Credit | 1,900 | 2,300 |
| Motor Fuel Taxes | | |
| Diesel Fuel for Jobsites | 5,210 | 5,210 |
| Evaporation and Loss Allowance | 12,650 | 12,500 |
| Fuel for Off-Road Use | 1,000 | 1,000 |
| Marine Vessel Fuel | 740 | 740 |
| Municipal Franchise Vehicles | 450 | 460 |
| Sales and Use Taxes | | |
| Driver Training | 372 | 372 |
| Rail Rolling Stock | 1,556 | 1,579 |
| Utility Property Tax | | |
| Railroad Right-of-Way | 25,900 | 26,500 |
| **TOTAL** | $52,678 | $53,761 |

# CHAPTER 4

## BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and MBT expenditures. Business privilege tax expenditures are projected to increase from $1,901.5 million in FY 2009 to $1,921.5 million in FY 2010.

**Estimate Reliability**

(1) Farmland Preservation Credit
Homeless/Food Bank Credit
Low-Grade Hematite Credit
NASCAR Speedway Credit
Stadium Credit
Workers' Disability Supplemental Benefit Credit

(2) Bottle Deposit Gross Receipts Exclusion
Business Loss Deduction
Compensation Credit
Construction Subcontractor Payments Exemption
Disability Insurance Exclusion
Gross Receipts Filing Threshold
Gross Receipts Filing Threshold Credit
Historic Preservation Credit
Insurers' Examination Fee Credit
Investment Tax Credit
Oil and Gas Severance Tax
Personal Property Tax Credit
Research and Development Credit
Single Business Tax Unused Credit Carryforwards
Small Business Alternative Tax Rate Credit

(3) Other MBT Tax Expenditures

The introduction of the MBT creates some uncertainty about the precision of the tax expenditure estimates. The tax applies to a broader group of businesses, and the tax will affect some business sectors differently than the previous tax. Many MBT expenditure estimates were based on similar provisions from the Single Business Tax, and reliable return data are available. New provisions in the MBT were estimated using information from other sources, including federal tax information and other business statistics. Other tax expenditure estimates from business privilege taxes were based on 2008 data. Insurance and oil and gas severance tax expenditure estimates are also reliable because they were based on recent data collected by the state.

## Business Privilege Tax Expenditure Changes

Public Act 30 of 2008 amended the Michigan Business Tax Act to exempt companies authorized under the Insurance Code as captive insurance companies or special purpose financial captives from the MBT and its gross premiums tax. Public Act 29 of 2008 provides for the authorization of captive insurance companies and special purpose financial captives.

Public Act 74 amended the MBT to allow the Michigan Film Office, with the State Treasurer's concurrence, until September 30, 2015, to enter into an agreement with an eligible production company granting the company an MBT credit equal to 50 percent of qualified job training expenditures (on-the-job training for certain crew positions for qualified personnel residing in Michigan).

Public Act 77 of 2008 amended the MBT to allow the Michigan Film Office, with the State Treasurer's concurrence, to enter into an agreement with an eligible production company providing for a credit equal to 42 (40) percent of direct production expenditures for a certified production in (outside) a core community and 30 percent credit for qualified personnel expenditures made in Michigan -- excluding qualified training expenditures. To qualify for the credit, a production company must – among other requirements -- invest at least $50,000 in Michigan.

Public Act 86 of 2008 amended the MBT to allow an MBT credit for a taxpayer who invests at least $100,000 before 2009 or $250,000 after 2008, in a qualified film and digital media infrastructure project. The credit equals 25 percent of the taxpayer's base investment. No more than $20 million in credits may be authorized annually under the Act. The Act defines base investment as the cost of depreciable assets located in Michigan for use in the State and excludes qualified personnel expenditures.

Public Act 87 of 2008 amended the Michigan Economic Growth Authority (MEGA) Act to include as an eligible business a business that will maintain or create qualified new jobs in film and digital media production. Technology used in the design and development of film and digital media production is added to the Act's definition of "high-technology activity." Eligible businesses may enter into an agreement with MEGA for a credit against the Michigan business tax.

Public Act 88 of 2008 amended the MBT to provide a credit for a high technology businesses designated as an anchor company. The credit equals five percent of the taxable value of taxable property of a supplier or customer who opens a new location within ten miles of the anchor company as a result of the supplier's/customer's relationship with the anchor company. MEGA may designate no more than five credits each year.

Public Act 89 of 2008 increased, for projects with eligible investment of $30 million or less, the maximum size of an individual Brownfield credit as a percentage of a qualified taxpayer's eligible investment costs for projects approved or amended after April 7, 2008. The Act pooled the separate upper limits on the total amount Brownfield credits that may be approved in a given year for smaller projects ($10 million or less cost) into a single upper limit ($40 million) for years after 2008. For 2008, the Act provided for a higher ($63 million) upper limit for these smaller projects. The Act also increased the number of projects over $10 million that may be approved in a given year from 17 to 20. The Act removed certain eligible property requirements for projects costing more that $2 million.

Public Act 92 of 2008 allows an anchor company to claim a credit for up to 100 percent of new qualified employees' payroll of a qualified supplier or customer for up to five years. The Act provided that no more than five credits could be awarded annually.

Public Act 97 of 2008 amended the MBT to include in the definition of "purchases from other firms", for the 2008 tax year and subsequent tax years, all film rental or royalty payments paid by a theater owner to a film distributor, film producer, or film distributor and producer.

Public Act 108 of 2008 amended the MEGA Act to expand the definition of an eligible business to include tourism attraction facilities and qualified lodging facilities. Eligible businesses may enter into an agreement with the Authority for a credit against the Michigan Business Tax. The expanded definitions would allow additional MEGA credits to be claimed by taxpayers involved in tourism.

Public Act 109 of 2008 amended the MBT to allow a person or group of people acting collectively to enter into an agreement with MEGA for a tax credit based on qualified new jobs created as a result of winning a procurement contract with the U.S. Department of Defense, Energy, or Homeland Security.

Public Act 110 of 2008 amended the MEGA Act to reduce the requirement that an eligible business create or retain at least 100 qualified new jobs to 50 qualified new jobs. P.A. 110 also:

- Adjusted the wage standards for the new jobs to qualify under the MEGA Act;
- Deleted the limitation that MEGA credits could only be awarded if the expansion, retention, or location of the eligible business in Michigan would occur except for the tax credits;
- Required MEGA to consider the average health benefit level of the new or retained jobs relative to the average health benefits in the county of the eligible business among the factors when determining the amount and duration of a tax credit;
- Revised the maximum number of credits that may be awarded so that only 400 yearly credits operate for eligible businesses that are not high-technology, distressed, or rural businesses;
- Provided alternative eligibility criteria for MEGA to consider for tax credits; and
- Required that new agreements must include a repayment provision if the eligible business moves jobs outside Michigan either during the term of the agreement or during a period after the term of the agreement, as determined by MEGA.

Public Act 111 of 2008 amended the MBT to allow MBT credits issued by MEGA to include the cost of health care benefits, as well as payroll, attributable to qualified new jobs. The Act also specified that beginning January 1, 2008, a taxpayer that fails to meet requirements for claiming an MBT credit issued by MEGA may have its credit reduced or terminated or added to its tax liability.

Public Act 114 of 2008 modified the existing stadium MBT credit by lowering the minimum required investment from $250 million to $125 million and not disqualifying a taxpayer from the credit for having received a tax abatement. Public Act 115 of 2008 added a second stadium credit which required a minimum investment of $250 million but had no prohibition that the taxpayer not have received a state appropriation or proceeds from a local government bond issue or other state or local tax/fee waiver.

Public Act 116 of 2008 amended the Michigan Renaissance Zone Act to:

- Allow for the extension of the duration of renaissance zone status in order to increase capital investment or job creation;
- Allow for the designation of additional zones; and
- Permit the board of the Michigan Strategic Fund to designate one of the renaissance zones a pharmaceutical recovery renaissance zone for the redevelopment of an underutilized facility formerly occupied by a pharmaceutical company.

Public Act 168 of 2008 allows a taxpayer to deduct from its business income tax base the taxpayer's gain from the sale of residential rental units to a qualified affordable housing project prorated by the share of the number of units that the project agrees to operate as rent restricted units for a minimum of 15 years. In addition, the Act allows a qualified housing project to deduct from its business income tax base the project's taxable income attributable to residential rental units multiplied by the fraction of the project's residential rental units that are rent restricted. Finally, the Act provides for a modified gross receipts tax base for a qualified housing project equal to the project's gross receipts from residential units prorated by the share of those units that are rent restricted.

Public Act 177 of 2008 expanded the definition of "purchases from other firms" for certain construction contractors to include payments for materials deducted from the cost of goods sold for the purpose of calculating the taxpayer's total income on its federal income tax return – if not already included as inventory or materials and supplies.

Public Act 221 of 2008 amended the Single Business Tax Act to clarify that receipts from the origination or sale of a mortgage loan would be deemed a sale in Michigan if one of the following applied; (1) the real property on which the mortgage loan was made was located in Michigan; (2) more than 50 percent of the value of the real property was located in Michigan if the property was in more than one state; or (3) the borrower was located in Michigan and more than 50 percent of the property's value was not located in any one state. P.A. 221 addressed a legal dispute regarding the single business tax for tax years beginning after November 1, 2005, and prior to December 31, 2007. The tax was repealed effective December 31, 2007.

Public Act 257 of 2008 amended the MEGA Act to MEGA to include the value of health care benefits in calculating the wages paid for retained and new jobs, revise the definitions of qualified high-wage activity and qualified new job, and revise the standard for new investment required in order to qualify for a tax credit under the MEGA Act.

Public Acts 263, 264, 265, 266 and 267 of 2008 established a MEGA MBT credit for the construction and operation of a Michigan manufacturing facility that produces polycrystalline silicon (used for solar cells and semiconductor microchips). Under the Acts, a credit may be taken in tax years beginning after 2011 but before 2024. For tax years beginning after 2011 but before 2016, the credit equals the product of (a) “qualified” electricity consumption and the lesser of (b) the difference between the “guaranteed” cost of electricity and the delivery price billed to the taxpayer or (c) the projected cost of electricity. For tax years between 2016 and 2021, inclusive, the credit equals the product of qualified electricity consumption times the difference between the projected cost of electricity and the guaranteed cost of electricity. In tax year 2022, the credit is reduced to half this product and in tax year 2023, the credit is reduced to one-fourth of this product.

For tax years beginning after 2008, Public Act 270 of 2008 provides for MEGA MBT credits for the construction and operation of a new Michigan facility for the development and manufacturing of photovoltaic technology. The credit is equal to 50 percent of the capital investments made by the taxpayer in the new facility during the tax year. The total amount of credits allowed for all tax years may not exceed $25 million.

Public Act 335 of 2008 amended the MBT Act to allow a service station owner to claim a nonrefundable MBT credit equal to 30 percent of the costs of converting existing fuel delivery systems or creating new fuel delivery systems to provide E85 fuel or qualified biodiesel blends. The credit may be claimed for tax years that begin after 2008 and end before 2012. The total amount of all credits may not exceed $1 million per calendar year.

Public Act 433 of 2008 provides for the exclusion of numerous tax and fee payments from the definition of gross receipts: sales and use taxes; motor fuel excise taxes; beer, wine and liquor excise taxes; certain taxes and fees from the sale of communication, video, internet access and related services and equipment; certain taxes and fees on the sale of electricity, natural gas or other energy source; deposits required under the beverage container deposit law; and the Airport Parking Tax. The amounts of the foregoing that may be excluded are to be phased in over five years. The Act also phases in a cigarette and tobacco taxes gross receipts exclusion over three years.

Public Act 433 also provides for numerous other new gross receipts exclusions. The Act excludes:

- Amounts attributable to an ownership interest in a pass-through entity, regulated investment company, real estate investment trust, or cooperative corporation.
- Receipts derived from investment activity by that regulated investment company.
- Amounts received from Medicaid premiums or Medicaid reimbursements.
- Amounts received by a newspaper to acquire advertising space in another newspaper on behalf of another person.
- Proceeds from the original issue of a stock, equity instrument and debt instruments.

- Investment activity receipts of an individual that exclusively conducts investment for a person related to that individual.
- Interest income and dividends derived from obligations or securities of the federal government, State of Michigan or Michigan governmental unit.
- Proceeds of the sale of property used in a hedging transaction.
- The sales proceeds from pooling and management investment to satisfy the taxpayer's cash flow or liquidity needs.

In addition, Public Act 433 phases in over five years a gross receipts exclusion for dividends and royalties received from a foreign entity or person. The Act also phases in over five years a gross receipts exclusion for amounts deducted as bad debt for federal income tax purposes. The Act expanded the gross receipts exclusion for individual, estate, or partnership or trust organized exclusively for estate or gift planning purposes. Under the Act the inclusion in inventory of the cost of certain securities and commodities now also applies to securities traders.

Public Act 434 of 2008 decouples the MBT's definition of federal taxable income from the IRC Section 168(k) bonus depreciation deduction and the IRC Section 199, which allows for a deduction equal to 9 percent of the lesser of "qualified production activities" income or taxable income. For tax years beginning after 2008 but ending before 2011, the Act provides for an apportioned 0.42 percent bonus depreciation credit for all taxpayers except regulated utilities. The Act redefines "foreign operating entity" to include operations within Puerto Rico.

Prior to PA 434, a taxpayer's combined 2008 investment tax credit and compensation credit could not exceed 50 percent of its pre-surcharge tax liability. The Act allows electricity and gas utility service taxpayers that would have had a portion of their investment tax credit denied due to the 50 percent limitation to claim the lesser of the amount that would have been denied or the increased MBT resulting from decoupling from the bonus depreciation deduction – subject to an 80 percent combined ITC and compensation credit post-surcharge MBT limitation.

Public Act 435 of 2008 amended the MBT to exempt a foreign person domiciled in a sub-national jurisdiction that does not impose an income tax on a similarly situated person domiciled in Michigan.

Public Act 448 of 2008 amended the MBT to allow, beginning in 2009, a qualified taxpayer to claim a credit for qualified historic rehabilitation expenditures in addition to the MBT's original historic preservation credit. In addition, the Act allows for the approval of a limited number of additional historic preservation credits for "a high community impact rehabilitation plan." The Act sets limits on the amount of the credit as a percentage of qualified expenditures and upper bounds on the total amount of credits that may approved in a given year. For projects completed after 2008, the Act allows for the assignment (reassignment) of a taxpayer's historic preservation credit.

Public Act 451 of 2008 amended the MBT to allow a qualified financial institution or taxpayer to claim a credit equal to 75 percent of an entity's contributions to the reserve fund of a fiduciary organization to the Individual or Family Development Account Program Act.

Public Act 470 of 2008 amended the MBT to eliminate the date requirements for the goodwill exclusion from net capital (a financial company's tax base). The Act also excluded from the net capital of a unitary group of financial institutions the investment of one member of the unitary group in another member of that unitary group.

Public Act 472 of 2008 amended the MBT definition of "purchases from other firms" to include payments by a licensed real estate broker, associate broker, salesperson or appraiser to an independent contractor who is licensed as a real estate broker, associate broker, salesperson or appraiser.

Public Act 507 of 2008 amended the MBT to provide a credit for a taxpayer that is an owner or operator of certain qualifying exhibitions. The credit is limited to the lesser of the taxpayer's MBT liability or $500,000 in 2009 and, in subsequent years, to the lesser of $250,000 or the taxpayer's MBT liability. The credit is intended to apply to the International Auto Show held in Detroit each year.

Public Act 572 of 2008 amended the MBT to increase the maximum NASCAR capital expenditure credit and increase the credit's required Michigan capital expenditures. The Act increased the maximum credit by $400,000 in tax years 2008 through 2010 inclusive, and by $500,000 in tax years 2011 and 2012. The Act increased the capital expenditure requirement from $25 million to $30 million.

Public Act 580 of 2008 amended the MBT to provide for (1) a MEGA credit based on battery capacity for tax years beginning after 2010 and ending before 2015 for the manufacture of plug-in traction battery packs in Michigan; (2) for tax years beginning after 2011, a MEGA credit based on qualified expenses incurred in a tax year beginning after 2008 but ending before 2014 for vehicle engineering in Michigan to support battery integration, prototyping and launch expenses incurred; (3) for tax years beginning after 2011 but ending before 2015, a MEGA credit based on qualified advanced automotive battery engineering expenses incurred in tax years beginning after 2008 but ending before 2014; and (4) a MEGA credit for tax years beginning after 2011 based on capital investment expenses for the construction of an integrative cell manufacturing facility that includes anode and cathode manufacturing and cell assembly related to a MEGA agreement entered into after July 2009.

## Insurance Company Tax

Effective January 1, 2008, the SBT tax on insurance company gross receipts was replaced by the MBT 1.25 percent tax on Michigan insurance premiums. 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 MBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is $243.8 million for FY 2010; revenue goes to the State General Fund.

| | FY 2010 Estimate |
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| **Captive Insurance Companies**<br>Exempts companies authorized under the Insurance Code as captive insurance companies or special purpose financial captives from the MBT and its gross premiums tax. | n.a. |
| **Disability Insurance Exclusion**<br>Exempts the first $190,000,000 of disability insurance premiums written in Michigan. | $13,300,000 |
| **Michigan Association and Facilities Credit**<br>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. | $19,700,000 |
| **Michigan Examination Fees Credit**<br>Allows an insurance company to claim a credit equal to 50 percent of the examination fees paid by the company during the year under section 224 of the insurance code. | $5,000,000 |
| **Workers' Disability Supplemental Benefit (WDSB) Credit**<br>Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Prior to the identical SBT credit, firms were reimbursed through the appropriations process for these payments. | $600,000 |

## 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 projected yield is $63.0 million for FY 2010; revenue goes to the State General Fund.

| | FY 2010 Estimate |
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| **Marginal Wells**<br>Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production. | $4,300,000 |
| **Public Land**<br>Exempts oil and gas severed from publicly-owned lands from taxation. | $2,300,000 |

## MBT Expenditures

Enacted in 1976, the SBT was enacted as a consumption-type, value-added tax that had numerous adjustments to provide tax relief to businesses. Public Act 325 of 2006 repealed the SBT after December 31, 2007. Much of the legislative activity for the first six months of 2007 was devoted to adopting a replacement business tax. Public Act 36 of 2007 created the Michigan Business Tax Act, which took effect on January 1, 2008.

The MBT levies a broad tax on the privilege of doing business in Michigan using two separate tax calculations. The first tax is levied on business income at a rate of 4.95 percent, while the second tax is levied on modified gross receipts at a rate of 0.80 percent. A taxpayer's overall tax liability is the sum of the two taxes. Several tax credits from the SBT were retained with the new tax, in addition to the creation of several new credits. Among the new credits is a tax credit for personal property taxes paid on industrial, telephone, or natural gas pipeline personal property. Financial institutions are not taxed on business income or gross receipts, but are subject to a tax of 0.235 percent on their net capital.

Public Act 145 of 2007 amended the Michigan Business Tax Act to impose a surcharge on a taxpayer's liability. The surcharge rate for most taxpayers is 21.99 percent. Financial institutions will pay a surcharge rate of 27.7 percent for tax year 2008, and 23.4 percent for tax years after 2008. The maximum surcharge any taxpayer will pay is $6.0 million. The revenue from the surcharge was designed to replace the revenue projected to be raised by the expanded list of services subject to the use tax under Public Act 93 of 2007. Public Act 145 repealed the expansion to the use tax and also made numerous changes to the MBT.

Revenues from the MBT are estimated to be $2,318.0 million in FY 2009 and $2,234.0 million in FY 2010. Each year, the School Aid Fund receives a portion of those revenues to cover the cost of the new personal property tax exemptions tied to the MBT. In FY 2010, the SAF receives $727.6 million in MBT revenues. The remaining revenues are earmarked to the State General Fund.

MBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the compensation, investment, research and development, and alternate tax credits. The estimates for these credits were derived assuming an interaction between tax expenditures, and may be interpreted as the tax revenue that would be realized if one of these four credits were eliminated. This is not the case for the deductions and other credits.

| | **FY 2010 Estimate** |
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| **Affordable Housing**<br>Allows eligible taxpayers deductions from their MBT tax bases for certain affordable housing projects. | $4,000,000 |
| **Agricultural Producers**<br>Exempts agricultural production from the MBT. | $35,500,000 |
| **Anchor Company Credit**<br>Provides credits to a qualified taxpayer that was designated by the Michigan Economic Growth Authority (MEGA) as an "anchor company" within the past five years and that has influenced a new qualified supplier or customer to open, locate, or expand in this state. There are two credits: one based on the anchor company's supplier's/customer's taxable value and one based on a supplier's/customer's payroll. | n.a. |
| **Arts and Culture Credit**<br>Provides a partial credit for donations made to a municipality (or a non-profit corporation affiliated with a municipality) for the purpose of benefiting the art institute, historical institute or zoo. | $14,500,000 |
| **Bad Debts Gross Receipts Exclusion**<br>Provides a gross receipts exclusion for amounts deducted as bad debt for federal income tax purposes. | $13,100,000 |
| **Biodiesel Infrastructure Credit**<br>Provides a credit to service station owners to cover a portion of the costs of converting to or creating new fuel delivery systems to provide E85 fuel or qualified biodiesel blends. | $250,000 |
| **Bonus Depreciation Credit**<br>Provides for an apportioned 0.42 percent bonus depreciation credit. | $10,100,000 |
| **Bottle Deposit Administration Credit**<br>Provides a credit equal to 30.5 percent of a taxpayer's expenses incurred to comply with the Michigan bottle deposit program statute. | $5,000,000 |
| **Bottle Deposit Gross Receipts Exclusion**<br>Excludes any deposit required under the beverage from the gross receipts tax base. | $3,700,000 |

| | FY 2010 Estimate |
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| **Brownfield Redevelopment Credit**<br>Provides credit for a portion of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in Brownfield development zones. | $78,200,000 |
| **Business Loss Deduction**<br>Beginning with the 2009 tax year, permits a business that had a negative business income tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted business income tax bases may be carried forward for up to 10 years. The MBT also allows for taxpayers to claim 65 percent of their remaining SBT business loss deduction against the gross receipts tax base in tax year 2008. | $45,300,000 |
| **Certain Financial Activities Gross Receipts Exclusions**<br>In addition to the financial activities gross receipts exclusions listed elsewhere, the MBT also provides for reductions to (modified) gross receipts for the following: payments by a licensed real estate broker; proceeds from equity issued by a regulated investment company; investment activity receipts of an individual that exclusively conducts investment for a person related to that individual; receipts of an individual, estate, or partnership or trust organized exclusively for estate or gift planning purposes. | n.a. |
| **Certain Taxes and Fees Gross Receipts Exclusions**<br>Excludes a portion of certain taxes and fees from the gross receipts tax base including: sales and use taxes; motor fuel excise taxes; beer, wine and liquor excise taxes; and cigarette and tobacco taxes; airport parking tax along with certain taxes and fees from the sale of communication, video, internet access and certain taxes and fees on the sale of energy sources. | $36,900,000 |
| **Community or Education Foundation Credit**<br>Provides a 50 percent credit for contributions made to a qualified community or education 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. | $3,300,000 |

**FY 2010 Estimate**

**Compensation Credit** $185,000,000

Provides a credit for the taxpayer's compensation in Michigan. The credit percentage is equal to 0.296 percent of Michigan compensation in 2008 and to 0.370 percent of Michigan compensation in following years. For 2008, the sum of the credit and the Investment Tax Credit cannot exceed 50 percent of MBT liability (before the MBT surcharge). For 2009 and following, the combined credit cannot exceed 52 percent of MBT liability (before the MBT surcharge).

**Construction Subcontractor Payments Exemption** $23,000,000

For a construction contractor not eligible for the alternate tax credit, excludes from its gross receipts tax base, payments to a subcontractor.

**Entrepreneurial Credit** $2,000,000

For 2008, 2009 and 2010 tax years, an eligible taxpayer may claim a credit equal to the entire portion of its MBT liability attributable to increased employment. The taxpayer must have less than $25 million in gross receipts the year before claiming the credit (the amount will be adjusted for inflation); created or transferred into Michigan at least 20 new jobs in the prior year, and made at least $1.25 million in new capital investment in Michigan.

**Farmland Preservation Credit** $1,300,000

Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Part 361 of Public Act 451 of 1994.

**Film Credits** $155,100,000

Provides credits for film production expenditures made after February 2008. To be eligible for the credit, companies must enter into an agreement with the Michigan film office. The MBT provides a 40 to 42 percent direct production expenditure and 30 percent qualified personnel expenditures film production credit; a 25 percent investment film infrastructure credit and 50 percent qualified job training expenditures credit.

| | FY 2010 Estimate |
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| **Floor Plan Interest Deduction**<br>Allows a taxpayer to include as inventory, floor plan interest expenses for new motor vehicles. Purchases from other firms (which are excluded from the modified gross receipts tax base) include inventories. | $2,600,000 |
| **Food Retailer Credits**<br>Provides for two size and sales-line based Michigan-headquartered food retailer credits. The first credit is limited to firms that operate in Michigan at least 17 million square feet of enclosed retail space and 2 million square feet of enclosed warehouse space. The second credit is limited to firms that operate in Michigan at least 2.5 million square feet of enclosed retail space and 1.4 million square feet of enclosed warehouse, headquarters and transportation services. | $8,800,000 |
| **Foreign Dividends Gross Receipts Exclusion**<br>Excludes dividends and royalties received from a foreign entity or person from gross receipts. | $6,100,000 |
| **Foreign Persons**<br>Exempts a foreign person domiciled in a subnational jurisdiction that does not impose an income tax on a similarly situated person domiciled in Michigan. | $5,000,000 |
| **Government Obligations and Securities Gross Receipts Exclusion**<br>Excludes interest income and dividends of obligations or securities of the federal government, State of Michigan or Michigan governmental unit from gross receipts. | $3,000,000 |
| **Government Utilities Exemption**<br>Exempts the receipts of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit. | $22,300,000 |
| **Gross Receipts Filing Threshold**<br>Exempts from the MBT firms with adjusted (apportioned) gross receipts less than $350,000. | $35,300,000 |
| **Gross Receipts Filing Threshold Credit**<br>Provides a credit for firms with adjusted (apportioned) gross receipts between $350,000 and $700,000. The credit effectively provides for a gradual phase-out of the gross receipts filing threshold -- rather than a cliff. | $45,400,000 |

| | FY 2010 Estimate |
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| **Historic Preservation Credit**<br>Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. | $2,700,000 |
| **Homeless Shelter/Food Bank Credit**<br>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. | $500,000 |
| **Hybrid Technology Research and Development Credit**<br>A taxpayer that is engaged in research and development of motor vehicle hybrid systems at a qualified facility may claim a credit against the MBT equal to 3.9 percent of the compensation for work at the facility. | $2,300,000 |
| **Individual or Family Development Account Credit**<br>Allows a qualified financial institution or taxpayer to claim a credit equal to 75 percent of an entity's contributions to the reserve fund of a fiduciary organization to the Individual or Family Development Account Program Act. | n.a. |
| **International Aircraft Operations Gross Receipts Exclusion**<br>Excludes from gross receipts, amounts that are excluded from gross income of a foreign corporation engaged in the international operation of aircraft under the internal revenue code. | n.a. |
| **International Auto Show Credit**<br>Provides a credit for an owner or operator of certain qualifying exhibitions. The qualifying exhibition must exhibit products made in Michigan for sale to the general public, use more than 100,000 square feet, run for at least seven consecutive days, have attendance exceeding 500,000 and have more than 3,000 journalists attending the exhibition. | $100,000 |
| **Investment Tax Credit**<br>Provides a credit for Michigan investment. The credit is equal to 2.32 percent of Michigan investment in 2008 and 2.90 percent of Michigan investment in following years. The taxpayer cannot claim an ITC and a research and development credit on the same expenses. | $107,400,000 |

| | **FY 2010 Estimate** |
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| **Low-Grade Hematite Credit**<br>Provides a credit for taxpayers that consume qualified low-grade hematite (iron ore) in an industrial or manufacturing process. | $3,100,000 |
| **Medicaid Reimbursements and Premiums Gross Receipts Exclusion**<br>Excludes from gross receipts amounts received from Medicaid premiums or Medicaid reimbursements. | n.a. |
| **Michigan Early Stage Venture Capital Voucher**<br>Taxpayers issued a voucher certificate under the Michigan early state venture investment act, may use the voucher to pay their MBT liability. Vouchers may be transferred. | n.a. |
| **Michigan Economic Growth Authority (MEGA) Credits**<br>Provides numerous credits for new or expanding firms based on additional payroll and health care costs or additional business activity costs associated with an expansion or new location. | $105,600,000 |
| **MEGA Federal Government Credit**<br>Provides for a credit up to 100 percent of a taxpayer's payroll attributable to new jobs that result from a federal procurement contract by the United States department of defense, department of energy, or department of homeland security. | n.a. |
| **Motion Picture Gross Receipts Exclusion**<br>Excludes film rental or royalty payments paid by a theater owner to a film distributor, a film producer, or a film distributor and producer. | $1,700,000 |
| **Multiple Employer Welfare Arrangement**<br>For tax years beginning after 2000, the portion of the MBT 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 MBT. | $30,000 |
| **NASCAR Safety Credit**<br>Provides a credit for traffic control costs for a motorsports event at an eligible motorsports stadium (50 percent for 2009 and 100 percent thereafter). | $5,000,000 |

| | FY 2010 Estimate |
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| **NASCAR Speedway Credit**<br>Provides a credit for tax years 2008 through 2012 for capital expenditures on an eligible motorsports stadium and its grounds. | $2,100,000 |
| **New Motor Vehicle Dealer Inventory Credit**<br>Provides for a credit to a new Michigan licensed motor vehicle dealer equal to 0.25 percent of the amount paid to acquire new motor vehicle inventory in the tax year. | $6,700,000 |
| **Next Energy Credit**<br>Allows an eligible taxpayer certified under the Michigan Next Energy Authority Act to claim both a nonrefundable and a refundable MBT credit. 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. | $22,700,000 |
| **Nonprofit Organizations**<br>Exempts the gross receipts of most firms exempt from the federal corporate income tax. | $137,300,000 |
| **Pass Through Entity Gross Receipts Exclusion**<br>Excludes from gross receipts amounts attributable to an ownership interest in a pass-through entity, regulated investment company, real estate investment trust, or cooperative corporation whose business activities are or would be taxable under section 203. | $10,100,000 |
| **Personal Property Tax Credit**<br>Provides three credits for personal property taxes paid in the tax year: The first is equal to 35 percent of industrial personal property taxes. The second is equal to 23 percent of State Utility Tax Act taxes paid on telephone equipment in 2008 with a 13.5 percent credit in subsequent years. The third provides a 10 percent credit for natural gas pipeline personal property taxes paid. | $152,600,000 |
| **Private Equity Fund Credit**<br>Provides a credit for private equity fund activities in Michigan. | n.a. |
| **Public Contribution Credit**<br>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. | $1,800,000 |

| | **FY 2010 Estimate** |
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| **Renaissance Zone Credit**<br>Provides a credit for the portion of tax attributable to business activity in a renaissance zone. | $29,500,000 |
| **Research and Development Credit**<br>Provides a credit for research and development in Michigan. In 2008, the credit is equal to 1.52 percent of the taxpayer's research and development expenses in Michigan. In following years, the credit percentage is 1.90 percent. The sum of the credit, the compensation credit, and the ITC cannot exceed 65 percent of the taxpayer's MBT liability (before the MBT surcharge). | $52,900,000 |
| **Self Employment Net Earnings Deduction**<br>Net earnings from self-employment as defined in IRC section 1402 are deducted from the MBT business income tax base. | $106,700,000 |
| **Single Business Tax Unused Credit Carryforwards**<br>Under the MBT, for the 2008 and 2009 tax years only, taxpayers are allowed to claim unused SBT credit carryforwards for some SBT credits: Investment Tax Credit, Historic Preservation Credit, Low-Grade Hematite Pellet Credit, Pharmaceutical Credit, Created Jobs Credit, Brownfield Credits and the MEGA Business Activity Credit. | $30,000,000 |
| **Small Business Alternative Tax Credit**<br>For qualifying smaller firms, provides a credit that effectively lowers the taxpayer's tax to 1.8 percent of adjusted business income. Qualifications include: Gross receipts must be less than or equal to $20 million (the credit is phased out for firms with gross receipts between $19 million and $20 million). Total adjusted business income may not exceed $1.3 million. Allocated business income limit for any one owner may not exceed $180,000 (with a credit phase-out between $160,000 and $180,000). | $308,100,000 |
| **Stadium Credit**<br>Provides two credits to owners, operators, licensees and tenants of more than one stadium with an occupancy of at least 14,000 people that meet certain criteria. | $3,400,000 |

| | FY 2010 Estimate |
|---|---|
| **Staffing Company/ PEO Gross Receipts Exclusion**<br>For staffing companies and professional employer organizations, excludes from their gross receipts tax base, the compensation of personnel supplied to their customers. | $35,500,000 |
| **Start-Up Business Credit**<br>Provides a credit equal to the MBT liability for certain new businesses for up to five years if the business has no business income. | n.a. |
| **Tribal Tax Agreements**<br>Agreements between the State of Michigan and seven American Indian tribes clarify how the MBT will be applied to tribes, and resident tribal members within the specific areas of the state that are covered by the agreements. | n.a. |
| **Workers' Disability Supplemental Benefit (WDSB) Credit**<br>Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Prior to the identical SBT credit, firms were reimbursed through the appropriations process for these payments. | $3,700,000 |

## 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 $14,041.1 million in FY 2010, a 3.6 percent increase over the FY 2009 level of $13,552.3 million. The growth in sales and use tax expenditures associated with health care and professional, scientific, and technical services account for most of the growth between FY 2009 and FY 2010. Readers are cautioned that changes in the estimation methodology make comparisons between this version and previous versions of this report impossible. Additional information has been included in the estimates for services, so these estimates are not comparable to estimates from prior years. Sales and use tax expenditure estimates are based on FY 2003 through FY 2007 data. Alcohol and cigarette tax expenditure estimates were based on FY 2007 data.

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

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

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

### Consumption Tax Expenditure Changes

Public Act 78 of 2008 amended the General Sales Tax Act to end the sales tax credit for production expenditures by a motion picture production company after the 2008 tax year. The sales tax credit was replaced by more generous credits under the Michigan Business Tax Act.

Public Acts 314 and 332 of 2008 amended the Use Tax Act and the General Sales Tax Act, respectively, to exempt machinery that is capable of simultaneously harvesting grain or other crops and biomass and machinery used to harvest biomass. Biomass means crop residue used to produce energy or agricultural crops grown specifically for the production of energy.

Public Act 436 of 2008 amended the Streamlined Sales and Use Tax Revenue Equalization Act to allow a taxpayer to claim a credit equal to 6 percent of the consideration received from an automobile manufacturer as a reimbursement for a price discount given to a member of a group designated by the automobile manufacturer. The credit applies for transactions occurring after

December 31, 1999. The credit does not apply to discounts given to employees of the automobile manufacturer.

Public Act 438 of 2008 amended the General Sales Tax Act to include in the definition of sales price consideration received from a third party under certain conditions. The change clarifies the treatment of discounts where the retailer provides a discount to the buyer and then is subsequently reimbursed by another party, often the manufacturer of the product. P.A. 438 explicitly exempts employee discounts on the sale of motor vehicles from sales price. In addition, P.A. 438 incorporates several changes required to keep Michigan in compliance with the Streamlined Sales and Use Tax Agreement.

Public Act 439 of 2008 amended the Use Tax Act to incorporate changes required for Michigan to remain in compliance with the Streamlined Sales and Use Tax Agreement. Many of these changes mirror changes made in P. A. 438. Additional changes made in P.A. 439 include new definitions for certain telecommunications services and new procedures for documenting exempt sales.

Public Act 440 of 2008 amended the Use Tax Act to include in the use tax base the use or consumption of medical services provided by Medicaid managed care organizations. The use tax on these services replaced an assessment on similar services formerly levied under the Insurance Code of 1956.

Public Act 532 of 2008 amended Public Act 180 of 1991, which allows eligible municipalities to levy an excise tax to finance sports stadiums or convention facilities. P.A. 532 amended the definition of an eligible municipality to allow the excise tax to be levied, with voter approval, in Kalamazoo County and the City of Kalamazoo.

Public Acts 555 and 556 of 2008 amended the Use Tax and General Sales Tax Acts to revise the definition of extractive operations to include transporting timber from the extraction site to a temporary storage site, and then loading or transporting timber from the temporary storage site to a vehicle or other equipment for removal from the extraction site. Personal property sold to an extractive operator for use in extractive operations is exempt from both the use tax and the sales tax. Also included in both Public Acts is an exemption for the sale or use of tangible personal property acquired before January 1, 2014, if the property is to be affixed or made a structural part of a qualified convention facility. This will exempt materials purchased for use in the renovation of Cobo Hall in Detroit.

## Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2010 (millions of dollars).

**Alcoholic Beverage Taxes**
**(millions)**

| Tax | Location of Deposit | FY 2010 Revenue |
|---|---|---|
| Beer and Wine Excise | General Fund | $51.5 |
| 4.0 Percent Liquor Excise | School Aid Fund | $36.7 |
| 4.0 Percent Liquor Specific | General Fund | $36.7 |
| 1.85 Percent Liquor Specific | Liquor Purchase Revolving Fund | $13.7 |
| 4.0 Percent Liquor Tourism | Convention Facility Development Fund | $36.7 |

| | FY 2010 Estimate |
|---|---|
| **Beer Shipped Out-of-State**<br>Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state. | n.a. |
| **Damaged Beer**<br>Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale. | n.a. |
| **Homemade Wine**<br>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**<br>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. | $90,000 |

## 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 2010, the tax on cigarettes will yield an estimated $915.9 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield $48.5 million.

**FY 2010 Estimate**

**Bad Debt Deduction** $400,000

Allows cigarette wholesalers to deduct any losses from bad debts.

**Licensee Expenses** $14,440,000

Exempts 1.5 percent of the cigarette tax due from licensees, and 1.0 percent of the tax on other tobacco products, to cover their expenses in administering the tax.

**Sales on Military Bases and Reservations** $9,746,000

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

**Tribal Tax Agreements** n.a.

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

## State Convention Facility Development Tax

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

**FY 2009 Estimate**

**Small Hotel Exemption** n.a.

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

## Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield $6,067.3 million in FY 2010. 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 $1,194.0 million in FY 2010. Due to their complementary nature, sales and use tax expenditures are reported together.

| | **FY 2010 Estimate** |
|---|---|
| **Air and Water Pollution**<br>Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities. | $55,000,000 |
| **Aircraft Parts**<br>Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax. | $8,184,000 |
| **Bad Debts**<br>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. | $57,254,000 |
| **Cargo Aircraft**<br>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**<br>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**<br>Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship. | $3,760,000 |
| **Collection Fee**<br>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. | $28,755,000 |

| | **FY 2010 Estimate** |
|---|---|
| **Commercial Domestic Aircraft**<br>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**<br>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**<br>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 |
| **Donated Property**<br>Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations. | n.a. |
| **Donated Vehicles**<br>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**<br>Exempts property used for demonstration or driver training programs. | $372,000 |
| **Employee Meals**<br>Exempts meals provided by employers to their employees starting in 2002. | $12,413,000 |
| **Enterprise Zone Credit**<br>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**<br>Exempts food for human consumption, except prepared food intended for immediate consumption. | $1,141,588,000 |

| | FY 2010 Estimate |
|---|---|
| **Food for Students**<br>Exempts sales of food by nonprofit schools or other similar educational institutions to students. | $19,463,000 |
| **Government or Red Cross**<br>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. | $152,768,000 |
| **Gratuity and Tips**<br>Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds. | $52,979,000 |
| **Horticultural and Agricultural Products**<br>Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business. | $252,880,000 |
| **Imported Property**<br>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**<br>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. | $847,626,000 |
| **Inmate Purchases**<br>Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution. | $554,000 |
| **International Telecommunications**<br>Exempts international and WATS calls from the use tax. | $18,000,000 |
| **Interstate Trucks and Trailers**<br>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. | $35,780,000 |

| | FY 2010 Estimate |
|---|---|
| **Investment Coins**<br>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. | $1,100,000 |
| **Isolated Sales**<br>Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license. | n.a. |
| **Military PX Sales**<br>Exempts military post-exchange sales. | $1,555,000 |
| **Military Vehicle Sales**<br>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**<br>Provided a credit for expenditures on a motion picture. The credit was replaced by the credit under the Michigan Business Tax. | $0 |
| **Newspapers, Periodicals, and Films**<br>Exempts sales of copyrighted films, newspapers, and periodicals. | $99,565,000 |
| **Nonprofit Ambulance and Fire Service**<br>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**<br>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. | $1,752,000 |
| **Nonprofit Organizations**<br>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. | $163,639,000 |
| **Nonprofit Sales Under $5,000**<br>Exempts aggregate sales under $5,000 for qualified nonprofit organizations. | n.a. |

| | FY 2010 Estimate |
|---|---|
| **Nonresident Merchandise Transfer**<br>Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state. | n.a. |
| **Nonresident Property**<br>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**<br>Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances. | $55,171,000 |
| **Prescription Drugs**<br>Exempts prescription drugs for human consumption. | $537,390,000 |
| **Radio and TV**<br>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**<br>Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes. | $1,579,000 |
| **Residential Utilities**<br>Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate. | $152,500,000 |
| **Returned Vehicles**<br>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**<br>Excludes from the use tax non-inventoried property purchased as part of a business. | n.a. |
| **Sale of Water**<br>Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons. | $68,706,000 |

**FY 2010 Estimate**

**Services** $10,096,211,000

Exempts services for items listed in the following table:

**Service Tax Expenditures, FY 2010**
**(millions)**

| Category | For Profit | Nonprofit | Total |
|---|---|---|---|
| Accommodations and Food Service | $17.3 | $0.0 | $17.3 |
| Admin., Support, and Waste Mgmt. | 963.5 | 12.0 | 975.5 |
| Arts, Entertainment, and Recreation | 184.3 | 33.6 | 217.9 |
| Construction | 943.3 | 0.0 | 943.3 |
| Educational Services | 70.1 | 400.8 | 470.9 |
| Health Care and Social Assistance | 1,310.1 | 1,685.6 | 2,995.7 |
| Information | 497.3 | 0.0 | 497.3 |
| Other Services (except Public Admin.) | 545.6 | 119.8 | 665.4 |
| Professional, Scientific, and Technical | 2,118.0 | 15.3 | 2,133.3 |
| Real Estate and Rental and Leasing | 710.6 | 0.0 | 710.6 |
| Transportation and Warehousing | 365.9 | 9.8 | 375.7 |
| Utilities | 0.0 | 93.3 | 93.3 |
| **TOTAL** | $7,726.0 | $2,370.2 | $10,096.2 |

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 2010 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** $13,109,000

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.

**Vehicle and Aircraft Transfers** $34,022,000

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

**Vehicles Purchased for Use in Another State** n.a.

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

**Vending Machines and Mobile Facilities** $18,300,000

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

## CHAPTER 6

## INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 6.9 percent from $6,973.3 million in FY 2009 to $7,454.6 million in FY 2010. Federal income tax expenditures are projected to increase 0.9 percent from $2,676.1 million in FY 2009 to $2,701.5 million in FY 2010. Individual income tax expenditure estimates were based on tax year 2007 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 2007. 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 79 of 2008 amended the Income Tax Act to create an income tax credit equal to the amount of the film credit the company was eligible to claim under the Michigan Business Tax Act. The company could not claim the same credit under both Acts. The credit could not exceed the company's income tax liability for the tax year.

Public Act 207 of 2008 amended the Income Tax Act to allow a taxpayer to include the value of donated food items in total contributions eligible for the tax credit for donations to homeless shelters and food banks, if a food vendor makes a matching contribution of similar items. Prior to tax year 2008, only cash donations were eligible.

Public Act 287 of 2008 amended the Income Tax Act to create two credits against the individual income tax for tax years that begin after December 31, 2008, and before January 1, 2012. The first credit is a credit for the purchase and installation of qualified home improvements, defined as insulation, furnaces, water heaters, windows, refrigerators, clothes washers, or dishwashers that meet or exceed the applicable Energy Star energy efficiency guidelines. The credit is equal to 10 percent of the cost to purchase and install the improvement, up to a maximum credit of $75 on a single return or $150 on a joint return. The credit is limited to taxpayers with adjusted gross incomes of no more than $37,500 single and $75,000 joint, and the credit is refundable. The second credit is equal to a percentage of the amount authorized for the taxpayer's utility to charge to offset additional costs under the Clean, Renewable, and Efficient Energy Act. The credit is 25 percent of the amount authorized in 2009, and 20 percent of the amount authorized in 2010 and 2011. The credit is limited to taxpayers with adjusted gross incomes of no more than $65,000 single and $130,000 joint, and the credit is non-refundable.

Public Acts 359 and 360 amended the Community College Act and the Income Tax Act, respectively, to allow a community college and an employer to enter into an agreement to provide training for new jobs and use the income tax withholding on the new jobs to pay for the costs of the training. Colleges and employers may enter into new agreements until December 31, 2018. A community college district may sell revenue bonds to finance training programs, in anticipation of the withholding payments due under an agreement with an employer. No more than $50 million in obligations may be outstanding at any time during a calendar year.

Public Act 447 of 2008 amended the Income Tax Act to allow a taxpayer eligible to claim 90 percent of the amount by which the historic preservation tax credit exceeds an eligible taxpayer's tax liability as a refund. Previously the credit was non-refundable, with any unused credit eligible to be carried forward to future tax years. The refundable provision is effective for tax years beginning after December 31, 2008.

## 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 2010, the State of Michigan will collect an estimated $5,353.9 million in net income tax revenue. Income tax revenue goes to the School Aid Fund and General Fund.

State income tax expenditures include the state personal exemption, subtractions from income, and various state tax credits. In tax year 2007, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.01 percent to an average effective rate of 2.0 percent. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.

| | **FY 2010 Estimate** |
|---|---|
| **Adjustments to Income** | $4,603,497,000 |

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 $101.5 billion in calendar year 2007. This reduced 2007 income taxes by $4,068.5 million.

**Adoption Credit** — $1,053,000

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 $12,150 dollars of adoption expenses for tax year 2009. The Michigan adoption credit applies to the first $1,200 in adoption expenses over the $12,150 federal credit.

**Child Deduction** — $55,935,000

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

**City Income Tax Credit** — $33,330,000

Provides a credit to individuals for income taxes paid to cities. For tax year 2007, city income tax credits totaled $32.4 million (see Exhibit 13).

**College Savings Account** — $14,320,000

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

**Community Foundation Credit** — $3,525,000

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

| | FY 2010 Estimate |
|---|---|
| **Dependent Exemption**<br>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. | $20,820,000 |
| **Disabled Veterans Exemption**<br>Allows a taxpayer to claim an additional exemption of $250 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran. | n.a. |
| **Donated Vehicle Credit**<br>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. | $172,000 |
| **Earned Income Tax Credit**<br>Provides a refundable income tax credit equal to 10 percent of any federal earned income tax credit for which a taxpayer is eligible. For tax years after 2008 a taxpayer may claim a credit equal to 20 percent of the federal earned income credit for which the taxpayer is eligible. | $333,000,000 |
| **Farmland Development Credit**<br>Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses (see Exhibit 17). This credit was expanded by Public Act 421 of 2000. | $36,519,000 |
| **Higher Education/Public Contributions Tax Credit**<br>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 2007, the higher education/public contributions tax credit totaled $24.9 million (see Exhibit 13). | $25,299,000 |

| | **FY 2010 Estimate** |
|---|---|
| **Historic Preservation Credit** | $661,000 |

Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.

| | |
|---|---|
| **Holocaust Survivor Asset Recovery Deduction** | n.a. |

Public Act 181 of 1999 allows Holocaust survivors to subtract any income received as a result of a settlement of claims against any entity or individual for any recovered asset pursuant to the German act regulating unresolved property claims.

| | |
|---|---|
| **Home Heating Assistance Credit** | $219,000 |

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2008, these credits totaled an estimated $63.5 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was $211,000 in FY 2008.

| | |
|---|---|
| **Homestead Property Tax Credit** | $987,477,000 |

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

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2007, homestead credits, excluding the farmland credit itemized separately, totaled $895.7 million (Exhibit 17). Of the homestead credits, 58.4 percent went to general taxpayers, 35.9 percent went to senior citizens, and the remaining 5.7 percent went to veterans and blind and disabled persons.

## Exhibit 13
## Selected Individual Income Tax Expenditures, CY 2007

| Adjusted Gross Income | MI - 1040s | | City Income Tax Credit | | Higher Education Tax Credit | |
|---|---|---|---|---|---|---|
| | **Number** | **Percent** | **Number** | **Amount** | **Number** | **Amount** |
| Less Than $2,000* | 419,702 | 8.8% | 10,212 | $101,797 | 1,756 | $127,234 |
| 2,001 - 4,000 | 187,029 | 3.9% | 18,977 | 143,856 | 1,337 | 66,777 |
| 4,001 - 6,000 | 178,734 | 3.8% | 22,140 | 242,169 | 1,803 | 96,524 |
| 6,001 - 8,000 | 169,176 | 3.6% | 23,827 | 326,687 | 2,022 | 114,197 |
| 8,001 - 10,000 | 164,320 | 3.5% | 25,332 | 408,989 | 2,324 | 138,518 |
| 10,001 - 12,000 | 157,773 | 3.3% | 25,261 | 472,752 | 2,342 | 144,919 |
| 12,001 - 14,000 | 152,574 | 3.2% | 25,486 | 553,117 | 2,578 | 160,799 |
| 14,001 - 16,000 | 144,944 | 3.1% | 25,155 | 569,220 | 2,728 | 174,131 |
| 16,001 - 18,000 | 133,910 | 2.8% | 24,049 | 582,365 | 2,784 | 180,197 |
| 18,001 - 20,000 | 123,967 | 2.6% | 22,931 | 595,282 | 2,736 | 179,838 |
| 20,001 - 25,000 | 280,748 | 5.9% | 55,137 | 1,615,417 | 7,203 | 494,197 |
| 25,001 - 30,000 | 253,256 | 5.3% | 52,576 | 1,752,345 | 7,959 | 550,102 |
| 30,001 - 35,000 | 224,097 | 4.7% | 45,962 | 1,609,585 | 8,150 | 567,205 |
| 35,001 - 40,000 | 199,898 | 4.2% | 40,500 | 1,582,025 | 8,391 | 594,074 |
| 40,001 - 45,000 | 176,435 | 3.7% | 37,103 | 1,420,655 | 8,612 | 623,059 |
| 45,001 - 50,000 | 160,322 | 3.4% | 34,417 | 1,391,882 | 9,043 | 667,069 |
| 50,001 - 55,000 | 148,710 | 3.1% | 31,907 | 1,332,627 | 9,359 | 702,977 |
| 55,001 - 60,000 | 137,638 | 2.9% | 30,247 | 1,297,718 | 9,585 | 729,725 |
| 60,001 - 70,000 | 249,554 | 5.3% | 56,327 | 2,522,043 | 19,609 | 1,559,042 |
| 70,001 - 80,000 | 211,629 | 4.5% | 47,655 | 2,182,401 | 19,480 | 1,630,377 |
| 80,001 - 90,000 | 172,994 | 3.6% | 39,492 | 1,830,389 | 18,709 | 1,627,638 |
| 90,001 - 100,000 | 139,426 | 2.9% | 32,855 | 1,584,813 | 17,324 | 1,574,198 |
| Over 100,000 | 562,793 | 11.8% | 126,096 | 8,312,000 | 109,023 | 12,238,079 |
| **TOTAL** | 4,749,629 | 100.0% | 853,644 | $32,430,133 | 274,857 | $24,940,876 |

*Includes 188,957 credit-only returns (zero income).

| | FY 2010 Estimate |
|---|---|
| **Homeless/Food Bank Credit**<br>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. | $19,804,000 |
| **Military Pay and Pensions**<br>Exempts compensation received while on active duty in the U.S. Armed Forces and military retirement pay from taxable income. | $35,555,000 |
| **Other State Tax Credit**<br>Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2007, taxpayers claimed $42.7 million in credits. | $47,860,000 |
| **Personal Exemption**<br>Exempts $3,400 (tax year 2007) 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 2009, the personal exemption is $3,600. The personal exemption reduced tax year 2007 revenue by approximately $1,034.1 million.<br><br>The distribution of effective exemptions across AGI classes is outlined in Exhibit 14. Effective exemptions are exemptions that offset actual income. | $1,165,221,000 |
| **Renaissance Zones**<br>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**<br>Allows a taxpayer and his or her spouse to each claim a $2,300 exemption for tax year 2009 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. | $59,355,000 |

| | FY 2010 Estimate |
|---|---|
| **Stillbirth Credit**<br>Allows a taxpayer who has been issued a Certificate of Stillbirth to claim an income tax credit equal to 4.5 percent of the personal exemption amount, rounded up to the nearest $10 increment. | $41,000 |
| **Tribal Tax Agreements**<br>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**<br>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. | $10,613,000 |

## Exhibit 14
## Selected Individual Income Tax Expenditures by Income Class, CY 2007

| Adjusted | MI-1040s | | Gen. Prop Tax Credit | | Effective Exemptions[1] | |
|---|---|---|---|---|---|---|
| **Gross Income** | **Number** | **Percent** | **Number** | **Amount** | **Number** | **Amount** |
| Zero Income[2] | 254,031 | 5.3% | 28,886 | $19,948,286 | 0 | $0 |
| $0 - 2,000 | 165,671 | 3.5% | 15,353 | 7,735,047 | 21,925 | 2,989,197 |
| 2,001 - 4,000 | 187,029 | 3.9% | 20,715 | 9,292,118 | 65,623 | 8,947,086 |
| 4,001 - 6,000 | 178,734 | 3.8% | 27,137 | 12,334,974 | 91,234 | 12,438,899 |
| 6,001 - 8,000 | 169,176 | 3.6% | 33,386 | 15,453,315 | 112,870 | 15,388,742 |
| 8,001 - 10,000 | 164,320 | 3.5% | 42,114 | 20,644,949 | 141,862 | 19,341,504 |
| 10,001 - 12,000 | 157,773 | 3.3% | 43,912 | 21,822,315 | 160,650 | 21,903,030 |
| 12,001 - 14,000 | 152,574 | 3.2% | 46,214 | 23,089,636 | 180,266 | 24,577,464 |
| 14,001 - 16,000 | 144,944 | 3.1% | 45,473 | 22,443,190 | 182,228 | 24,844,922 |
| 16,001 - 18,000 | 133,910 | 2.8% | 42,456 | 20,567,389 | 176,240 | 24,028,613 |
| 18,001 - 20,000 | 123,967 | 2.6% | 41,143 | 19,590,622 | 172,390 | 23,503,597 |
| 20,001 - 25,000 | 280,748 | 5.9% | 98,208 | 46,397,717 | 426,206 | 58,108,926 |
| 25,001 - 30,000 | 253,256 | 5.3% | 90,803 | 42,873,013 | 410,897 | 56,021,707 |
| 30,001 - 35,000 | 224,097 | 4.7% | 79,188 | 37,989,280 | 377,585 | 51,479,956 |
| 35,001 - 40,000 | 199,898 | 4.2% | 69,337 | 34,207,265 | 347,221 | 47,340,099 |
| 40,001 - 45,000 | 176,435 | 3.7% | 59,374 | 30,364,716 | 329,550 | 44,930,806 |
| 45,001 - 50,000 | 160,322 | 3.4% | 52,040 | 27,347,303 | 316,710 | 43,180,184 |
| 50,001 - 55,000 | 148,710 | 3.1% | 45,657 | 24,364,691 | 307,617 | 41,940,489 |
| 55,001 - 60,000 | 137,638 | 2.9% | 39,760 | 21,590,549 | 300,153 | 40,922,877 |
| 60,001 - 70,000 | 249,554 | 5.3% | 67,316 | 37,340,097 | 579,200 | 78,968,162 |
| 70,001 - 80,000 | 211,629 | 4.5% | 50,612 | 24,002,415 | 518,968 | 70,756,163 |
| 80,001 - 90,000 | 172,994 | 3.6% | 13,095 | 2,441,483 | 447,960 | 61,074,828 |
| 90,001 - 100,000 | 139,426 | 2.9% | 394 | 222,644 | 377,291 | 51,439,803 |
| Over 100,000 | 562,793 | 11.8% | 826 | 569,497 | 1,540,273 | 210,000,832 |
| **TOTAL** | 4,749,629 | 100.0% | 1,053,399 | $522,632,511 | 7,584,919 | $1,034,127,886 |

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

[2] Includes 188,957 credit-only returns.

**Exhibit 15**
**Effective Income Tax Rates by Income Class, CY 2007[1]**

| Adjusted Gross Income | Total Adjusted Gross Income | Total Income Tax Paid | Effective Tax Rate |
|---|---|---|---|
| Zero Income[2] | ($3,310,712,814) | ($105,134,758) | |
| $0 - 2,000 | 168,426,870 | (39,032,593) | -23.17% |
| 2,001 - 4,000 | 562,021,921 | (27,163,269) | -4.83% |
| 4,001 - 6,000 | 891,834,721 | (24,050,481) | -2.70% |
| 6,001 - 8,000 | 1,183,722,194 | (23,470,695) | -1.98% |
| 8,001 - 10,000 | 1,474,832,878 | (24,526,315) | -1.66% |
| 10,001 - 12,000 | 1,736,792,012 | (21,077,059) | -1.21% |
| 12,001 - 14,000 | 1,981,254,893 | (14,357,472) | -0.72% |
| 14,001 - 16,000 | 2,173,114,596 | (5,997,754) | -0.28% |
| 16,001 - 18,000 | 2,274,999,038 | 3,588,196 | 0.16% |
| 18,001 - 20,000 | 2,353,871,020 | 12,545,229 | 0.53% |
| 20,001 - 25,000 | 6,300,857,148 | 62,714,435 | 1.00% |
| 25,001 - 30,000 | 6,954,190,426 | 97,838,298 | 1.41% |
| 30,001 - 35,000 | 7,272,158,286 | 121,963,373 | 1.68% |
| 35,001 - 40,000 | 7,485,478,598 | 137,578,268 | 1.84% |
| 40,001 - 45,000 | 7,489,572,515 | 150,538,479 | 2.01% |
| 45,001 - 50,000 | 7,611,518,779 | 161,687,192 | 2.12% |
| 50,001 - 55,000 | 7,802,024,374 | 172,165,421 | 2.21% |
| 55,001 - 60,000 | 7,911,042,914 | 182,013,537 | 2.30% |
| 60,001 - 70,000 | 16,195,153,373 | 392,570,508 | 2.42% |
| 70,001 - 80,000 | 15,839,713,042 | 409,902,272 | 2.59% |
| 80,001 - 90,000 | 14,672,612,274 | 414,480,627 | 2.82% |
| 90,001 - 100,000 | 13,222,070,516 | 385,135,001 | 2.91% |
| Over 100,000 | 167,074,752,104 | 3,418,288,474 | 2.05% |
| **TOTAL** | $297,321,301,678 | $5,838,198,914 | 1.96% |

| | |
|---|---|
| Effective rate excluding zero income AGI and Taxes Paid | 1.98% |
| Effective rate excluding zero income AGI | 1.94% |

(1) Values in this table are based on a sample of the 4,560,672 MI-1040 and MI-1040CR returns.

(2) Includes 188,957 credit-only returns (zero income).

## Exhibit 16
## Tax Expenditures as a Percent of Adjusted Gross Income, CY 2007

| Adjusted Gross Income | Effective Exemptions(1) | Adjustments to Income | Nonrefundable Credits(2) | Prop. Tax Credits |
|---|---|---|---|---|
| Less Than $2,000 | 396.0% | 24.3% | -1.3% | 491.2% |
| 2,001 - 4,000 | 127.9% | 16.2% | 0.3% | 120.7% |
| 4,001 - 6,000 | 87.6% | 17.5% | 1.0% | 86.0% |
| 6,001 - 8,000 | 71.5% | 20.7% | 1.2% | 74.3% |
| 8,001 - 10,000 | 63.3% | 21.5% | 1.3% | 68.7% |
| 10,001 - 12,000 | 57.6% | 23.8% | 1.1% | 60.0% |
| 12,001 - 14,000 | 51.8% | 22.7% | 1.3% | 52.0% |
| 14,001 - 16,000 | 45.8% | 23.3% | 1.3% | 45.3% |
| 16,001 - 18,000 | 41.2% | 22.9% | 1.3% | 38.8% |
| 18,001 - 20,000 | 37.4% | 21.4% | 1.4% | 33.8% |
| 20,001 - 25,000 | 32.1% | 19.0% | 1.4% | 27.8% |
| 25,001 - 30,000 | 26.8% | 18.4% | 1.3% | 22.2% |
| 30,001 - 35,000 | 23.0% | 18.7% | 1.2% | 18.2% |
| 35,001 - 40,000 | 20.3% | 19.8% | 1.2% | 15.5% |
| 40,001 - 45,000 | 18.6% | 18.4% | 1.2% | 13.5% |
| 45,001 - 50,000 | 17.3% | 18.1% | 1.2% | 12.0% |
| 50,001 - 55,000 | 16.3% | 18.4% | 1.1% | 10.5% |
| 55,001 - 60,000 | 15.5% | 18.0% | 1.1% | 9.1% |
| 60,001 - 70,000 | 14.4% | 17.3% | 1.2% | 7.6% |
| 70,001 - 80,000 | 13.1% | 17.1% | 1.2% | 4.8% |
| 80,001 - 90,000 | 12.1% | 16.4% | 1.2% | 0.5% |
| 90,001 - 100,000 | 11.2% | 15.4% | 1.3% | 0.1% |
| Over 100,000 | 3.7% | 44.7% | 0.8% | 0.0% |

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

(2) Income tax credits were divided by the tax rate (4.01%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, the homeless food bank credit, and the vehicle donation credit.

**Exhibit 17**
**Property Tax Credits by County, CY 2007**

| | General | | Seniors | | Veterans | |
|---|---|---|---|---|---|---|
| **County** | **Number** | **Amount** | **Number** | **Amount** | **Number** | **Amount** |
| ALCONA | 500 | $175,900 | 500 | $250,000 | 100 | $4,500 |
| ALGER | 600 | 176,800 | 300 | 145,100 | < 50 | 4,700 |
| ALLEGAN | 9,100 | 3,859,600 | 3,700 | 2,511,100 | 100 | 9,000 |
| ALPENA | 2,000 | 649,700 | 1,600 | 859,800 | 100 | 10,400 |
| ANTRIM | 1,800 | 762,000 | 1,200 | 869,400 | 100 | 5,500 |
| ARENAC | 1,100 | 398,500 | 800 | 468,300 | < 50 | 4,800 |
| BARAGA | 300 | 93,000 | 300 | 129,500 | < 50 | 6,600 |
| BARRY | 4,000 | 1,707,100 | 1,900 | 1,252,300 | 100 | 6,800 |
| BAY | 9,300 | 3,409,700 | 6,000 | 3,808,900 | 200 | 26,800 |
| BENZIE | 1,300 | 512,400 | 700 | 417,700 | < 50 | 4,000 |
| BERRIEN | 13,000 | 4,567,000 | 6,900 | 4,103,900 | 200 | 18,200 |
| BRANCH | 3,300 | 1,254,300 | 1,700 | 1,015,000 | 100 | 8,600 |
| CALHOUN | 12,400 | 5,138,500 | 6,000 | 4,219,100 | 200 | 25,400 |
| CASS | 2,800 | 1,009,300 | 1,600 | 961,100 | 100 | 5,700 |
| CHARLEVOIX | 2,600 | 1,123,900 | 1,400 | 912,100 | < 50 | 2,900 |
| CHEBOYGAN | 1,900 | 598,200 | 1,000 | 525,700 | 100 | 9,700 |
| CHIPPEWA | 4,100 | 1,111,500 | 1,100 | 553,300 | 200 | 18,100 |
| CLARE | 2,000 | 609,900 | 1,100 | 509,500 | 100 | 6,800 |
| CLINTON | 5,200 | 2,480,200 | 2,400 | 1,740,400 | < 50 | 2,800 |
| CRAWFORD | 800 | 257,600 | 500 | 220,600 | < 50 | 4,400 |
| DELTA | 2,600 | 811,600 | 1,600 | 795,600 | 200 | 25,100 |
| DICKINSON | 1,700 | 574,700 | 1,300 | 800,600 | 100 | 14,000 |
| EATON | 12,600 | 5,943,600 | 5,400 | 3,971,400 | 100 | 13,100 |
| EMMET | 3,600 | 1,510,600 | 1,500 | 1,039,100 | 100 | 4,100 |
| GENESEE | 45,300 | 18,875,400 | 17,100 | 11,087,300 | 400 | 51,800 |
| GLADWIN | 1,700 | 617,500 | 1,400 | 729,800 | 100 | 9,100 |
| GOGEBIC | 700 | 188,000 | 600 | 261,500 | 100 | 18,400 |
| GRAND TRAVERSE | 10,400 | 4,697,000 | 4,300 | 3,133,700 | 100 | 11,900 |
| GRATIOT | 2,700 | 988,200 | 1,500 | 915,300 | 100 | 8,100 |
| HILLSDALE | 3,300 | 1,259,400 | 1,800 | 1,018,200 | 100 | 8,000 |
| HOUGHTON | 1,600 | 515,100 | 900 | 443,500 | 100 | 16,400 |
| HURON | 2,700 | 1,293,100 | 2,500 | 1,757,300 | 100 | 7,700 |
| INGHAM | 36,500 | 18,273,400 | 10,600 | 8,326,600 | 100 | 24,000 |
| IONIA | 5,000 | 2,016,300 | 1,900 | 1,225,300 | < 50 | 5,000 |
| IOSCO | 1,600 | 508,300 | 1,200 | 594,400 | 200 | 13,600 |
| IRON | 600 | 180,500 | 500 | 243,000 | 100 | 12,300 |
| ISABELLA | 6,000 | 2,501,000 | 2,100 | 1,417,900 | 100 | 6,300 |
| JACKSON | 13,600 | 5,386,700 | 5,900 | 3,585,100 | 200 | 25,100 |
| KALAMAZOO | 27,000 | 11,427,400 | 9,500 | 6,927,400 | 200 | 26,700 |
| KALKASKA | 1,300 | 450,400 | 600 | 322,600 | < 50 | 3,200 |
| KENT | 68,200 | 29,280,800 | 22,200 | 15,896,300 | 300 | 44,700 |
| KEWEENAW | 100 | 22,700 | 0 | 32,100 | < 50 | 1,800 |

## Exhibit 17 (Continued)

| | General | | Seniors | | Veterans | |
|---|---|---|---|---|---|---|
| **County** | **Number** | **Amount** | **Number** | **Amount** | **Number** | **Amount** |
| LAKE | 600 | $208,200 | 400 | $179,200 | < 50 | $4,600 |
| LAPEER | 6,600 | 3,007,900 | 2,900 | 1,837,600 | 100 | 6,500 |
| LEELANAU | 1,400 | 675,400 | 1,000 | 784,900 | < 50 | 1,400 |
| LENAWEE | 8,900 | 3,940,400 | 4,600 | 3,235,600 | 100 | 12,400 |
| LIVINGSTON | 600 | 208,200 | 400 | 179,200 | < 50 | 4,600 |
| LUCE | 300 | 81,600 | 100 | 24,900 | < 50 | 3,200 |
| MACKINAC | 1,400 | 401,400 | 400 | 248,400 | < 50 | 2,900 |
| MACOMB | 104,800 | 60,566,700 | 50,100 | 42,707,000 | 400 | 53,900 |
| MANISTEE | 1,800 | 669,600 | 1,300 | 709,600 | 100 | 7,800 |
| MARQUETTE | 3,800 | 1,148,000 | 1,700 | 857,000 | 300 | 35,300 |
| MASON | 2,500 | 916,600 | 1,500 | 965,200 | < 50 | 5,700 |
| MECOSTA | 2,500 | 944,000 | 1,400 | 808,200 | 100 | 6,600 |
| MENOMINEE | 1,300 | 387,500 | 700 | 343,700 | 100 | 11,100 |
| MIDLAND | 5,800 | 2,155,100 | 2,900 | 1,810,000 | 100 | 12,400 |
| MISSAUKEE | 900 | 353,200 | 600 | 321,100 | < 50 | 3,500 |
| MONROE | 10,900 | 4,949,800 | 5,800 | 3,895,600 | 100 | 14,400 |
| MONTCALM | 5,300 | 1,967,700 | 2,500 | 1,502,600 | 100 | 8,900 |
| MONTMORENCY | 600 | 167,000 | 400 | 153,600 | 100 | 4,900 |
| MUSKEGON | 16,600 | 6,275,400 | 7,600 | 4,831,100 | 200 | 30,000 |
| NEWAYGO | 3,400 | 1,386,000 | 1,800 | 1,091,800 | 100 | 8,100 |
| OAKLAND | 123,900 | 77,171,200 | 50,500 | 44,723,400 | 300 | 44,600 |
| OCEANA | 2,000 | 751,400 | 1,200 | 714,200 | 100 | 5,800 |
| OGEMAW | 1,400 | 470,400 | 1,000 | 528,500 | 100 | 7,200 |
| ONTONAGON | 300 | 81,400 | 200 | 96,300 | 100 | 6,100 |
| OSCEOLA | 1,600 | 539,900 | 1,000 | 524,200 | 100 | 7,800 |
| OSCODA | 300 | 94,200 | 200 | 79,800 | < 50 | 3,000 |
| OTSEGO | 1,500 | 512,200 | 700 | 366,000 | 100 | 3,900 |
| OTTAWA | 24,800 | 10,768,500 | 10,400 | 7,498,400 | 100 | 13,700 |
| PRESQUE ISLE | 800 | 266,200 | 700 | 375,600 | 100 | 6,400 |
| ROSCOMMON | 1,700 | 582,000 | 1,400 | 704,700 | 100 | 9,900 |
| SAGINAW | 15,800 | 5,457,100 | 7,500 | 4,401,600 | 300 | 36,900 |
| ST. CLAIR | 16,800 | 7,570,000 | 7,900 | 5,643,300 | 200 | 23,600 |
| ST. JOSEPH | 4,500 | 1,611,800 | 2,200 | 1,287,700 | 100 | 7,500 |
| SANILAC | 3,400 | 1,440,400 | 2,100 | 1,420,500 | 100 | 9,400 |
| SCHOOLCRAFT | 500 | 143,000 | 200 | 88,200 | 100 | 6,400 |
| SHIAWASSEE | 6,700 | 2,565,000 | 3,300 | 1,949,000 | 100 | 13,100 |
| TUSCOLA | 4,400 | 1,744,800 | 2,600 | 1,664,100 | 100 | 14,300 |
| VAN BUREN | 7,500 | 2,972,700 | 3,400 | 2,327,100 | 100 | 9,700 |
| WASHTENAW | 38,800 | 23,805,900 | 10,600 | 9,578,400 | 100 | 11,500 |
| WAYNE LESS DETROIT | 121,500 | 72,007,600 | 54,200 | 47,755,500 | 400 | 64,200 |
| WEXFORD | 3,100 | 1,170,800 | 1,500 | 898,500 | 100 | 7,800 |
| OUTSIDE OF MICHIGAN | 22,200 | 11,812,900 | 8,600 | 7,050,400 | 100 | 17,600 |
| DETROIT | 132,700 | 65,750,100 | 30,700 | 22,120,000 | 400 | 102,600 |
| **TOTAL** | 1,053,400 | $522,632,500 | 429,500 | $321,563,900 | 9,000 | $1,207,700 |

## Exhibit 17 (Continued)

| County | Blind and Disabled | | Farmland | | Total Credits | |
|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | Number | Amount |
| ALCONA | 100 | $29,500 | < 50 | $21,100 | 1,100 | $481,000 |
| ALGER | < 50 | 13,600 | < 50 | 1,300 | 900 | 341,500 |
| ALLEGAN | 600 | 331,400 | 100 | 823,400 | 13,600 | 7,534,600 |
| ALPENA | 400 | 137,000 | < 50 | 14,900 | 4,100 | 1,671,800 |
| ANTRIM | 100 | 79,700 | < 50 | 40,200 | 3,300 | 1,756,700 |
| ARENAC | 200 | 66,100 | 100 | 255,100 | 2,100 | 1,192,800 |
| BARAGA | < 50 | 16,500 | < 50 | 0 | 600 | 245,700 |
| BARRY | 200 | 105,500 | 100 | 222,400 | 6,200 | 3,294,100 |
| BAY | 1,000 | 466,000 | 300 | 1,202,000 | 16,800 | 8,913,500 |
| BENZIE | 100 | 47,400 | < 50 | 2,700 | 2,200 | 984,200 |
| BERRIEN | 1,300 | 665,400 | 100 | 324,000 | 21,400 | 9,678,600 |
| BRANCH | 200 | 107,700 | 200 | 714,000 | 5,400 | 3,099,600 |
| CALHOUN | 1,400 | 777,000 | 200 | 736,300 | 20,200 | 10,896,300 |
| CASS | 300 | 108,800 | 100 | 750,500 | 4,800 | 2,835,500 |
| CHARLEVOIX | 100 | 64,200 | < 50 | 19,900 | 4,100 | 2,123,000 |
| CHEBOYGAN | 200 | 69,600 | < 50 | 9,800 | 3,100 | 1,213,000 |
| CHIPPEWA | 200 | 79,900 | < 50 | 18,300 | 5,500 | 1,781,100 |
| CLARE | 300 | 106,200 | < 50 | 77,600 | 3,500 | 1,310,100 |
| CLINTON | 200 | 139,000 | 200 | 661,300 | 8,000 | 5,023,700 |
| CRAWFORD | 100 | 36,600 | < 50 | 0 | 1,400 | 519,100 |
| DELTA | 300 | 124,200 | < 50 | 63,600 | 4,600 | 1,820,100 |
| DICKINSON | 200 | 67,900 | < 50 | 14,500 | 3,300 | 1,471,700 |
| EATON | 700 | 411,600 | 100 | 570,600 | 18,900 | 10,910,200 |
| EMMET | 100 | 69,200 | < 50 | 5,100 | 5,300 | 2,628,100 |
| GENESEE | 4,200 | 2,335,900 | 100 | 245,300 | 67,100 | 32,595,700 |
| GLADWIN | 200 | 96,300 | < 50 | 51,700 | 3,400 | 1,504,300 |
| GOGEBIC | 100 | 39,000 | < 50 | 0 | 1,500 | 506,800 |
| GRAND TRAVERSE | 500 | 253,900 | < 50 | 46,400 | 15,300 | 8,142,700 |
| GRATIOT | 300 | 108,600 | 400 | 1,600,800 | 4,900 | 3,621,000 |
| HILLSDALE | 300 | 148,800 | 200 | 552,700 | 5,700 | 2,987,200 |
| HOUGHTON | 200 | 72,600 | < 50 | 2,900 | 2,800 | 1,050,600 |
| HURON | 200 | 114,900 | 1,000 | 4,996,300 | 6,600 | 8,169,300 |
| INGHAM | 2,300 | 1,357,300 | 100 | 1,017,100 | 49,700 | 28,998,500 |
| IONIA | 300 | 168,400 | 100 | 649,700 | 7,400 | 4,064,600 |
| IOSCO | 200 | 90,900 | < 50 | 36,100 | 3,300 | 1,243,200 |
| IRON | 100 | 34,100 | < 50 | 1,700 | 1,200 | 471,500 |
| ISABELLA | 300 | 164,100 | 100 | 415,300 | 8,600 | 4,504,600 |
| JACKSON | 1,100 | 621,600 | 100 | 283,300 | 20,900 | 9,901,800 |
| KALAMAZOO | 1,700 | 950,500 | 100 | 596,700 | 38,500 | 19,928,500 |
| KALKASKA | 100 | 61,800 | < 50 | 5,000 | 2,100 | 843,000 |
| KENT | 3,600 | 2,148,100 | 100 | 457,900 | 94,500 | 47,827,800 |
| KEWEENAW | < 50 | 3,300 | < 50 | 0 | 100 | 59,800 |

## Exhibit 17 (Continued)

| County | Blind and Disabled Number | Blind and Disabled Amount | Farmland Number | Farmland Amount | Total Credits Number | Total Credits Amount |
|---|---|---|---|---|---|---|
| LAKE | 100 | $51,000 | < 50 | $4,200 | 1,200 | $447,100 |
| LAPEER | 400 | 232,100 | 100 | 185,000 | 10,000 | 5,269,000 |
| LEELANAU | 100 | 36,200 | < 50 | 47,500 | 2,500 | 1,545,300 |
| LENAWEE | 700 | 398,300 | 400 | 1,839,900 | 14,700 | 9,426,700 |
| LIVINGSTON | 400 | 291,200 | < 50 | 4,200 | 16,200 | 9,848,600 |
| LUCE | < 50 | 10,300 | < 50 | 0 | 500 | 120,000 |
| MACKINAC | < 50 | 17,700 | < 50 | 4,300 | 1,900 | 674,700 |
| MACOMB | 5,200 | 3,861,800 | < 50 | 87,800 | 160,500 | 107,277,300 |
| MANISTEE | 200 | 100,300 | < 50 | 10,400 | 3,400 | 1,497,600 |
| MARQUETTE | 400 | 154,400 | < 50 | 3,300 | 6,200 | 2,197,900 |
| MASON | 200 | 111,800 | < 50 | 163,600 | 4,300 | 2,162,800 |
| MECOSTA | 200 | 94,800 | < 50 | 132,200 | 4,200 | 1,985,800 |
| MENOMINEE | 100 | 38,400 | < 50 | 58,900 | 2,300 | 839,600 |
| MIDLAND | 500 | 235,800 | < 50 | 176,900 | 9,300 | 4,390,300 |
| MISSAUKEE | 100 | 38,800 | 100 | 363,100 | 1,700 | 1,079,700 |
| MONROE | 900 | 509,800 | 200 | 584,000 | 17,800 | 9,953,700 |
| MONTCALM | 400 | 207,500 | 200 | 704,400 | 8,600 | 4,391,100 |
| MONTMORENCY | 100 | 29,600 | < 50 | 18,000 | 1,100 | 373,200 |
| MUSKEGON | 1,900 | 981,900 | < 50 | 204,200 | 26,300 | 12,322,700 |
| NEWAYGO | 300 | 157,100 | 100 | 236,000 | 5,600 | 2,879,100 |
| OAKLAND | 5,100 | 3,893,800 | < 50 | 59,300 | 179,900 | 125,892,300 |
| OCEANA | 200 | 91,800 | 100 | 249,200 | 3,500 | 1,812,400 |
| OGEMAW | 200 | 83,300 | < 50 | 59,700 | 2,700 | 1,149,100 |
| ONTONAGON | < 50 | 13,300 | < 50 | 1,800 | 600 | 198,900 |
| OSCEOLA | 200 | 66,200 | 100 | 180,900 | 2,900 | 1,319,000 |
| OSCODA | 100 | 25,400 | < 50 | 3,000 | 600 | 205,300 |
| OTSEGO | 100 | 47,600 | < 50 | 0 | 2,400 | 929,700 |
| OTTAWA | 1,100 | 659,200 | 200 | 934,700 | 36,600 | 19,874,500 |
| PRESQUE ISLE | 100 | 38,600 | < 50 | 30,600 | 1,700 | 717,500 |
| ROSCOMMON | 300 | 115,800 | < 50 | 18,400 | 3,500 | 1,430,900 |
| SAGINAW | 2,000 | 1,026,200 | 500 | 1,859,400 | 26,100 | 12,781,200 |
| ST. CLAIR | 1,200 | 707,200 | < 50 | 141,700 | 26,100 | 14,085,800 |
| ST. JOSEPH | 400 | 160,700 | 200 | 771,100 | 7,300 | 3,838,800 |
| SANILAC | 300 | 164,300 | 500 | 1,608,100 | 6,500 | 4,642,800 |
| SCHOOLCRAFT | < 50 | 9,200 | < 50 | 3,500 | 800 | 250,300 |
| SHIAWASSEE | 600 | 292,300 | 200 | 616,700 | 10,900 | 5,436,100 |
| TUSCOLA | 400 | 200,700 | 600 | 3,074,000 | 8,200 | 6,697,800 |
| VAN BUREN | 600 | 348,500 | 100 | 490,200 | 11,700 | 6,148,200 |
| WASHTENAW | 1,400 | 1,074,200 | 200 | 853,400 | 51,000 | 35,323,300 |
| WAYNE LESS DETROIT | 7,000 | 5,431,900 | < 50 | 89,100 | 183,100 | 125,348,300 |
| WEXFORD | 300 | 147,500 | < 50 | 22,400 | 5,000 | 2,246,900 |
| OUTSIDE OF MICHIGAN | 1,000 | 715,600 | < 50 | 200,400 | 32,000 | 19,796,900 |
| DETROIT | 10,100 | 6,809,300 | < 50 | 2,900 | 173,900 | 94,784,800 |
| **TOTAL** | 69,400 | $42,571,800 | 8,000 | $33,763,800 | 1,569,200 | $921,739,700 |

## 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 2010 Estimate** |
|---|---|
| **Accelerated Depreciation** | $146,536,000 |

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

| | |
|---|---|
| **Employer Contributions to Health and Life Insurance** | $1,049,355,000 |

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 2010 Estimate |
|---|---|
| **Employer Pension Plans** Exempts employer payments into qualified employee pension plans from taxation. | $555,035,000 |
| **Federal Adjustments to Income** Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI. | $34,290,000 |
| **Fellowships and Scholarships** Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI. | $11,439,000 |
| **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. | $212,811,000 |
| **Income Maintenance Benefits** Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation. | $5,232,000 |
| **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 $5,000 for 2008. Only persons with an AGI below $85,000 on a joint return ($53,000 on a single return) or not covered by an employer retirement plan can take the full $5,000 deduction. A partial deduction, phased out according to income, is available between $85,000-$105,000 for joint filers and $53,000-$63,000 for single filers. | $187,785,000 |
| **Interest on Life Insurance Savings** Exempts interest earned from life insurance from tax if used to buy additional life insurance. | $143,253,000 |
| **Medical Care Savings Account** Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account. | $7,463,000 |

| | FY 2010 Estimate |
|---|---|
| **Railroad Retirement Benefits**<br>Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below). | $1,734,000 |
| **Social Security Benefits**<br>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. | $252,472,000 |
| **Student Loan Deduction**<br>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. | $4,469,000 |
| **Veterans' Benefits**<br>Excludes veterans' benefits administered by the Veterans' Administration from AGI. | $42,083,000 |
| **Workers' Compensation**<br>Exempts workers' compensation received by the worker or his or her beneficiaries from taxation. | $47,521,000 |

# CHAPTER 7

# TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 0.3 percent from $47.9 million in FY 2009 to $48.0 million in FY 2010. Transportation tax expenditure estimates were based on FY 2007 and FY 2008 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 Acts 25 and 26 of 2008 amended the Aeronautics Code and the Motor Fuel Tax Act, respectively, to exempt aviation fuel from the aviation fuel and motor fuel taxes if the fuel was purchased to formulate leaded racing fuel.

## 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 $312,000 to the state's Aeronautics Fund in FY 2010.

## 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 2010, the aviation fuel tax is projected to yield $4.6 million, which is deposited into the state's Aeronautics Fund.

| | **FY 2010 Estimate** |
|---|---|
| **Federally-Owned Aircraft**<br>Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft. | $288,000 |
| **Interstate Flight Refund**<br>Airlines that operate scheduled interstate flights receive a refund of 1.5 cents per gallon of aviation fuel used. | $3,100,000 |

### 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 2010 Estimate** |
|---|---|
| **Marine Vessel Exemption**<br>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. | $740,000 |

### 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 2010, motor fuel taxes will yield an estimated $952.4 million.

| | FY 2010 Estimate |
|---|---|
| **Diesel Fuel for Railroads**<br>Exempts diesel fuel used by railroad locomotives from motor fuel taxes. | n.a. |
| **Evaporation and Loss Allowance**<br>The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes. | $12,500,000 |
| **Fuel for Job Sites and Charter Firms**<br>Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes. | $5,210,000 |
| **Fuel for Off-Road Use**<br>Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads. | $1,000,000 |
| **Municipal Franchise Vehicles**<br>Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs. | $460,000 |
| **Public Vehicles**<br>Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes. | $13,620,000 |
| **Tribal Tax Agreements**<br>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 2010, the motor vehicle registration fee is projected to yield $830.0 million.

| | **FY 2010 Estimate** |
|---|---|
| **Disabled Veterans' Vehicles**<br>Provides totally disabled veterans free vehicle license plates. | $378,000 |
| **Handicapper Vans**<br>Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair. | n.a. |
| **Intercity Commercial Buses**<br>Intercity commercial buses pay a registration fee of $25 rather than a tax based on weight. | n.a. |
| **Public and Nonprofit Vehicles**<br>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. | $10,687,000 |

## 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 2010 Estimate** |
|---|---|
| **Publicly-Owned Watercraft**<br>Levies a special fee of $1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes. | $13,000 |

# 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 3.6 percent from $10,264.0 million in FY 2009 to $10,193.9 million in FY 2010. Estimates were based on FY 2007 and FY 2008 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 3 of 2008 amended the Commercial Rehabilitation Act to remove the requirement that property be "obsolete" in order to qualify for property tax abatement, thus allowing a broader range of property to qualify.

Public Act 4 of 2008 amended the Neighborhood Enterprise Zone Act to allow an exception to the application process for a Neighborhood Enterprise Zone certificate. The exception would apply to a zone designated by the City of Wyandotte in 2007.

Public Act 94 of 2008 created the Water Resource Improvement Tax Increment Finance Authority Act. Under the Act, a municipality may establish an authority to implement a development plan to improve water resource quality. The authority may, subject to the approval of the governing body of the jurisdiction, submit a tax increment financing plan that would allow for the capture of incremental tax revenues within the authority. A municipality may not create or expand the boundaries of a development plan after December 31, 2011.

Public Act 96 of 2008 amended the General Property Tax Act to allow a homeowner who has changed principal residences to file a conditional rescission form with the local tax unit on the previous residence if the residence is unoccupied, currently for sale, not rented or available for rent, and not used for a business purpose. The conditional rescission form would allow the owner to retain the principal residence exemption for local school operating taxes while awaiting the sale of former residence for up to three years.

Public Acts 104 and 105 of 2008 amended the Local Development Financing Act to expand the opportunities for establishing certified technology parks (also known as Smart Zones). The growth in property taxes within the parks may be captured and used to promote further economic development within park. P.A. 104 would allow a municipality that has created a local development finance authority in which a Smart Zone has been designated to enter into an agreement with another authority without a certified technology park to designate a specific area within the second authority as a certified technology park. P.A. 105 would allow the Michigan Economic Development Corporation to designate three additional certified technology parks between February 1, 2008, and December 31, 2008.

Public Act 117 of 2008 amended the Michigan Renaissance Zone Act to include a system that creates energy from a process using agricultural crops or processed products from agricultural crops in the definition of renewable energy facility. P.A. 117 would also require the recommendation of the Agriculture Commission in order for the State Administrative Board to designate a renaissance zone for a renewable energy facility if the facility uses crops or residues, or processed products from crops as its primary raw material source. In addition, P.A. 117 also allows the Michigan Strategic Fund board to modify an existing recovery zone if the additional real property is contiguous to existing qualified tool and die business property and will become qualified tool and die business property once in operation, and the local unit of government in which the property is located consents to the change.

Public Act 118 of 2008 amended the Commercial Rehabilitation Act to modify the definitions of qualified facility and rehabilitation to include vacant property located in a city with a 2000 population of between 36,000 and 37,000, from which a previous structure had been demolished and on which new commercial property would be constructed. This Act was intended to include a facility in Bay City that originally began as a rehabilitation of an existing facility, but eventually led to the demolition of the facility since it was no longer structurally sound.

Public Act 170 of 2008 amended the Plant Rehabilitation and Industrial Development Act to include the operation of a major distribution and logistics facility in the definition of industrial property eligible for tax reduction and abatement. P.A. 170 also contains provisions to require the State Tax Commission to issue industrial facilities exemption certificates for certain facilities for which certificates had previously been revoked.

Public Act 198 of 2008 amended the General Property Tax Act to allow a taxpayer to file an appeal with the board of review in July or December to claim a conditional rescission of the principal residence exemption on property that formerly served as the taxpayer’s principal residence. The conditional rescission was created by Public Act 96 above. This appeal is only applicable for 2008.

Public Act 204 of 2008 amended the Neighborhood Enterprise Zone Act to allow a qualified downtown revitalization district to contain fewer than 10 platted parcels if the parcels in the district contain at least 10 facilities.

Public Acts 225 and 226 of 2008 amended the Downtown Development Authority (DDA) Act to allow the board of a DDA to create, operate, and fund retail business incubators and to include a building used as a retail business incubator in the definition of a public facility. P.A. 226 would also allow a DDA to create, operate, and fund a loan program to pay for improvements for existing building in a downtown district, in order to make the buildings more attractive to sell or lease.

Public Act 227 of 2008 amended the Commercial Redevelopment Act to allow new tax abatements for new or replacement facilities in a redevelopment district in a city or village, on property zoned for mixed-use that was located in a qualified downtown revitalization district. New abatements have not been issued since December 31, 1985, but would now be available until the end of 2020.

Public Act 228 of 2008 amended the Neighborhood Enterprise Zone Act to modify the definition of a new facility to include apartments if a new structure or portion of a new structure located in a qualified downtown revitalization district is leased or available for lease, and is a mixed used building or located in a mixed use building that contains retail business space on the street level floor.

Public Act 230 of 2008 amended the General Property Tax Act to allow an exemption for new personal property owned or leased by an eligible business located on one or more distressed parcels. The tax exemption would be approved by the governing body of a local tax assessing district. A distressed parcel is defined as a parcel of real property in a city or village that is located in a qualified downtown revitalization district, is zoned for mixed use, and either has a blighted or functionally obsolete building located on the parcel or is a formerly occupied parcel that is now vacant.

Public Act 231 of 2008 amended the Commercial Rehabilitation Act to include a retail supermarket, grocery store, produce market, or delicatessen located in an underserved area as a qualified facility. If a facility is granted a commercial rehabilitation exemption certificate by a local governmental unit, the facility is exempt from ad valorem taxes under the General Property Tax Act and subject to the commercial rehabilitation tax instead.

Public Act 242 of 2008 amended the Michigan Renaissance Zone Act to allow the Michigan Strategic Fund to choose a beginning date for a renaissance zone designation up to five years after the designation, and to allow the tax exemptions under the Renaissance Zone Act for all tax years even if an otherwise eligible business failed to file a single business tax return and had no tax liability for the tax year for which it did not file a return.

Public Act 243 of 2008 amended the General Property Tax Act to allow property that qualifies as a principal residence to continue to qualify as a principal residence for three years after all or any portion of the dwelling is rented or leased to another person as a residence if the owner of the dwelling is absent while on active duty. Generally property that is rented or leased to another person is not eligible for a principal residence exemption.

Public Act 285 of 2008 amended the General Property Tax Act to include the operation of a facility either owned or operated by a taxpayer that is an authorized business and eligible for tax credits under the MEGA Act as an eligible business for a personal property tax exemption for new personal property in an eligible district. P.A. 285 also modified the definition of new personal property to include personal property that was not previously in service in Michigan.

Public Act 329 of 2008 amended the Michigan Renaissance Zone Act to allow the State Administrative Board to designate up to fifteen renaissance zones for renewable energy facilities. At least five of the renewable energy renaissance zones are required to focus on cellulosic biofuels, primarily fuels made from wood or grass. The previous limit on renaissance zone for renewable energy facilities was ten.

Public Act 334 of 2008 amended the General Property Tax Act to exempt machinery that is capable of simultaneously harvesting grain or other crops and biomass and machinery used to harvest biomass. Biomass means crop residue used to produce energy or agricultural crops grown specifically for the production of energy.

Public Act 336 of 2008 amended the Natural Resources and Environmental Protection Act to include maple syrup within the definition of agricultural use. This definition of agricultural use is used within the General Property Tax Act to determine if property qualifies for an exemption from local school operating taxes.

Public Act 337 of 2008 amended the General Property Tax Act to exempt personal property from tax if the personal property is used in agricultural operations that include collecting, evaporating, and preparing maple syrup if the owner of the property has annual sales of $25,000 or less.

Public Act 454 of 2008 amended the General Property Tax Act to exempt supportive housing property from the tax levied by a local school district for school operating purposes if the owner of the supportive housing property claims an exemption. Supportive housing property is defined in the State Housing Development Authority Act.

Public Act 455 of 2008 amended the Revised School Code to include supportive housing property among the property exempt from the local school operating tax.

Public Act 457 of 2008 amended the Plant Rehabilitation and Industrial Development Act to include certain convention and trade centers in the definition of industrial property. The expanded definition includes a convention or trade center on which construction begins by December 31, 2010, and that, if located in a county with a population of more than 750,000 and less than 1.1 million, will be over 100,000 square feet in size. If the convention or trade center is located in a county with a population of more than 26,000 and less than 28,000, it will be over 30,000 square feet in size.

Public Act 473 of 2008 amended the State Real Estate Transfer Tax Act to include in the definition of transfer the interest in real property acquired through the acquisition of a controlling interest in an entity with an interest in the property. The Act also exempts certain transfers of real property between a business and the owners of the business. For example, a transfer of real property between a corporation and the shareholders of the corporation necessary to complete the dissolution of the corporation would be exempt.

Public Act 495 of 2008 amended the Michigan Renaissance Zone Act to increase the number of allowable tool and die renaissance recovery zones that the Michigan Strategic Fund board may designate from 25 to 35 and to allow a qualified tool and die business to have any number of employees. The previous restriction was that a qualified tool and die business have fewer than 75 full-time employees.

Public Act 500 of 2008 amended the Commercial Rehabilitation Act to make revisions to the definition of qualified retail food establishment and extended the period during which rehabilitation may begin prior to filing an application for a commercial rehabilitation exemption certificate. P.A. 500 also modifies the formula for determining the commercial rehabilitation tax for a qualified retail food establishment that was issued a certificate on or before December 31, 2009.

Public Act 504 of 2008 amended the Obsolete Property Rehabilitation Act to create an exception to the requirement that the rehabilitation of a facility must begin after a rehabilitation district has been created. The exception would allow a tax abatement to be granted in the event roof repairs or improvements on a facility were completed in March 2006, prior to the creation of a district in April 2006. The population restrictions in P.A. 504 appear to limit the application of this exception to Big Rapids.

Public Act 505 of 2008 amended the General Property Tax Act to increase the number of acres from 400 to 480 that may be exempt under the Act if owned by a Boy or Girl Scout or Camp Fire Girls organization, a 4-H Club or foundation, or by a YMCA or YWCA that meets the other requirements in the law. If two or more groups consolidate after 2007, the consolidated group's acreage limit is 480 multiplied by the number of groups that consolidate.

Public Act 506 of 2008 amended the General Property Tax Act to provide that the transfer of real property or other ownership interests resulting from a consolidation or merger of a Boy or Girl Scout or Camp Fire Girls organization, a 4-H Club or foundation, or by a YMCA or YWCA is not subject to the Proposal A taxable value "pop-up", if at least 50 percent of the members of the organization are Michigan residents.

Public Act 515 of 2008 amended the Plant Rehabilitation and Industrial Development Act to allow an industrial facilities exemption certificate to be approved and tax abatement granted to a facility located in an industrial development district that meets the requirements outlined in law other than certain procedural timetables, if the facility received approval from the chairperson of the Michigan Economic Growth Authority. Exceptions are periodically enacted for facilities that meet most of the requirements in statute for an industrial facilities exemption certificate but do not satisfy all of the requirements. P.A. 515 would allow a means of granting exceptions on a case-by-case basis without requiring a statutory amendment.

Public Act 516 of 2008 amended the Plant Rehabilitation and Industrial Development Act to allow an industrial facilities exemption certificate to be approved for certain facilities approved by local taxing jurisdictions despite not meeting all the procedural timetables required by existing law. P.A. 516 contains three specific exceptions.

Public Act 573 of 2008 amended the General Property Tax Act to allow an eligible local government unit located in a county that borders Canada or another state to exempt from taxes levied under the General Property Tax Act all new personal property located in an eligible district and owned or leased by an eligible business. New personal property would consist of personal property that was not previously subject to tax and is placed in the eligible district after the resolution exempting new property is approved.

Public Act 581 of 2008 amended the Plant Rehabilitation and Industrial Development Act to modify the definition of qualified commercial activity to be commercial property where at least 90 percent of the property, excluding certain green space, is used for warehousing, distribution, or logistic purposes, is either located in a county that borders Canada or another state or is used as a communications center, and occupies a building or structure that is at least 100,000 square feet.

Public Act 585 of 2008 amended the General Property Tax Act to exempt from taxation certain federally-financed, low-income housing owned by a limited dividend housing corporation. A limited dividend housing corporation is defined as a corporation or housing association meeting certain requirements that will also own and rehabilitate a housing facility or project previously qualified, built, or financed under certain federal housing laws. The Act provides that the state will make a payment in lieu of tax, for properties exempt under this section, equal to the properties' base value multiplied by the number of mills levied other than local school operating mills and state education tax. For properties exempt under this section before January 2009, the base value is its 2008 taxable value. For properties not exempt under this section before January 2009, the base value is the taxable value in the year in which the claim for exemption is made or, for new construction, the taxable value in the year in which construction is completed.

## 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 2010 collections are projected to total $73.0 million.

| | FY 2010 Estimate |
|---|---|
| **Broadband Investment Credit**<br>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. | $22,500,000 |
| **Railroad Right-of-Way**<br>Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan. | $26,500,000 |

## 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 |
|---|---|---|---|
| 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 | 51.38 | 39.88 |
| 2006 | 32.65 | 50.96 | 39.96 |
| 2007 | n.a. | n.a. | 39.89 |
| 2008 | n.a. | n.a. | 38.94 |

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 2010 Estimate**

**Agricultural Transfers** — $31,900,000

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

**Air and Water Pollution Control** — $130,000,000

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

| | FY 2010 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** | $200,000 |
| Exempts energy conservation devices from property tax. This exemption must be approved and certified by the State Tax Commission. | |
| **Enterprise Zone** | $900,000 |
| 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** | $3,520,000,000 |
| 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** | $150,000,000 |
| Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses. | |

| | FY 2010 Estimate |
|---|---|
| **Industrial Facilities Development** | $256,000,000 |

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

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

**Neighborhood Enterprise Zones** — $19,500,000

Allows local units of government that participate in this program to grant property tax abatements. For new housing, the property tax rate is equal to one-half the statewide average millage rate. For rehabilitated housing, assessments are frozen so that the value of improvements is not taxed. Currently, 19 cities participate in this program.

**Next Energy Exemption** — $1,000,000

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

**Obsolete Property Rehabilitation Exemption** — $4,800,000

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

| | **FY 2010 Estimate** |
|---|---|
| **Personal Property Ad Valorem Exemptions** | $383,100,000 |

Exempts industrial personal property from the 18-mill property tax for local schools and the state education tax (6 mills). Commercial personal property is exempt from 12 of the 18 mills for schools.

**Personal Property Industrial Facilities** — $61,600,000

Provides an exemption from the industrial facilities tax equal to the portion of the tax attributable to the 6 mills for state education tax and the 18 mills for school operations.

**Poverty Exemption** — $7,000,000

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

**Renaissance Zones** — $82,500,000

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

**Tax-Exempt Property** — $1,542,000,000

Exhibit 19 reports the results from the 2007 County Survey of Tax-Exempt Property. The survey includes seven categories of tax-exempt property reported by county. These estimates of the taxable value of exempt property were provided by county equalization departments, as required by Public Act 155 of 1925. Exhibit 18 contains a map of Michigan's counties.

The total estimated taxable value of exempt property (not including tax-exempt property for industrial facility development) reported was $28.5 billion. If taxed at the 2006 average nonhomestead statewide rate of 50.96 mills, tax-exempt property would have yielded $1.45 billion in property tax revenue.

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

| | FY 2010 Estimate |
|---|---|
| **Tax-Exempt Acreage**<br>Exhibit 20 shows exempt nonprofit religious or educational property by county. Properties are exempt under Article IX, Sec. 4, of the State Constitution. Tax-exempt acreage totaled 380,925 acres in 2006. | n.a. |
| **Tax-Exempt County and Municipal Property**<br>Exempts real property owned by counties, townships, cities, villages, and school districts. | $221,000,000 |
| **Tax-Exempt Federal Property**<br>Exempts real property belonging to the United States government. | $158,000,000 |
| **Tax-Exempt Other Real Tax Exempt Property**<br>Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities. | $162,000,000 |
| **Tax-Exempt Personal Property**<br>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.<br><br>Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations. | $404,000,000 |
| **Tax-Exempt Public Education Property**<br>Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes. | $428,000,000 |
| **Tax-Exempt Specifically-Taxed Property**<br>Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure. | n.a. |

| | **FY 2010 Estimate** |
|---|---|
| **Tax-Exempt State Property**<br>Exempts real property owned by the State of Michigan. | $169,000,000 |
| **Tax Increment Financing**<br>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.<br><br>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. | $310,000,000 |
| **Taxable Value Cap**<br>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. | $3,400,000,000 |
| **Veterans' Organizations**<br>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**<br>Exempts rented or leased water softener equipment and leased bottled water coolers from the personal property tax. | $1,220,000 |

## 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 $5.1 million in FY 2008, $1.6 million of which was remitted to the state. The state's share of the iron ore specific tax is deposited into the School Aid Fund. Public Act 443 of 2002 reduced the tax rate for five years to 0.75 percent.

**Exhibit 18**
**Counties of Michigan**

## Exhibit 19
## Estimated Taxable Value of Exempt Real and Personal Property by County, 2008
## (Taxable Value in Thousands)

| County | Industrial Facilities Tax | Federal | State | County and Municipal | Public Education |
|---|---|---|---|---|---|
| ALCONA | $0 | $100,031 | $15,583 | $24,803 | $16,130 |
| ALGER* | 113 | 22,328 | 1,757 | 2,230 | 7,253 |
| ALLEGAN* | 205,645 | 0 | 0 | 0 | 0 |
| ALPENA | 17,663 | 8,708 | 66,221 | 99,276 | 65,544 |
| ANTRIM* | 0 | 0 | 0 | 0 | 0 |
| ARENAC | 884 | 517 | 32,700 | 1,437 | 1,150 |
| BARAGA* | 0 | 20,100 | 39,143 | 20,860 | 24,515 |
| BARRY * | 7,707 | 0 | 6,389 | 20,684 | 48,976 |
| BAY* | 144,357 | 15,669 | 13,958 | 19,377 | 212,856 |
| BENZIE* | 0 | 33,116 | 85,394 | 20,320 | 5,463 |
| BERRIEN * | 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 | 2,520 | 90,009 | 43,692 | 24,592 |
| CHIPPEWA * | 1,869 | 1,243,228 | 50,000 | 3,000 | 54,000 |
| CLARE | 8,209 | 927 | 25,013 | 3,443 | 37,108 |
| CLINTON * | 18,343 | 15 | 3,200 | 15,000 | 25,000 |
| CRAWFORD * | 2,775 | 28,545 | 230,000 | 6,233 | 21,150 |
| DELTA * | 19,092 | 56,743 | 13,738 | 11,954 | 27,403 |
| DICKINSON * | 15,124 | 8,300 | 9,500 | 8,300 | 40,000 |
| EATON | 182,308 | 347 | 22,930 | 131,777 | 50,000 |
| EMMET * | 3,762 | 0 | 9,333 | 349 | 7 |
| GENESEE | 107,802 | 16,951 | 56,679 | 485,043 | 565,620 |
| GLADWIN * | 6,325 | 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 | 64,566 | 272 | 650 | 20,487 | 71,500 |
| HOUGHTON* | 5,075 | 12,720 | 80,160 | 7,925 | 94,700 |
| HURON* | 56,841 | 39,400 | 10,542 | 85,700 | 0 |
| INGHAM | 170,795 | n.a. | n.a | n.a. | n.a. |
| IONIA | 19,468 | 0 | 175,582 | 17,255 | 21,800 |
| IOSCO* | 121 | 121,832 | 39,299 | 32,477 | 29,240 |
| IRON* | 165 | 21,800 | 13,500 | 6,500 | 526 |
| ISABELLA | 11,890 | 0 | 0 | 0 | 0 |
| JACKSON* | 166,939 | 2,000 | 201,000 | 38,000 | 98,000 |
| KALAMAZOO | 142,878 | 34,020 | 345,849 | 730,437 | 1,362,469 |
| KALKASKA * | 2,996 | 1,000 | 100,000 | 100,000 | 95,000 |
| KENT * | 614,658 | 24,450 | 23,766 | 174,895 | 484,900 |
| KEWEENAW | 0 | 67,495 | 7,610 | 10,594 | 1,629 |

## Exhibit 19 (Continued)

| County | Industrial Facilities Tax | Federal | State | County and Municipal | Public Education |
|---|---|---|---|---|---|
| LAKE | $118 | $112,548 | $64,150 | $8,323 | $9,561 |
| LAPEER* | 57,151 | 3,272 | 16,794 | 140,854 | 98,456 |
| LEELANAU | 0 | 1,104 | 208 | 1,403 | 14 |
| LENAWEE * | 100,337 | 1,500 | 34,800 | 76,300 | 228,800 |
| LIVINGSTON ** | 42,277 | 429 | 6,636 | 171,134 | 142,149 |
| LUCE * | 11,500 | 50 | 8,000 | 2,571 | 4,301 |
| MACKINAC * | n.a. | 22,794 | 73,314 | 10,193 | 15,013 |
| MACOMB | 64,405 | 8,969 | 13,531 | 34,106 | 44,436 |
| MANISTEE | 7,274 | 19,000 | 36,800 | 32,700 | 35,100 |
| MARQUETTE * | 14,988 | 59,000 | 40,100 | 18,750 | 185,000 |
| MASON * | 57,172 | 138,873 | 33,956 | 91,258 | 174,391 |
| MECOSTA | 73,367 | 9,953 | 2,361 | 9,300 | 350,000 |
| MENOMINEE | 3,679 | 0 | 74,966 | 94 | 705 |
| MIDLAND * | 132,212 | 335 | 9,130 | 75,210 | 90,150 |
| MISSAUKEE | 2,638 | 80 | 2,080 | 4,609 | 19,922 |
| MONROE | 287,130 | 141 | 10,966 | 82,690 | 182,135 |
| MONTCALM | 12,229 | 2,617 | 6,205 | 4,092 | 7,672 |
| MONTMORENCY * | 360 | 120,000 | 36,000 | 20,000 | 13,000 |
| MUSKEGON | 153,003 | 18,109 | 90,366 | 152,078 | 275,063 |
| NEWAYGO | 22,466 | n.a. | n.a. | n.a. | n.a. |
| OAKLAND | 496,082 | n.a. | n.a. | n.a. | n.a. |
| OCEANA * | 7,218 | 16,500 | 6,100 | 2,200 | 15,000 |
| OGEMAW * | 533 | 6,230 | 12,830 | 8,171 | 6,256 |
| ONTONAGON | 1,575 | 229,643 | 29,094 | 4,656 | 12,279 |
| OSCEOLA | 31,113 | 0 | 4,148 | 4,936 | 20,617 |
| OSCODA* | 96 | 123,333 | 109,383 | 2,320 | 6,054 |
| OTSEGO * | 2,041 | 2,016 | 22,300 | 6,285 | 80,000 |
| OTTAWA * | 708,504 | 20,563 | 30,622 | 204,600 | 859,693 |
| PRESQUE ISLE | 374,300 | n.a. | n.a. | n.a. | n.a. |
| ROSCOMMON* | 1,485 | 113 | 230,000 | 5,717 | 32,088 |
| SAGINAW | 135,188 | 24,245 | 148,028 | 206,000 | 654,432 |
| SAINT CLAIR* | 71,092 | 12,699 | 66,192 | 217,989 | 246,092 |
| SAINT JOSEPH | 126,178 | n.a. | n.a. | n.a. | n.a. |
| SANILAC | 13,565 | n.a. | n.a. | n.a. | n.a. |
| SCHOOLCRAFT | 15,066 | n.a. | n.a. | n.a. | 47,142 |
| 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 | 22,555 | 0 | 0 | 0 | 0 |
| TOTAL | $5,780,186 | $2,922,478 | $3,127,094 | $4,085,433 | $7,905,204 |

Note: Wayne and Ingham Counties are not in totals. 2008 taxable value for Wayne County was $52.9 billion.

* Based on surveys from current and prior years as counties did not provide estimates.
** Numbers are for a subset of the local units in the county.

## Exhibit 19 (Continued)

| County | Personal Property | Other | Exempt Total | Total Taxable Value Real and Personal Property | Exempt as a Percent of Taxable |
|---|---|---|---|---|---|
| ALCONA | $0 | $875 | $157,422 | $754,429 | 17.3% |
| ALGER* | 55,000 | 0 | 88,568 | 320,495 | 21.7% |
| ALLEGAN* | 0 | 0 | 0 | 4,244,167 | 0.0% |
| ALPENA | 167,834 | 0 | 407,583 | 926,201 | 30.6% |
| ANTRIM* | 0 | 0 | 0 | 1,752,938 | 0.0% |
| ARENAC | 590 | 349 | 36,744 | 546,006 | 6.3% |
| BARAGA* | 53,017 | 125,669 | 283,304 | 214,455 | 56.9% |
| BARRY * | 63,780 | 34,396 | 174,225 | 1,901,270 | 8.4% |
| BAY* | 255,154 | 2,593 | 519,607 | 3,065,312 | 14.5% |
| BENZIE* | 0 | 15,503 | 159,796 | 1,063,670 | 13.1% |
| BERRIEN * | 0 | 0 | 0 | 6,608,426 | 0.0% |
| BRANCH * | 0 | 6,500 | 22,304 | 1,301,415 | 1.7% |
| CALHOUN* | n.a | n.a | 0 | 3,692,794 | 0.0% |
| CASS * | 253,589 | 0 | 533,252 | 1,739,187 | 23.5% |
| CHARLEVOIX* | 3,526 | 13 | 95,653 | 2,059,124 | 4.4% |
| CHEBOYGAN | 520 | 10,549 | 171,882 | 1,347,620 | 11.3% |
| CHIPPEWA * | 21,200 | 3,500 | 1,374,928 | 976,118 | 58.5% |
| CLARE | 72,638 | 0 | 139,129 | 1,008,486 | 12.1% |
| CLINTON * | 0 | 0 | 43,215 | 2,506,280 | 1.7% |
| CRAWFORD * | 89,130 | 20,000 | 395,058 | 577,280 | 40.6% |
| DELTA * | 0 | 0 | 109,838 | 1,077,840 | 9.2% |
| DICKINSON * | 11,100 | 0 | 77,200 | 891,535 | 8.0% |
| EATON | 424,262 | 171,660 | 800,976 | 3,495,892 | 18.6% |
| EMMET * | 0 | 0 | 9,689 | 2,803,832 | 0.3% |
| GENESEE | 462,618 | 0 | 1,586,911 | 11,829,074 | 11.8% |
| GLADWIN * | 2,476 | 2,469 | 123,945 | 943,426 | 11.6% |
| GOGEBIC * | 330 | 302 | 44,759 | 455,310 | 9.0% |
| GRAND TRAVERSE * | 118,200 | 51,400 | 339,150 | 4,324,889 | 7.3% |
| GRATIOT * | 135,000 | 10,000 | 349,600 | 891,171 | 28.2% |
| HILLSDALE | 59,300 | 45,500 | 197,709 | 1,353,064 | 12.7% |
| HOUGHTON* | 2,180 | 9,460 | 207,145 | 681,277 | 23.3% |
| HURON* | 0 | 0 | 135,642 | 1,608,927 | 7.8% |
| INGHAM | n.a. | n.a. | n.a. | 7,988,684 | n.a. |
| IONIA | 3,970 | 0 | 218,607 | 1,550,138 | 12.4% |
| IOSCO* | 3,621 | 12,356 | 238,825 | 1,139,969 | 17.3% |
| IRON* | 0 | 0 | 42,326 | 431,431 | 8.9% |
| ISABELLA | 0 | 0 | 0 | 1,596,595 | 0.0% |
| JACKSON* | 200,000 | 5,000 | 544,000 | 4,531,910 | 10.7% |
| KALAMAZOO | 125,349 | 98,989 | 2,697,113 | 8,265,432 | 24.6% |
| KALKASKA * | 100,000 | 55,000 | 451,000 | 744,838 | 37.7% |
| KENT * | 1,840,872 | 158,010 | 2,706,893 | 21,754,808 | 11.1% |
| KEWEENAW | 361 | 60,227 | 147,916 | 117,812 | 55.7% |

## Exhibit 19 (Continued)

| County | Personal Property | Other | Exempt Total | Total Taxable Value Real and Personal Property | Exempt as a Percent of Taxable |
|---|---|---|---|---|---|
| LAKE | $735 | $5,827 | $201,144 | $489,066 | 29.1% |
| LAPEER* | 184,151 | 0 | 443,527 | 3,195,751 | 12.2% |
| LEELANAU | 0 | 1,487 | 4,216 | 2,266,449 | 0.2% |
| LENAWEE * | 0 | 21,000 | 362,400 | 3,417,644 | 9.6% |
| LIVINGSTON ** | 2,108 | 19,023 | 341,478 | 8,825,751 | 3.7% |
| LUCE * | 650 | 1,749 | 17,321 | 178,977 | 8.8% |
| MACKINAC * | 7,817 | 2,164 | 131,295 | 887,735 | 12.9% |
| MACOMB | 0 | 4,800 | 105,842 | 31,937,933 | 0.3% |
| MANISTEE | 46,000 | 50,700 | 220,300 | 1,067,328 | 17.1% |
| MARQUETTE * | 0 | 230,000 | 532,850 | 1,783,219 | 23.0% |
| MASON * | 28,897 | 51,789 | 519,164 | 1,485,669 | 25.9% |
| MECOSTA | 25,000 | 22,590 | 419,204 | 1,267,986 | 24.8% |
| MENOMINEE | 0 | 4,431 | 80,196 | 615,059 | 11.5% |
| MIDLAND * | 154,540 | 110,240 | 439,605 | 3,294,162 | 11.8% |
| MISSAUKEE | 72,582 | 25,605 | 124,878 | 522,360 | 19.3% |
| MONROE | 0 | 8,906 | 284,838 | 6,283,960 | 4.3% |
| MONTCALM | n.a. | n.a. | 20,586 | 1,711,776 | 1.2% |
| MONTMORENCY * | 0 | 175,000 | 364,000 | 480,992 | 43.1% |
| MUSKEGON | 595,988 | 0 | 1,131,604 | 4,646,806 | 19.6% |
| NEWAYGO | n.a. | n.a. | 0 | 1,398,639 | 0.0% |
| OAKLAND | 56,504 | n.a. | 56,504 | 64,745,976 | 0.1% |
| OCEANA * | 4,100 | 0 | 43,900 | 1,081,728 | 3.9% |
| OGEMAW * | 0 | 2,844 | 36,331 | 822,807 | 4.2% |
| ONTONAGON | 30,526 | 125,572 | 431,770 | 239,485 | 64.3% |
| OSCEOLA | 166,464 | 5,865 | 202,030 | 678,211 | 23.0% |
| OSCODA* | 1,801 | 5,564 | 248,455 | 378,389 | 39.6% |
| OTSEGO * | 45,800 | 3,665 | 160,066 | 1,265,673 | 11.2% |
| OTTAWA * | 125,529 | 782,392 | 2,023,399 | 9,898,685 | 17.0% |
| PRESQUE ISLE | n.a. | n.a. | 0 | 640,631 | 0.0% |
| ROSCOMMON* | 8,400 | 9,514 | 285,832 | 1,347,558 | 17.5% |
| SAGINAW | 1,248,759 | 243,200 | 2,524,664 | 5,308,908 | 32.2% |
| SAINT CLAIR* | 129,346 | 178,053 | 850,371 | 6,608,676 | 11.4% |
| SAINT JOSEPH | n.a. | n.a. | 0 | 1,817,134 | 0.0% |
| SANILAC | n.a. | n.a. | 0 | 1,434,949 | 0.0% |
| SCHOOLCRAFT | n.a. | n.a. | 47,142 | 333,759 | 12.4% |
| SHIAWASSEE * | 12,000 | 0 | 208,035 | 1,845,268 | 10.1% |
| TUSCOLA* | 0 | 0 | 0 | 1,458,645 | 0.0% |
| VAN BUREN* | 0 | 0 | 0 | 2,894,120 | 0.0% |
| WASHTENAW * | 774 | 647 | 12,384 | 15,650,089 | 0.1% |
| WEXFORD | 0 | 0 | 0 | 985,289 | 0.0% |
| TOTAL | $7,474,089 | $2,992,947 | $28,507,245 | $302,288,082 | 8.6% |

Note: Wayne and Ingham Counties are not in totals. 2008 taxable value for Wayne County was $52.9 billion.

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

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

## Exhibit 20
## General Property Tax – Estimated Exempt Acreage by County, 2008

| County | Estimated Acreage | County | Estimated Acreage |
|---|---|---|---|
| ALCONA | 410 | LAKE | 1,022 |
| ALGER* | 14,000 | LAPEER* | 4,600 |
| ALLEGAN * | 1,000 | LEELANAU | 2,740 |
| ALPENA | 5,800 | LENAWEE * | 9,200 |
| ANTRIM * | 1,000 | LIVINGSTON ** | 760 |
| ARENAC* | 195 | LUCE * | 2,300 |
| BARAGA* | 7,740 | MACKINAC * | 240 |
| BARRY * | 7,000 | MACOMB | 277 |
| BAY* | 3,650 | MANISTEE | 4,400 |
| BENZIE * | 554 | MARQUETTE * | 390 |
| BERRIEN * | 6,812 | MASON* | 620 |
| BRANCH * | 425 | MECOSTA | 2,015 |
| CALHOUN * | 5,670 | MENOMINEE | 141 |
| CASS * | 60 | MIDLAND * | 2,000 |
| CHARLEVOIX * | 350 | MISSAUKEE | 1,440 |
| CHEBOYGAN* | 10,945 | MONROE | 3,200 |
| CHIPPEWA * | 1,500 | MONTCALM * | 6,800 |
| CLARE | 172 | MONTMORENCY * | 200 |
| CLINTON * | 100 | MUSKEGON | 2,100 |
| CRAWFORD * | 1,619 | NEWAYGO * | 6,800 |
| DELTA* | 700 | OAKLAND * | 3,107 |
| DICKINSON* | 400 | OCEANA * | 500 |
| EATON | 3,165 | OGEMAW * | 693 |
| EMMET* | 1,000 | 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 | 4,300 |
| HURON* | 341 | SAINT CLAIR * | 11,972 |
| INGHAM | n.a. | SAINT JOSEPH | 8,734 |
| IONIA | 544 | SANILAC * | 0 |
| IOSCO | 33,847 | SCHOOLCRAFT | n.a. |
| 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* | 3,670 | TOTAL | 380,925 |

* 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 $3.0 million indicating $4.5 million in total state and local collections. Exhibit 21 only shows the county share of the tax.

| | **FY 2010 Estimate** |
|---|---|
| **Mobile Home Tax Expenditure**<br>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. | $67,500,000 |
| **Out-of-State Coaches**<br>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 $41.0 million in 2007 (see Exhibit 21).

The School Finance Reform Package of 1994 created a state real estate property transfer tax in addition to the county tax. The rate is $3.75 per $500 (0.75 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the county treasurer and forwarded to the state. Revenue is deposited into the School Aid Fund. The state real estate transfer tax is projected to yield $108.0 million in FY 2010.

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 $14.9 million in 2007 (see Exhibit 21).

### 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 2007, city income taxes totaled $472.4 million (see Exhibit 23). Currently, 22 cities levy a city income tax. While rates vary, most cities levy a 1.0 percent tax on residents and corporations and a 0.5 percent tax on nonresidents. Revenue collections go to the general fund of the taxing city, and most revenue comes from city residents.

| | FY 2009 Estimate |
|---|---|
| **Federal Deductions**<br>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**<br>Exempts net profits of financial institutions and insurance companies from the city income tax. No statewide estimate is available. | n.a. |

**Exhibit 21**
**Miscellaneous Local Taxes Kept by Local Units, 2007**

| County | Accommodations | Mobile Home (County Share) | Real Estate Prop. Trans. |
|---|---:|---:|---:|
| ALCONA | $0 | $84 | $42,819 |
| ALGER | 0 | 0 | 36,491 |
| ALLEGAN | 0 | 19,439 | 476,854 |
| ALPENA | 0 | 747 | 76,983 |
| ANTRIM | 0 | 278 | 143,600 |
| ARENAC | 0 | 1,423 | 45,113 |
| BARAGA | 0 | 72 | 22,570 |
| BARRY | 0 | 4,036 | 216,518 |
| BAY | 0 | 8,791 | 251,295 |
| BENZIE | 0 | 607 | 119,736 |
| BERRIEN | 0 | 18,075 | 897,192 |
| BRANCH | 0 | 3,555 | 136,274 |
| CALHOUN | 90,340 | 12,844 | 377,493 |
| CASS | 0 | 5,583 | 209,953 |
| CHARLEVOIX | 0 | 4,483 | 240,568 |
| CHEBOYGAN | 0 | 1,147 | 114,198 |
| CHIPPEWA | 0 | 1,227 | 84,207 |
| CLARE | 0 | 2,180 | 40,009 |
| CLINTON | 0 | 13,228 | 232,568 |
| CRAWFORD | 0 | 0 | 50,130 |
| DELTA | 0 | 3,925 | 83,973 |
| DICKINSON | 0 | 2,478 | 67,172 |
| EATON | 0 | 10,542 | 384,379 |
| EMMET | 0 | 2,995 | 262,886 |
| GENESEE | 1,237,595 | 63,690 | 1,274,487 |
| GLADWIN | 0 | 713 | 82,585 |
| GOGEBIC | 0 | 0 | 49,435 |
| GRAND TRAVERSE | 0 | 10,642 | 380,409 |
| GRATIOT | 0 | 4,219 | 71,458 |
| HILLSDALE | 0 | 2,045 | 143,108 |
| HOUGHTON | 0 | 222 | 79,274 |
| HURON | 0 | 1,952 | 103,155 |
| INGHAM | 1,930,293 | 13,532 | 831,940 |
| IONIA | 0 | 5,995 | 149,708 |
| IOSCO | 0 | 437 | 88,556 |
| IRON | 0 | 284 | 42,307 |
| ISABELLA | 0 | 5,239 | 166,414 |
| JACKSON | 0 | 24,319 | 416,236 |
| KALAMAZOO | 1,977,861 | 23,351 | 949,665 |
| KALKASKA | 0 | 149 | 66,950 |
| KENT | 5,034,377 | 51,065 | 2,798,762 |
| KEWEENAW | 0 | 0 | 10,101 |

## Exhibit 21 (Continued)

| County | Accommodations | Mobile Home (County Share) | Real Estate Prop. Trans. |
|---|---|---|---|
| LAKE | $0 | $0 | $47,946 |
| LAPEER | 0 | 11,951 | 273,775 |
| LEELANAU | 0 | 536 | 256,811 |
| LENAWEE | 0 | 11,635 | 288,485 |
| LIVINGSTON | 0 | 16,943 | 831,242 |
| LUCE | 0 | 0 | 17,338 |
| MACKINAC | 0 | 0 | 61,064 |
| MACOMB | 0 | 79,471 | 5,055,872 |
| MANISTEE* | 0 | 776 | 115,733 |
| MARQUETTE | 0 | 2,727 | 233,436 |
| MASON | 0 | 3,885 | 106,211 |
| MECOSTA | 0 | 2,330 | 109,723 |
| MENOMINEE | 0 | 1,192 | 65,776 |
| MIDLAND | 0 | 5,483 | 275,514 |
| MISSAUKEE | 0 | 42 | 31,907 |
| MONROE | 0 | 36,012 | 518,212 |
| MONTCALM | 0 | 3,856 | 119,601 |
| MONTMORENCY | 0 | 90 | 33,370 |
| MUSKEGON | 829,905 | 19,147 | 408,955 |
| NEWAYGO | 0 | 5,643 | 110,239 |
| OAKLAND | 0 | 95,516 | 8,104,463 |
| OCEANA | 0 | 6,039 | 95,459 |
| OGEMAW | 0 | 206 | 61,102 |
| ONTONAGON | 0 | 0 | 47,868 |
| OSCEOLA | 0 | 371 | 52,105 |
| OSCODA | 0 | 0 | 38,524 |
| OTSEGO | 0 | 1,395 | 132,252 |
| OTTAWA | 0 | 31,838 | 1,113,935 |
| PRESQUE ISLE | 0 | 354 | 44,718 |
| ROSCOMMON | 0 | 1,523 | 117,829 |
| SAGINAW | 2,281,850 | 13,051 | 417,481 |
| SAINT CLAIR | 0 | 27,140 | 491,622 |
| SAINT JOSEPH | 0 | 5,586 | 185,577 |
| SANILAC | 0 | 6,040 | 126,382 |
| SCHOOLCRAFT | 0 | 58 | 27,233 |
| SHIAWASSEE | 0 | 13,390 | 156,461 |
| TUSCOLA | 0 | 4,661 | 113,959 |
| VAN BUREN | 0 | 7,284 | 510,725 |
| WASHTENAW* | 1,393,593 | 33,399 | 2,208,023 |
| WAYNE | 0 | 69,208 | 5,571,176 |
| WEXFORD | 144,944 | 1,182 | 105,206 |
| **TOTAL** | $14,920,757 | $845,541 | $41,000,839 |

* Figures carried forward from a previous year.

| | **FY 2009 Estimate** |
|---|---|
| **Nonresident Reduced Rate**<br>Nonresidents' income is taxed at half the rate paid by residents. | $159,900,000 |
| **Pensions, Annuities, and Retirement Plans**<br>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**<br>Exempts a certain amount of income for each person claimed on the federal form. The exemption amounts for the various cities are listed in Exhibit 22. While most cities record the number of personal exemptions provided, some do not. In these cases, personal exemptions are estimated based on the number of tax returns multiplied by a weighted average number of exemptions. | $15,800,000 |
| **Supplemental Unemployment Benefits**<br>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 $58.1 million in 2007.

**Exhibit 22**
**Estimated Tax Expenditures From**
**City Income Tax Personal Exemptions, 2007**

| | Resident | | Nonresident and Partial-Year Resident | |
|---|---|---|---|---|
| **City** | **Quantity** | **Amount** | **Quantity** | **Amount** |
| Albion | 6,791 | $40,746 | 3,993 | $11,979 |
| Battle Creek | 34,095 | $255,713 | 44,816 | $168,060 |
| Big Rapids | 3,398 | $20,388 | 19,703 | $59,109 |
| Detroit* | 410,818 | $6,162,270 | 349,988 | $2,624,910 |
| Flint | 42,204 | $253,224 | 79,783 | $239,349 |
| Grand Rapids | 138,346 | $1,348,874 | 161,176 | $785,733 |
| Grayling | 1,276 | $38,280 | 4,812 | $72,180 |
| Hamtramck* | 20,299 | $121,794 | 6,993 | $20,979 |
| Highland Park* | 4,650 | $55,800 | 6,688 | $40,125 |
| Hudson* | 2,000 | $20,000 | 1,500 | $7,500 |
| Ionia | 4,918 | $34,426 | 13,571 | $47,499 |
| Jackson | 20,143 | $120,858 | 31,654 | $94,962 |
| Lansing | 42,685 | $256,110 | 106,550 | $319,650 |
| Lapeer | 6,426 | $38,556 | 17,023 | $51,069 |
| Muskegon* | 15,985 | $95,910 | 36,070 | $108,210 |
| Muskegon Heights* | 2,422 | $14,532 | 6,342 | $19,026 |
| Pontiac* | 26,500 | $159,000 | 83,000 | $249,000 |
| Port Huron | 19,760 | $237,120 | 27,223 | $163,338 |
| Portland | 4,364 | $43,640 | 2,264 | $11,320 |
| Saginaw | 27,379 | $308,014 | 43,977 | $247,371 |
| Springfield* | 4,287 | $64,305 | 4,759 | $35,693 |
| Walker | 18,774 | $140,805 | 35,815 | $134,306 |
| **TOTAL** | 857,520 | $9,830,364 | 1,087,700 | $5,511,367 |

* Based on a previous year's survey.

**Exhibit 23**
**City Tax Rates and Exemption Allowances, 2007**

| | City Income Tax Rate | | | | |
|---|---|---|---|---|---|
| **City** | **Resident** | **Non-Resident** | **Corporation** | **Personal Exemption** | **Collections (000s)** |
| Albion | 1.00% | 0.50% | 1.00% | $600 | $1,166 |
| Battle Creek | 1.00% | 0.50% | 1.00% | 750 | 12,987 |
| Big Rapids | 1.00% | 0.50% | 1.00% | 600 | 1,744 |
| Detroit | 2.50% | 1.25% | 2.50% | 600 | 288,603 |
| Flint | 1.00% | 0.50% | 1.00% | 600 | 18,287 |
| Grand Rapids | 1.30% | 0.65% | 1.30% | 750 | 55,826 |
| Grayling | 1.00% | 0.50% | 1.00% | 3,000 | 451 |
| Hamtramck | 1.00% | 0.50% | 1.00% | 600 | 1,539 |
| Highland Park | 2.00% | 1.00% | 2.00% | 600 | 2,457 |
| Hudson | 1.00% | 0.50% | 1.00% | 1,000 | 348 |
| Ionia | 1.00% | 0.50% | 1.00% | 700 | 1,525 |
| Jackson | 1.00% | 0.50% | 1.00% | 600 | 6,988 |
| Lansing | 1.00% | 0.50% | 1.00% | 600 | 28,498 |
| Lapeer | 1.00% | 0.50% | 1.00% | 600 | 2,270 |
| Muskegon | 1.00% | 0.50% | 1.00% | 600 | 7,548 |
| Muskegon Heights | 1.00% | 0.50% | 1.00% | 600 | 861 |
| Pontiac | 1.00% | 0.50% | 1.00% | 600 | 12,393 |
| Port Huron | 1.00% | 0.50% | 1.00% | 1,200 | 6,608 |
| Portland | 1.00% | 0.50% | 1.00% | 1,000 | 635 |
| Saginaw | 1.50% | 0.75% | 1.50% | 750 | 13,134 |
| Springfield | 1.00% | 0.50% | 1.00% | 1,500 | 746 |
| Walker | 1.00% | 0.50% | 1.00% | 750 | 7,829 |
| **TOTAL** | | | | | $472,443 |