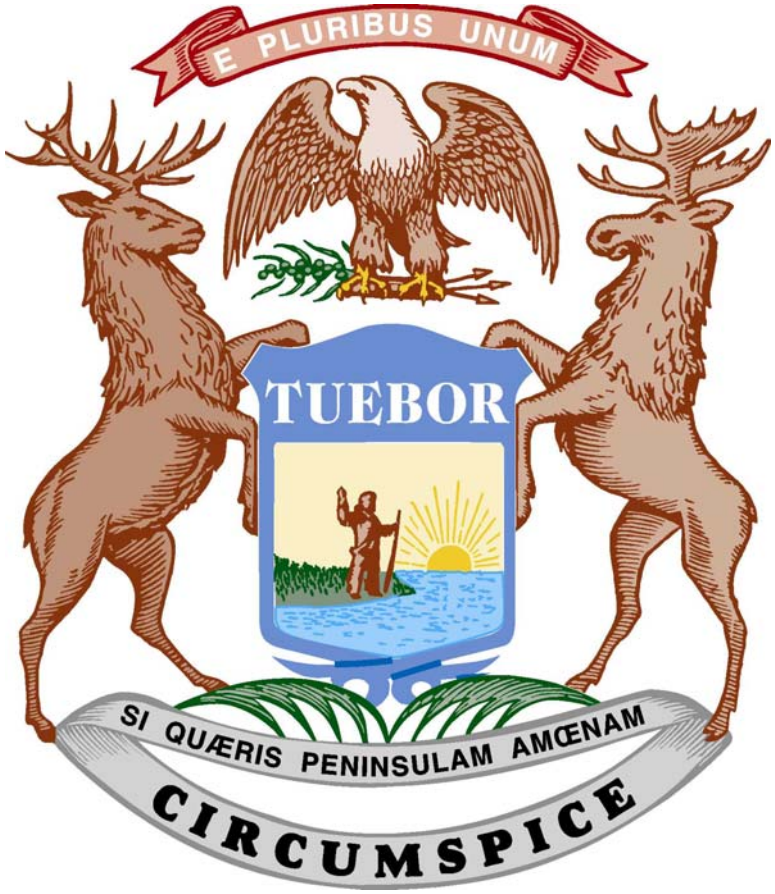
MICHIGAN'S SALES AND USE TAXES 2007



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Michigan Department of Treasury
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Acknowledgments

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I. EXECUTIVE SUMMARY

- Michigan sales and use tax revenue totaled $7.933 billion in Fiscal Year (FY) 2007, a decrease of 1.5 percent from FY 2006. FY 2007 sales tax revenue was $6.552 billion and FY 2007 use tax revenue was $1.380 billion.

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

- Exemptions and other tax expenditures reduced sales and use tax collections by an estimated $12.0 billion in FY 2007. Untaxed services remain the largest single source of tax expenditures.

- The automotive retail sector remits the largest share of sales tax revenue at $1.74 billion. The telecommunications sector provides the largest share of use tax revenue at $276.8 million.

- The sales and use tax revenue base is being eroded by rapidly growing remote sales (mail order and Internet). Michigan's tax revenue losses from consumer remote sales are estimated at $318 million in FY 2007. The estimated revenue losses are projected to grow to $414 million in FY 2010.

- Tennessee has the highest average effective combined state and local sales tax rate at 8.90 percent. However, the highest combined state and local statutory sales tax rate is 11.0 percent, with at least one jurisdiction in Alabama, Arizona, Arkansas, Louisiana, and Oklahoma levying a tax at that rate. With an effective rate of 6.0 percent, Michigan ranks 31st highest among the 45 states with a sales tax.

- Louisiana has the highest amount of general sales tax revenue as a percent of personal income at 5.76 percent. Michigan ranks 31st highest at 2.38 percent, below the national average of 2.65 percent.

II. INTRODUCTION

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

History

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

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

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

Interstate Comparisons

Sales and use tax rates vary widely among the states. Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee have the highest state sales tax rate at 7 percent. Of states with a sales tax, Colorado has the lowest sales tax rate at 2.9 percent. Thirty-six states have local units that levy a sales tax. The highest combined state and local sales tax rate that is levied within at least one jurisdiction in a state is 11 percent, levied in at least one place within Alabama, Arizona, Arkansas, Louisiana, and Oklahoma.

Revenue

Sales and use taxes are the largest source of tax revenue for the State of Michigan. In Fiscal Year (FY) 2007, sales and use taxes totaled $7.93 billion, or 33.8 percent of Michigan tax revenue. The personal income tax, by comparison, accounted for 27.4 percent of tax revenue. Before the passage of school-finance reform in 1994, Michigan sales and use taxes made up approximately 29 percent of total state tax revenue and the income tax provided approximately 35 percent of the total.

The sales tax generated $6,552.2 million in FY 2007, a decrease of $85.9 million (-1.3 percent) from FY 2006. Sluggish consumer spending has led to a small cumulative increase in sales tax revenue (0.6 percent per year) since 2000. Sales tax revenue accounted for 27.9 percent of total state taxes in FY 2007. The higher tax rate enacted in 1994 has increased the share of total state taxes provided by the sales tax. For example, during the last economic slowdown when the sales tax rate was 4 percent, the sales tax accounted for slightly more than 24 percent of total state taxes.

The use tax generated $1,380.4 million in FY 2007, a decrease of $33.4 million (-2.4 percent) from FY 2006. The use tax accounted for 5.9 percent of total state tax revenue in FY 2007. The use tax has represented between 5.8 percent and 6.1 percent of state taxes for 9 of the past 10 years. Exhibits 3, 4, and 5 provide a history of sales and use tax revenue and the percentage of total state taxes each tax comprises.

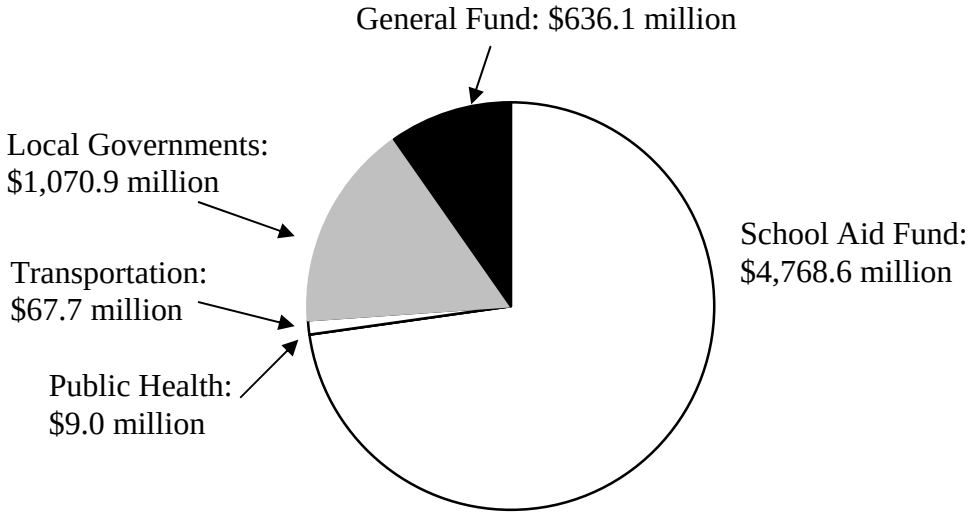
Distribution

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

As stated previously, the 2 percent increase in the sales tax rate enacted in 1994 is dedicated to the SAF. Of the revenue generated by the sales tax at the 4 percent rate, 36.3 percent is earmarked to revenue sharing for local governments, and 60 percent is earmarked to the SAF. The remaining 3.7 percent of sales tax revenue raised by the 4 percent rate is deposited into the General Fund, except that 27.9 percent of one percent generated from automotive-related sales is deposited into the Comprehensive Transportation Fund (CTF). Legislation enacted in 2003 reduced this percentage to 24 percent for fiscal years 2004 and 2005. Subsequent legislation reduced the amount deposited in the CTF by $10.0 million for FY 2005, $11.1 million in FY 2006, and by $10.3 million in FY 2007. Additionally, an amount equal to the sales tax on sales

of computer software must be deposited into a fund for the Michigan Public Health Initiative. The amount earmarked to the Public Health Initiative is required by law to be at least $9 million and no more than $12 million each year. The General Fund has received an increased share of sales tax collections in recent years due to reductions in the amount of statutory revenue sharing appropriated by the Legislature, and to the temporary elimination of revenue sharing payments to counties as part of the acceleration of county property tax collections into the summer. The shift of county tax collections allowed counties to gradually draw down the accelerated collections as a replacement for revenue sharing. Beginning in FY 2008, some counties will use up their revenue sharing reserve fund and will again receive revenue sharing, resulting in larger appropriations for revenue sharing and a smaller portion of sales tax collections available to the General Fund. The distribution of sales tax revenue for FY 2007 is shown in Exhibit 1.

Exhibit 1
Sales Tax Revenue Distribution
Fiscal Year 2007



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

Exemptions

The Michigan sales and use tax bases have become narrower since the inception of these taxes due to exemptions. A chronology of the major legislative changes to the sales and use tax is shown in Exhibit 2. The narrowing of the tax bases results in a large loss of potential revenue to the state. The potential revenue loss due to exemptions is estimated to be $12.0 billion for FY 2007. The majority of that revenue loss resulted from the exclusion of services, which have been excluded from the original enactment of the sales tax. The exemption of services reduced state revenues by approximately $8.297 billion for FY 2007. The exemptions for food and prescription drugs reduced revenue by $1.1 billion and $483 million, respectively. Further discussion of the sales tax base follows in Section IV.

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

1933 The Michigan sales tax is enacted under Public Act 167 of 1933. Exempts only sales to federal and state governments and sales of goods that would be resold. Does not tax services.

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

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

1939 Exempts transactions involving commercial vessels.

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

1950 Exempts newspapers and periodicals from the sales tax base.

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

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

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

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

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

1974 Exempts sales of food and prescription drugs.

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

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

1985 Exempts sales of computers used for industrial processing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

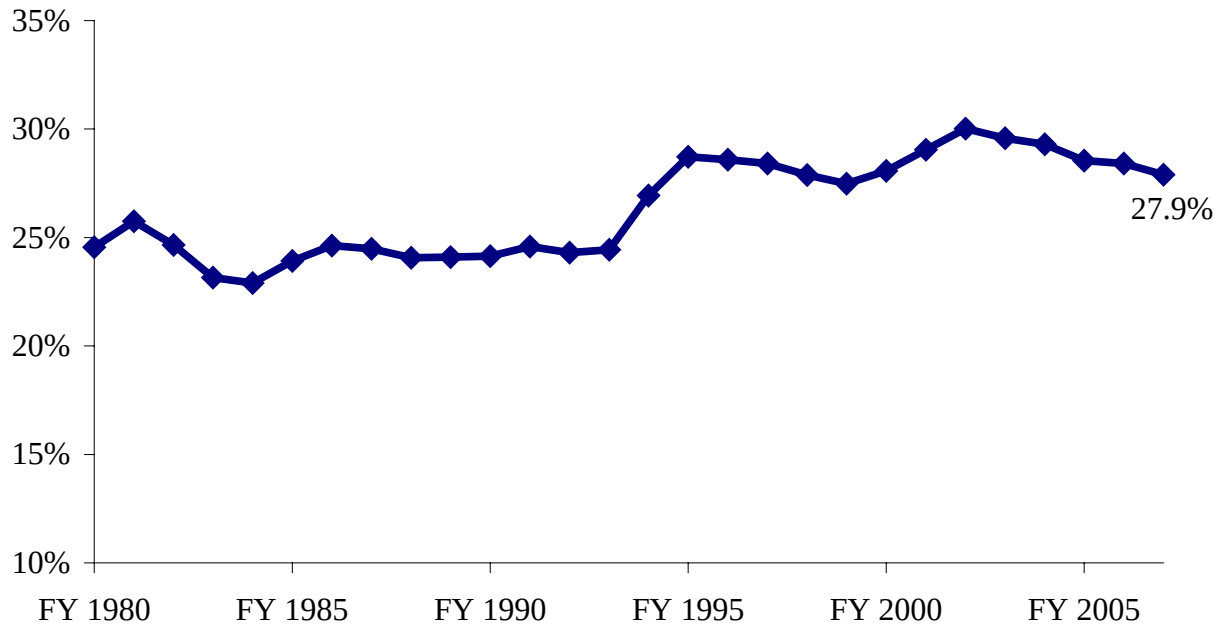
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 3
Sales and Use Tax Revenue
as a Percent of Total State Tax Revenue
FY 1980 to FY 2007

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

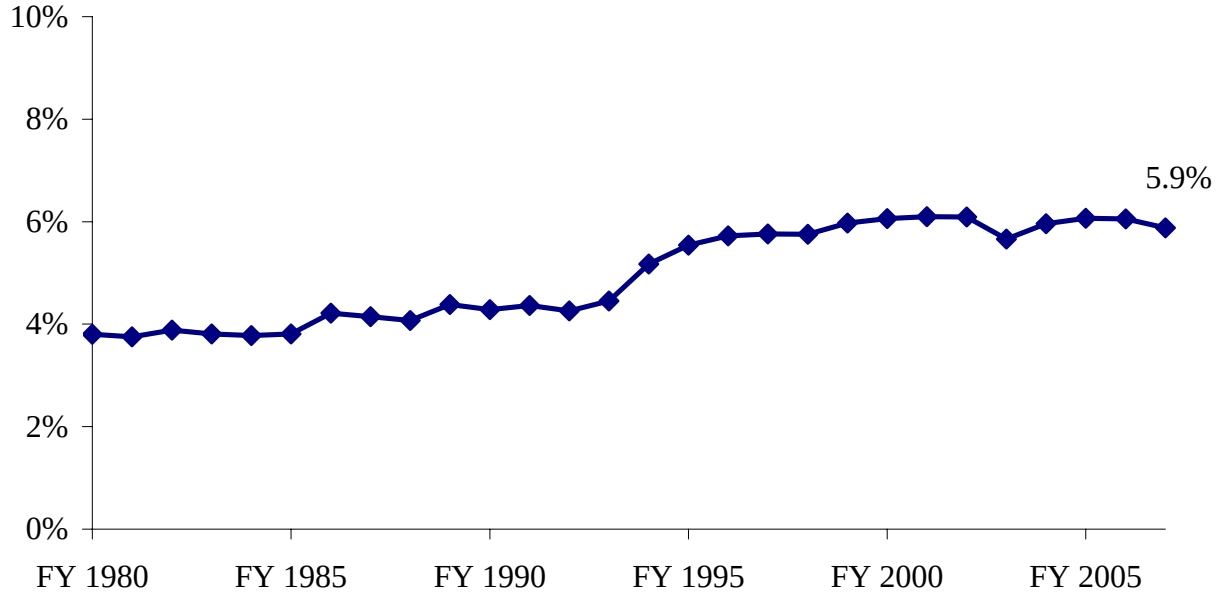
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

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



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

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



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

III. ECONOMICS OF SALES TAXATION

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

Consumer Behavior

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

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

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

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

Equity

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

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

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

Sales Tax Incidence

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

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

While the question of statutory incidence is fairly straightforward, the question of economic incidence is less clear. When a sales tax is imposed, firms can either increase their prices or

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

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

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

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

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

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

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

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

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

[3]See Blume (1982).

IV. SALES TAX BASE

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

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

Tax Expenditures

Tax exemptions, exclusions, deductions, credits, or preferential tax rates are called tax expenditures. Tax expenditures reduce revenue by providing preferential treatment for certain commodities, individuals, or industries. Tax expenditures have two main purposes: (1) to reduce the tax burden for certain individuals or firms by altering the incidence of a tax; and (2) to give an incentive for individuals or firms to change their behavior. An example of the first type of tax expenditure is the prescription-drug exemption, which was designed to reduce the incidence of the sales tax on low-income senior citizens. An example of the second type is the Enterprise Zone exemption, which encourages economic development in poor areas by lowering the tax burden on investments in these areas. Exhibit 6 provides the revenue impact for sales and use tax expenditures for FY 2007.

Services are the largest single exclusion from the Michigan sales tax base. When the Michigan sales tax was enacted, the service sector of the economy was small relative to the goods sector of the economy. As the service sector has grown in economic importance, the cost of excluding services has increased relative to the existing base of the sales tax. The estimated loss of Michigan sales tax revenue due to the exemption of services was $8.3 billion in FY 2007. Health care and social assistance services comprised the largest sector of service tax expenditures at $2,382 million, or 29 percent. Professional, scientific, and technical services followed next at $1,898 million, or 23 percent of total service tax expenditures. These estimates include all services consumed by businesses and individuals.

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

Exhibit 6
Michigan Sales and Use Tax Expenditures
(Millions)

Tax Expenditure	FY 2007 Revenue Impact
Air and Water Pollution	$37.0
Aircraft Parts	8.4
Bad Debts	61.0
Cargo Aircraft	30.0
Churches	7.2
Collection Fees	16.0
Commercial Domestic Aircraft	5.0
Communication and Telephone Exemption	37.0
Donated Vehicles	0.5
Driver Training	0.5
Employee Meals	11.0
Food	1,129.0
Food for Students	22.8
Government or Red Cross	159.0
Gratuities and Tips	62.7
Horticultural and Agricultural Products	145.3
Imported Property	3.2
Industrial Processing	850.9
Inmate Purchases	0.6
Interstate Telecommunications	15.6
Interstate Trucks and Trailers	38.9
Investment Coins	0.4
Military Post-Exchange Sales	1.6
Motion Picture Credit	1.0
Newspapers, Periodicals, and Films	101.5
Nonprofit Hospital or Housing Construction	10.5
Nonprofit Organizations	170.3
Ophthalmic and Orthopedic Products	51.2
Prescription Drugs	483.3
Radio and Television	4.4
Rail Rolling Stock	1.6
Residential Utilities	136.5
Returned Vehicles	1.1
Sale of Water	65.6
Services	8,296.5
Telephone Services	12.1
Vehicle and Aircraft Transfer	41.1
Vending Machines and Mobile Facilities	26.3
Total	$12,046.5

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

Exhibit 7
State Sales Taxation of Services

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

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

Source: *State Tax Guide* , Commerce Clearing House, Inc.

Food for home consumption is another major item excluded from most states' sales tax bases. The primary reason for excluding food from taxation is to reduce the short-term regressivity of the sales tax. According to the 2006 Consumer Expenditure Survey by the Bureau of Labor Statistics, purchases of food for home consumption account for 10.5 percent of expenditures for consumers in the lowest 20 percent of income. In contrast, for consumers in the highest 20 percent of income, purchases of food for home consumption account for only 5.5 percent of expenditures. If food consumed at home were included in the tax base, low-income consumers would pay an even larger percentage of their incomes in sales tax relative to consumers with higher incomes. The tax expenditure loss in FY 2007 for exempting food consumed at home from the Michigan sales tax was $1.1 billion. Exhibit 8 provides information on the sales tax treatment of food and meals by state.

Prescription drugs are exempt from the sales tax base. As in the case of the food exemption, exempting prescription drugs is intended to reduce the short-term regressivity of the Michigan sales tax. The cost of this exemption is estimated to be about $483 million in FY 2007.

The exemptions for food and prescription drugs highlight several difficulties with exempting certain products from the sales tax. The exemptions may be expensive. The exemptions for food and prescription drugs together total more than 1/5 of all sales tax revenue. Also, the exemptions are not limited to the targeted group, since all consumers receive the exemption. In fact, consumers with higher incomes receive the largest tax exemptions. The amount consumers in the highest 20 percent of the income distribution spend on food ($5,186 on average) is more than double the amount spent by consumers in the lowest 20 percent of the income distribution ($2,138). Using the difference in annual expenditure between the two groups implies that consumers with the highest income receive an additional $183 per year in tax savings from the food exemption. Replacing the sales tax exemption on food with a transfer payment, perhaps in the form of a refundable income tax credit, to all families would also offset the burden of the sales tax on low-income families, but would allow the tax relief to be targeted more precisely to families in need.

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

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

In total, exemptions in Michigan's sales tax base reduced state revenues by more than $12.0 billion in FY 2007. Eliminating all of these exemptions (assuming such a reform were possible) would increase Michigan's sales tax revenue by more than 100 percent allowing the tax rate to be cut in half while maintaining current revenues.

Exhibit 8
State Sales Taxation of Food and Meals

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

Key: T = "taxable" - designation is for a general nature.
E = "exempt" - designation is for a general nature.

*Groceries are taxed at a reduced rate

Source: *State Tax Guide* , Commerce Clearing House, Inc.

V. SALES AND USE TAX REVENUE

Sales Tax Revenue

Michigan's sales tax revenue in FY 2007 was $6,552.2 million, down $85.9 million (-1.3 percent) from FY 2006. The 1994 increase in the sales tax rate from 4 percent to 6 percent resulted in the sales tax generating an increased share of total state revenues (see Exhibit 3). The shrinking sales tax base, as well as other emerging issues (for example, the taxation of Internet purchases), will affect Michigan's ability to rely on sales tax revenues to finance government expenditures.

During the early 1990s, sales tax revenues totaled approximately 24 percent of total state tax revenue. In FY 1995, sales tax revenues were 28.7 percent of total state tax revenue, the highest amount since the 1970s, before the food and prescription drug exemptions were enacted. Sales tax revenue represented 27.9 percent of total state taxes in FY 2007 (see Exhibits 3 and 4).

Nominal sales tax revenue has increased 34.2 percent since FY 1995, the first full fiscal year with a sales tax rate of 6 percent. As Exhibits 9 and 10 show, sales tax collections rose at a healthy rate from 1995 through 2000, grew at a slower rate in 2001 and 2002, fell in 2003, grew sluggishly in 2004 through 2006, and declined again in 2007. The pattern of collections reflects the performance of other measures of Michigan's economy. Adjusted for inflation, real sales tax revenue declined 0.6 percent from 1995 to 2007, primarily due to the sharp decline in nominal collections in 2007.

One way to measure the effective burden of the sales tax is to compare tax revenue with personal income. Throughout the 1980s, sales tax revenue as a percent of personal income was between 1.50 percent to 1.65 percent each year. Sales tax revenue has generally accounted for 2 percent or more of Michigan personal income since tax reform was enacted in 1994. In FY 2007, sales tax revenue as a percent of personal income was 1.88 percent. This represents the lowest amount since 1994 (see Exhibit 11).

The automotive sector provides the largest share of sales tax revenue, with total sales tax revenue of $1,735.5 million in FY 2007 (see Exhibit 12). Sales of new and used cars account for most of this revenue. Taxable sales in the automotive sector account for 26.6 percent of total sales tax revenue. The food sector was responsible for $941.4 million of sales tax revenue or 14.4 percent in FY 2007, mostly from sales in restaurants and taxable items sold at grocery stores. General merchandise stores accounted for $716.2 million, or 11.0 percent of total sales tax revenue.

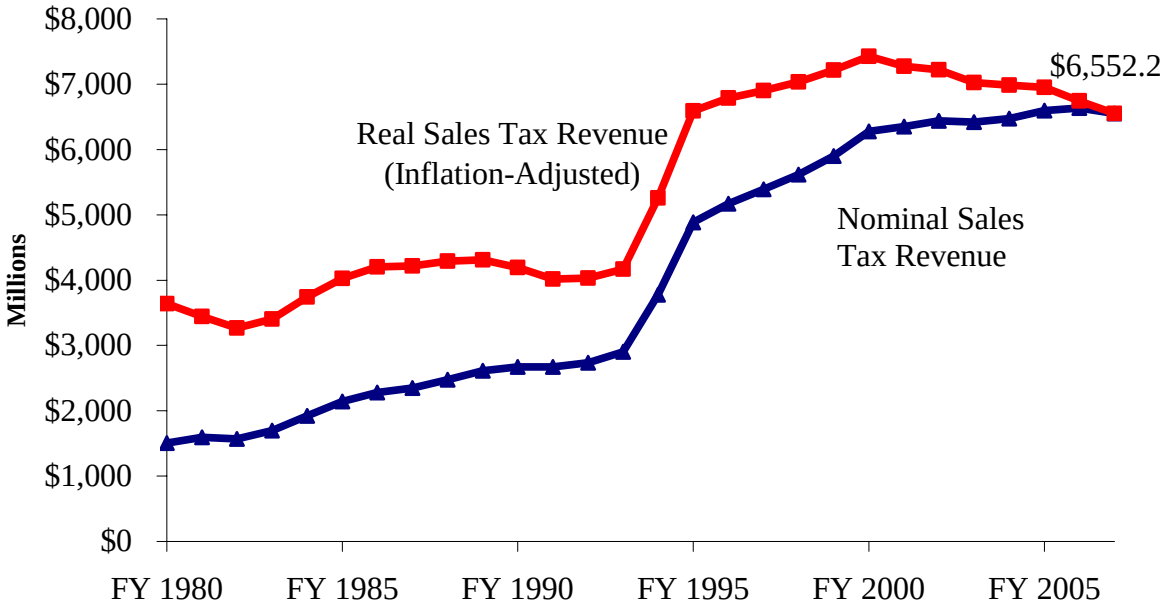
Over the past 10 years, the distribution of sales tax revenue by retail sector has remained fairly stable (see Exhibit 13). Since 1997, the automotive sector has captured an increased share of sales tax revenue. The increase in the share of sales tax revenue coming from building, lumber, and hardware observed during the 1990s disappeared in 2006 and 2007, due to the contraction in residential construction. The largest declines in sales tax collections have occurred in furniture, miscellaneous retail, and other sectors not involved in retail trade.

Exhibit 9
Michigan Sales Tax Revenue
FY 1980 to FY 2007

Fiscal Year	Fiscal Year Personal Income (millions)	Sales Tax Revenue (millions)	Sales Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Sales Tax Revenue in 2007 $ (millions)
1980	$93,265	$1,504.0	1.61%	82.3	3,638.4
1981	101,114	1,595.0	1.58%	92.1	3,445.6
1982	104,608	1,570.6	1.50%	95.8	3,264.3
1983	109,162	1,699.0	1.56%	99.4	3,403.1
1984	120,635	1,925.0	1.60%	102.4	3,742.2
1985	131,316	2,142.6	1.63%	105.8	4,029.1
1986	140,998	2,283.1	1.62%	108.1	4,202.7
1987	145,970	2,348.4	1.61%	110.7	4,220.6
1988	154,344	2,475.0	1.60%	114.8	4,289.4
1989	166,096	2,615.2	1.57%	120.8	4,309.9
1990	174,411	2,671.3	1.53%	126.8	4,191.7
1991	179,536	2,671.9	1.49%	132.4	4,016.4
1992	189,586	2,738.1	1.44%	135.1	4,032.1
1993	199,577	2,905.7	1.46%	138.6	4,171.4
1994	213,413	3,775.3	1.77%	142.9	5,257.1
1995	226,193	4,884.2	2.16%	147.5	6,591.6
1996	234,309	5,171.6	2.21%	151.6	6,790.8
1997	245,823	5,389.8	2.19%	155.4	6,901.8
1998	260,778	5,617.3	2.15%	158.9	7,035.8
1999	274,918	5,901.7	2.15%	162.8	7,214.6
2000	291,485	6,277.5	2.15%	168.3	7,424.1
2001	298,129	6,352.3	2.13%	173.8	7,272.5
2002	301,926	6,439.9	2.13%	177.5	7,219.9
2003	310,463	6,422.6	2.07%	182.0	7,022.6
2004	316,918	6,473.5	2.04%	184.4	6,986.1
2005	328,513	6,599.1	2.01%	189.0	6,948.3
2006	338,899	6,638.1	1.96%	195.9	6,743.2
2007	349,049	6,552.2	1.88%	199.0	6,552.2

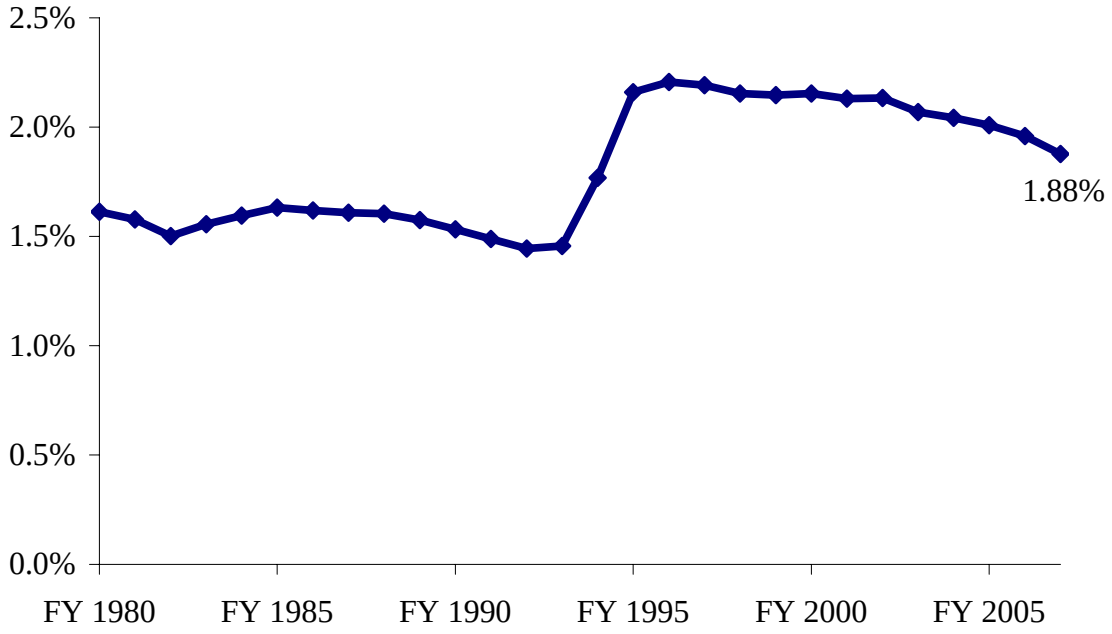
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 10
Michigan Sales Tax Nominal and Real Revenue



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

Exhibit 11
Sales Tax Revenue as a Percent of Personal Income



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

Exhibit 12
Michigan Sales Tax Revenue by Retail Sector
FY 1997 to FY 2007

Fiscal Year	Auto	Percent Change	Food	Percent Change	General Merchandise	Percent Change
1997	$1,330.4	0.8%	$760.2	1.6%	$566.1	1.6%
1998	1,366.2	2.7%	791.5	4.1%	587.2	3.7%
1999	1,434.0	5.0%	821.5	3.8%	548.3	-6.6%
2000	1,579.6	10.2%	856.2	4.2%	620.1	13.1%
2001	1,660.0	5.1%	885.9	3.5%	611.0	-1.5%
2002	1,763.9	6.3%	907.8	2.5%	641.7	5.0%
2003	1,778.5	0.8%	903.5	-0.5%	622.7	-3.0%
2004	1,693.6	-4.8%	936.2	3.6%	638.4	2.5%
2005	1,741.0	2.8%	916.7	-2.1%	696.3	9.1%
2006	1,723.9	-1.0%	919.5	0.3%	686.5	-1.4%
2007	1,735.5	0.7%	941.4	2.4%	716.2	4.3%

Fiscal Year	Building Lumber & Hardware	Percent Change	Furniture	Percent Change	Apparel	Percent Change
1997	$407.8	8.3%	$207.6	-3.8%	$195.8	1.0%
1998	449.2	10.1%	219.9	5.9%	203.2	3.8%
1999	486.3	8.3%	227.9	3.6%	208.7	2.7%
2000	506.4	4.1%	250.4	9.9%	220.9	5.8%
2001	509.8	0.7%	243.8	-2.6%	224.4	1.6%
2002	534.5	4.8%	240.0	-1.5%	221.5	-1.3%
2003	532.7	-0.3%	235.6	-1.8%	222.6	0.5%
2004	591.5	11.0%	239.9	1.8%	231.7	4.1%
2005	610.7	3.2%	236.8	-1.3%	232.9	0.5%
2006	575.5	-5.8%	224.9	-5.0%	231.0	-0.8%
2007	511.0	-11.2%	221.9	-1.3%	240.7	4.2%

Fiscal Year	Miscellaneous Retail	Percent Change	Non-Retail	Percent Change	Total	Percent Change
1997	$544.5	7.8%	$1,294.8	6.6%	$5,307.4	3.4%
1998	590.8	8.5%	1,318.4	1.8%	5,526.4	4.1%
1999	613.9	3.9%	1,388.3	5.3%	5,728.8	3.7%
2000	664.5	8.3%	1,514.9	9.1%	6,213.0	8.5%
2001	682.9	2.8%	1,520.5	0.4%	6,338.4	2.0%
2002	645.4	-5.5%	1,469.5	-3.4%	6,424.3	1.4%
2003	649.5	0.6%	1,457.9	-0.8%	6,402.9	-0.3%
2004	656.8	1.1%	1,461.9	0.3%	6,450.0	0.7%
2005	648.7	-1.2%	1,513.2	3.5%	6,596.3	2.3%
2006	641.6	-1.1%	1,513.6	0.0%	6,516.6	-1.2%
2007	641.1	-0.1%	1,518.2	0.3%	6,526.1	0.1%

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

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

Exhibit 13
Share of Sales Tax Revenue by Retail Sector
FY 1997 to FY 2007

Fiscal Year	Auto	Food	General Merchandise	Building Lumber & Hardware
1997	25.1%	14.3%	10.7%	7.7%
1998	24.7%	14.3%	10.6%	8.1%
1999	25.0%	14.3%	9.6%	8.5%
2000	25.4%	13.8%	10.0%	8.2%
2001	26.2%	14.0%	9.6%	8.0%
2002	27.5%	14.1%	10.0%	8.3%
2003	27.8%	14.1%	9.7%	8.3%
2004	26.3%	14.5%	9.9%	9.2%
2005	26.4%	13.9%	10.6%	9.3%
2006	26.5%	14.1%	10.5%	8.8%
2007	26.6%	14.4%	11.0%	7.8%

Fiscal Year	Furniture	Apparel	Miscellaneous Retail	Non-Retail
1997	3.9%	3.7%	10.3%	24.4%
1998	4.0%	3.7%	10.7%	23.9%
1999	4.0%	3.6%	10.7%	24.2%
2000	4.0%	3.6%	10.7%	24.4%
2001	3.8%	3.5%	10.8%	24.0%
2002	3.7%	3.4%	10.0%	22.9%
2003	3.7%	3.5%	10.1%	22.8%
2004	3.7%	3.6%	10.2%	22.7%
2005	3.6%	3.5%	9.8%	22.9%
2006	3.5%	3.5%	9.8%	23.2%
2007	3.4%	3.7%	9.8%	23.3%

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

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

Use Tax Revenue

Michigan use tax revenue totaled $1,380.4 million in FY 2007, down $33.4 million (-2.4 percent) from FY 2006. As with the sales tax, the use tax makes up an increased share of overall state tax revenue since the change in the tax rate from 4 percent to 6 percent in 1994. In FY 2007, use tax revenue accounted for 5.9 percent of total state tax revenue.

Nominal use tax revenue increased 46.4 percent from FY 1995 to FY 2007. When adjusted for inflation, real use tax revenue increased 8.5 percent, or an average rate of approximately 0.7 percent per year. Sluggish economic growth in 2001 through 2003 reversed the strong growth during the late 1990s, resulting in small gains in real use tax revenue (see Exhibits 14 and 15).

The effective burden of the use tax can be measured by comparing Michigan use tax revenue to Michigan personal income. From FY 1980 until the tax rate increased to 6 percent, use tax revenue as a percent of personal income ranged from 0.23 percent to 0.29 percent. In FY 2007, use tax revenue as a percent of personal income was 0.40 percent, unchanged from FY 2003 and down from 0.42 percent in FY 2006 (see Exhibit 16). Use tax revenues as a percentage of personal income remain noticeably below the levels reached in 1999 and 2000.

Because the use tax is generally paid by businesses, different sectors of the economy remit use tax versus the sales tax. The telecommunications sector provided the largest share of use tax revenue, with tax payments of $276.8 million in FY 2007 (see Exhibit 17). This accounts for 19.4 percent of total use tax revenue, with most of these payments collected from interstate and intrastate telephone calls. The automotive sector was responsible for $207.2 million of use tax revenue, or 14.6 percent, in FY 2007, generally from leasing and private sales of motor vehicles.

Between 1997 and 2007, the distribution of use tax revenue by sector has been shifting away from the telecommunications, automobile, and transportation manufacturing sectors, and toward other business sectors (see Exhibit 18). Many businesses owe use tax on purchases made from outside Michigan, and this has been a growing part of use tax collections. The share of use tax paid by the automobile sector has declined from 16.6 percent in FY 1997 to 14.6 percent in FY 2007. The sharp increase in use tax payments from the automobile sector between FY 2002 and FY 2004 has disappeared, along with the increase in collections from transportation manufacturing during those years.

The distribution of use tax payments would have changed dramatically if the expansion to the use tax base contained in Public Act 93 of 2007 would have remained in place. Several personal services would have been subject to the use tax, including wedding planning, personal fitness trainers, investment advice, and skiing. However, most of the revenue from the expanded use tax would have come from taxing business services, including consulting, logistics, and design services. As mentioned above, the expansion of the use tax base was repealed by Public Act 145 of 2007, which also imposed a higher tax under the Michigan business tax.

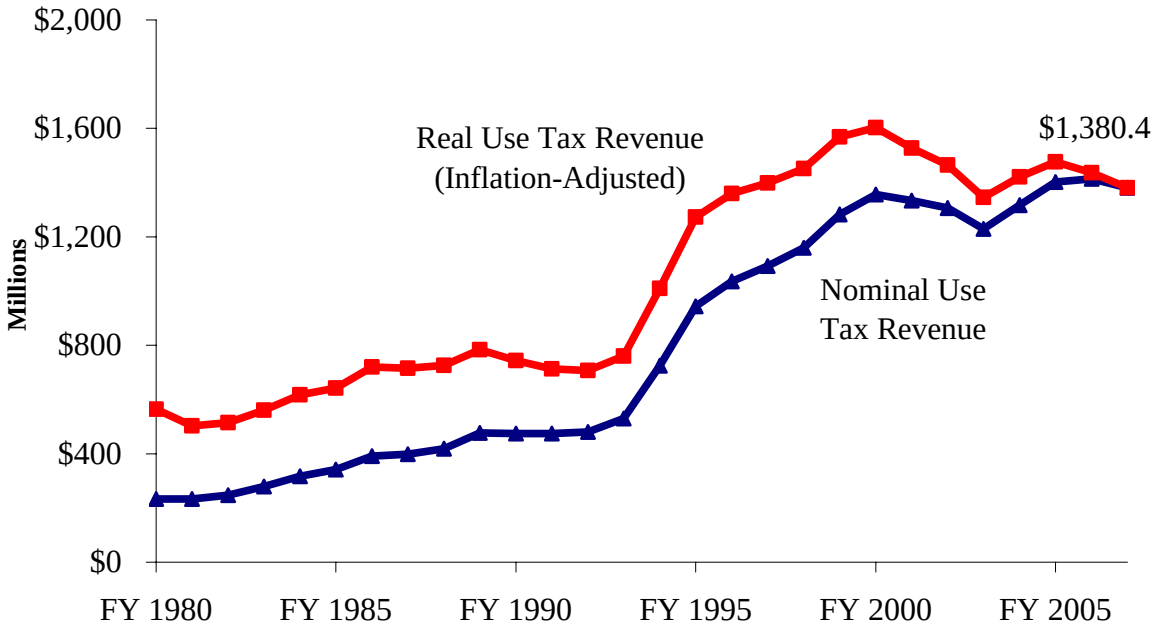
While the use tax is generally paid by businesses, individuals may incur a use tax liability on mail order or Internet purchases since the retailer may not collect Michigan sales tax. Beginning in tax year 1999, a line was added to the Michigan income tax form to aid taxpayers in meeting their use tax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

Exhibit 14
Michigan Use Tax Revenue
FY 1980 to FY 2007

Fiscal Year	Fiscal Year Personal Income (millions)	Use Tax Revenue (millions)	Use Tax Revenue as a Percent of Income	Fiscal Year Detroit Consumer Price Index (1982-84=100)	Real Use Tax Revenue in 2007 $ (millions)
1980	$93,265	$232.9	0.25%	82.3	563.4
1981	101,114	232.3	0.23%	92.1	501.9
1982	104,608	247.4	0.24%	95.8	514.1
1983	109,162	279.5	0.26%	99.4	559.9
1984	120,635	317.3	0.26%	102.4	616.9
1985	131,316	341.4	0.26%	105.8	642.0
1986	140,998	390.8	0.28%	108.1	719.4
1987	145,970	397.8	0.27%	110.7	714.9
1988	154,344	419.0	0.27%	114.8	726.1
1989	166,096	475.9	0.29%	120.8	784.2
1990	174,411	473.9	0.27%	126.8	743.7
1991	179,536	474.3	0.26%	132.4	712.9
1992	189,586	480.0	0.25%	135.1	706.8
1993	199,577	529.5	0.27%	138.6	760.2
1994	213,413	725.1	0.34%	142.9	1,009.7
1995	226,193	942.9	0.42%	147.5	1,272.5
1996	234,309	1,034.9	0.44%	151.6	1,358.9
1997	245,823	1,092.2	0.44%	155.4	1,398.6
1998	260,778	1,159.3	0.44%	158.9	1,452.0
1999	274,918	1,283.0	0.47%	162.8	1,568.4
2000	291,485	1,355.4	0.46%	168.3	1,602.9
2001	298,129	1,333.6	0.45%	173.8	1,526.8
2002	301,926	1,306.4	0.43%	177.5	1,464.6
2003	310,463	1,229.8	0.40%	182.0	1,344.7
2004	316,918	1,316.5	0.42%	184.4	1,420.7
2005	328,513	1,402.4	0.43%	189.0	1,476.6
2006	338,899	1,413.8	0.42%	195.9	1,436.1
2007	349,049	1,380.4	0.40%	199.0	1,380.4

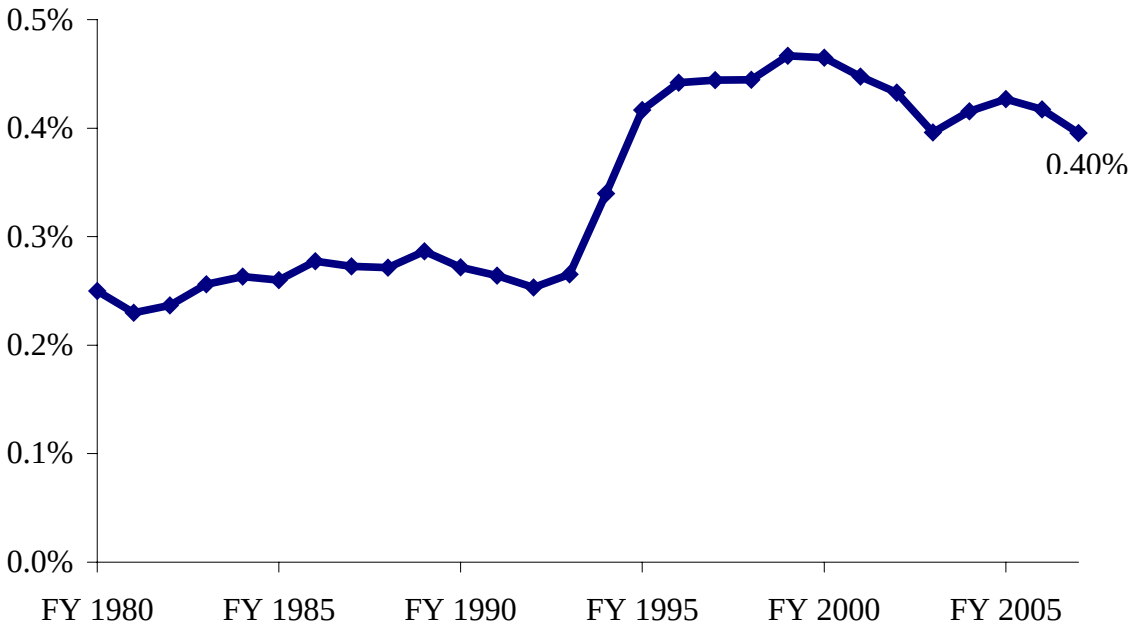
Sources: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor.
Bureau of Economic Analysis, U.S. Department of Commerce.

Exhibit 15
Michigan Use Tax Nominal and Real Revenue



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

Exhibit 16
Use Tax Revenue as a Percent of Personal Income



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

Exhibit 17
Michigan Use Tax Revenue by Various Sectors
FY 1997 to FY 2007
(Millions)

Fiscal Year	Telephone & Communication	Percent Change	Auto	Percent Change	Business Services	Percent Change
1997	$233.1	5.7%	$181.2	-0.2%	$114.5	16.5%
1998	252.1	8.1%	192.0	6.0%	133.4	16.5%
1999	280.8	11.4%	207.3	7.9%	175.7	31.8%
2000	257.4	-8.3%	208.3	0.5%	206.7	17.6%
2001	288.9	12.2%	196.3	-5.8%	192.2	-7.0%
2002	289.5	0.2%	236.4	20.5%	199.1	3.6%
2003	261.9	-9.5%	216.9	-8.3%	165.3	-17.0%
2004	299.5	14.4%	225.5	4.0%	152.9	-7.5%
2005	298.1	-0.5%	221.2	-1.9%	180.6	18.2%
2006	283.0	-5.1%	216.7	-2.0%	151.5	-16.1%
2007	276.8	-2.2%	207.2	-4.4%	153.6	1.4%

Fiscal Year	Hotels & Motels	Percent Change	Transportation Manufacturing	Percent Change	General Merchandise	Percent Change
1997	$49.4	9.4%	$86.0	1.9%	$27.1	-5.2%
1998	48.0	-2.9%	68.7	-20.1%	28.7	5.9%
1999	60.4	25.8%	66.6	-3.0%	31.7	10.4%
2000	62.0	2.6%	56.3	-15.6%	30.5	-3.8%
2001	64.0	3.3%	69.8	24.0%	32.1	5.3%
2002	59.3	-7.3%	69.7	-0.1%	30.7	-4.3%
2003	58.4	-1.5%	66.4	-4.8%	28.0	-8.8%
2004	61.0	4.4%	71.2	7.2%	31.5	12.3%
2005	61.9	1.6%	52.4	-26.4%	46.2	46.7%
2006	66.8	7.8%	44.1	-15.8%	49.9	8.1%
2007	67.1	0.6%	32.2	-26.9%	40.5	-18.9%

Fiscal Year	Machinery	Percent Change	Other	Percent Change	Total	Percent Change
1997	$19.1	-4.4%	$380.7	1.4%	$1,091.2	3.5%
1998	24.1	25.7%	415.7	9.2%	1,162.6	6.5%
1999	27.5	14.4%	442.0	6.3%	1,292.0	11.1%
2000	27.3	-0.8%	478.2	8.2%	1,326.7	2.7%
2001	29.8	9.2%	487.4	1.9%	1,360.5	2.5%
2002	24.1	-19.0%	410.7	-15.8%	1,319.6	-3.0%
2003	25.2	4.2%	431.4	5.0%	1,253.3	-5.0%
2004	22.5	-10.5%	450.9	4.5%	1,314.8	4.9%
2005	22.2	-1.4%	533.8	18.4%	1,416.4	7.7%
2006	25.7	15.5%	568.1	6.4%	1,405.7	-0.8%
2007	25.0	-2.5%	621.1	9.3%	1,423.6	1.3%

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

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

Exhibit 18
Share of Use Tax Revenue by Various Sectors
FY 1997 to FY 2007

Fiscal Year	Telephone & Communication	Auto	Business Services	Hotels & Motels
1997	21.4%	16.6%	10.5%	4.5%
1998	21.7%	16.5%	11.5%	4.1%
1999	21.7%	16.0%	13.6%	4.7%
2000	19.4%	15.7%	15.6%	4.7%
2001	21.2%	14.4%	14.1%	4.7%
2002	21.9%	17.9%	15.1%	4.5%
2003	20.9%	17.3%	13.2%	4.7%
2004	22.8%	17.1%	11.6%	4.6%
2005	21.0%	15.6%	12.8%	4.4%
2006	20.1%	15.4%	10.8%	4.7%
2007	19.4%	14.6%	10.8%	4.7%

Fiscal Year	Transportation Manufacturing	General Merchandise	Machinery	Other
1997	7.9%	2.5%	1.8%	34.9%
1998	5.9%	2.5%	2.1%	35.8%
1999	5.2%	2.5%	2.1%	34.2%
2000	4.2%	2.3%	2.1%	36.0%
2001	5.1%	2.4%	2.2%	35.8%
2002	5.3%	2.3%	1.8%	31.1%
2003	5.3%	2.2%	2.0%	34.4%
2004	5.4%	2.4%	1.7%	34.3%
2005	3.7%	3.3%	1.6%	37.7%
2006	3.1%	3.6%	1.8%	40.4%
2007	2.3%	2.8%	1.8%	43.6%

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

VI. REMOTE SALES TAXATION

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

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

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

Current Law

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

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

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

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

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

Streamlined Sales Tax Project

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

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

On November 12, 2002 delegates from thirty states and the District of Columbia approved the Agreement. The approval of the Agreement did not modify the laws of any state. The determination as to whether and how to implement the terms of the Agreement rests with each state. Since approval of the Agreement, 15 states have been certified as full members. Another 7 states are associate members, having complied with many of the provisions of the Agreement. The Agreement took effect on October 1, 2005, when at least 10 states comprising at least 20 percent of the overall population of all states with a sales tax were deemed to be in compliance with the Agreement. Currently 22 states, including Michigan, are members (either full or associate) of the Agreement.

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

Additional information on the Agreement can be found at ***www.streamlinedsalestax.org***. Additional information on Public Acts 172 – 175 of 2004, related to the SSUTA, can be found at ***www.michiganlegislature.org***.

Remote Sales Revenue Impact

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

Michigan's use tax revenue losses from consumer remote sales are estimated to be $318 million in FY 2007. This loss will grow to $414 million in FY 2010, primarily due to the growth of e-commerce (see Exhibit 19). Over this period, the revenue loss from traditional mail order sales is expected to increase from $183 million to $204 million (see Exhibit 20 and Exhibit 21). This estimate assumes that mail order retailers collect Michigan sales tax on one-third of sales to Michigan residents. Due to the rapid rate of growth of e-commerce, the expected revenue loss will also increase for Michigan. The revenue loss due to consumer e-commerce is expected to

increase from $135 million in FY 2007 to $210 million in FY 2010 (see Exhibit 20 and Exhibit 21). Earlier estimates of the tax loss from remote sales were higher since they were prepared prior to the impact of the 2001 recession. The overall decline in economic activity due to the recession has resulted in slower than expected growth in remote sales, especially e-commerce sales.

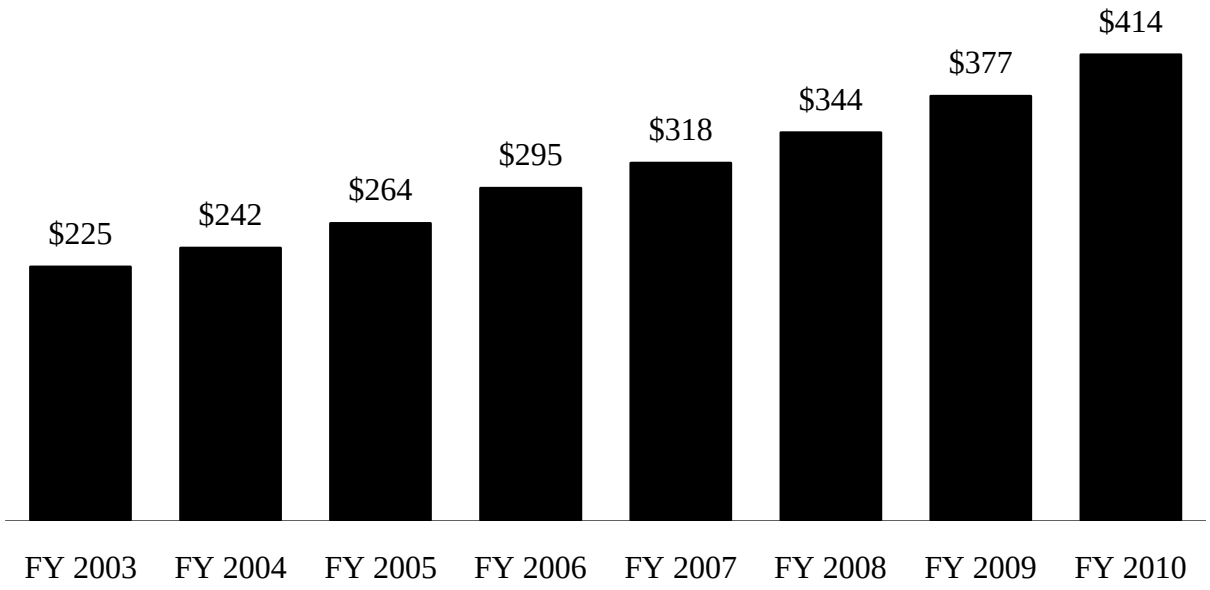
Various studies have attempted to estimate the tax loss for remote sales. One study by the Center for Business and Economic Research at the University of Tennessee forecasted the sales and use tax loss due to e-commerce sales at over $14 billion in 2003.[4] However, some alternative estimates have produced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

Beginning with tax year 1999, Michigan added a line on the personal income tax form for taxpayers to include use tax due on remote sales to make it easier for Michigan income tax filers to pay any use tax that they owe. Taxpayers have the option of reporting actual use tax due or using a table provided in the income tax form that estimates use tax liability based on income. For any single purchase over $1,000, the actual use tax due must be reported. For tax returns processed during 2007, approximately 83,600 taxpayers reported over $3.64 million of use tax due on their Michigan income tax returns. This amount is approximately 1.1 percent of the estimated tax liability that goes uncollected on remote sales. State officials hope that as more taxpayers become educated on their use tax responsibility, compliance will increase.

[4] See "State and Local Sales Tax Revenue Losses from E-Commerce: Updated Estimates" by Donald Bruce and William F. Fox, University of Tennessee, September 2001.

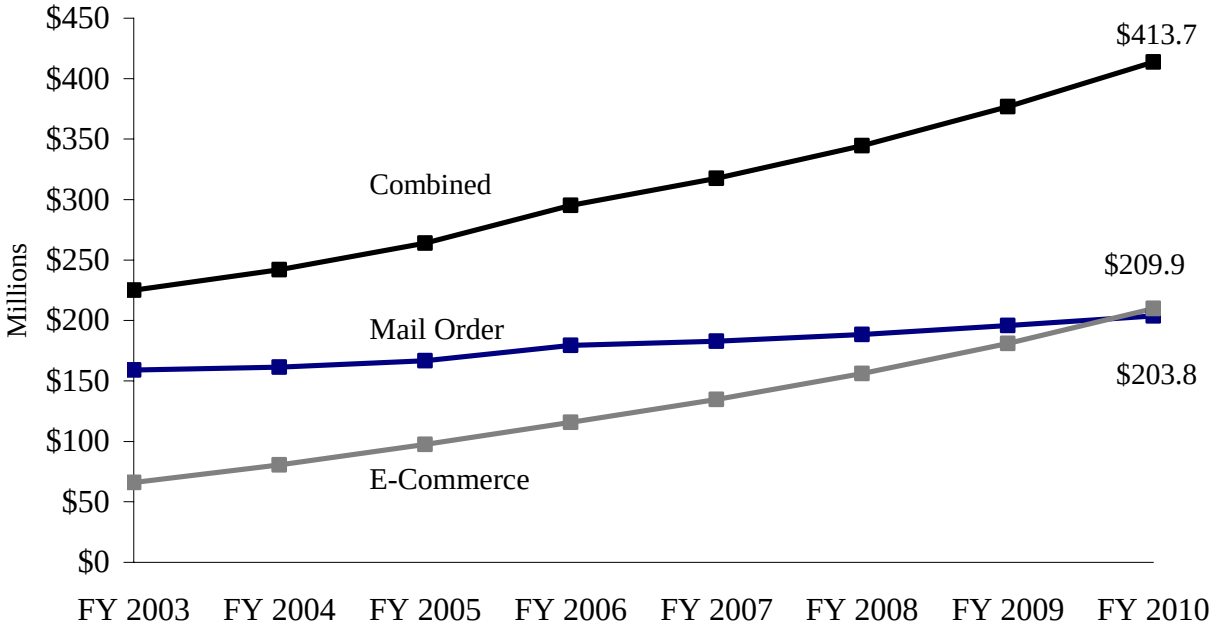
[5] See "A Current Calculation of Uncollected Sales Tax Arising from Internet Growth" by Peter A. Johnson, Direct Marketing Association, March 2003.

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



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

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



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

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

	Revenue Impact					
Fiscal Year	Traditional Mail Order	Percent Change	E-Commerce	Percent Change	Total Remote Sales	Percent Change
2002	158.7	0.6%	$52.0	27.3%	210.6	6.1%
2003	159.0	0.2%	66.1	27.2%	225.0	6.8%
2004	161.5	1.6%	80.5	21.8%	242.0	7.5%
2005	166.6	3.1%	97.4	21.0%	264.0	9.1%
2006	179.4	7.7%	115.9	19.0%	295.3	11.9%
2007	183.0	2.0%	134.6	16.2%	317.6	7.6%
2008	188.4	3.0%	156.0	15.9%	344.4	8.4%
2009	195.9	4.0%	181.0	16.0%	376.9	9.4%
2010	203.8	4.0%	209.9	16.0%	413.7	9.8%

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

VII. MICHIGAN COUNTIES AND INTERSTATE COMPARISONS

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

Michigan Counties

This report presents estimates of the sales tax paid by residents of each Michigan county in 2006 (see Exhibit 22). These estimates are based on personal income by county, adjusted for the food and prescription drug exemptions and sales of residential utilities. These estimates were prepared using a different methodology from reports prepared in previous years, and so the estimates are not comparable with those earlier estimates. The advantage of the new methodology is that, by using income instead of estimates of retail sales by county, the estimates attempt to match up sales tax payments with the income of the residents of each county. High-income counties should have higher payment amounts than counties with lower income levels. Using retail sales attributes sales tax collections to the county where the sales take place, which inflates collections in counties with a high concentration of retail businesses or tourist attractions.

The estimates of county sales tax revenue range from a high of $1,249 million in Oakland County to a low of $1.1 million in Keweenaw County. Oakland County ranked first in sales tax payments per person at $1,034, while Luce County ranked last with $391 per-person sales tax payments.

Interstate Comparisons

A sales tax is levied by 45 states and the District of Columbia. Exhibit 23 compares current state and local sales tax rates. Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee levy the highest state sales tax at 7 percent. Of states with a sales tax, Colorado levied the lowest state sales tax at 2.9 percent. For 2008, Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a state sales tax, although Alaska allows local sales taxes.

In the 36 states that allow local sales taxes, the tax rate a consumer faces depends on the combined state and local tax rates. The local rates listed are the maximum tax rates effective in that state; therefore, some localities within a state may have a lower combined state and local sales tax rate. Currently, the highest state and local tax rate is 11 percent, which is levied within Alabama, Arizona, Arkansas, Louisiana, and Oklahoma.

One measure of the effective state and local sales tax rate in each state is the average combined state and local sales tax rate for each state. For states with local sales taxes, an effective state and local tax rate is calculated by dividing total sales tax revenue by state sales tax revenue and multiplying by the state sales tax rate. Exhibit 24 reveals Tennessee has the highest effective average state and local tax rate at 8.90 percent, based on data from 2006. Michigan ranks 31st highest at 6.0 percent.

A second measure of the effective sales tax rate in each state is state and local sales tax revenue as a percentage of personal income. Louisiana has the highest percentage of sales tax revenue as a percent of personal income at 5.76 percent in FY 2006. Michigan ranked 31st for sales tax revenue as a percent of personal income at 2.38 percent (see Exhibit 24). The U.S. average for all states was 2.65 percent, while the average for states with at least some sales tax collections was 2.71 percent. Alaska, which only levies a local sales tax, was the lowest for states with a sales tax at 0.68 percent. One problem with this measure is that it assumes only residents in that state paid the sales tax. Because states with a large tourism industry, such as Hawaii, are able to export a high amount of sales tax revenue to residents of other states, the true effective rate will be overstated.

Exhibit 22
Estimated Michigan Sales Tax Revenue by County
2006

County	Population (thousands)	Personal Income (thousands)	Personal Income Per Person	Estimated Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Alcona	11.6	$269,331	$23,303	$4,980	74	$431	73
Alger	9.6	221,056	23,128	$4,197	77	439	69
Allegan	112.4	3,385,245	30,126	$65,127	18	580	22
Alpena	29.8	851,206	28,551	$16,147	50	542	33
Antrim	24.3	710,116	29,239	$13,465	54	554	30
Arenac	16.8	406,998	24,245	$7,725	67	460	62
Baraga	8.6	198,288	23,011	$3,776	79	438	71
Barry	58.9	1,823,587	30,954	$35,011	28	594	17
Bay	108.1	3,167,808	29,317	$60,515	21	560	29
Benzie	17.6	486,961	27,673	$9,242	64	525	36
Berrien	159.5	4,948,621	31,017	$94,565	14	593	18
Branch	46.3	1,121,079	24,222	$21,489	40	464	61
Calhoun	137.5	4,107,089	29,862	$78,667	17	572	24
Cass	50.7	1,501,209	29,637	$28,753	33	568	27
Charlevoix	26.2	916,817	35,038	$17,489	45	668	9
Cheboygan	27.0	695,424	25,766	$13,181	56	488	52
Chippewa	38.6	882,141	22,825	$16,912	46	438	72
Clare	31.0	728,119	23,456	$13,794	53	444	68
Clinton	69.4	2,273,741	32,760	$43,711	25	630	12
Crawford	14.7	327,940	22,318	$6,228	73	424	78
Delta	37.7	1,038,378	27,525	$19,720	42	523	39
Dickinson	27.0	853,303	31,570	$16,187	49	599	16
Eaton	107.3	3,267,409	30,442	$62,763	20	585	21
Emmet	33.4	1,184,945	35,425	$22,632	38	677	7
Genesee	438.0	12,615,522	28,803	$242,390	6	553	31
Gladwin	26.7	620,492	23,244	$11,711	61	439	70
Gogebic	16.4	410,753	25,011	$7,732	66	471	57
Grand Traverse	84.5	2,894,249	34,260	$55,418	23	656	10
Gratiot	42.2	1,029,725	24,398	$19,732	41	468	58
Hillsdale	46.9	1,195,183	25,484	$22,873	37	488	53
Houghton	35.4	850,097	24,040	$16,250	48	460	63
Huron	33.7	998,705	29,651	$18,882	43	561	28
Ingham	280.0	9,005,054	32,161	$173,668	7	620	14
Ionia	64.1	1,547,942	24,141	$29,909	32	466	59
Iosco	26.5	635,491	23,997	$11,905	60	450	66
Iron	12.2	332,687	27,283	$6,245	71	512	44
Isabella	66.6	1,730,911	25,988	$33,468	30	502	46
Jackson	163.1	4,582,982	28,100	$87,968	16	539	34
Kalamazoo	244.2	8,197,651	33,568	$157,588	9	645	11
Kalkaska	17.3	378,137	21,901	$7,234	68	419	79
Kent	600.6	21,050,998	35,049	$405,468	4	675	8
Keweenaw	2.1	59,433	27,682	$1,118	83	521	40
Lake	11.2	254,523	22,691	$4,791	75	427	76
Lapeer	92.4	2,743,284	29,697	$52,836	24	572	25

Exhibit 22 (continued)
Estimated Michigan Sales Tax Revenue by County
2006

County	Population (thousands)	Personal Income (thousands)	Personal Income Per Person	Estimated Tax Revenue (thousands)	Rank	Tax Per Person	Rank
Leelanau	21.9	$881,060	$40,284	$16,743	47	$766	3
Lenawee	101.4	3,021,823	29,809	$57,936	22	572	26
Livingston	182.3	6,853,113	37,589	$132,095	10	725	5
Luce	6.7	136,958	20,546	$2,608	82	391	83
Mackinac	11.0	333,323	30,299	$6,298	70	573	23
Macomb	829.5	29,533,613	35,602	$566,016	3	682	6
Manistee	25.0	651,210	26,084	$12,342	58	494	49
Marquette	65.2	1,816,266	27,847	$34,771	29	533	35
Mason	28.8	796,950	27,633	$15,130	52	525	37
Mecosta	42.4	945,184	22,308	$18,095	44	427	75
Menominee	24.4	634,339	26,018	$12,047	59	494	50
Midland	83.0	3,279,082	39,524	$62,838	19	757	4
Missaukee	15.0	338,569	22,555	$6,459	69	430	74
Monroe	153.3	4,986,121	32,521	$95,840	13	625	13
Montcalm	63.2	1,376,050	21,786	$26,433	34	418	80
Montmorency	10.4	226,734	21,881	$4,214	76	407	82
Muskegon	174.2	4,627,836	26,560	$88,868	15	510	45
Newaygo	49.1	1,212,887	24,679	$23,250	36	473	55
Oakland	1,207.9	65,063,164	53,865	$1,248,582	1	1,034	1
Oceana	28.0	697,549	24,942	$13,341	55	477	54
Ogemaw	21.5	486,156	22,661	$9,159	65	427	77
Ontonagon	7.1	190,004	26,757	$3,555	81	501	47
Osceola	23.3	575,506	24,726	$10,977	63	472	56
Oscoda	9.0	196,093	21,815	$3,675	80	409	81
Otsego	24.3	668,439	27,470	$12,765	57	525	38
Ottawa	257.2	8,260,913	32,122	$159,084	8	619	15
Presque Isle	13.9	333,218	23,967	$6,229	72	448	67
Roscommon	25.7	623,056	24,238	$11,639	62	453	65
Saginaw	204.9	5,850,647	28,550	$112,028	11	547	32
Sanilac	44.0	1,186,087	26,960	$22,611	39	514	42
Schoolcraft	8.7	213,390	24,604	$4,033	78	465	60
Shiawassee	72.2	1,877,272	25,992	$36,032	27	499	48
St. Clair	170.4	5,256,101	30,845	$100,878	12	592	19
St. Joseph	62.4	1,683,312	26,981	$32,280	31	517	41
Tuscola	57.1	1,359,101	23,813	$26,017	35	456	64
Van Buren	78.1	2,083,092	26,670	$40,000	26	512	43
Washtenaw	347.8	13,874,107	39,892	$267,620	5	769	2
Wayne	2,012.4	61,889,812	30,755	$1,190,668	2	592	20
Wexford	31.7	817,775	25,796	$15,623	51	493	51
Totals	10,102.3	341,336,542	$33,788	$6,552,240		$649	

Sources: Bureau of Economic Analysis and Centers for Medicare & Medicaid Services. Compiled by Office of Revenue and Tax Analysis.

Exhibit 23
State and Local Sales Tax Rates
2008

State	State Sales Tax Rate	Maximum Local Tax Rate	Maximum State & Local Tax Rate
Alabama	4.00%	7.00%	11.00%
Alaska	No Tax	7.00%	7.00%
Arizona	5.60%	5.40%	11.00%
Arkansas	6.00%	5.00%	11.00%
California	6.25%	2.50%	8.75%
Colorado	2.90%	7.00%	9.90%
Connecticut	6.00%	None	6.00%
Delaware	No Tax	None	No Tax
Florida	6.00%	1.50%	7.50%
Georgia	4.00%	4.00%	8.00%
Hawaii	4.00%	0.50%	4.50%
Idaho	6.00%	3.00%	9.00%
Illinois	6.25%	4.00%	10.25%
Indiana	7.00%	None	7.00%
Iowa	6.00%	1.00%	7.00%
Kansas	5.30%	3.625%	8.925%
Kentucky	6.00%	None	6.00%
Louisiana	4.00%	7.00%	11.00%
Maine	5.00%	None	5.00%
Maryland	6.00%	None	6.00%
Massachusetts	5.00%	None	5.00%
Michigan	6.00%	None	6.00%
Minnesota	6.50%	1.00%	7.50%
Mississippi	7.00%	0.25%	7.25%
Missouri	4.225%	5.375%	9.60%
Montana	No Tax	None	No Tax
Nebraska	5.50%	1.50%	7.00%
Nevada	6.50%	1.25%	7.75%
New Hampshire	No Tax	None	No Tax
New Jersey	7.00%	None	7.00%
New Mexico	5.00%	3.438%	8.438%
New York	4.00%	4.75%	8.75%
North Carolina	4.25%	3.00%	7.25%
North Dakota	5.00%	2.50%	7.50%
Ohio	5.50%	2.25%	7.75%
Oklahoma	4.50%	6.50%	11.00%
Oregon	No Tax	None	No Tax
Pennsylvania	6.00%	1.00%	7.00%
Rhode Island	7.00%	None	7.00%
South Carolina	6.00%	2.00%	8.00%
South Dakota	4.00%	2.00%	6.00%
Tennessee	7.00%	2.75%	9.75%
Texas	6.25%	2.00%	8.25%
Utah	4.65%	3.65%	8.30%
Vermont	6.00%	1.00%	7.00%
Virginia	4.00%	1.00%	5.00%
Washington	6.50%	2.50%	9.00%
West Virginia	6.00%	None	6.00%
Wisconsin	5.00%	0.60%	5.60%
Wyoming	4.00%	2.00%	6.00%

Sources: *State Tax Guide* , Commerce Clearing House and state tax Internet sites.
Rates as of July 1, 2008. Compiled by Office of Revenue and Tax Analysis.

Exhibit 24
Effective State and Local Sales Tax Rates and Revenue
FY 2006

	State & Local Taxes on Sales/ Gross Receipts (millions)	Personal Income (millions)	Sales Tax Revenue as % of Income	Rank	State Tax Rate	Effective State & Local Sales Tax Rate	Rank
Alabama	$3,843.7	$139,918.5	2.75%	20	4.0%	6.92%	18
Alaska	$171.4	$25,079.8	0.68%	46	No Tax	NA	46
Arizona	$7,463.4	$189,482.0	3.94%	9	5.6%	7.79%	5
Arkansas	$3,598.5	$77,432.5	4.65%	4	6.000%	7.79%	4
California	$40,347.5	$1,396,357.3	2.89%	16	6.25%	7.83%	3
Colorado	$4,800.7	$182,131.3	2.64%	24	2.9%	6.61%	21
Connecticut	$3,040.7	$172,895.8	1.76%	40	6.0%	6.00%	31
Delaware	$0.0	$32,519.0	0.00%	47	No Tax	NA	46
Florida	$21,975.8	$642,015.0	3.42%	12	6.0%	6.34%	26
Georgia	$9,491.9	$292,712.8	3.24%	14	4.0%	6.54%	24
Hawaii	$2,355.3	$45,771.5	5.15%	2	4.0%	4.00%	45
Idaho	$1,078.5	$42,099.5	2.56%	26	6.0%	6.00%	31
Illinois	$9,064.4	$477,462.8	1.90%	39	6.25%	7.30%	11
Indiana	$5,334.3	$198,516.8	2.69%	22	7.0%	7.00%	15
Iowa	$2,272.3	$95,831.3	2.37%	32	6.0%	7.57%	10
Kansas	$2,828.9	$92,666.8	3.05%	15	5.3%	7.05%	13
Kentucky	$2,758.3	$121,734.5	2.27%	36	6.0%	6.02%	30
Louisiana	$6,597.6	$114,629.5	5.76%	1	4.0%	7.70%	8
Maine	$1,041.2	$41,400.0	2.52%	27	5.0%	5.00%	43
Maryland	$3,381.7	$238,970.0	1.42%	44	6.0%	6.00%	31
Massachusetts	$4,009.4	$289,869.0	1.38%	45	5.0%	5.00%	43
Michigan	**$8,080.9**	**$338,899.3**	**2.38%**	**31**	**6.0%**	**6.00%**	**31**
Minnesota	$4,505.9	$195,663.8	2.30%	34	6.5%	6.60%	22
Mississippi	$3,048.8	$75,970.3	4.01%	8	7.0%	7.00%	14
Missouri	$4,932.7	$186,985.0	2.64%	23	4.225%	6.72%	20
Montana	$0.0	$28,245.5	0.00%	47	No Tax	NA	46
Nebraska	$1,648.0	$59,331.3	2.78%	19	5.5%	6.43%	25
Nevada	$3,320.7	$93,776.3	3.54%	11	6.5%	6.82%	19
New Hampshire	$0.0	$50,468.0	0.00%	47	No Tax	NA	46
New Jersey	$6,853.4	$392,088.8	1.75%	41	7.0%	7.00%	15
New Mexico	$2,469.4	$56,086.3	4.40%	5	5.0%	7.09%	12
New York	$21,801.9	$806,764.0	2.70%	21	4.00%	7.74%	6
North Carolina	$6,785.1	$276,063.5	2.46%	30	4.25%	5.74%	38
North Dakota	$510.3	$20,580.3	2.48%	28	5.0%	5.97%	36
Ohio	$9,201.3	$373,993.8	2.46%	29	5.5%	6.54%	23
Oklahoma	$3,186.2	$111,353.0	2.86%	17	4.5%	7.91%	2
Oregon	$0.0	$118,715.8	0.00%	47	No Tax	NA	46
Pennsylvania	$8,605.2	$444,250.3	1.94%	38	6.0%	6.14%	28
Rhode Island	$854.3	$39,067.3	2.19%	37	7.0%	7.00%	15
South Carolina	$3,282.2	$125,137.3	2.62%	25	6.0%	6.18%	27
South Dakota	$913.8	$24,924.8	3.67%	10	4.0%	5.38%	39
Tennessee	$8,205.7	$190,203.5	4.31%	6	7.0%	8.90%	1
Texas	$22,529.0	$802,714.9	2.81%	18	6.25%	7.70%	7
Utah	$2,420.5	$73,048.8	3.31%	13	4.75%	5.95%	37
Vermont	$330.0	$21,041.0	1.57%	42	6.0%	6.07%	29
Virginia	$4,283.7	$295,247.3	1.45%	43	4.0%	5.25%	41
Washington	$11,813.0	$234,130.3	5.05%	3	6.5%	7.64%	9
West Virginia	$1,125.8	$49,438.8	2.28%	35	6.0%	6.00%	31
Wisconsin	$4,394.9	$186,752.8	2.35%	33	5.0%	5.32%	40
Wyoming	$803.3	$19,797.5	4.06%	7	4.0%	5.14%	42
U.S. Average	$281,361.7	$10,600,233.9	2.65%				

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

VIII. PUBLIC ACTS IN 2007 – SALES AND USE TAXES

Public Act 93 of 2007 amended the Use Tax Act to expand the list of services subject to the tax in the same manner as the use, storage, or consumption of tangible personal property, effective December 31, 2007. The list of services subject to tax included many services consumed by businesses. The list of additional services subject to the use tax was repealed by Public Act 145 of 2007.

Public Act 103 of 2007 amended the Use Tax Act to clarify the tax treatment of tangible personal property when that property is converted from a tax-exempt use to a taxable use. Public Act 103 was in response to court rulings that ran counter to the historical interpretation and administration of the use tax. The Public Act also revised the use tax treatment of motor vehicles held for resale by a new vehicle dealer.

Public Acts 104 and 105 of 2007 amended the Use Tax Act and the General Sales Tax Act, respectively, to allow a taxpayer who holds an account receivable on which either use tax or sales tax has previously been paid to claim a deduction if the account receivable is subsequently found worthless and written off. The Public Acts also express the original intent of the Legislature was that the bad debt deduction would be available only for taxpayers with a legal liability to collect and remit tax. The new provisions in these Public Acts are effective for sales occurring after September 30, 2009.

Public Act 148 of 2007 amended the Use Tax Act to exempt taxpayers from any tax liability associated with services that were newly subject to the use tax under Public Act 93. Any tax actually collected on services performed must be submitted to the Department of Treasury by the service provider.

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