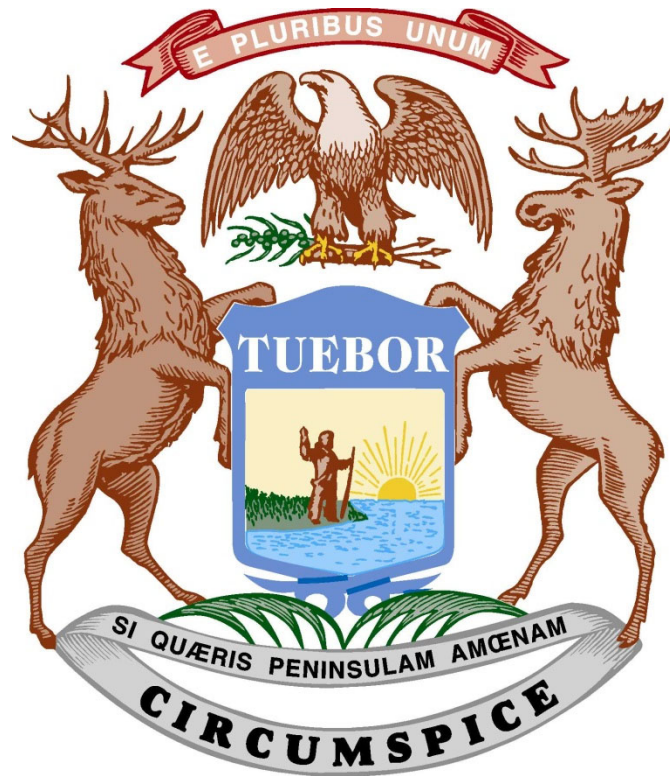


**Executive Budget  
Appendix on Tax  
Credits,  
Deductions, and  
Exemptions  
Fiscal Years 2022 and 2023**



**Executive Budget  
Appendix on Tax Credits,  
Deductions, and Exemptions  
Fiscal Years 2022 and 2023**



**State of Michigan  
Michigan Department of Treasury  
Gretchen Whitmer, Governor**

## ACKNOWLEDGMENTS

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County equalization directors provided estimates of the value of tax-exempt property in their counties, county treasurers provided data for the taxes they administer, and city income tax directors provided estimates for other local tax credits, deductions, and exemptions. We would like to thank all of these officials for their assistance and cooperation.

The public act summaries in this report are intended to be brief overviews of the legislation enacted in 2020 and 2021. They are not intended to provide any tax guidance and may not be relied upon as the official interpretation or position of the Michigan Department of Treasury.

This report is available on the Internet at <http://www.michigan.gov/treasury>.

Rachael Eubanks  
State Treasurer  
Department of Treasury

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

<u>Fiscal Year</u>	<u>Date of Release</u>	<u>Lead Department</u>
1979 - 1980	January 1980	Management and Budget
1981 - 1982	March 1981	Management and Budget
1982 - 1983	April 1982	Management and Budget
1983 - 1984	July 1983	Management and Budget
1984 - 1985	July 1984	Management and Budget
1985 - 1986	December 1985	Management and Budget
1986 - 1987	October 1986	Management and Budget
1987 - 1988	November 1988	Management and Budget
1988 - 1989		
1989 - 1990	February 1991	Treasury
1990 - 1991		
1991 - 1992	March 1993	Treasury
1992 - 1993		
1993 - 1994	June 1994	Treasury
1994 - 1995		
1995 - 1996	April 1995	Treasury
1996 - 1997	March 1996	Treasury
1997 - 1998	June 1997	Treasury
1998 - 1999	May 1998	Treasury
1999 - 2000	February 2000	Treasury
2000 - 2001	April 2000	Treasury
2001 - 2002	July 2001	Treasury
2002 - 2003	April 2002	Treasury
2003 - 2004	March 2003	Treasury
2004 - 2005	August 2004	Treasury
2005 - 2006	May 2005	Treasury
2006 - 2007	May 2006	Treasury
2007 - 2008	September 2007	Treasury
2008 - 2009	November 2008	Treasury
2009 - 2010	December 2009	Treasury
2010 - 2011	January 2011	Treasury
2011 - 2012	October 2011	Treasury
2013 - 2014	July 2012	Treasury
2014 - 2015	June 2013	Treasury
2015 - 2016	December 2014	Treasury
2016 - 2017	June 2016	Treasury
2017 - 2018	September 2017	Treasury
2018 - 2019	July 2019	Treasury
2020 - 2021	June 2022	Treasury
2022 - 2023	March 2024	Treasury

## APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

### EXECUTIVE SUMMARY

#### Fiscal Years 2022 and 2023

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 7.0 percent between fiscal year (FY) 2022 and FY 2023, from \$46.39 billion to \$49.63 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 decrease from \$881.6 million to \$861.2 million from FY 2022 to FY 2023. The estimates under the business privilege tax category reflect the credits, deductions, and exemptions in place under the corporate income tax and the credits which may be claimed under the Michigan business tax.

Consumption tax expenditures are predicted to increase 7.9 percent between FY 2022 and FY 2023, from \$21,259.1 million to \$22,942.6 million. The impact of the pandemic was incorporated, but for this sector of the economy the impact was different in the various industries. 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 \$10,848.3 million in FY 2022 to \$11,322.3 million in FY 2023, a 4.4 percent increase. In recent tax years the income tax adjustment for income attributable to another state has been volatile, resulting in volatility of the estimated income tax expenditure.

Local tax expenditures are predicted to increase 8.3 percent between FY 2022 and FY 2023, rising from \$13,331.6 million to \$14,432.7 million. The value of local tax exemptions rises with higher property values.

Transportation tax expenditures are predicted to increase by 4.5 percent between FY 2022 and FY 2023, from \$67.1 million to \$70.2 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 on specific items or activities. 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, since both reduce the effective cost of health care by 50 percent, assuming the choice of how to establish the subsidy does not affect the population covered by the program.

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 narrower 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 substitutes for direct spending. This report includes statutory credits, deductions, and exemptions, a broader concept than tax expenditures, and this broader approach includes several tax provisions that many would consider adjustments necessary to obtain the appropriate tax base, such as the exemption for food under the sales tax.

Changes in law can affect revenues and not involve a tax expenditure. For example, general reductions in tax rates would 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 the corporate income tax credit for small 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 earned income tax credit, at both the federal and state levels, is intended to increase work effort and attachment to the labor force and is a good 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 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 2022, individual Michigan taxpayers could claim a \$5,000 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.

## **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 even though it is a statutory exemption in the General Sales Tax Act.

## **Measuring Tax Expenditures**

The estimates in this report for fiscal year (FY) 2022 and FY 2023 are based on the most recent data available. Tax year 2021 income tax data (returns processed in the spring of 2022) are used, as are 2022 property and sales tax data, and tax year 2020 Corporate Income Tax (CIT) 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 property tax exemption may allow firms to take greater advantage of other exemptions, 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 tax expenditure for education savings plans, 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 on 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 places sunset dates on some 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.

Credits, deductions and exemptions are listed in this report independent of the steps necessary to amend or eliminate them. Some of these items may be altered with a change in Michigan statute, while others may require a change in federal law to allow Michigan to change its policy. Others, such as the sales tax exemption for food other than prepared food, would require an amendment to the Michigan Constitution.

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 the tax categories 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 \$46.388 billion in FY 2022 to \$49.629 billion in FY 2023, a 7.0 percent increase (see Exhibit 1). The overall increase in tax expenditures was concentrated in consumption and property tax expenditures.

**Exhibit 1**  
**Total Tax Expenditures, FY 2022 and FY 2023**

<u>Tax Category</u>	<u>FY 2022</u> <u>(000)</u>	<u>FY 2023</u> <u>(000)</u>	<u>Change</u> <u>(000)</u>
Business Privilege	\$881,600	\$861,230	-\$20,370
Consumption	21,259,094	22,942,644	1,683,550
Individual Income	10,848,298	11,322,298	474,000
Property	13,057,460	14,153,280	1,095,820
Other Local (City Income)	274,110	279,390	5,280
Transportation	<u>67,131</u>	<u>70,153</u>	<u>3,022</u>
<b>TOTAL</b>	<b>\$46,387,693</b>	<b>\$49,628,995</b>	<b>\$3,241,302</b>

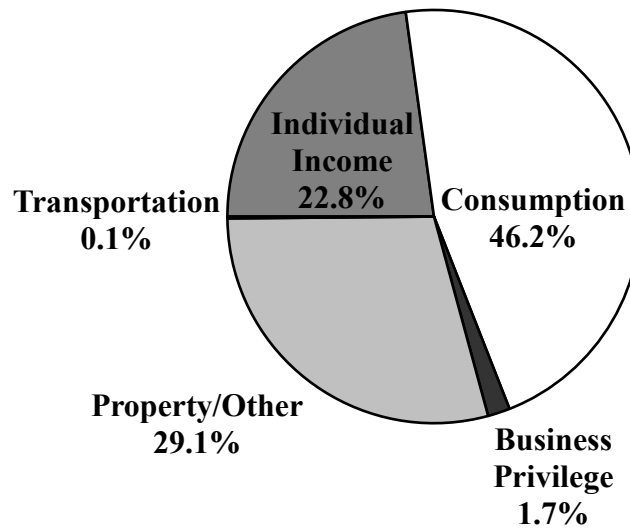
Totals may differ slightly due to rounding.

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2023, consumption tax expenditures comprise 46.2 percent of total tax expenditures, while income tax expenditures comprise 22.8 percent and property and other local taxes comprise 29.1 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 2023 Distribution of Tax Expenditures**



Total may not equal 100 percent due to rounding.

**Exhibit 3**  
**FY 2023 Tax Expenditures and Projected Revenue**  
**(millions of dollars)**

<u>Tax Category</u>	<u>Tax Expenditure</u>	<u>Projected Revenues*</u>	<u>Percent of Revenues</u>
Business Privilege			
Oil and Gas Severance	\$4.1	\$27.1	15.0%
Corporate Income/MBT	819.2	1,171.7	69.9%
Consumption			
Total Alcohol	0.1	264.2	0.0%
Cigarette and Tobacco	15.3	721.9	2.1%
Sales and Use	22,927.2	13,369.7	171.5%
Individual Income Tax	8,253.4	12,341.5	66.9%
Transportation			
Aviation Fuel	4.7	5.6	83.7%
Gasoline	42.2	1,222.4	3.5%
Diesel Fuel	7.1	270.2	2.6%
Motor Vehicle Registration	15.3	1,503.5	1.0%
City Income Tax	279.4	615.0	45.4%
<b>TOTAL</b>	<b>\$32,368.0</b>	<b>\$31,512.8</b>	<b>102.7%</b>

\*From Consensus Revenue Estimating Conference, January 2024. 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**

<u>Tax or Tax Expenditure</u>	<u>FY 2022</u> <u>(000)</u>	<u>FY 2023</u> <u>(000)</u>
Insurance Company		
Disability Insurance Exclusion	\$2,800	\$3,310
Michigan Association and Facilities Credit	6,300	\$7,450
Michigan Examination Fees Credit	4,900	5,800
Qualified Health Insurance Policies	18,000	21,290
Supplemental Workers' Compensation	100	120
<b>SUBTOTAL</b>	<u>\$32,100</u>	<u>\$37,970</u>
Oil and Gas Severance Tax		
Marginal Wells	\$4,400	\$3,080
Public Land	1,400	980
<b>SUBTOTAL</b>	<u>\$5,800</u>	<u>\$4,060</u>
Corporate Income Tax		
Foreign Dividends Income Exclusion	\$224,000	\$245,840
Government Securities' Income Exclusion	1,200	1,320
Income from Extractive Activities Deduction	900	990
Small Business Alternate Tax Credit	5,400	5,930
<b>SUBTOTAL</b>	<u>\$231,500</u>	<u>\$254,080</u>
Michigan Business Tax Certificated Credits		
Brownfield Redevelopment Credit	\$9,000	\$11,000
Farmland Preservation Credit	1,700	1,700
Historic Preservation Credit	0	0
Michigan Economic Growth Authority (MEGA)	510,000	495,000
MEGA Polycrystalline Silicon Manufacturing	0	0
Renaissance Zone Credit	41,000	2,000
Michigan Business Tax Non-Certificated Credits		
Compensation Credit and Investment Tax Credit	\$31,400	\$34,460
Personal Property Tax Credit	3,200	3,510
Research and Development Credit	13,500	14,820
Small Business Credit	0	0
Other Non-Certificated Credits	2,400	2,630
<b>SUBTOTAL</b>	<u>\$612,200</u>	<u>\$565,120</u>
<b>TOTAL</b>	<u>\$881,600</u>	<u>\$861,230</u>

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

<u>Tax or Tax Expenditure</u>	<u>FY 2022</u> <u>(000)</u>	<u>FY 2023</u> <u>(000)</u>
<b>Alcoholic Beverages Taxes</b>		
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
<b>SUBTOTAL</b>	<b>\$90</b>	<b>\$90</b>
<b>Tobacco Products Tax</b>		
Bad Debt Deduction	\$320	\$300
Licensee Expenses	11,750	10,900
Sales on Military Bases and Reservations	4,140	4,120
<b>SUBTOTAL</b>	<b>\$16,210</b>	<b>\$15,320</b>
<b>Sales and Use Tax Expenditures</b>		
Air and Water Pollution	\$50,400	\$50,904
Aircraft Parts	13,670	13,940
Bad Debts	13,100	13,100
Cargo Aircraft	21,480	21,910
Church Construction	1,459	1,520
Church Cars	2,178	2,222
Collection Fee	39,490	39,740
Commercial Domestic Aircraft	3,910	3,990
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,600	38,730
Data Centers	1,424	1,057
Donated Property	n.a.	n.a.
Donated Vehicles	125	125
Driver Training	107	105
Employee Meals	30,970	31,899
Enterprise Zone Credit	n.a.	n.a.
Feminine Hygiene Products *	5,112	8,160
Food	1,855,000	1,911,000
Food for Students	38,840	36,540
Government or Red Cross	199,280	205,260
Gratuity and Tips	103,610	107,750
Horticultural and Agricultural Products	272,410	283,310
Imported Property from Other States	1,950	1,990

**Exhibit 5 (Continued)**

<b><u>Tax or Tax Expenditure</u></b>	<b><u>FY 2022</u></b> <b><u>(000)</u></b>	<b><u>FY 2023</u></b> <b><u>(000)</u></b>
Industrial Processing	\$1,534,290	\$1,611,000
Interstate Communications	2,370	2,250
Interstate Trucks and Trailers	43,710	44,580
Investment Coins	6,697	6,864
Isolated Sales	n.a.	n.a.
Military PX Sales	188	188
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	119,260	123,430
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	6,620	6,750
Nonprofit Organizations	211,510	222,090
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 *	71,764	75,350
Prescription Drugs	703,090	728,400
Radio and TV	7,940	8,020
Rail Rolling Stock	6,600	6,730
Residential Utilities	184,000	191,000
Returned Vehicles	1,800	1,740
Sales of Business	n.a.	n.a.
Sale of Water	91,840	93,680
Services (Including Nonprofits)	15,458,670	16,925,010
Small Out-of-State Purchases	n.a.	n.a.
Tax on the Difference - Vehicles	58,550	63,500
Telephone Services	19,090	19,570
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	10,300	10,820
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	12,390	13,010
<b>SUBTOTAL</b>	<b>\$21,242,794</b>	<b>\$22,927,234</b>
<b>TOTAL</b>	<b>\$21,259,094</b>	<b>\$22,942,644</b>

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

**Exhibit 6**  
**Individual Income Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2022</u> <u>(000)</u>	<u>FY 2023</u> <u>(000)</u>
State Income Tax		
Adjustments to Income (except military)	\$0	\$0
College Savings Accounts	13,860	14,120
Dependent Exemption	14,790	14,940
Disabled Veteran Exemption	390	410
Earned Income Credit	107,952	111,730
Farmland Credit	51,520	53,320
Historic Preservation Credit	66	55
Home Heating Assistance Credit	144	147
Homestead Property Tax Credit	750,430	757,930
Income Attributable to Another State	3,622,220	3,687,650
Income from Extractive Activities Deduction	940	1,040
Income Tax Paid to Other State Credit	98,390	103,150
Military Pay	27,120	27,820
Miscellaneous Deductions	81,410	94,540
Net Operating Loss Deduction	n.a.	n.a.
Net Adjustment for Gains/Losses	6,000	10,000
Pension and Retirement Benefits Deduction	351,780	347,690
Personal Exemption	1,804,220	1,916,280
Renaissance Zones	796	756
Senior Investment Income Deduction	18,970	19,160
Senior Standard Deduction	480,000	470,400
Social Security Benefits	571,650	594,520
Special Exemption	15,150	15,310
State and Local Income Tax Refunds	2,370	2,400
Tribal Tax Agreements	n.a.	n.a.
U.S. Government Bond Interest Deduction	9,940	10,040
<b>TOTAL STATE</b>	<b>\$8,030,108</b>	<b>\$8,253,408</b>
Federal Adjustments		
Accelerated Depreciation	\$119,130	\$68,860
Employer Contributions to Insurance	998,430	1,061,270
Employer Pension Plans	758,680	852,960
Federal Adjustments to Income	23,350	46,150
Fellowships and Scholarships	26,400	28,920
Gain on Sale of Primary Residence	161,920	194,030
Income Maintenance Benefits	2,440	3,320

**Exhibit 6 (Continued)**

<b><u>Tax or Tax Expenditure</u></b>	<b><u>FY 2022</u></b> <b><u>(000)</u></b>	<b><u>FY 2023</u></b> <b><u>(000)</u></b>
Federal Adjustments (continued)		
Individual Retirement Accounts	\$288,750	\$350,990
Interest on Life Insurance Savings	54,200	60,350
Medical Savings Account	36,070	46,720
Railroad Retirement Benefits	1,150	1,060
Social Security Benefits	207,880	202,410
Student Loan Deduction	14,520	14,800
Veterans' Benefits	88,820	102,030
Workers' Compensation	36,450	35,020
<b>TOTAL FEDERAL</b>	<b>\$2,818,190</b>	<b>\$3,068,890</b>
<b>TOTAL STATE AND FEDERAL</b>	<b>\$10,848,298</b>	<b>\$11,322,298</b>

**Exhibit 7**  
**Transportation Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2022</u> <u>(000)</u>	<u>FY 2023</u> <u>(000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$449	\$533
Interstate Flight Refund	3,474	4,127
Marine Vessel Exemption	791	807
<b>SUBTOTAL</b>	<u>\$4,714</u>	<u>\$5,467</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$6,685	\$7,093
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	17,903	18,583
Fuel for Off-Road Use	1,695	1,759
Municipal Franchise Vehicles	1,937	2,011
Public Vehicles	19,160	19,888
Tribal Tax Agreements	n.a.	n.a.
<b>SUBTOTAL</b>	<u>\$47,380</u>	<u>\$49,334</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$793	\$823
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	14,229	14,514
<b>SUBTOTAL</b>	<u>\$15,022</u>	<u>\$15,337</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	<u>\$15</u>	<u>\$15</u>
<b>TOTAL</b>	<b>\$67,131</b>	<b>\$70,153</b>



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

<b><u>Tax or Tax Expenditure</u></b>	<b><u>FY 2022</u></b> <b><u>(000)</u></b>	<b><u>FY 2023</u></b> <b><u>(000)</u></b>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$47,790	\$49,050
Air and Water Pollution Control	176,250	177,100
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Disabled Veteran Homestead Exemption	60,510	63,540
Enterprise Zone Credit	0	0
Exempt Property - ESA	n.a.	n.a.
Fairground Property	n.a.	n.a.
Homestead Exemption	3,861,070	3,730,150
Homestead Exemption for Farm Property	213,060	222,280
Industrial Facilities Development	136,980	143,830
Mobile Homes	75,940	77,970
Neighborhood Enterprise Zones	9,850	9,290
Obsolete Property Rehabilitation	31,370	31,530
Personal Property - Indust./Commercial Ad Valorem	287,480	301,860
Personal Property - Industrial Facilities	18,830	19,770
Small Taxpayer Exemption and Eligible Manufacturing		
Personal Property	457,800	480,690
Poverty Exemption	10,300	10,810
Railroad Right-of-Way/Broadband Credit	74,680	77,620
Renaissance Zones	35,450	37,230
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,962,000	2,058,000
Tax Increment Financing	264,240	277,450
Taxable Value Cap	5,332,500	6,383,680
Water Softeners	1,360	1,430
<b>SUBTOTAL</b>	<b>\$13,057,460</b>	<b>\$14,153,280</b>
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$260,500	\$265,710
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	13,610	13,680
Supplemental Unemployment Benefits	n.a.	n.a.
<b>SUBTOTAL</b>	<b>\$274,110</b>	<b>\$279,390</b>
<b>TOTAL</b>	<b>\$13,331,570</b>	<b>\$14,432,670</b>

## CHAPTER 3

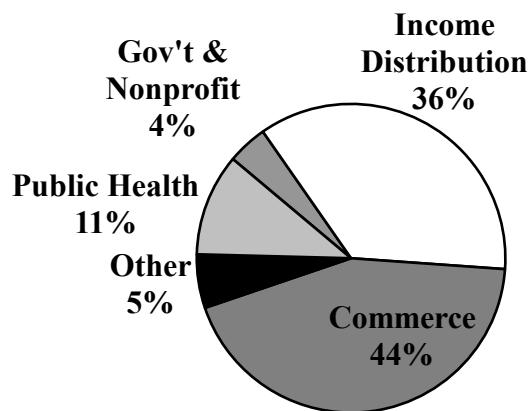
### TAX EXPENDITURE BUDGET

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 2023**



**Exhibit 10**  
**Comparison of State Tax and Direct Expenditures (From State Resources)**  
**for Selected Spending Categories, FY 2023**

<u>Spending Category</u>	<u>FY 2023 Tax Expenditure (000)</u>	<u>FY 2023 Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$336,630	\$167,696	\$504,326	66.7%
Commerce (LARA)	18,755,806	463,148	19,218,954	97.6%
Higher Education	568,530	1,888,109	2,456,639	23.1%
Health & Human Services	14,719,971	9,302,721	24,022,693	61.3%
Military Affairs	135,741	146,260	282,001	48.1%
Natural Resources	52,934	434,611	487,545	10.9%
Transportation	88,025	3,971,272	4,059,297	2.2%
<b>TOTAL</b>	<b>\$34,657,638</b>	<b>\$16,373,817</b>	<b>\$51,031,455</b>	<b>67.9%</b>

Notes:

1. FY 2023 expenditure figures from *FY 2022-23 Appropriations Report, Part II - Initial Appropriations*, Senate Fiscal Agency. Totals are from "State Spending from State Resources."
2. The Governor combined the Departments of Human Services and Community Health into the Department of Health and Human Services. Tax expenditures related to public health and income distribution have been combined here.

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

**Exhibit 11**  
**Fiscal Summary, Tax Expenditure Budget**

<u>Budget Category</u>	<u>FY 2022 (000)</u>	<u>FY 2023 (000)</u>
Agriculture	\$1,064,705	\$1,182,491
Commerce	20,090,447	21,668,939
Education	1,113,950	1,154,530
Government and Nonprofit Organizations	1,990,827	2,088,308
Income Distribution	16,701,366	17,769,828
Military Affairs	121,841	135,741
Natural Resources	228,490	230,034
Public Health	4,991,665	5,311,099
Transportation	84,402	88,025
<b>TOTAL</b>	<b>\$46,387,693</b>	<b>\$49,628,995</b>

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**

<b>Tax/Tax Expenditure</b>	<b>FY 2022 (000)</b>	<b>FY 2023 (000)</b>
<b>Agriculture</b>		
General Property Tax		
Agriculture Transfer	\$47,790	\$49,050
Homestead Exemption for Farm Property	213,060	222,280
Taxable Value Cap	479,925	574,531
Income Tax		
Farmland Development Credit (PA 116)	51,520	53,320
Sales and Use Taxes		
Horticultural or Agricultural Products	272,410	283,310
<b>TOTAL</b>	<b>\$1,064,705</b>	<b>\$1,182,491</b>
<b>Commerce</b>		
Alcoholic Beverage Taxes		
Small Brewer's Credit	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	320	300
Licensee Expenses	11,750	10,900
Income Tax		
Accelerated Depreciation	119,130	68,860
Income Attributable to Another State	3,622,220	3,687,650
Net Operating Loss Deduction	n.a.	n.a.
Net Adjustment for Gains/Losses	6,000	10,000
Renaissance Zone Credit	796	756
Insurance Company Retaliatory Tax		
Disability Insurance Exclusion	2,800	3,310
Michigan Association and Facilities Credit	6,300	7,450
Michigan Examination Fees Credit	4,900	5,800
Qualified Health Insurance Policies	18,000	21,290
Supplemental Workers' Compensation Credits	100	120
Corporate Income Tax		
Foreign Dividends Income Exclusion	224,000	245,840
Government Securities' Income Exclusion	1,200	1,320
Small Business Alternate Tax Credit	5,400	5,930
Michigan Business Tax		
Brownfield Redevelopment Credit	9,000	11,000
Compensation/Investment Tax Credits	31,400	34,460
Farmland Development Credit (PA 116)	1,700	1,700

<b>Tax/Tax Expenditure</b>	<b>FY 2022 (000)</b>	<b>FY 2023 (000)</b>
<b>Commerce (Continued)</b>		
Historic Preservation Credit	0	0
Michigan Economic Growth Authority (MEGA)	510,000	495,000
MEGA Polycrystalline Silicon Manufacturing	0	0
Personal Property Tax Credit	3,200	3,510
Renaissance Zone Credit	41,000	2,000
Research and Development Credit	13,500	14,820
Small Business Credit	0	0
Other Certificated Credits	2,400	2,630
Oil and Gas Severance Tax		
Marginal Wells	4,400	3,080
Property Tax		
Broadband Investment Credit	29,470	30,810
Enterprise Zone	0	0
Exempt Property - ESA	n.a.	n.a.
Industrial Facilities Development	136,980	143,830
Mobile Homes	75,940	77,970
Neighborhood Enterprise Zones	9,850	9,290
Obsolete Property Rehabilitation	31,370	31,530
Personal Property - Indust./Commercial Ad Valorem	287,480	301,860
Personal Property - Industrial Facilities	18,830	19,770
Small Taxpayer/Eligible Manufacturing Personal Prop.	457,800	480,690
Renaissance Zones	35,450	37,230
Tax Increment Financing	264,240	277,450
Taxable Value Cap	1,279,800	1,532,083
Water Softeners	1,360	1,430
Sales and Use Taxes		
Aircraft Parts	13,670	13,940
Bad Debts	13,100	13,100
Cargo Aircraft	21,480	21,910
Collection Fee	39,490	39,740
Commercial Domestic Aircraft	3,910	3,990
Communication and Telephone Exemption	37,600	38,730
Data Centers	1,424	1,057
Employee Meals	30,970	31,899
Gratuities and Tips	103,610	107,750
Imported Property from Other States	1,950	1,990
Industrial Processing	1,534,290	1,611,000
Interstate Telecommunications	2,370	2,250
Interstate Trucks and Trailers	43,710	44,580

<b>Tax/Tax Expenditure</b>	<b>FY 2022 (000)</b>	<b>FY 2023 (000)</b>
<b>Commerce (Continued)</b>		
Investment Coins	6,697	6,864
Newspapers, Periodicals, and Films	119,260	123,430
Radio and TV	7,940	8,020
Returned Vehicles	1,800	1,740
Sale of Water	91,840	93,680
Services (except education, health, and nonprofits)	10,646,830	11,814,610
Tax on the Difference - Vehicles	58,550	63,500
Telephone Services	19,090	19,570
Vehicle and Aircraft Transfers	\$10,300	\$10,820
Vending Machines	12,390	13,010
<b>TOTAL</b>	<b>\$20,090,447</b>	<b>\$21,668,939</b>

<b>Education</b>		
Income Tax		
College Savings Account	\$13,860	\$14,120
Fellowships and Scholarships	26,400	28,920
Higher Education/Public Contribution Credit	\$0	\$0
Property Tax		
Exempt Public Education Property	558,000	586,000
Sales Tax		
Services	515,690	525,490
<b>TOTAL</b>	<b>\$1,113,950</b>	<b>\$1,154,530</b>

<b>Government and Nonprofit Organizations</b>		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$449	\$533
Income Tax		
Historic Preservation Credit	66	55
U.S. Government Bond Interest Deduction	9,940	10,040
Motor Fuel Taxes		
Public Vehicles	19,160	19,888
Motor Vehicle Weight Tax		
Public and Nonprofit Vehicles	14,229	14,514
Oil and Gas Severance Tax		
Public Land	1,400	980
Property Tax		
Tax Exempt Property	1,404,000	1,472,000

<b>Tax/Tax Expenditure</b>	<b>FY 2022 (000)</b>	<b>FY 2023 (000)</b>
<b>Government and Nonprofit Organizations (Continued)</b>		
Sales and Use Taxes		
Church Cars	2,178	2,222
Church Construction	1,459	1,520
Government or Red Cross	199,280	205,260
Nonprofit Organizations	211,510	222,090
Services	127,141	139,191
Watercraft Registration Fee		
Publicly Owned Watercraft	15	15
<b>TOTAL</b>	<b>\$1,990,827</b>	<b>\$2,088,308</b>

#### **Income Distribution**

City Income Tax		
Nonresident Reduced Rate	\$260,500	\$265,710
Personal Exemption	13,610	13,680
General Property Tax		
Disabled Veteran Homestead Exemption	\$60,510	\$63,540
Homestead Exemption	3,861,070	3,730,150
Poverty Exemption	10,300	10,810
Taxable Value Cap	3,572,775	4,277,066
Income Tax		
Adjustments to Income (gains/losses and other)	0	0
Adjustments to Income (federal)	23,350	46,150
Dependent Exemption	14,790	14,940
Earned Income Tax Credit	107,952	111,730
Employer Contributions to Health and Life Insurance	998,430	1,061,270
Employer Pension Plans	758,680	852,960
Gain on Sale of Primary Residence	161,920	194,030
Home Heating Assistance Credit	144	147
Homestead Property Tax Credit (excluding veterans)	750,040	757,580
Income Maintenance Benefits	2,440	3,320
Individual Retirement Account	288,750	350,990
Interest on Life Insurance Savings	54,200	60,350
Miscellaneous Deductions	81,410	94,540
Other State Tax Credit	98,390	103,150
Pension and Retirement Benefits Deduction	351,780	347,690



<b>Tax/Tax Expenditure</b>	<b>FY 2022 (000)</b>	<b>FY 2023 (000)</b>
<b>Income Distribution (Continued)</b>		
Personal Exemption	1,804,220	1,916,280
Railroad Retirement Benefits	1,150	1,060
Senior Investment Income Deduction	18,970	19,160
Senior Special Deduction	480,000	470,400
Social Security Benefits (federal exclusion)	207,880	202,410
Social Security Benefits (in federal AGI)	571,650	594,520
Special Exemption	15,150	15,310
State and Local Income Tax Refunds	2,370	2,400
Student Loan Deduction	14,520	14,800
Workers' Compensation	36,450	35,020
Sales and Use Taxes		
Donated Vehicles	125	125
Food	1,855,000	1,911,000
Food for Students	38,840	36,540
Residential Utilities	184,000	191,000
<b>TOTAL</b>	<b>\$16,701,366</b>	<b>\$17,769,828</b>

#### **Military Affairs**

Cigarette Tax		
Sales on Military Bases and Reservations	\$4,140	\$4,120
Income Tax		
Disabled Veteran Exemption	390	410
Military Pay	27,120	27,820
Veterans' Benefits	88,820	102,030
Veterans' Property Tax Credit	390	350
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	793	823
Sales and Use Taxes		
Military Post-Exchange Sales	188	188
<b>TOTAL</b>	<b>\$121,841</b>	<b>\$135,741</b>

<u>Tax/Tax Expenditure</u>	<u>FY 2022 (000)</u>	<u>FY 2023 (000)</u>
<b>Natural Resources</b>		
Income Tax		
Income from Extractive Activities Deduction	\$940	\$1,040
Corporate Income Tax		
Income from Extractive Activities Deduction	900	990
Property Tax		
Air and Water Pollution	176,250	177,100
Sales and Use Taxes		
Air and Water Pollution	50,400	50,904
<b>TOTAL</b>	<b>\$228,490</b>	<b>\$230,034</b>
<b>Public Health</b>		
Income Tax		
Medical Care Savings	\$36,070	\$46,720
Sales and Use Taxes		
Feminine Hygiene	5,112	8,160
Medical Services	4,169,009	4,445,719
Nonprofit Hospital Construction	6,620	6,750
Ophthalmic and Orthopedic Products	71,764	75,350
Prescription Drugs	703,090	728,400
<b>TOTAL</b>	<b>\$4,991,665</b>	<b>\$5,311,099</b>
<b>Transportation</b>		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,474	\$4,127
Motor Fuel Taxes		
Diesel Fuel for Jobsites	6,685	7,093
Evaporation and Loss Allowance	17,903	18,583
Fuel for Off-Road Use	1,695	1,759
Marine Vessel Fuel	791	807
Municipal Franchise Vehicles	1,937	2,011
Sales and Use Taxes		
Driver Training	107	105
Rail Rolling Stock	6,600	6,730
Utility Property Tax		
Railroad Right-of-Way	45,210	46,810
<b>TOTAL</b>	<b>\$84,402</b>	<b>\$88,025</b>

## CHAPTER 4

### BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and corporate income expenditures. Business privilege tax expenditures are projected to decrease from \$863.6 million in FY 2022 to \$839.9 million in FY 2023. The reduction of tax credits and deductions under the corporate income tax results in much smaller tax expenditures than under the Michigan Business Tax (MBT).

- Estimate Reliability**
- (2) Small Business Alternative Tax Rate Credit, most Certificated Credits, Severance and Insurance Tax
  - (3) Other Corporate Income Tax and MBT Tax Expenditures

A big difference between the corporate income tax and the MBT is that the corporate income tax only applies to traditional corporations. Other types of business entities, such as sole proprietorships, partnerships, S-corporations, and other flow-through entities are not taxed under the corporate tax. The income from flow-through entities is taxable to the owners under the individual income tax. Other tax expenditure estimates from business privilege taxes were based on 2020 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

No tax law changes affecting business privilege tax expenditures in 2020 or 2021.

#### Insurance Company Tax

Effective January 1, 2012, the MBT on Michigan insurance premiums was replaced by a 1.25 percent tax in the Income Tax Act. 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 premiums tax or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$465.9 million for FY 2023; revenue goes to the State General Fund.

#### FY 2023 Estimate

##### **Captive Insurance Companies**

n.a.

Exempts companies authorized under the Insurance Code as captive insurance companies or special purpose financial captives from the MBT and its gross premiums tax.

	<u><b>FY 2023 Estimate</b></u>
<b>Disability Insurance Exclusion</b> Exempts the first \$190,000,000 of disability insurance premiums written in Michigan.	\$3,310,000
<b>Michigan Association and Facilities Credit</b> 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.	\$7,450,000
<b>Michigan Examination Fees Credit</b> 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.	\$5,800,000
<b>Qualified Health Insurance Policies</b> The tax rate on qualified health policies is reduced each year to generate annual savings of \$18,000,000	\$21,290,000
<b>Workers' Disability Supplemental Benefit (WDSB) Credit</b> Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979.	\$120,000

### **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, marginal properties, and production achieved through carbon dioxide secondary or enhanced recovery projects. The projected yield is \$27.1 million for FY 2023; revenue goes to the State General Fund.

	<u><b>FY 2023 Estimate</b></u>
<b>Marginal Wells</b> Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.	\$3,080,000
<b>Public Land</b> Exempts oil and gas severed from publicly-owned lands from taxation.	\$980,000

## Corporate Income Tax Expenditures

Public Act 38 of 2011 added a 6.0 percent tax on corporate income to the Income Tax Act. The new tax took effect on January 1, 2012, and applies only to C corporations and entities taxed as C corporations for federal income tax purposes, with the tax imposed on federal taxable income subject to allocation or apportionment. A significant difference between the MBT and the new corporate tax is the elimination of most tax credits. The only credit enacted against the corporate income tax is the small business alternative credit. Financial institutions are not taxed on business income or gross receipts, but are subject to a tax of 0.29 percent on their apportioned net capital.

An entity that has received, has been approved before 2012 to receive, or has been assigned certain certificated tax credits under the MBT may elect to continue to file and pay under the MBT in lieu of the corporate income tax. Examples of the remaining certificated credits are the photovoltaic credit, the MEGA employment tax credit, polysilicon credit, select renaissance zone credits, battery pack credits, historic preservation credit, brownfield redevelopment credit, film production and infrastructure credits, and the farmland preservation credit.

Gross revenues from the corporate income tax were estimated at the January 2024 Consensus Conference to be \$2,209.3 million in FY 2023. Legislation enacted in 2023 directed \$600 million of corporate income tax revenue to economic development, resulting in net revenue of \$1,609.3 million. The net revenues from the MBT were estimated at -\$434.1 million in FY 2023, driven mainly by certificated credits with some other factors contributing.

Included with the estimated reduction in corporate tax revenue associated with the small business alternative credit are estimates of the remaining certificated credits that will be claimed by those taxpayers that continue to file under the MBT.

	<u><b>FY 2023 Estimate</b></u>
<b>Brownfield Redevelopment Credit (MBT Certificated Credit)</b>	\$11,000,000
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.	
<b>Compensation and Investment Tax Credits (Non-Certificated Credits)</b>	\$34,460,000
The compensation credit is equal to 0.370 percent of the taxpayer's Michigan compensation. The investment tax credit (ITC) is equal to 2.90 percent of Michigan investment. The sum of the compensation credit and ITC cannot exceed 52 percent of the MBT liability.	

**FY 2023 Estimate**

<b>Farmland Preservation Credit (MBT Certificated Credit)</b>	\$1,700,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Public Act 451 of 1994. Unlike most MBT certificated credits, an agreement for this credit may be entered into after 2011.	
<b>Foreign Dividends Exemption (Corporate Income)</b>	\$245,840,000
Excludes dividends and royalties received from a foreign entity or person from taxable income. There are constitutional limitations that do not make taxing foreign dividends a simple policy.	
<b>Government Securities Interest Exemption (Corporate Income)</b>	\$1,320,000
Excludes interest income from obligations or securities of the federal government, State of Michigan or Michigan governmental unit.	
<b>Historic Preservation Credit (MBT Certificated Credit)</b>	\$0
Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site.	
<b>Income from Extractive Activities Deduction (Corporate Income)</b>	\$990,000
The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes.	
<b>Michigan Economic Growth Authority (MEGA) Credits (MBT Certificated Credit)</b>	\$495,000,000
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. Credits are also available for job retention.	
<b>MEGA Polycrystalline Silicon Manufacturing Credit (MBT Certificated Credit)</b>	\$0
Provides for a single twelve-year MEGA credit for the manufacture of polycrystalline silicon to be used for solar cells and semiconductor microchips beginning with a tax year that begins after December 31, 2011. The credit's MEGA agreement must have been entered by December 31, 2008.	
<b>Other Non-Certificated Credits</b>	\$2,630,000
These include the Arts and Culture, Large Food Retailer, Low-Grade Hematite, and Worker's Disability Supplemental Benefit credits.	

**FY 2023 Estimate**

**Personal Property Tax Credit (Non-Certificated Credit) \$3,510,000**

The personal property tax credit provides three separate refundable credits for personal property taxes paid in the tax year. The credits equal: (1) 35 percent of eligible industrial personal property taxes; (2) 13.5 percent of State Utility Tax Act taxes on eligible telephone equipment; and (3) 10 percent of the personal property tax paid on an eligible natural gas pipeline.

**Renaissance Zone Credit (MBT Certificated Credit) \$2,000,000**

Provides a credit for the portion of tax attributable to business activity in a renaissance zone designated based on a development or qualified collaboration agreement.

**Research and Development Credit (Non-Certificated Credit) \$14,820,000**

Provides a credit equal to 1.90 percent of the taxpayer's research and development expenses in Michigan. The taxpayer cannot claim an ITC and this credit on the same expenses. The sum of this credit, the ITC, and compensation credit cannot exceed 65 percent of the taxpayer's MBT liability.

**Small Business Alternative Tax Credit (Corporate Income) \$5,930,000**

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).

**Small Business Credit (Non-Certificated Credit) \$0**

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).

## 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 \$22,942.6 million in FY 2023, a 7.9 percent increase over the FY 2022 level of \$21,259.1 million. The growth in sales and use tax expenditures associated with exempt services such as health care and professional, scientific, and technical services account for most of the growth between FY 2022 and FY 2023. Sales and use tax expenditure estimates are based on FY 2008 through FY 2022 data. Alcohol and cigarette tax expenditure estimates were based on FY 2021 and FY 2022 data.

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

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

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

#### Consumption Tax Expenditure Changes

**Public Acts 46 and 47 of 2020** amended the General Sales Tax Act and the Use Tax Act, respectively, to modify the exemption for prosthetic devices to include certain sales of devices for implantation into a human with or without a prescription.

**Public Act 102 of 2021** amended the Tobacco Products Tax Act to extend the cap on the tax imposed on cigars permanently. The cap is 50 cents per stick and the cap was previously temporary and would have expired on October 1, 2021.

**Public Acts 108 and 109 of 2021** amended the General Sales Tax Act and the Use Tax Act, respectively, to exempt the sale of feminine hygiene products from sales or use taxes.

#### Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2023 (millions of dollars).



**Alcoholic Beverage Taxes  
(millions)**

<u>Tax</u>	<u>Location of Deposit</u>	<u>FY 2023 Revenue</u>
Beer and Wine Excise	General Fund	\$46.3
4.0 Percent Liquor Excise	School Aid Fund	\$75.0
4.0 Percent Liquor Specific	General Fund	\$67.9
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$67.9
		<b><u>FY 2023 Estimate</u></b>
<b>Beer Shipped Out-of-State</b>		n.a.
Exempts beer manufactured in Michigan, or imported into this state, and then shipped for sale and consumption outside the state.		
<b>Damaged Beer</b>		n.a.
Exempts beer from the beer tax when consumed on the manufacturer's property or not offered for sale.		
<b>Homemade Wine</b>		n.a.
Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.		
<b>Small Brewer's Credit</b>		\$90,000
Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced.		

**Tobacco Products Tax**

In 1947, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers. The tax rate is currently \$2.00 per pack of 20 cigarettes. Cigarette tax revenues are mainly distributed to the School Aid Fund, the Medicaid Benefits Trust Fund, and the General Fund-General Purpose account. In FY 2023, the tax on cigarettes yielded an estimated \$614.2 million. Taxes on other tobacco products (smokeless tobacco and cigars) yielded \$107.7 million.

**FY 2023 Estimate**

**Bad Debt Deduction** \$300,000

Allows cigarette wholesalers to deduct any losses from bad debts.

**Licensee Expenses** \$10,900,000

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** \$4,120,000

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 establish the number of cigarettes that each tribe may obtain tax-free for the tribe's 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 rates are 3 and 6 percent. The Act became effective October 1, 1985. Revenue is used to pay for qualified convention facilities and other statutorily required distributions, with excess revenue returned to Michigan counties.

**FY 2023 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 have yielded \$10,667.3 million in FY 2023. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; up to 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 \$2,154.4 million in FY 2023. Use tax collections do not include the local community stabilization share tax described under Public Act 80 of 2014. Current law directs \$548.0 million of the tax collected for FY 2023 to the authority. Due to their complementary nature, sales and use tax expenditures are reported together and include both the state use tax and the local community stabilization share tax.

	<b><u>FY 2023 Estimate</u></b>
<b>Air and Water Pollution</b>	\$50,904,000
Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	
<b>Aircraft Parts</b>	\$13,940,000
Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	
<b>Bad Debts</b>	\$13,100,000
Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible.	
<b>Cargo Aircraft</b>	\$21,910,000
Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.	
<b>Church Construction</b>	\$1,520,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
<b>Church Cars</b>	\$2,222,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	
<b>Collection Fee</b>	\$39,740,000
Sales and use tax returns are due by the 20th of the month for sales made the previous month. A seller may retain 0.75 percent of the tax (not to exceed \$20,000) if proceeds are remitted by the 12th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 13th through the 20th of the month.	

**FY 2023 Estimate**

<b>Commercial Domestic Aircraft</b>	\$3,990,000
Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	
<b>Commercial Vessels</b>	n.a.
Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce.	
<b>Communication and Telephone Exemption</b>	\$38,730,000
Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds.	
<b>Data Centers</b>	\$1,057,000
Exempts the sale of data center equipment to the owner or operator of a qualified data center or a colocated business for assembly, use, or consumption in the operation of the data center, or a person engaged in construction or improvement to the extent the equipment is affixed to or made a structural part of a data center.	
<b>Donated Vehicles</b>	\$125,000
Exempts certain vehicle transfers from the sales or use taxes when the vehicle is transferred from a qualifying organization to certain low-income families.	
<b>Driver Training</b>	\$105,000
Exempts property used for demonstration or driver training programs.	
<b>Employee Meals</b>	\$31,899,000
Exempts meals provided by employers to their employees.	
<b>Feminine Hygiene Products</b>	\$8,160,000
Exempts feminine hygiene products.	
<b>Food</b>	\$1,911,000,000
Exempts food for human consumption, except prepared food intended for immediate consumption.	
<b>Food for Students</b>	\$36,540,000
Exempts sales of food by nonprofit schools or other similar educational institutions to students.	

	<u><b>FY 2023 Estimate</b></u>
<b>Government or Red Cross</b>	\$205,260,000
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.	
<b>Gratuity and Tips</b>	\$107,750,000
Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	
<b>Horticultural and Agricultural Products</b>	\$283,310,000
Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	
<b>Imported Property</b>	\$1,990,000
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. A similar exemption applies to property purchased by a resident and brought into the state more than 360 days after purchase.	
<b>Industrial Processing</b>	\$1,611,000,000
Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	
<b>International Telecommunications</b>	\$2,250,000
Exempts international and WATS calls from the use tax.	
<b>Interstate Trucks and Trailers</b>	\$44,580,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax.	
<b>Investment Coins</b>	\$6,864,000
Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins.	
<b>Isolated Sales</b>	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
<b>Military PX Sales</b>	\$188,000
Exempts military post-exchange sales.	

**FY 2023 Estimate**

<b>Military Vehicle Sales</b>	n.a.
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.	
<b>Newspapers, Periodicals, and Films</b>	\$123,430,000
Exempts sales of copyrighted films, newspapers, and periodicals.	
<b>Nonprofit Ambulance and Fire Service</b>	n.a.
Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	
<b>Nonprofit Hospital or Housing Construction</b>	\$6,750,000
Exempts tangible personal property used by contractors where the property is affixed to and made a structural part of the real estate of a nonprofit hospital or nonprofit housing.	
<b>Nonprofit Organizations</b>	\$222,090,000
Exempts sales to nonprofit schools, hospitals, homes for the care of children or aged persons, and other benevolent institutions operated by an entity of government, a regularly-organized church, a religious or fraternal organization, a veteran's organization, a nonprofit corporation, or a parent-cooperative preschool.	
<b>Nonprofit Sales Under \$25,000</b>	n.a.
Exempts sales made for raising funds up to \$10,000 for qualified nonprofit organizations.	
<b>Nonresident Merchandise Transfer</b>	n.a.
Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	
<b>Nonresident Property</b>	n.a.
Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	
<b>Ophthalmic and Orthopedic Products</b>	\$75,350,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	
<b>Prescription Drugs</b>	\$728,400,000
Exempts drugs, both prescription and over-the-counter drugs dispensed by a prescription, for human consumption.	

	<b><u>FY 2023 Estimate</u></b>
<b>Radio and TV</b>	\$8,020,000
Exempts sales to persons licensed to operate commercial radio or television stations when the property is used as a component of a film, tape, or recording produced for resale or transmission.	
<b>Rail Rolling Stock</b>	\$6,730,000
Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	
<b>Residential Utilities</b>	\$191,000,000
Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	
<b>Returned Vehicles</b>	\$1,740,000
Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	
<b>Sale of Business</b>	n.a.
Excludes from the use tax non-inventoried property purchased as part of a business.	
<b>Sale of Water</b>	\$93,680,000
Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	
<b>Services</b>	\$16,925,010,000
Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately \$5.37 billion of the total represents services purchased by consumers.	

**Service Tax Expenditures, FY 2023**  
(millions)

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$21.4	\$0.0	\$21.4
Admin., Support, and Waste Mgmt.	1,436.7	21.8	1,458.5
Arts, Entertainment, and Recreation	174.5	46.8	221.3
Construction	1,989.2	0.0	1,989.2
Educational Services	80.7	444.8	525.5
Health Care and Social Assistance	2,075.9	2,369.8	4,445.7
Information	510.9	0.0	510.9
Other Services (except Public Admin.)	658.0	130.4	788.4
Professional, Scientific, and Technical	3,394.6	21.7	3,416.3
Real Estate and Rental and Leasing	1,374.5	0.0	1,374.5
Transportation and Warehousing	2,034.0	0.0	2,034.0
Utilities	<u>0.0</u>	<u>139.2</u>	<u>139.2</u>
<b>TOTAL</b>	<b>\$13,750.4</b>	<b>\$3,174.4</b>	<b>\$16,925.0</b>

Source: Calculations by the Office of Revenue and Tax Analysis using the *2017 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 2023 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.

**Tax on the Difference - Vehicles**

\$63,500,000

Exempts a portion of the credit given for motor vehicles used as a partial payment on the purchase of a motor vehicle. The exemption was limited to no more than \$9,000 in 2023 and will rise by \$1,000 each succeeding January 1. The full value of a trade-in is also exempt for a titled watercraft used as partial payment on the purchase of a titled watercraft.

**Telephone Services**

\$19,570,000

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.



**FY 2023 Estimate**

**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**

\$10,820,000

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**

\$13,010,000

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 2.8 percent from \$8,030.1 million in FY 2022 to \$8,253.4 million in FY 2023. Federal income tax expenditures are projected to increase 8.9 percent from \$2,818.2 million in FY 2022 to \$3,068.9 million in FY 2023. Individual income tax expenditure estimates were based on tax year 2021 data.

- Estimate Reliability**
- (1) State Income Tax Expenditures (high reliability)
  - (3) Federal Income Tax Expenditures (low reliability)

State income tax expenditure estimates are reliable because they are based on actual individual tax returns for tax year 2021. 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 65 of 2020** amended the Income Tax Act to allow a deduction for widows and widowers if the deduction would have applied if the deceased spouse remained alive, under certain circumstances.

**Public Act 343 of 2020** amended the Income Tax Act to provide for a tax credit for rehabilitation of historic structures, buildings, and sites. The credit would equal 25 percent of the qualified expenditures.

**Public Act 25 of 2021** amended the Income Tax Act to allow for the subtraction of income from the cancellation or discharge of a student loan for a disabled veteran, as defined in the Act. The subtraction would apply retroactively for tax years 2016 through 2019, and for tax years 2025 and following.

**Public Act 135 of 2021** amended the Income Tax Act to create a flow-through entity tax on income earned by an entity taxed as an S-corporation or partnership. The entity can elect to be taxed under this tax, and any tax paid flows through as a credit under the individual income tax for the owners

of the entity. The tax is designed to raise the same amount of state revenue, but to allow the flow-through entity to deduct the full amount of state income tax imposed on the entity in the calculation of income. This allows the owners of the entity to avoid the cap on the federal deduction of state and local taxes imposed on individuals.

**Public Act 168 of 2021** amended the Income Tax Act to allow a subtraction for gambling losses that were reported as an itemized deduction on the taxpayer’s federal income tax return. The subtraction is limited for nonresidents to the amount of Michigan winnings and can only be claimed for losses from a Michigan casino or race meeting. Taxpayers may claim the subtraction for tax years that begin on or after January 1, 2021.

### **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 2023, the State of Michigan collected an estimated \$12,341.5 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 2020, these tax expenditures reduced Michigan’s effective income tax rate from a nominal rate of 4.25 percent to an average effective rate of 2.34 percent. Detailed information on income tax expenditures is presented in Exhibits 13 through 16.

	<u><b>FY 2023 Estimate</b></u>
<p><b>College Savings Account</b>                      A deduction is allowed for contributions to purchase contracts under the Michigan Education Trust or to fund accounts in the Michigan Education Savings Program. Investment earnings are also exempt.</p>	\$14,120,000
<p><b>Dependent Exemption</b>                      Taxpayers claimed as a dependent on another taxpayer’s return may claim an exemption equal to \$1,500 for themselves when filing their tax return.</p>	\$14,940,000
<p><b>Disabled Veterans Exemption</b>                      Allows a taxpayer to claim an additional exemption of \$400 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.</p>	\$410,000
<p><b>Earned Income Tax Credit</b>                      Provides a refundable income tax credit equal to 6 percent of any federal earned income tax credit for which a taxpayer is eligible.</p>	\$111,730,000

**FY 2023 Estimate**

**Farmland Development Credit**

\$53,320,000

Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses (see Exhibit 16). This credit was expanded by Public Act 421 of 2000.

**Historic Preservation Credit**

\$55,000

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**

\$147,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2023, these credits totaled an estimated \$77.6 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$139,700 in FY 2023.

**Homestead Property Tax Credit**

\$757,930,000

Provides a refundable credit against income tax liability for property tax paid. This credit is generally 60 percent of the amount by which property taxes exceed 3.2 percent of household income. Renters may use 23 percent of the rent paid to approximate their property tax, and then calculate their credit as above.

Special credits are available for low-income senior citizens, veterans, and blind and disabled persons. For tax year 2021, homestead credits, excluding the farmland credit itemized separately, totaled \$750.4 million (Exhibit 16). Of the homestead credits, 57.6 percent went to general taxpayers, 35.4 percent went to senior citizens, and the remaining 8.0 percent went to veterans and blind and disabled persons.

**Income Attributable to Another State**

\$3,687,650,000

Provides a deduction to Michigan residents for business income earned in another state and gains on the sale of property in other states. In addition, non-residents may deduct income not allocated to Michigan. This deduction has been growing rapidly in recent tax years.

	<u><b>FY 2023 Estimate</b></u>
<p><b>Income from Extractive Activities Deduction</b>  The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes.</p>	\$1,040,000
<p><b>Income Tax Paid to Another State Credit</b>  Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2021, taxpayers claimed \$94.9 million in credits.</p>	\$103,150,000
<p><b>Military Pay</b>  Exempts compensation received while on active duty in the U.S. Armed Forces.</p>	\$27,820,000
<p><b>Miscellaneous Deductions</b>  Includes the amount used to determine the federal credit for the elderly or totally and permanently disabled and expenses from a recreational marijuana business not deducted in determining AGI.</p>	\$94,540,000
<p><b>Net Operating Loss Deduction</b>  Taxpayers may only deduct the Michigan portion of a net operating loss.</p>	n.a.
<p><b>Net Adjustment for Gains/Losses</b>  Michigan taxpayers only include in Michigan taxable income gains or losses on business or real property if that property is in Michigan. Losses on property located outside Michigan may not be subtracted and gains on property located outside Michigan may be excluded.</p>	\$10,000,000
<p><b>Pension and Retirement Benefits Deduction</b>  Provides a deduction for pension and retirement benefits based on the age of the taxpayer and, if married, the taxpayer's spouse. For those born prior to 1946, all benefits from public sources are deductible and benefits from private sector plans are deductible up to \$61,518 for singles and \$123,036 for married couples filing a joint return (2023 limits). Public Act 4 of 2023 expanded the deduction for retirement or pension benefits, phasing in over four years.</p>	\$347,690,000

**FY 2023 Estimate**

**Personal Exemption**

\$1,916,280,000

Exempts \$5,400 (tax year 2023) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption reduced tax year 2021 revenue by approximately \$1,520 million.

The distribution of effective exemptions across AGI classes is outlined in Exhibit 13. Effective exemptions are exemptions that offset actual income.

**Renaissance Zones**

\$756,000

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

**Senior Investment Income Deduction**

\$19,160,000

Allows a taxpayer who was born prior to 1946 to deduct dividends, interest, and capital gains included in AGI up to limits which are adjusted for inflation annually. The limits for tax year 2021 are \$12,127 for singles and \$24,254 for couples filing a joint return. The limits are reduced by the amount deducted for pension and retirement benefits.

**Senior Standard Deduction**

\$470,400,000

Beginning in tax year 2013, taxpayers born after 1945 and before 1953 who have reached age 67 are eligible for a deduction against all income in lieu of a deduction for retirement benefits. The deduction is \$20,000 for singles and \$40,000 for couples filing a joint return. Beginning for tax year 2020, a deduction is also available to those reaching age 67 and born after 1952. Public Act 4 of 2023 expanded the subtraction for retirement or pension benefits as an alternative to claiming a standard deduction.

**Social Security Benefits Included in AGI**

\$594,520,000

Provides a deduction for Social Security benefits included in AGI. Depending on income, benefit recipients may have to include some Social Security benefits in AGI for federal tax purposes.

**FY 2023 Estimate**

**Special Exemption**

\$15,310,000

Allows a taxpayer and his or her spouse to each claim a \$3,100 exemption for tax year 2023 if they or a dependent are disabled. These exemptions are adjusted periodically for inflation.

**State and Local Income Tax Refunds**

\$2,400,000

Provides a deduction of a state and local income tax refund if the refund is included in AGI. For federal tax purposes, payments of state and local taxes that are reported as an itemized deduction but subsequently returned as a refund are included in AGI for the year in which the refund was received. The reduction in the number of taxpayers claiming itemized deductions after tax year 2017 reduced the number subsequently required to include any refund in AGI.

**Tribal Tax Agreements**

n.a.

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

**U.S. Government Bond Interest Deduction**

\$10,040,000

Provides a deduction for interest received on debt issued by the U.S. Government and included in AGI. The deduction includes interest received from U.S. Savings Bonds and U.S. Treasury bills, notes, and bonds.

**Exhibit 13**  
**Selected Individual Income Tax Expenditures by Income Class, CY 2021**

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions <sup>(1)</sup>	
	Number	Percent	Number	Amount	Number	Amount
Zero Income <sup>(2)</sup>	112,719	2.3%	10,479	\$7,737,320	0	\$0
\$0 - 2,000	155,177	3.2%	11,311	8,035,766	-92,663	-19,297,130
2,001 - 4,000	112,714	2.3%	6,381	4,374,217	-3,417	-711,595
4,001 - 6,000	114,662	2.3%	8,236	5,655,239	16,173	3,367,932
6,001 - 8,000	113,431	2.3%	10,584	7,272,255	27,667	5,761,673
8,001 - 10,000	114,039	2.3%	14,376	10,337,834	42,935	8,941,148
10,001 - 12,000	120,753	2.5%	19,951	15,357,830	64,034	13,335,184
12,001 - 14,000	118,965	2.4%	21,543	16,552,566	75,793	15,783,845
14,001 - 16,000	120,976	2.5%	25,791	20,105,920	99,696	20,761,704
16,001 - 18,000	123,125	2.5%	29,011	22,167,139	116,324	24,224,564
18,001 - 20,000	116,051	2.4%	28,940	21,902,046	117,889	24,550,283
20,001 - 25,000	279,322	5.7%	74,730	54,922,210	309,136	64,377,518
25,001 - 30,000	266,542	5.4%	75,680	52,895,496	328,240	68,355,930
30,001 - 35,000	251,533	5.1%	74,025	48,898,300	334,459	69,651,010
35,001 - 40,000	228,884	4.7%	67,522	42,880,415	316,706	65,953,959
40,001 - 45,000	200,500	4.1%	56,241	34,875,797	285,243	59,401,921
45,001 - 50,000	176,748	3.6%	46,817	28,330,010	257,570	53,638,953
50,001 - 55,000	160,175	3.3%	38,671	20,049,324	238,993	49,770,360
55,001 - 60,000	146,626	3.0%	30,862	8,059,918	231,061	48,118,358
60,001 - 70,000	258,749	5.3%	6,295	1,185,704	435,283	90,647,696
70,001 - 80,000	223,003	4.6%	345	149,037	415,413	86,509,717
80,001 - 90,000	190,140	3.9%	97	48,039	383,751	79,916,229
90,001 - 100,000	164,152	3.4%	71	42,044	349,665	72,817,745
Over 100,000	<u>1,028,801</u>	<u>21.0%</u>	<u>164</u>	<u>105,549</u>	<u>2,247,775</u>	<u>468,099,138</u>
<b>TOTAL</b>	<b>4,897,787</b>	<b>100.0%</b>	<b>658,123</b>	<b>\$431,939,975</b>	<b>6,597,725</b>	<b>\$1,373,976,144</b>

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

<sup>(2)</sup> Includes 32,661 credit-only returns.



**Exhibit 14**  
**Effective Income Tax Rates by Income Class, CY 2021<sup>(1)</sup>**

<u>Adjusted Gross Income</u>	<u>Total Adjusted Gross Income</u>	<u>Total Income Tax Paid</u>	<u>Effective Tax Rate</u>
Zero Income <sup>(2)</sup>	(\$2,703,758,270)	(\$81,230,963)	
\$0 - 2,000	103,119,546	(105,357,494)	-102.17%
2,001 - 4,000	338,947,688	(30,197,503)	-8.91%
4,001 - 6,000	573,685,292	(27,777,680)	-4.84%
6,001 - 8,000	793,898,889	(26,546,756)	-3.34%
8,001 - 10,000	1,028,236,412	(26,173,288)	-2.55%
10,001 - 12,000	1,328,056,386	(28,025,874)	-2.11%
12,001 - 14,000	1,546,248,234	(22,638,230)	-1.46%
14,001 - 16,000	1,815,327,738	(18,994,703)	-1.05%
16,001 - 18,000	2,091,200,219	(9,743,753)	-0.47%
18,001 - 20,000	2,204,252,965	(2,005,416)	-0.09%
20,001 - 25,000	6,283,895,928	31,230,252	0.50%
25,001 - 30,000	7,324,564,752	84,972,811	1.16%
30,001 - 35,000	8,166,985,182	138,406,890	1.69%
35,001 - 40,000	8,572,491,870	173,888,846	2.03%
40,001 - 45,000	8,508,587,330	190,840,175	2.24%
45,001 - 50,000	8,387,133,033	200,892,528	2.40%
50,001 - 55,000	8,403,947,475	214,191,002	2.55%
55,001 - 60,000	8,425,593,299	227,741,072	2.70%
60,001 - 70,000	16,786,002,573	473,962,870	2.82%
70,001 - 80,000	16,697,242,906	479,310,369	2.87%
80,001 - 90,000	16,139,218,863	468,933,520	2.91%
90,001 - 100,000	15,576,498,482	457,904,826	2.94%
Over 100,000	<u>327,514,775,047</u>	<u>7,175,600,983</u>	<u>2.19%</u>
<b>TOTAL</b>	<b>\$465,906,151,839</b>	<b>\$9,939,184,484</b>	<b>2.13%</b>
Effective rate excluding zero income AGI and Taxes Paid			2.14%
Effective rate excluding zero income AGI			2.12%

(1) Values in this table are based on a sample of the 4,865,126 MI-1040 and MI-1040CR returns.

(2) Includes 32,661 credit-only returns (zero income).

**Exhibit 15**  
**Tax Expenditures as a Percent of Adjusted Gross Income, CY 2021**

<b>Adjusted Gross Income</b>	<b>Effective Exemptions<sup>(1)</sup></b>	<b>Adjustments to Income</b>	<b>Nonrefundable Credits<sup>(2)</sup></b>	<b>Prop. Tax Credits</b>
Less Than \$2,000	902.0%	600.3%	-0.5%	1615.9%
2,001 - 4,000	155.8%	84.8%	-0.1%	161.1%
4,001 - 6,000	98.6%	56.7%	0.0%	96.1%
6,001 - 8,000	76.3%	47.5%	0.0%	75.3%
8,001 - 10,000	63.6%	40.8%	0.0%	63.3%
10,001 - 12,000	56.4%	35.7%	0.0%	56.4%
12,001 - 14,000	50.0%	32.8%	0.1%	48.8%
14,001 - 16,000	47.5%	28.8%	0.1%	44.1%
16,001 - 18,000	42.8%	24.5%	0.1%	38.6%
18,001 - 20,000	39.6%	24.1%	0.1%	34.8%
20,001 - 25,000	34.7%	23.5%	0.1%	29.4%
25,001 - 30,000	29.4%	21.1%	0.2%	22.8%
30,001 - 35,000	25.1%	17.9%	0.2%	18.0%
35,001 - 40,000	21.9%	16.9%	0.2%	14.8%
40,001 - 45,000	19.7%	17.3%	0.3%	12.0%
45,001 - 50,000	17.9%	17.9%	0.3%	9.8%
50,001 - 55,000	16.6%	18.5%	0.3%	6.9%
55,001 - 60,000	15.6%	19.3%	0.3%	3.1%
60,001 - 70,000	14.5%	19.7%	0.4%	0.6%
70,001 - 80,000	13.4%	19.4%	0.4%	0.3%
80,001 - 90,000	12.6%	19.1%	0.4%	0.3%
90,001 - 100,000	11.9%	19.0%	0.4%	0.3%
Over 100,000	4.0%	40.9%	0.7%	0.2%

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

(2) Income tax credits were divided by the tax rate (4.25%) to determine the equivalent tax deduction. Nonrefundable credits include the credit for taxes paid to other states, and the historic preservation credit.

**Exhibit 16**  
**Property Tax Credits by County, CY 2021**

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	300	\$113,400	400	\$193,100	< 50	\$1,600
ALGER	300	109,900	300	155,600	< 50	900
ALLEGAN	5,400	2,937,500	4,000	2,781,400	< 50	2,200
ALPENA	1,300	490,100	1,200	640,500	< 50	2,700
ANTRIM	900	418,700	800	479,200	< 50	700
ARENAC	500	201,800	600	316,400	< 50	1,500
BARAGA	200	67,700	200	101,200	< 50	800
BARRY	2,400	1,217,800	1,900	1,286,600	< 50	1,500
BAY	6,100	2,547,400	5,000	2,848,100	100	8,800
BENZIE	800	346,900	700	372,100	< 50	1,500
BERRIEN	9,000	4,589,500	6,300	4,135,100	< 50	5,500
BRANCH	2,200	1,091,200	1,400	924,800	< 50	1,600
CALHOUN	8,600	4,784,600	5,100	3,665,200	< 50	6,600
CASS	1,600	753,900	1,300	789,300	< 50	1,400
CHARLEVOIX	1,300	650,900	1,200	813,100	< 50	600
CHEBOYGAN	1,100	438,300	900	459,200	< 50	2,500
CHIPPEWA	1,600	620,200	1,000	594,100	< 50	3,200
CLARE	1,400	559,700	1,100	597,600	< 50	2,900
CLINTON	2,700	1,517,400	2,300	1,674,100	< 50	600
CRAWFORD	500	210,000	400	177,200	< 50	1,400
DELTA	1,600	643,600	1,400	820,700	< 50	5,600
DICKINSON	1,200	488,900	1,100	627,800	< 50	3,900
EATON	7,400	4,370,600	5,100	3,650,100	< 50	2,600
EMMET	2,000	1,043,700	1,300	875,000	< 50	1,400
GENESEE	29,500	16,657,000	14,900	9,675,700	100	16,200
GLADWIN	900	426,600	1,100	588,300	< 50	2,200
GOGEBIC	600	201,600	500	263,500	< 50	4,000
GRAND TRAVERSE	6,000	3,722,000	3,900	2,801,900	< 50	1,600
GRATIOT	1,900	808,000	1,400	842,000	< 50	1,700
HILLSDALE	1,900	915,400	1,500	887,500	< 50	5,500
HOUGHTON	1,500	630,800	900	506,200	< 50	4,000
HURON	1,500	658,800	1,700	1,092,600	< 50	1,600
INGHAM	24,000	15,454,900	9,600	7,823,500	< 50	5,800
IONIA	3,100	1,497,500	2,100	1,263,900	< 50	1,100
IOSCO	1,000	386,900	1,000	531,100	100	4,800
IRON	400	147,300	400	210,300	< 50	2,000
ISABELLA	3,600	1,777,300	1,600	1,060,100	< 50	2,000
JACKSON	9,400	4,997,800	6,000	4,244,000	< 50	4,700
KALAMAZOO	18,300	11,386,700	9,100	7,564,300	< 50	4,700
KALKASKA	800	356,400	500	267,800	< 50	1,100
KENT	50,600	33,356,700	21,200	15,847,200	100	5,900
KEWEENAW	100	20,100	0	21,500	< 50	200

**Exhibit 16 (Continued)**

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	400	\$177,300	400	\$197,200	< 50	\$1,000
LAPEER	3,500	1,767,400	2,600	1,488,300	< 50	2,300
LEELANAU	500	256,800	600	339,700	< 50	200
LENAWEE	5,300	2,755,400	4,300	2,876,900	< 50	2,300
LIVINGSTON	400	177,300	400	197,200	< 50	1,000
LUCE	100	46,400	100	36,000	< 50	400
MACKINAC	400	159,600	400	188,600	< 50	800
MACOMB	70,100	55,324,500	41,600	35,805,600	100	18,200
MANISTEE	1,200	505,100	1,200	771,100	< 50	1,400
MARQUETTE	3,600	1,669,400	1,900	1,176,500	100	5,600
MASON	1,700	808,400	1,500	1,064,400	< 50	900
MECOSTA	1,900	889,700	1,100	624,900	< 50	1,900
MENOMINEE	900	372,000	700	416,500	< 50	2,800
MIDLAND	4,400	2,169,800	3,000	1,911,300	100	5,500
MISSAUKEE	500	243,800	500	267,800	< 50	500
MONROE	6,700	3,777,800	5,200	3,390,000	< 50	2,100
MONTCALM	3,400	1,602,400	2,500	1,596,500	< 50	3,300
MONTMORENCY	400	137,500	400	200,100	< 50	1,400
MUSKEGON	12,300	6,759,900	7,600	5,270,900	100	9,500
NEWAYGO	2,100	1,025,100	1,800	1,165,500	< 50	2,500
OAKLAND	62,900	48,524,800	38,200	32,671,400	100	14,000
OCEANA	1,300	578,500	1,100	713,500	< 50	1,300
OGEMAW	900	363,100	900	494,500	< 50	3,000
ONTONAGON	200	59,100	200	123,000	< 50	2,800
OSCEOLA	1,000	398,400	900	529,900	< 50	3,000
OSCODA	200	77,500	200	100,900	< 50	1,100
OTSEGO	1,200	576,100	700	375,000	< 50	2,800
OTTAWA	16,000	9,968,300	10,500	7,657,000	< 50	2,700
PRESQUE ISLE	400	161,300	600	271,500	< 50	1,900
ROSCOMMON	1,200	476,900	1,200	570,200	< 50	1,700
SAGINAW	12,800	6,284,100	7,200	4,323,200	100	11,200
ST. CLAIR	9,500	5,006,300	6,800	4,460,100	100	5,800
ST. JOSEPH	3,000	1,347,500	2,000	1,226,000	< 50	2,000
SANILAC	1,800	862,200	1,600	969,500	< 50	2,300
SCHOOLCRAFT	200	78,600	200	104,200	< 50	1,500
SHIAWASSEE	4,400	2,106,200	3,200	2,000,100	< 50	3,500
TUSCOLA	2,600	1,083,400	2,100	1,159,600	< 50	3,000
VAN BUREN	4,400	2,317,300	3,100	2,253,500	< 50	3,100
WASHTENAW	20,500	16,221,500	8,400	8,020,900	< 50	2,400
WAYNE LESS DETROIT	77,200	59,912,500	41,200	35,228,800	100	15,000
WEXFORD	2,100	972,400	1,400	871,200	< 50	2,500
OUTSIDE OF MICHIGAN	5,300	3,326,400	1,800	1,364,400	< 50	5,100
DETROIT	88,000	63,378,600	17,900	13,653,500	100	27,600
<b>TOTAL</b>	<b>658,100</b>	<b>\$431,940,000</b>	<b>356,300</b>	<b>\$265,959,300</b>	<b>2,500</b>	<b>\$313,600</b>

**Exhibit 16 (Continued)**

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	< 50	\$25,300	< 50	\$9,600	700	\$343,100
ALGER	< 50	23,300	< 50	400	600	290,100
ALLEGAN	500	374,600	100	962,100	10,000	7,057,900
ALPENA	200	135,900	< 50	13,900	2,800	1,283,100
ANTRIM	100	46,000	< 50	74,900	1,800	1,019,500
ARENAC	100	46,100	100	271,400	1,200	837,200
BARAGA	< 50	13,900	< 50	0	400	183,700
BARRY	200	151,000	100	660,700	4,600	3,317,600
BAY	900	667,500	200	1,783,700	12,300	7,855,400
BENZIE	100	55,100	< 50	3,700	1,500	779,200
BERRIEN	900	728,800	100	502,500	16,300	9,961,300
BRANCH	200	142,300	200	1,041,700	3,900	3,201,500
CALHOUN	1,100	941,500	200	1,217,900	15,100	10,615,700
CASS	100	92,800	100	836,800	3,200	2,474,200
CHARLEVOIX	100	66,800	< 50	38,400	2,600	1,569,900
CHEBOYGAN	200	106,200	< 50	15,900	2,200	1,022,100
CHIPPEWA	200	97,200	< 50	34,800	2,800	1,349,400
CLARE	200	121,100	< 50	83,100	2,700	1,364,400
CLINTON	200	167,700	100	1,068,200	5,300	4,428,000
CRAWFORD	100	34,800	< 50	18,900	900	442,300
DELTA	200	147,300	< 50	56,200	3,400	1,673,500
DICKINSON	100	69,500	< 50	13,000	2,400	1,203,200
EATON	600	507,600	100	784,100	13,200	9,315,000
EMMET	100	99,300	< 50	7,200	3,400	2,026,600
GENESEE	3,800	3,242,200	100	476,800	48,400	30,068,000
GLADWIN	200	89,400	< 50	83,200	2,300	1,189,700
GOGEBIC	100	54,900	< 50	0	1,200	524,000
GRAND TRAVERSE	400	294,800	< 50	26,200	10,300	6,846,600
GRATIOT	300	168,900	300	1,932,700	3,900	3,753,400
HILLSDALE	200	146,200	200	925,400	3,900	2,880,000
HOUGHTON	100	85,600	< 50	0	2,500	1,226,600
HURON	200	133,000	800	7,951,400	4,300	9,837,500
INGHAM	1,800	1,646,300	100	1,796,400	35,600	26,726,900
IONIA	300	229,300	100	989,900	5,600	3,981,700
IOSCO	200	108,700	< 50	75,100	2,300	1,106,500
IRON	< 50	25,400	< 50	0	900	385,000
ISABELLA	300	198,600	100	748,500	5,600	3,786,500
JACKSON	1,000	811,800	100	487,700	16,600	10,546,000
KALAMAZOO	1,400	1,304,100	100	707,100	29,000	20,966,800
KALKASKA	100	38,800	< 50	500	1,400	664,700
KENT	3,000	2,791,700	100	975,500	75,000	52,977,100
KEWEENAW	< 50	2,300	< 50	0	100	44,100

**Exhibit 16 (Continued)**

<b>County</b>	<b>Blind and Disabled</b>		<b>Farmland</b>		<b>Total Credits</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
LAKE	100	\$61,900	< 50	\$4,800	900	\$442,200
LAPEER	400	314,000	100	278,600	6,600	3,850,600
LEELANAU	< 50	16,100	< 50	49,300	1,100	662,100
LENAWEE	600	502,200	400	2,777,900	10,600	8,914,700
LIVINGSTON	400	363,600	< 50	4,800	11,300	8,044,700
LUCE	< 50	10,300	< 50	0	200	93,100
MACKINAC	< 50	16,300	< 50	13,000	800	378,300
MACOMB	5,800	6,258,500	< 50	157,600	117,600	97,564,400
MANISTEE	100	98,100	< 50	7,800	2,600	1,383,500
MARQUETTE	300	204,900	< 50	3,400	5,800	3,059,800
MASON	200	114,600	< 50	214,700	3,400	2,203,000
MECOSTA	200	112,200	< 50	265,400	3,300	1,894,200
MENOMINEE	100	47,800	< 50	77,200	1,800	916,300
MIDLAND	400	329,200	< 50	257,200	7,900	4,673,000
MISSAUKEE	100	44,300	100	678,500	1,200	1,234,800
MONROE	700	609,000	100	746,800	12,800	8,525,700
MONTCALM	400	283,100	100	1,109,000	6,500	4,594,300
MONTMORENCY	100	37,800	< 50	6,600	900	383,500
MUSKEGON	1,600	1,302,900	< 50	366,700	21,600	13,709,800
NEWAYGO	300	225,600	100	251,700	4,300	2,670,400
OAKLAND	4,200	4,227,300	< 50	108,200	105,400	85,545,700
OCEANA	200	101,500	100	258,700	2,600	1,653,500
OGEMAW	100	79,600	< 50	158,600	2,000	1,098,800
ONTONAGON	< 50	14,600	< 50	2,000	400	201,500
OSCEOLA	100	75,100	< 50	281,300	2,100	1,287,800
OSCODA	100	31,200	< 50	0	500	210,700
OTSEGO	100	65,300	< 50	0	2,100	1,019,200
OTTAWA	900	859,900	200	1,847,300	27,700	20,335,200
PRESQUE ISLE	100	44,200	< 50	27,400	1,100	506,200
ROSCOMMON	200	118,400	< 50	16,400	2,600	1,183,500
SAGINAW	1,600	1,212,900	400	2,944,600	22,200	14,776,000
ST. CLAIR	1,200	986,000	< 50	261,600	17,600	10,719,900
ST. JOSEPH	300	194,600	100	1,148,500	5,500	3,918,600
SANILAC	300	193,900	400	2,465,000	4,200	4,492,900
SCHOOLCRAFT	< 50	18,200	< 50	1,800	500	204,300
SHIAWASSEE	600	462,800	200	1,121,000	8,400	5,693,500
TUSCOLA	400	272,300	500	4,096,300	5,600	6,614,600
VAN BUREN	400	356,000	100	429,300	8,100	5,359,200
WASHTENAW	1,200	1,205,900	200	1,627,200	30,400	27,078,000
WAYNE LESS DETROIT	6,400	6,904,700	< 50	64,000	124,900	102,125,000
WEXFORD	200	149,200	< 50	84,500	3,600	2,079,700
OUTSIDE OF MICHIGAN	300	248,800	< 50	304,200	7,500	5,248,800
DETROIT	7,200	7,208,200	< 50	6,400	113,200	84,274,300
<b>TOTAL</b>	<b>58,000</b>	<b>\$52,216,400</b>	<b>6,800</b>	<b>\$51,520,700</b>	<b>1,081,700</b>	<b>\$801,950,100</b>

## 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 2023 Estimate

#### **Accelerated Depreciation**

\$68,860,000

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**

\$1,061,270,000

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.

	<b><u>FY 2023 Estimate</u></b>
<b>Employer Pension Plans</b>	\$852,960,000
Exempts employer payments into qualified employee pension plans from taxation.	
<b>Federal Adjustments to Income</b>	\$46,150,000
Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	
<b>Fellowships and Scholarships</b>	\$28,920,000
Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	
<b>Gain on Sale of Primary Residence</b>	\$194,030,000
Excludes from AGI a gain from the sale of a primary residence. To qualify for the full exemption, the taxpayer must have owned and lived in the home for at least two of the past five years and not claimed an exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.	
<b>Income Maintenance Benefits</b>	\$3,320,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
<b>Individual Retirement Accounts</b>	\$350,990,000
Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. The maximum contribution is \$6,500 for 2021. Only persons with an AGI below \$116,000 on a joint return (\$73,000 on a single return) or those not covered by an employer retirement plan can take the full \$6,500 deduction. A partial deduction, phased out according to income, is available between \$116,000-\$136,000 for joint filers and \$73,000-\$83,000 for single filers.	
<b>Interest on Life Insurance Savings</b>	\$60,350,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	
<b>Medical Care Savings Account</b>	\$46,720,000
Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	



**FY 2023 Estimate**

**Railroad Retirement Benefits**

\$1,060,000

Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).

**Social Security Benefits Excluded from AGI**

\$202,410,000

Exempts most social security benefits. Federal social security benefits are not taxable 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. This estimate is only for the portion of Social Security benefits that are excluded from federal AGI. The portion included in AGI is reported separately above.

**Student Loan Deduction**

\$14,800,000

Allows a deduction for interest paid on qualified education loans.

**Veterans' Benefits**

\$102,030,000

Excludes veterans' benefits administered by the Veterans' Administration from AGI.

**Workers' Compensation**

\$35,020,000

Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.

## CHAPTER 7

### TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to rise modestly, increasing from \$67.13 million in FY 2022 to \$70.15 million in FY 2023. Transportation tax expenditure estimates were based on FY 2021 and FY 2022 data.

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

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

#### Transportation Tax Expenditure Changes

**Public Act 124 of 2021** amended the Motor Fuel Tax Act to repeal the existing requirement that the additional tax be paid on motor fuel held in inventory over a certain amount when the motor fuel tax increased. The is often referred to as a floor tax on inventory.

#### 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 yielded an estimated \$430,000 to the state's Aeronautics Fund in FY 2023.

#### 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 2023, the aviation fuel tax raised \$5.6 million, which is deposited into the state's Aeronautics Fund.

**FY 2023 Estimate**

**Federally-Owned Aircraft**

\$533,000

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

**Interstate Flight Refund**

\$4,127,000

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

**Marine Vessel Fuel Tax Expenditures**

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

**FY 2023 Estimate**

**Marine Vessel Exemption**

\$807,000

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

**Motor Carrier Privilege Fee**

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

**Motor Fuel Taxes**

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum gas taxes. The tax rate on gasoline increased to 28.6 cents per gallon, effective January 1, 2023. The diesel fuel tax rate also increased to 28.6 cents per gallon in January 2023. 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 2023, motor fuel taxes raised an estimated \$1,494.5 million.

**FY 2023 Estimate**

<b>Diesel Fuel for Railroads</b>	n.a.
Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	
<b>Evaporation and Loss Allowance</b>	\$18,583,000
The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.	
<b>Fuel for Job Sites and Charter Firms</b>	\$7,093,000
Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.	
<b>Fuel for Off-Road Use</b>	\$1,759,000
Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	
<b>Municipal Franchise Vehicles</b>	\$2,011,000
Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	
<b>Public Vehicles</b>	\$19,888,000
Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	
<b>Tribal Tax Agreements</b>	n.a.
Provides for tribes to obtain tax-free motor fuel for use by the tribe, tribal entities, and resident tribal members. Sales to other parties made by tribal retailers will be fully taxed.	

## Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, the registration fee for passenger vehicles became based on the vehicle's value rather than its weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2023, the motor vehicle registration fee raised \$1,503.5 million.

	<b><u>FY 2023 Estimate</u></b>
<b>Disabled Veterans' Vehicles</b>	\$823,000
Provides totally disabled veterans free vehicle license plates.	
<b>Handicapper Vans</b>	n.a.
Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	
<b>Intercity Commercial Buses</b>	n.a.
Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.	
<b>Public and Nonprofit Vehicles</b>	\$14,514,000
Motor vehicles owned and operated by the state, a state institution, a municipality, a nonprofit college or university, or other nonprofit organization pay a lower rate of \$5 for license plates with a five-year registration period.	

## Watercraft Registration Fee

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

	<b><u>FY 2023 Estimate</u></b>
<b>Publicly-Owned Watercraft</b>	\$15,000
Levies a special fee of \$1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.	

## CHAPTER 8

### PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 8.3 percent from \$13,331.6 million in FY 2022 to \$14,432.7 million in FY 2023. Growing property values increased the value of the taxable value cap for property owners. Estimates were based on FY 2021 and FY 2022 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 2020** amended the Neighborhood Enterprise Zone Act to amend the standards to apply to properties with a current true cash value of \$120,000 or less with proposed improvements that cost more than \$10,000 (owner-occupied) or \$15,000 (non-owner-occupied). Beginning in 2021, the dollar amounts would be adjusted for inflation.

**Public Act 28 of 2020** amended the General Property Tax Act to exempt eligible data center property located in a specific renaissance zone from local government debt and school millages.

**Public Act 96 of 2020** amended the General Property Tax Act to extend the deadline to file a principal residence exemption from June 1 to June 30, for calendar year 2020 only.

**Public Acts 217 and 218 of 2020** amended the Commercial Rehabilitation Act and the Commercial Redevelopment Act, respectively, to extend the period during which property tax abatements can be granted.

**Public Act 259 of 2020** amended the Brownfield Redevelopment Financing Act to expand the eligible uses of tax increment revenues.

**Public Act 355 of 2020** amended the General Property Tax Act to exempt real and personal property that is part of a public bridge facility subject to a public-private agreement that is exempt from ad valorem property taxes. The bill is a part of a broader package addressing bridges.

**Public Act 138 of 2021** amended the Brownfield Redevelopment Financing Act to allow the owner or developer of a transformational brownfield plan site to elect a safe harbor method for computing the income tax capture revenues and withholding tax capture revenues, as detailed in the Act. The Public Act also made several changes to the administration of the program.

**Public Act 150 of 2021** amended the General Property Tax Act to increase the value of personal property eligible for an exemption under the Act. This is often referred to as the small taxpayer exemption. The Public Act raised the ceiling amount of true cash value eligible for exemption from \$80,000 to \$180,000.

**Public Acts 153 through 157 of 2021** amended several Acts to make technical changes to the administration of the exemption of eligible manufacturing personal property and the alternative tax that applies to exempt eligible property.

**Public Act 164 of 2021** amended the General Property Tax Act to extend through the 2022 tax year the provision requiring that personal property that is in an alternate location due to the COVID-19 pandemic be assessed in its ordinary location.

### **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 2023 collections were \$35.9 million.

**FY 2023 Estimate**

**Broadband Investment Credit**

\$30,810,000

Public Act 50 of 2002 provides a credit for the state utility property tax for a company that installs telecommunications equipment with information carrying capability exceeding 200 kilobits per second in both directions. This credit was intended to accelerate the introduction of broadband Internet access to Michigan.

**Railroad Right-of-Way**

\$46,810,000

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

**General Property Tax**

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

**FY 2023 Estimate**

**Agricultural Transfers**

\$49,050,000

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**

\$177,100,000

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

**Cultural Organizations**

n.a.

Exempts from the property tax real property owned and occupied by a nonprofit organization meeting specific requirements. Some of the requirements are that the organization must be: incorporated under state law; devoted exclusively to the development of literature, music, painting or sculpture; and available to the general public on a regular basis. Data are not available to estimate this item.



**Exhibit 17**  
**Average Statewide Millage Rates**

<b>Calendar Year</b>	<b>Homestead Property</b>	<b>Non-homestead Property</b>	<b>All Property</b>
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	31.81	49.74	39.00
2004	32.71	50.81	40.00
2005	32.60	51.38	39.88
2006	32.66	51.38	39.96
2007	32.72	51.49	39.89
2008	33.14	50.94	38.94
2009	32.86	51.09	39.13
2010	33.13	50.40	39.70
2011	33.68	50.97	40.00
2012	33.47	51.24	40.40
2013	33.53	51.47	40.47
2014	33.92	51.77	40.79
2015	34.21	52.33	41.12
2016	34.55	52.95	41.70
2017	34.56	52.96	41.68
2018	34.96	53.23	41.98
2019	35.04	53.38	42.06
2020	35.44	53.86	42.44
2021	35.12	53.81	42.16

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Non-homestead millage rates from Office of Revenue and Tax Analysis, Michigan Department of Treasury.

**FY 2023 Estimate**

**Disabled Veteran Homestead Exemption**

\$63,540,000

Exempts from property taxes real property used and owned by a disabled veteran who is entitled to veterans' benefits at the 100 percent rate, has received or is receiving assistance due to disability for specially adapted housing, or has been rated by the U.S. Department of Veterans Affairs as unemployable. A surviving spouse of a disabled veteran who does not remarry may retain the exemption.

**Fairground Property**

n.a.

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

**Homestead Exemption**

\$3,730,150,000

Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills, generally 18 mills.

**Homestead Exemption for Farm Property**

\$222,280,000

Exempts qualified agricultural property, including houses, from local school operating mills.

**Industrial Facilities Development**

\$143,830,000

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. The full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 18 displays a partial estimate of the taxable value of property subject to the industrial facilities development program. Public Act 39 of 2007 and Public Act 457 of 2008 reduced the tax on new facility personal property on land classified as industrial or commercial real property.

**FY 2023 Estimate**

**Neighborhood Enterprise Zones** \$9,290,000

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.

**Obsolete Property Rehabilitation Exemption** \$31,530,000

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.

**Personal Property Ad Valorem Exemptions** \$301,860,000

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** \$19,770,000

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.

**Small Taxpayer Exemption/Eligible Manufacturing Personal Property** \$480,690,000

The small taxpayer exemption provides an exemption for personal property classified as industrial or commercial personal property if, among other qualifications, the true cash value of all industrial and commercial personal property owned by, leased by or in the possession of the owner in a tax collecting unit is less than \$80,000. Public Act 150 of 2021 raised the threshold to \$180,000, beginning in 2023.

Eligible Manufacturing Personal Property (EMPP) is personal property used at least 50% of the time in industrial processing or direct integrated support. EMPP is exempt if placed in service after 2012 or more than 10 years before the tax year, e.g. for 2021, placed in service before 2011. Exempt EMPP is subject to the state Essential Services Assessment.

**Poverty Exemption** \$10,810,000

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.

**FY 2023 Estimate**

**Renaissance Zones** \$37,230,000

Exempts homeowners in a Renaissance Zone or a business that is located and conducts business activity within a Renaissance Zone from most property taxes.

**Tax-Exempt Property** \$2,058,000,000

Exhibit 18 reports the results from the 2020 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 17 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 \$36.4 billion. If taxed at the 2021 average nonhomestead statewide rate of 53.81 mills, tax-exempt property would have yielded \$1.96 billion in property tax revenue.

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

**Tax-Exempt Acreage** n.a.

Exhibit 19 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 an estimated 1,007,035 acres in 2019.

**Tax-Exempt County and Municipal Property** \$327,000,000

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

**Tax-Exempt Federal Property** \$379,000,000

Exempts real property belonging to the United States government.

**Tax-Exempt Other Real Tax Exempt Property** \$222,000,000

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

**FY 2023 Estimate**

**Tax-Exempt Personal Property** \$296,000,000

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

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

**Tax-Exempt Public Education Property** \$586,000,000

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

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

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

**Tax-Exempt State Property** \$248,000,000

Exempts real property owned by the State of Michigan.

**Tax Increment Financing** \$277,450,000

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

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

**FY 2023 Estimate**

**Taxable Value Cap**

\$6,383,680,000

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

**Veterans' Organizations**

n.a.

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

**Water Softeners and Water Coolers**

\$1,430,000

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

**Iron Ore Specific Tax**

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$6.5 million in 2023. The state's share of the iron ore specific tax is deposited into the School Aid Fund. The state received \$6.2 million in FY 2023.

**Exhibit 18**  
**Estimated Taxable Value of Exempt Real and Personal Property by County, 2022**  
**(Taxable Value in Thousands)**

<u>County</u>	<u>Industrial Facilities Tax</u>	<u>Federal</u>	<u>State</u>	<u>County and Municipal</u>	<u>Public Education</u>
ALCONA	\$223,328	\$114,520	\$7,225	\$27,754	\$41,198
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN *	120,594	0	0	0	0
ALPENA *	527,811	9,094	68,954	103,000	68,200
ANTRIM	0	0	0	0	0
ARENAC	2,799	517	4,594	1,450	1,160
BARAGA *	158	35,195	38,426	1,534	3,142
BARRY	33,767	1,993	57,799	36,712	8,631
BAY *	91,869	819	1,148	4,095	10,918
BENZIE *	0	33,116	85,394	20,320	5,463
BERRIEN	39,612	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN	77,033	5,632	61,511	311,729	31,309
CASS *	22,739	10	3,419	20,837	133,043
CHARLEVOIX *	101,829	979	22,066	24,426	44,643
CHEBOYGAN *	0	2,665	94,153	46,218	26,014
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE *	8,209	927	25,013	3,443	37,108
CLINTON	5,316	15	3,200	15,000	25,000
CRAWFORD *	915	28,545	330,000	6,233	21,150
DELTA *	21,683	206,309	67,816	23,000	12,500
DICKINSON	17,993	4,585	98,002	18,745	50,130
EATON	45,226	410	37,098	194,345	57,525
EMMET	7,139	0	61,189	324	2,308
GENESEE	86,714	22,124	74,039	633,101	738,274
GLADWIN *	2,689	0	25,000	13,000	31,000
GOGEBIC	2,261	174,528	6,985	33,224	10,266
GRAND TRAVERSE	3,570	10,205	117,362	248,540	151,142
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	10,704	285	4,100	25,000	101,000
HOUGHTON	76	20,039	110,517	16,419	146,108
HURON*	56,841	39,400	10,542	85,700	0
INGHAM *	58,438	6,611	285,243	228,713	79,215
IONIA *	16,624	0	3,297	17,255	21,800
IOSCO *	0	7,893	49,295	3,394	185
IRON	824	31,203	34,550	6,296	1,041
ISABELLA	5,502	n.a.	n.a.	n.a.	n.a.
JACKSON *	94,089	2,000	201,000	38,000	98,000
KALAMAZOO	198,233	44,900	456,491	964,112	1,780,658
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	543,538	24,450	23,766	174,895	484,900
KEWEENAW	0	33,510	2,700	585	270

**Exhibit 18 (Continued)**

<u>County</u>	<u>Personal Property</u>	<u>Other</u>	<u>Exempt Total</u>	<u>Total Taxable Value Real and Personal Property</u>	<u>Exempt as a Percent of Taxable</u>
ALCONA	\$0	\$936	\$191,633	\$832,540	18.7%
ALGER*	55,000	0	88,568	\$434,526	16.9%
ALLEGAN *	113,900	0	113,900	\$5,832,191	1.9%
ALPENA *	36,547	0	285,795	\$1,038,784	21.6%
ANTRIM	0	0	0	\$2,216,915	0.0%
ARENAC	34,483	0	42,205	\$645,465	6.1%
BARAGA *	0	13,784	92,081	\$317,566	22.5%
BARRY	0	64,387	169,522	\$2,618,481	6.1%
BAY *	72,382	4,521	93,883	\$3,133,134	2.9%
BENZIE *	0	15,503	159,796	\$1,517,581	9.5%
BERRIEN	12,066	760,410	772,476	\$8,883,383	8.0%
BRANCH *	0	6,500	22,304	\$1,673,498	1.3%
CALHOUN	74,773	148,663	633,617	\$4,056,534	13.5%
CASS *	0	0	157,309	\$2,590,931	5.7%
CHARLEVOIX *	3,526	13	95,653	\$2,522,033	3.7%
CHEBOYGAN *	6,200	21,998	197,248	\$1,627,469	10.8%
CHIPPEWA *	21,200	3,500	1,374,928	\$1,258,607	52.2%
CLARE *	72,638	0	139,129	\$1,245,008	10.1%
CLINTON	43,215	4,475	90,905	\$3,348,981	2.6%
CRAWFORD *	53,403	20,000	459,331	\$713,790	39.2%
DELTA *	0	0	309,625	\$1,331,961	18.9%
DICKINSON	1,768	34,589	207,819	\$968,792	17.7%
EATON	234,130	198,601	722,109	\$4,208,049	14.6%
EMMET	0	0	63,821	\$3,474,577	1.8%
GENESEE	436,619	0	1,904,157	\$11,143,608	14.6%
GLADWIN *	6,315	2,460	77,775	\$1,104,295	6.6%
GOGEBIC	1,432	14,129	240,564	\$595,729	28.8%
GRAND TRAVERSE	0	212,053	739,302	\$6,383,536	10.4%
GRATIOT *	135,000	10,000	349,600	\$1,681,648	17.2%
HILLSDALE	15,000	44,700	190,085	\$1,669,001	10.2%
HOUGHTON	0	10,730	303,813	\$1,070,386	22.1%
HURON*	0	0	135,642	\$2,577,121	5.0%
INGHAM *	948	190,879	n.a.	\$9,259,401	n.a.
IONIA *	3,900	0	46,252	\$1,934,748	2.3%
IOSCO *	0	597	61,364	\$1,290,265	4.5%
IRON	0	0	73,090	\$584,050	11.1%
ISABELLA	n.a.	n.a.	0	\$2,383,092	0.0%
JACKSON *	200,000	5,000	544,000	\$5,276,363	9.3%
KALAMAZOO	0	130,669	3,376,830	\$10,010,844	25.2%
KALKASKA *	100,000	55,000	451,000	\$939,226	32.4%
KENT *	1,840,872	158,010	2,706,893	\$28,418,785	8.7%
KEWEENAW	370	7,297	44,732	\$174,376	20.4%



**Exhibit 18 (Continued)**

<u>County</u>	<b>Industrial Facilities</b>		<b>County and Municipal</b>		<b>Public Education</b>
	<u>Tax</u>	<u>Federal</u>	<u>State</u>		
LAKE *	\$118	\$73,422	\$41,768	\$8,266	\$9,252
LAPEER *	21,762	1,070	30,317	70,247	42,448
LEELANAU	0	673,340	60,517	140,530	9,761
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON *	41,742	3,269	3,407	96,681	89,524
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB *	795,737	2,939,414	82,904	461,687	880,193
MANISTEE	2,992	154,683	48,900	43,494	46,661
MARQUETTE	1,595	16,764	171,461	22,225	210,000
MASON *	7,350	143,000	34,700	93,300	178,600
MECOSTA *	700	10,000	13,000	10,000	500,000
MENOMINEE *	4,473	0	74,966	94	705
MIDLAND *	162,044	335	9,130	75,210	90,150
MISSAUKEE	1,630	80	58,053	30,500	68,678
MONROE *	132,623	145	10,908	80,528	177,373
MONTCALM *	32,069	n.a.	0	n.a.	n.a.
MONTMORENCY	0	139	223,678	1,987	949
MUSKEGON	50,976	18,913	94,385	158,844	897,190
NEWAYGO	16,095	n.a.	n.a.	n.a.	n.a.
OAKLAND *	300,454	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	0	247,080	31,303	5,013	11,672
OSCEOLA	796	78	786	15,595	38,618
OSCODA	1,009	168,500	58,163	13,250	20,169
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA *	276,610	24,405	36,476	245,184	1,018,489
PRESQUE ISLE *	373,177	0	40,315	108,911	n.a.
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW *	156,000	32,000	165,000	228,000	719,000
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH *	104,296	n.a.	n.a.	n.a.	n.a.
SANILAC	2,400	n.a.	n.a.	n.a.	n.a.
SCHOOLCRAFT *	10,039	n.a.	n.a.	n.a.	48,867
SHIAWASSEE *	6,476	675	18,500	68,000	93,000
TUSCOLA*	13,292	0	0	0	0
VAN BUREN *	97,974	0	1,000	12,500	7,500
WASHTENAW *	166,776	0	230	474	10,259
WAYNE	121,441	2,110	2,179	303,591	37,631
WEXFORD *	18,230	n.a.	n.a.	n.a.	0
<b>TOTAL</b>	<b>\$5,452,178</b>	<b>\$6,699,899</b>	<b>\$4,397,158</b>	<b>\$5,791,726</b>	<b>\$10,365,662</b>

Note: Wayne and Ingham Counties are not in totals. 2017 taxable value for Wayne County was \$39.5 billion.

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

**Exhibit 18 (Continued)**

<u>County</u>	<u>Personal Property</u>	<u>Other</u>	<u>Exempt Total</u>	<u>Total Taxable Value Real and Personal Property</u>	<u>Exempt as a Percent of Taxable</u>
LAKE *	\$680	\$5,462	\$138,850	\$675,455	17.1%
LAPEER *	2,312	58,711	205,105	\$3,504,017	5.5%
LEELANAU	0	119,889	1,004,037	\$3,317,449	23.2%
LENAWEE *	0	21,000	362,400	\$3,948,469	8.4%
LIVINGSTON *	9,364	43,531	245,776	\$10,846,457	2.2%
LUCE *	650	1,749	17,321	\$202,849	7.9%
MACKINAC *	7,817	2,164	131,295	\$1,170,401	10.1%
MACOMB *	159,121	415,808	4,939,127	\$32,856,276	13.1%
MANISTEE	56,442	67,379	417,559	\$1,290,885	24.4%
MARQUETTE	0	242,000	662,450	\$3,038,543	17.9%
MASON *	0	84,000	533,600	\$2,159,765	19.8%
MECOSTA *	2,900	4,300	540,200	\$1,563,106	25.7%
MENOMINEE *	0	4,431	80,196	\$883,906	8.3%
MIDLAND *	154,540	110,240	439,605	\$3,768,842	10.4%
MISSAUKEE	0	0	157,311	\$730,447	17.7%
MONROE *	0	8,671	277,625	\$6,791,189	3.9%
MONTCALM *	89,554	0	89,554	\$2,198,065	3.9%
MONTMORENCY	0	3,738	230,492	\$540,155	29.9%
MUSKEGON	238,500	0	1,407,832	\$5,307,848	21.0%
NEWAYGO	n.a.	18,265	18,265	\$1,804,227	1.0%
OAKLAND *	178,016	n.a.	178,016	\$69,645,264	0.3%
OCEANA *	4,100	0	43,900	\$1,375,149	3.1%
OGEMAW *	0	2,844	36,331	\$966,198	3.6%
ONTONAGON	0	119,363	414,431	\$299,821	58.0%
OSCEOLA	0	9,833	64,910	\$850,468	7.1%
OSCODA	4,101	4,852	269,035	\$434,233	38.3%
OTSEGO *	45,800	3,665	160,066	\$1,441,146	10.0%
OTTAWA *	0	0	1,324,554	\$13,978,568	8.7%
PRESQUE ISLE *	n.a.	n.a.	149,226	\$774,054	16.2%
ROSCOMMON*	8,400	9,514	285,832	\$1,513,946	15.9%
SAGINAW *	556,000	250,000	1,950,000	\$5,763,700	25.3%
SAINT CLAIR*	129,346	178,053	850,371	7,058,438	10.8%
SAINT JOSEPH *	n.a.	n.a.	0	2,300,526	0.0%
SANILAC	0	7,062	7,062	1,760,772	0.4%
SCHOOLCRAFT *	n.a.	n.a.	48,867	400,038	10.9%
SHIAWASSEE *	12,000	0	192,175	2,243,857	7.9%
TUSCOLA*	0	0	0	2,099,331	0.0%
VAN BUREN *	1,500	0	22,500	3,692,523	0.6%
WASHTENAW *	774	647	12,384	20,256,186	0.1%
WAYNE	88,374	35,182	469,067	48,166,817	1.0%
WEXFORD *	n.a.	n.a.	0	1,141,221	0.0%
<b>TOTAL</b>	<b>\$5,237,604</b>	<b>\$3,936,576</b>	<b>\$36,428,625</b>	<b>\$358,321,659</b>	<b>9.2%</b>

Note: Wayne and Ingham Counties are not in totals. 2017 taxable value for Wayne County was \$39.5 billion.

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

**Exhibit 19**  
**General Property Tax – Estimated Exempt Acreage by County, 2022**

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA	410	LAKE *	1,052
ALGER*	14,000	LAPEER *	2,000
ALLEGAN *	1,000	LEELANAU	960
ALPENA *	5,800	LENAWEE *	9,200
ANTRIM	1,000	LIVINGSTON *	1,213
ARENAC *	23,112	LUCE *	2,300
BARAGA	492,120	MACKINAC *	240
BARRY	847	MACOMB *	5,467
BAY*	889	MANISTEE	4,500
BENZIE *	554	MARQUETTE *	140
BERRIEN *	20,667	MASON *	620
BRANCH *	425	MECOSTA *	2,100
CALHOUN *	5,670	MENOMINEE *	80,252
CASS *	773	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE *	900
CHEBOYGAN	13,702	MONROE *	3,200
CHIPPEWA *	1,500	MONTCALM *	7,000
CLARE *	172	MONTMORENCY	475
CLINTON *	100	MUSKEGON	2,715
CRAWFORD *	1,519	NEWAYGO *	6,800
DELTA *	5,295	OAKLAND *	9,440
DICKINSON	250	OCEANA *	500
EATON	3,165	OGEMAW *	693
EMMET *	1,000	ONTONAGON	200
GENESEE	12,000	OSCEOLA *	2,684
GLADWIN *	1,000	OSCODA *	193
GOGEBIC	2,090	OTSEGO *	735
GRAND TRAVERSE	2,750	OTTAWA *	7,287
GRATIOT *	300	PRESQUE ISLE *	92,659
HILLSDALE	2,900	ROSCOMMON	1,398
HOUGHTON	8,150	SAGINAW *	4,500
HURON *	341	SAINT CLAIR *	11,972
INGHAM *	741	SAINT JOSEPH *	8,712
IONIA *	544	SANILAC *	5,200
IOSCO *	32,857	SCHOOLCRAFT *	n.a.
IRON	60	SHIAWASSEE *	325
ISABELLA *	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN *	4,530
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA *	340	WAYNE *	625
KENT *	3,200	WEXFORD *	343
KEWEENAW	13,600	TOTAL	<u>1,006,901</u>

\* Based on a previous year's survey.

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 2023 state share of this tax totaled \$3.4 million indicating \$5.1 million in total state and local collections. Exhibit 20 only shows the county share of the tax.

### FY 2023 Estimate

#### **Mobile Home Tax Expenditure**

\$77,970,000

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

#### **Out-of-State Coaches**

n.a.

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

## Essential Services Assessment Tax

Enacted in 2014, the Essential Services Assessment (ESA) is imposed on manufacturing personal property otherwise exempt from the general property tax. The tax is imposed at a declining rate based on increasing age. The Michigan Strategic Fund may exempt property from the regular rate of the ESA and either subject the property to the alternative rate (1/2 of the regular rate) or exempt the property entirely, based on certain conditions. The tax is due by August 15<sup>th</sup> and is deposited into the General Fund. The ESA yielded \$141.7 million in FY 2023.

### FY 2023 Estimate

#### **Exempt Property**

n.a.

Partial or full exemptions from the ESA may be granted by the Michigan Strategic Fund for personal property that is part of a broader business plan that includes at least \$25 million in personal property investment.

## **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 \$61.5 million in 2021 (see Exhibit 20).

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 yielded \$389.2 million in FY 2023.

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 \$28.4 million in 2021 (see Exhibit 20).

## **City Income Tax**

A city income tax is levied by adoption of a city ordinance subject to voter approval. 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 2022, city income taxes totaled \$734.6 million after raising \$603.9 million in 2021 (see Exhibit 22). For 2022, 24 cities levied 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 2023 Estimate**

**Federal Deductions** n.a.

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

**Net Profits of Financial Institutions** n.a.

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

**Nonresident Reduced Rate** \$265,710,000

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

**Pensions, Annuities, and Retirement Plans** n.a.

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

**Personal Exemption** \$13,320,000

Exempts a certain amount of income for each person claimed on the federal form. The exemption amounts for the various cities are listed in Exhibit 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.

**Supplemental Unemployment Benefits** n.a.

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

**City Utility Users' Tax**

The uniform city utility users' tax is based on the privilege of consuming public telephone, electric, steam, or gas services in a city of 600,000 or more. Currently, Detroit is the only city in Michigan 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 \$55.6 million in 2022.

**Exhibit 20**  
**Miscellaneous Local Taxes Kept by Counties, 2021**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA	\$0	\$116	\$111,918
ALGER	0	270	73,168
ALLEGAN *	0	26,171	692,715
ALPENA	0	1,247	148,403
ANTRIM	0	0	398,999
ARENAC	0	2,187	91,270
BARAGA	0	0	44,975
BARRY	0	7,142	468,880
BAY	0	8,694	469,255
BENZIE	0	381	197,427
BERRIEN	0	23,729	1,492,050
BRANCH *	0	3,669	202,816
CALHOUN *	1,436,009	82,430	433,866
CASS *	0	4,379	255,819
CHARLEVOIX	0	2,241	462,923
CHEBOYGAN	0	547	266,816
CHIPPEWA	0	1,932	195,033
CLARE	0	1,917	163,092
CLINTON	0	11,965	509,963
CRAWFORD	0	114	435
DELTA	0	3,338	183,118
DICKINSON	0	1,833	154,216
EATON	0	9,367	727,403
EMMET	0	2,475	712,316
GENESEE	1,506,838	53,293	2,082,947
GLADWIN	0	1,674	199,170
GOGEBIC *	0	240	28,228
GRAND TRAVERSE	0	13,436	1,330,088
GRATIOT	0	6,121	193,937
HILLSDALE *	0	1,085	204,698
HOUGHTON	0	0	159,280
HURON	0	2,986	225,136
INGHAM	2,058,195	13,267	544,721
IONIA	0	5,670	327,439
IOSCO	0	630	196,838
IRON	0	130	101,325
ISABELLA	0	4,951	351,936
JACKSON	0	23,370	878,365
KALAMAZOO *	2,851,544	27,062	1,270,656
KALKASKA	0	405	157,634
KENT	8,527,794	56,578	6,088,356
KEWEENAW *	0	0	23,005

**Exhibit 20 (Continued)**

<b>County</b>	<b>Accommodations</b>	<b>Mobile Home (County Share)</b>	<b>Real Estate Prop. Trans.</b>
LAKE	\$0	\$0	\$717,266
LAPEER	0	12,827	586,946
LEELANAU *	0	364	472,074
LENAWEE	0	9,849	595,988
LIVINGSTON	0	27,466	1,851,213
LUCE	0	0	35,436
MACKINAC	0	0	188,580
MACOMB	0	77,838	6,567,920
MANISTEE	0	122	214,159
MARQUETTE	0	2,847	447,825
MASON *	0	3,621	138,379
MECOSTA	0	2,308	288,026
MENOMINEE	0	213	108,013
MIDLAND	0	6,082	3,481,088
MISSAUKEE	0	77	84,752
MONROE *	0	40,190	727,451
MONTCALM	0	2,169	377,140
MONTMORENCY *	0	74	54,110
MUSKEGON	1,479,846	21,677	1,031,094
NEWAYGO *	0	5,205	234,806
OAKLAND	0	100,013	0
OCEANA	0	1,159	222,732
OGEMAW	0	382	124,628
ONTONAGON	0	0	46,034
OSCEOLA *	0	715	117,042
OSCODA	0	48	63,518
OTSEGO	0	924	247,600
OTTAWA	0	37,191	2,540,126
PRESQUE ISLE *	0	354	32,736
ROSCOMMON *	0	1,833	162,807
SAGINAW *	3,035,651	13,881	976,268
SAINT CLAIR *	0	19,246	673,451
SAINT JOSEPH	0	4,865	362,896
SANILAC	0	5,813	278,935
SCHOOLCRAFT	0	162	72,508
SHIAWASSEE	0	7,857	307,206
TUSCOLA	0	4,108	245,476
VAN BUREN *	0	460	100,307
WASHTENAW	4,591,231	35,546	3,612,359
WAYNE	2,916,761	123,840	10,075,240
WEXFORD	0	2,596	203,870
<b>TOTAL</b>	<b>\$28,403,870</b>	<b>\$980,953</b>	<b>\$61,488,636</b>

\* Figures carried forward from a previous year.



**Exhibit 21**  
**Estimated Tax Expenditures From**  
**City Income Tax Personal Exemptions, 2020-21**

<u>City</u>	<u>Resident</u>		<u>Nonresident and Partial-Year Resident</u>	
	<u>Quantity</u>	<u>Amount</u>	<u>Quantity</u>	<u>Amount</u>
Albion	16,004	\$96,024	2,241	\$8,260
Battle Creek	40,530	303,975	34,569	129,634
Benton Harbor	1,019	7,643	4,015	15,056
Big Rapids	2,533	15,198	9,899	29,697
Detroit	346,144	4,984,474	383,963	2,764,534
East Lansing	14,693	88,158	37,796	113,388
Flint *	36,572	219,432	70,867	212,601
Grand Rapids	115,254	1,037,286	158,026	711,117
Grayling *	666	19,980	3,893	58,395
Hamtramck	16,521	99,126	19,221	57,663
Highland Park	5,449	65,388	4,159	24,954
Hudson	1,640	16,400	1,138	5,690
Ionia	3,978	27,846	12,543	43,901
Jackson *	14,819	88,914	29,690	89,070
Lansing	61,492	368,952	94,343	283,029
Lapeer	4,825	28,950	28,181	84,543
Muskegon	11,535	69,210	23,495	70,485
Muskegon Heights *	1,277	7,662	3,019	9,057
Pontiac	17,873	107,238	52,816	158,448
Port Huron	15,552	93,312	19,250	57,750
Portland	3,014	30,140	2,195	10,975
Saginaw *	26,044	292,995	35,962	202,286
Springfield	3,116	23,370	2,818	10,568
Walker	20,913	125,478	35,521	106,563
<b>TOTAL</b>	<b>781,463</b>	<b>\$8,217,150</b>	<b>1,069,620</b>	<b>\$5,257,663</b>

\* Used from previous year's survey

**Exhibit 22**  
**City Tax Rates and Exemption Allowances, 2023**

<u>City</u>	<u>City Income Tax Rate</u>			<u>Personal Exemption</u>	<u>2022 Collections (000s)</u>
	<u>Resident</u>	<u>Non-Resident</u>	<u>Corporation</u>		
Albion	1.00%	0.50%	1.00%	\$600	\$1,391
Battle Creek	1.00%	0.50%	1.00%	750	18,491
Benton Harbor	1.00%	0.50%	1.00%	750	2,488
Big Rapids	1.00%	0.50%	1.00%	600	2,614
Detroit	2.40%	1.20%	2.00%	600	419,437
East Lansing	1.00%	0.50%	1.00%	600	15,239
Flint	1.00%	0.50%	1.00%	600	18,375
Grand Rapids	1.50%	0.75%	1.50%	600	124,552
Grayling	1.00%	0.50%	1.00%	3,000	806
Hamtramck	1.00%	0.50%	1.00%	600	3,468
Highland Park	2.00%	1.00%	2.00%	600	4,905
Hudson	1.00%	0.50%	1.00%	1,000	621
Ionia	1.00%	0.50%	1.00%	700	2,717
Jackson	1.00%	0.50%	1.00%	600	9,633
Lansing	1.00%	0.50%	1.00%	600	36,965
Lapeer	1.00%	0.50%	1.00%	600	4,425
Muskegon	1.00%	0.50%	1.00%	600	9,145
Muskegon Heights	1.00%	0.50%	1.00%	600	1,113
Pontiac	1.00%	0.50%	1.00%	600	17,690
Port Huron	1.00%	0.50%	1.00%	600	7,425
Portland	1.00%	0.50%	1.00%	1,000	833
Saginaw	1.50%	0.75%	1.50%	750	16,033
Springfield	1.00%	0.50%	1.00%	750	1,153
Walker	1.00%	0.50%	1.00%	600	15,045
<b>TOTAL</b>					<b>\$734,564</b>