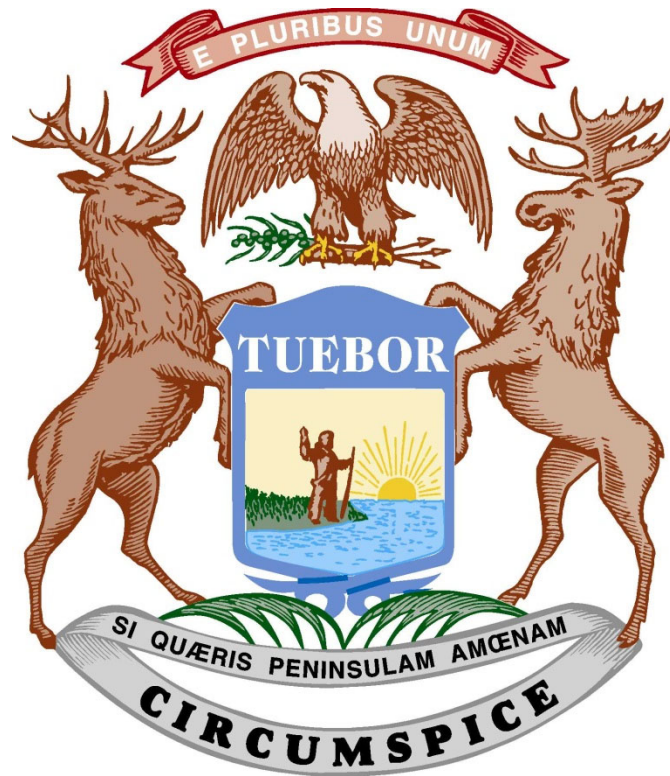


**Executive Budget
Appendix on Tax
Credits,
Deductions, and
Exemptions
Fiscal Years 2020 and 2021**



**Executive Budget
Appendix on Tax Credits,
Deductions, and Exemptions
Fiscal Years 2020 and 2021**



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

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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 2017, 2018, and 2019. 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 |

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS
EXECUTIVE SUMMARY
Fiscal Years 2020 and 2021

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

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

Total tax expenditures are projected to increase 3.4 percent between fiscal year (FY) 2020 and FY 2021, from \$42.92 billion to \$44.37 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 \$980.5 million to \$949.2 million from FY 2020 to FY 2021. 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 3.4 percent between FY 2020 and FY 2021, from \$18,683.7 million to \$19,318.8 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 \$10,911.5 million in FY 2020 to \$11,149.7 million in FY 2021, a 2.2 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 4.9 percent between FY 2020 and FY 2021, rising from \$12,278.0 million to \$12,884.8 million. The value of local tax exemptions rises with higher property values.

Transportation tax expenditures are predicted to increase by 1.4 percent between FY 2020 and FY 2021, from \$62.3 million to \$63.2 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. 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 broad 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, reductions in tax rates would generally reduce tax revenues but do not fit the definition of a tax expenditure. Changes in the way the tax law apportions income between states would also not qualify as a tax expenditure. Finally, a tax change that requires a change in the recognition of income between subsidiaries (perhaps through unitary or separate reporting) or the recognition of expenses between a client and an employment agency would not be tax expenditures.

Traditionally, tax expenditures have served two purposes. First, they redistribute the tax burden. Tax expenditures such as personal income tax exemptions, sales tax exemptions for food and prescription drug purchases, and 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 potential new tax expenditures and revenue that might be collected by eliminating or reducing current tax expenditures. Finally, providing resources via tax expenditures may be more costly than through direct appropriation. Centralized purchasing of certain items such as prescription drugs or diabetic supplies by the state may result in a lower cost than if individuals purchase the items and then apply for a tax credit. On the other hand, the cost to governments of administering most tax expenditures is usually a fraction of the cost of administering direct spending programs.

Annual review of tax expenditures would encourage policymakers to rank all policy goals before deciding which should be funded, by how much, and by what means. Ideally, this review process would use three criteria in order to evaluate which tax expenditures are retained. First, the effectiveness of the specific tax expenditure should be evaluated. Does it accomplish its objective at the lowest cost without unintended outcomes? Second, the tax expenditure should be more effective relative to alternatives such as direct spending or regulation. Finally, the relative importance of the tax expenditure and its goals should be examined and compared to direct spending actions. This report does not attempt to evaluate each tax expenditure according to these criteria. It is designed to aid policymakers in evaluating the efficiency, effectiveness, and relative importance of each tax expenditure.

Technical Issues

State Versus Federal Tax Expenditures

The starting point in calculating Michigan taxable income is the federal Internal Revenue Code definition of adjusted gross income (AGI). As a result, the exclusions and deductions used in the calculation of federal AGI also reduce state income tax liability. Exclusions or deductions from federal AGI that Michigan does not disallow specifically are classified as federal tax expenditures. This classification does not mean that federal tax expenditures are outside the control of state government. Michigan could require that specific federal tax expenditures be added back to AGI in calculating Michigan taxable income.

State Versus Local Tax Expenditures

This report also distinguishes between state tax expenditures (associated with taxes collected by the state government) and local tax expenditures (associated with taxes collected by local governments). For the purposes of this report, the distinction between state and local government tax expenditures rests on which level of government collects the tax, not the level of government affected by the tax expenditure. In fact, some state tax expenditures have implications for local government budgets, while some local government tax expenditures have ramifications for the state government budget. For example, property tax exemptions granted for industrial or commercial development are classified as local tax expenditures. These local property tax exemptions also have state budget implications because they reduce state education tax revenue and reduce taxable value per pupil and thus increase state aid payments to local school districts through the state's formula for providing funds to K-12 education.

Income Tax Personal Exemption

For tax year 2019, individual Michigan taxpayers could claim a \$4,400 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) 2020 and FY 2021 are based on the most recent data available. Tax year 2019 income tax data (returns processed in the spring of 2020) are used, as are 2020 property and sales tax data, and tax year 2018 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 \$42.916 billion in FY 2020 to \$44.366 billion in FY 2021, a 3.4 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 2020 and FY 2021

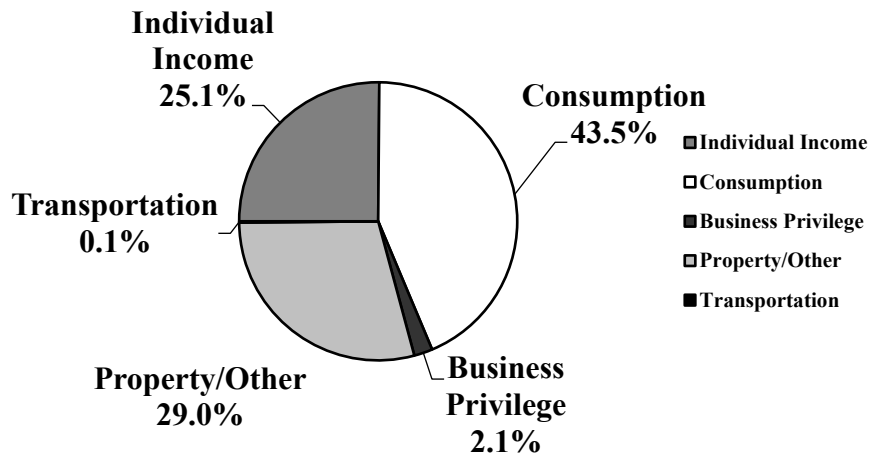
| <u>Tax Category</u> | <u>FY 2020 (000)</u> | <u>FY 2021 (000)</u> | <u>Change (000)</u> |
|---------------------------|--------------------------|--------------------------|-------------------------|
| Business Privilege | \$980,500 | \$949,200 | -\$31,300 |
| Consumption | 18,683,695 | 19,318,825 | 635,130 |
| Individual Income | 10,911,500 | 11,149,670 | 238,170 |
| Property | 12,012,160 | 12,614,980 | 602,820 |
| Other Local (City Income) | 265,920 | 269,770 | 3,850 |
| Transportation | <u>62,302</u> | <u>63,161</u> | <u>859</u> |
| TOTAL | \$42,916,077 | \$44,365,606 | \$1,449,529 |

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 2021, consumption tax expenditures comprise 43.5 percent of total tax expenditures, while income tax expenditures comprise 25.1 percent and property and other local taxes comprise 29.0 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 2021 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2021 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 | \$2.8 | \$20.9 | 13.4% |
| Corporate Income/MBT | 903.4 | 1,209.6 | 74.7% |
| Consumption | | | |
| Total Alcohol | 0.1 | 289.2 | 0.0% |
| Cigarette and Tobacco | 17.1 | 889.8 | 1.9% |
| Sales and Use | 19,301.6 | 12,031.0 | 160.4% |
| Individual Income Tax | 7,946.9 | 11,853.4 | 67.0% |
| Transportation | | | |
| Aviation Fuel | 2.9 | 4.2 | 70.0% |
| Gasoline | 38.4 | 1,110.2 | 3.5% |
| Diesel Fuel | 6.3 | 241.3 | 2.6% |
| Motor Vehicle Registration | 14.7 | 1,400.0 | 1.0% |
| City Income Tax | 269.8 | 603.9 | 44.7% |
| TOTAL | \$28,504.1 | \$29,653.5 | 96.1% |

*From Consensus Revenue Estimating Conference, January 2022. City income taxes are not a consensus estimate.

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

Exhibit 4
Business Privilege Tax Expenditures

| Tax or Tax Expenditure | FY 2020 | FY 2021 |
|---|------------------|------------------|
| | (000) | (000) |
| Insurance Company | | |
| Disability Insurance Exclusion | \$7,200 | \$7,600 |
| Michigan Association and Facilities Credit | 29,800 | \$29,600 |
| Michigan Examination Fees Credit | 5,300 | 5,600 |
| Supplemental Workers' Compensation | 200 | 200 |
| SUBTOTAL | \$42,500 | \$43,000 |
| Oil and Gas Severance Tax | | |
| Marginal Wells | \$2,000 | \$2,200 |
| Public Land | 600 | 600 |
| SUBTOTAL | \$2,600 | \$2,800 |
| Corporate Income Tax | | |
| Foreign Dividends Income Exclusion | \$212,000 | \$217,300 |
| Government Securities' Income Exclusion | 1,400 | 600 |
| Income from Extractive Activities Deduction | 300 | 300 |
| Small Business Alternate Tax Credit | 6,100 | 6,400 |
| SUBTOTAL | \$219,800 | \$224,600 |
| Michigan Business Tax Certificated Credits | | |
| Brownfield Redevelopment Credit | \$29,900 | \$40,300 |
| Farmland Preservation Credit | 1,500 | 1,500 |
| Historic Preservation Credit | 6,100 | 8,800 |
| Michigan Economic Growth Authority (MEGA) | 603,500 | 552,900 |
| MEGA Polycrystalline Silicon Manufacturing | 0 | 0 |
| Renaissance Zone Credit | 10,000 | 10,000 |
| Michigan Business Tax Non-Certificated Credits | | |
| Compensation Credit and Investment Tax Credit | \$36,700 | \$37,000 |
| Personal Property Tax Credit | 6,000 | 6,100 |
| Research and Development Credit | 19,200 | 19,400 |
| Small Business Credit | 200 | 200 |
| Other Non-Certificated Credits | 2,500 | 2,600 |
| SUBTOTAL | \$715,600 | \$678,800 |
| TOTAL | \$980,500 | \$949,200 |

Exhibit 5
Consumption Tax Expenditures

| <u>Tax or Tax Expenditure</u> | <u>FY 2020</u> <u>(000)</u> | <u>FY 2021</u> <u>(000)</u> |
|--|--------------------------------|--------------------------------|
| Alcoholic Beverages Taxes | | |
| Beer Shipped Out-of-State | n.a. | n.a. |
| Damaged Beer | n.a. | n.a. |
| Homemade Wine | n.a. | n.a. |
| Small Brewer's Credit | \$90 | \$90 |
| SUBTOTAL | \$90 | \$90 |
| Tobacco Products Tax | | |
| Bad Debt Deduction | \$360 | \$360 |
| Licensee Expenses | 12,810 | 12,580 |
| Sales on Military Bases and Reservations | 4,200 | 4,160 |
| SUBTOTAL | \$17,370 | \$17,100 |
| Sales and Use Tax Expenditures | | |
| Air and Water Pollution | \$56,030 | \$54,910 |
| Aircraft Parts | 14,330 | 14,470 |
| Bad Debts | 10,400 | 10,400 |
| Cargo Aircraft | 22,520 | 22,750 |
| Church Construction | 2,310 | 2,020 |
| Church Cars | 1,980 | 1,930 |
| Collection Fee | 31,190 | 31,500 |
| Commercial Domestic Aircraft | 4,090 | 4,130 |
| Commercial Vessels | n.a. | n.a. |
| Communication and Telephone Exemption | 29,930 | 29,180 |
| Data Centers | 2,000 | 1,230 |
| Donated Property | n.a. | n.a. |
| Donated Vehicles | 125 | 125 |
| Driver Training | 110 | 110 |
| Employee Meals | 17,680 | 16,840 |
| Enterprise Zone Credit | n.a. | n.a. |
| Food | 1,448,000 | 1,468,000 |
| Food for Students | 18,500 | 15,150 |
| Government or Red Cross | 219,000 | 221,000 |
| Gratuity and Tips | 84,400 | 85,240 |
| Horticultural and Agricultural Products | 302,000 | 311,100 |
| Imported Property from Other States | 1,870 | 1,910 |

Exhibit 5 (Continued)

| <u>Tax or Tax Expenditure</u> | <u>FY 2020</u> <u>(000)</u> | <u>FY 2021</u> <u>(000)</u> |
|--|--|--|
| Industrial Processing | \$1,469,000 | \$1,446,970 |
| Interstate Communications | 6,100 | 6,000 |
| Interstate Trucks and Trailers | 43,110 | 43,110 |
| Investment Coins | 1,510 | 1,490 |
| Isolated Sales | n.a. | n.a. |
| Military PX Sales | 200 | 200 |
| Military Vehicles Sales | n.a. | n.a. |
| Military Vehicles Sales (Residents Out-of-State) | n.a. | n.a. |
| Newspapers, Periodicals, and Films | 110,000 | 110,000 |
| Nonprofit Ambulance and Fire Services | n.a. | n.a. |
| Nonprofit Hospital or Housing Construction | 7,000 | 7,000 |
| Nonprofit Organizations | 193,400 | 195,300 |
| 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 | 68,200 | 70,200 |
| Prescription Drugs | 704,000 | 742,000 |
| Radio and TV | 6,640 | 6,570 |
| Rail Rolling Stock | 6,960 | 6,870 |
| Residential Utilities | 169,200 | 172,600 |
| Returned Vehicles | 1,140 | 1,140 |
| Sales of Business | n.a. | n.a. |
| Sale of Water | 71,900 | 72,600 |
| Services (Including Nonprofits) | 13,415,500 | 13,996,720 |
| Small Out-of-State Purchases | n.a. | n.a. |
| Tax on the Difference - Vehicles | 47,440 | 53,120 |
| Telephone Services | 17,280 | 18,100 |
| Textbooks Sold by Schools | n.a. | n.a. |
| Tribal Tax Agreement | n.a. | n.a. |
| Vehicles and Aircraft Transfers | 39,490 | 37,520 |
| Vehicles Purchased for Use in Another State | n.a. | n.a. |
| Vending Machines and Mobile Facilities | 21,700 | 22,130 |
| SUBTOTAL | \$18,666,235 | \$19,301,635 |
| TOTAL | \$18,683,695 | \$19,318,825 |

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

Exhibit 6
Individual Income Tax Expenditures

| <u>Tax or Tax Expenditure</u> | <u>FY 2020</u> <u>(000)</u> | <u>FY 2021</u> <u>(000)</u> |
|---|--------------------------------|--------------------------------|
| State Income Tax | | |
| Adjustments to Income (except military) | \$0 | \$0 |
| College Savings Accounts | 13,590 | 14,020 |
| Dependent Exemption | 20,080 | 20,280 |
| Disabled Veteran Exemption | 510 | 510 |
| Earned Income Credit | 113,930 | 90,240 |
| Farmland Credit | 53,950 | 55,840 |
| Historic Preservation Credit | 60 | 50 |
| Home Heating Assistance Credit | 110 | 110 |
| Homestead Property Tax Credit | 784,820 | 739,330 |
| Income Attributable to Another State | 3,622,220 | 3,658,450 |
| Income from Extractive Activities Deduction | 800 | 800 |
| Income Tax Paid to Other State Credit | 84,680 | 89,190 |
| Military Pay | 28,300 | 29,320 |
| Miscellaneous Deductions | 8,650 | 8,910 |
| Net Operating Loss Deduction | 3,500 | 4,200 |
| Net Adjustment for Gains/Losses | 88,820 | 89,710 |
| Pension and Retirement Benefits Deduction | 494,040 | 498,990 |
| Personal Exemption | 1,487,210 | 1,539,140 |
| Renaissance Zones | 800 | 780 |
| Senior Investment Income Deduction | 16,520 | 16,680 |
| Senior Standard Deduction | 448,160 | 515,380 |
| Social Security Benefits | 504,330 | 524,500 |
| Special Exemption | 15,490 | 15,650 |
| State and Local Income Tax Refunds | 22,840 | 23,070 |
| Tribal Tax Agreements | n.a. | n.a. |
| U.S. Government Bond Interest Deduction | 11,660 | 11,770 |
| TOTAL STATE | \$7,825,070 | \$7,946,920 |
| Federal Adjustments | | |
| Accelerated Depreciation | \$133,900 | \$123,250 |
| Employer Contributions to Insurance | 1,082,790 | 1,148,260 |
| Employer Pension Plans | 784,660 | 826,070 |
| Federal Adjustments to Income | 36,170 | 36,390 |
| Fellowships and Scholarships | 19,550 | 22,520 |
| Gain on Sale of Primary Residence | 222,130 | 229,670 |
| Income Maintenance Benefits | 3,570 | 5,280 |

Exhibit 6 (Continued)

| <u>Tax or Tax Expenditure</u> | <u>FY 2020</u> <u>(000)</u> | <u>FY 2021</u> <u>(000)</u> |
|--------------------------------------|--|--|
| Federal Adjustments (continued) | | |
| Individual Retirement Accounts | \$316,540 | \$322,040 |
| Interest on Life Insurance Savings | 75,810 | 69,700 |
| Medical Savings Account | 36,590 | 38,660 |
| Railroad Retirement Benefits | 920 | 910 |
| Social Security Benefits | 235,990 | 244,320 |
| Student Loan Deduction | 13,410 | 13,810 |
| Veterans' Benefits | 83,370 | 82,070 |
| Workers' Compensation | 41,030 | 39,800 |
| TOTAL FEDERAL | \$3,086,430 | \$3,202,750 |
| TOTAL STATE AND FEDERAL | \$10,911,500 | \$11,149,670 |

Exhibit 7
Transportation Tax Expenditures

| <u>Tax or Tax Expenditure</u> | <u>FY 2020</u> <u>(000)</u> | <u>FY 2021</u> <u>(000)</u> |
|--|--|--|
| Aviation Gasoline and Marine Fuel | | |
| Federally Owned Aircraft | \$331 | \$336 |
| Interstate Flight Refund | 2,700 | 2,600 |
| Marine Vessel Exemption | 764 | 775 |
| SUBTOTAL | <u>\$3,795</u> | <u>\$3,711</u> |
| Motor Fuel Taxes | | |
| Diesel Fuel for Jobsites and Charter Firms | \$6,220 | \$6,307 |
| Diesel Fuel for Railroads | n.a. | n.a. |
| Evaporation and Loss Allowance | 16,550 | 16,906 |
| Fuel for Off-Road Use | 1,579 | 1,601 |
| Municipal Franchise Vehicles | 1,804 | 1,829 |
| Public Vehicles | 17,843 | 18,093 |
| Tribal Tax Agreements | n.a. | n.a. |
| SUBTOTAL | <u>\$43,996</u> | <u>\$44,736</u> |
| Motor Vehicles Registration Fee | | |
| Disabled Veterans' Vehicles | \$739 | \$749 |
| Handicapper Vans | n.a. | n.a. |
| Intercity Commercial Buses | n.a. | n.a. |
| Public and Nonprofit Vehicles | 13,757 | 13,950 |
| SUBTOTAL | <u>\$14,496</u> | <u>\$14,699</u> |
| Watercraft Registration Fee | | |
| Publicly-Owned Vehicle | \$15 | \$15 |
| TOTAL | <u>\$62,302</u> | <u>\$63,161</u> |

Exhibit 8
Local Property and Other Local Tax Expenditures

| <u>Tax or Tax Expenditure</u> | <u>FY 2020</u> <u>(000)</u> | <u>FY 2021</u> <u>(000)</u> |
|---|--|--|
| Property and Other Local Tax Expenditures | | |
| Agriculture Transfers | \$45,980 | \$46,850 |
| Air and Water Pollution Control | 130,000 | 130,000 |
| Church Transfers | n.a. | n.a. |
| Cultural Organizations | n.a. | n.a. |
| Disabled Veteran Homestead Exemption | 47,900 | 49,100 |
| Enterprise Zone Credit | 0 | 0 |
| Exempt Property - ESA | n.a. | n.a. |
| Fairground Property | n.a. | n.a. |
| Homestead Exemption | 3,770,000 | 3,860,000 |
| Homestead Exemption for Farm Property | 188,000 | 192,000 |
| Industrial Facilities Development | 248,700 | 253,400 |
| Mobile Homes | 65,330 | 66,570 |
| Neighborhood Enterprise Zones | 29,900 | 30,500 |
| Obsolete Property Rehabilitation | 13,400 | 13,700 |
| Personal Property - Indust./Commercial Ad Valorem | 382,900 | 390,200 |
| Personal Property - Industrial Facilities | 73,700 | 75,100 |
| Small Taxpayer Exemption and Eligible Manufacturing | | |
| Personal Property | 448,500 | 457,000 |
| Poverty Exemption | 6,220 | 6,310 |
| Railroad Right-of-Way/Broadband Credit | 69,110 | 72,510 |
| Renaissance Zones | 41,000 | 41,800 |
| Specifically-Taxed Property | n.a. | n.a. |
| Tax-Exempt Property | 2,142,000 | 2,171,000 |
| Tax Increment Financing | 327,700 | 333,900 |
| Taxable Value Cap | 3,980,500 | 4,423,700 |
| Water Softeners | 1,320 | 1,340 |
| SUBTOTAL | \$12,012,160 | \$12,614,980 |
| City Income Tax | | |
| Federal Deductions | n.a. | n.a. |
| Net Profits of Financial Institutions | n.a. | n.a. |
| Nonresident Reduced Rate | \$252,510 | \$256,300 |
| Pensions, Annuities, and Retirement | n.a. | n.a. |
| Personal Exemption | 13,410 | 13,470 |
| Supplemental Unemployment Benefits | n.a. | n.a. |
| SUBTOTAL | \$265,920 | \$269,770 |
| TOTAL | \$12,278,080 | \$12,884,750 |

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 2021

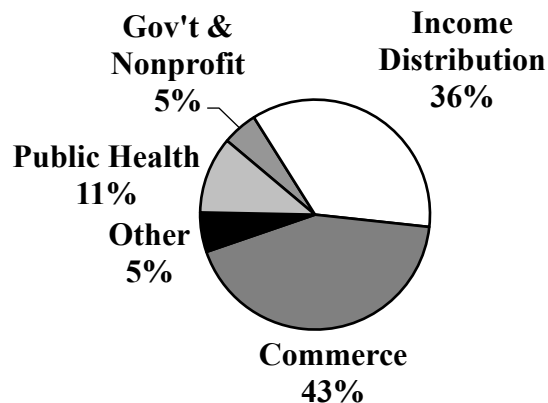


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2021

| <u>Spending Category</u> | <u>FY 2021 Tax Expenditure (000)</u> | <u>FY 2021 Direct Expenditure (000)</u> | <u>Total (000)</u> | <u>Percent Tax Expenditure</u> |
|--------------------------|--|---|------------------------|------------------------------------|
| Agriculture | \$366,940 | \$107,770 | \$474,710 | 77.3% |
| Commerce (LARA) | 16,352,550 | 408,901 | 16,761,451 | 97.6% |
| Higher Education | 533,560 | 1,573,899 | 2,107,459 | 25.3% |
| Health & Human Services | 13,466,904 | 8,079,851 | 21,546,756 | 62.5% |
| Military Affairs | 117,379 | 101,735 | 219,114 | 53.6% |
| Natural Resources | 56,010 | 373,498 | 429,508 | 13.0% |
| Transportation | 81,048 | 3,597,529 | 3,678,577 | 2.2% |
| TOTAL | \$30,974,391 | \$14,243,183 | \$45,217,575 | 68.5% |

Notes:

1. FY 2021 expenditure figures from *FY 2020-21 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 2020</u> <u>(000)</u> | <u>FY 2021</u> <u>(000)</u> |
|--|--|--|
| Agriculture | \$948,175 | \$1,003,923 |
| Commerce | 18,518,330 | 19,077,748 |
| Education | 1,066,410 | 1,086,560 |
| Government and Nonprofit Organizations | 2,167,547 | 2,196,975 |
| Income Distribution | 15,206,180 | 15,822,284 |
| Military Affairs | 117,819 | 117,379 |
| Natural Resources | 187,130 | 186,010 |
| Public Health | 4,625,649 | 4,793,679 |
| Transportation | <u>78,837</u> | <u>81,048</u> |
| TOTAL | \$42,916,077 | \$44,365,606 |

Note: Total may differ from Exhibit 1 due to rounding.
 See Exhibit 12 for a detailed list of tax expenditures.

**Exhibit 12
Tax Expenditure Budget Detail**

| Tax/Tax Expenditure | FY 2020 (000) | FY 2021 (000) |
|--|--------------------------|--------------------------|
| Agriculture | | |
| General Property Tax | | |
| Agriculture Transfer | \$45,980 | \$46,850 |
| Homestead Exemption for Farm Property | 188,000 | 192,000 |
| Taxable Value Cap | 358,245 | 398,133 |
| Income Tax | | |
| Farmland Development Credit (PA 116) | 53,950 | 55,840 |
| Sales and Use Taxes | | |
| Horticultural or Agricultural Products | 302,000 | 311,100 |
| TOTAL | \$948,175 | \$1,003,923 |
| Commerce | | |
| Alcoholic Beverage Taxes | | |
| Small Brewer's Credit | \$90 | \$90 |
| Tobacco Products Tax | | |
| Bad Debt Deduction | 360 | 360 |
| Licensee Expenses | 12,810 | 12,580 |
| Income Tax | | |
| Accelerated Depreciation | 133,900 | 123,250 |
| Income Attributable to Another State | 3,622,220 | 3,658,450 |
| Net Operating Loss Deduction | 3,500 | 4,200 |
| Net Adjustment for Gains/Losses | 88,820 | 89,710 |
| Renaissance Zone Credit | 800 | 780 |
| Insurance Company Retaliatory Tax | | |
| Disability Insurance Exclusion | 7,200 | 7,600 |
| Michigan Association and Facilities Credit | 29,800 | 29,600 |
| Michigan Examination Fees Credit | 5,300 | 5,600 |
| Supplemental Workers' Compensation Credits | 200 | 200 |
| Corporate Income Tax | | |
| Foreign Dividends Income Exclusion | 212,000 | 217,300 |
| Government Securities' Income Exclusion | 1,400 | 600 |
| Small Business Alternate Tax Credit | 6,100 | 6,400 |
| Michigan Business Tax | | |
| Brownfield Redevelopment Credit | 29,900 | 40,300 |
| Compensation/Investment Tax Credits | 36,700 | 37,000 |
| Farmland Development Credit (PA 116) | 1,500 | 1,500 |
| Historic Preservation Credit | 6,100 | 8,800 |

| Tax/Tax Expenditure | FY 2020 (000) | FY 2021 (000) |
|--|--------------------------|--------------------------|
| Commerce (Continued) | | |
| Michigan Economic Growth Authority (MEGA) | 603,500 | 552,900 |
| MEGA Polycrystalline Silicon Manufacturing | 0 | 0 |
| Personal Property Tax Credit | 6,000 | 6,100 |
| Renaissance Zone Credit | 10,000 | 10,000 |
| Research and Development Credit | 19,200 | 19,400 |
| Small Business Credit | 200 | 200 |
| Other Certificated Credits | 2,500 | 2,600 |
| Oil and Gas Severance Tax | | |
| Marginal Wells | 2,000 | 2,200 |
| Property Tax | | |
| Broadband Investment Credit | 26,960 | 28,460 |
| Enterprise Zone | 0 | 0 |
| Exempt Property - ESA | n.a. | n.a. |
| Industrial Facilities Development | 248,700 | 253,400 |
| Mobile Homes | 65,330 | 66,570 |
| Neighborhood Enterprise Zones | 29,900 | 30,500 |
| Obsolete Property Rehabilitation | 13,400 | 13,700 |
| Personal Property - Indust./Commercial Ad Valorem | 382,900 | 390,200 |
| Personal Property - Industrial Facilities | 73,700 | 75,100 |
| Small Taxpayer/Eligible Manufacturing Personal Prop. | 448,500 | 457,000 |
| Renaissance Zones | 41,000 | 41,800 |
| Tax Increment Financing | 327,700 | 333,900 |
| Taxable Value Cap | 955,320 | 1,061,688 |
| Water Softeners | 1,320 | 1,340 |
| Sales and Use Taxes | | |
| Aircraft Parts | 14,330 | 14,470 |
| Bad Debts | 10,400 | 10,400 |
| Cargo Aircraft | 22,520 | 22,750 |
| Collection Fee | 31,190 | 31,500 |
| Commercial Domestic Aircraft | 4,090 | 4,130 |
| Communication and Telephone Exemption | 29,930 | 29,180 |
| Data Centers | 2,000 | 1,230 |
| Employee Meals | 17,680 | 16,840 |
| Gratuities and Tips | 84,400 | 85,240 |
| Imported Property from Other States | 1,870 | 1,910 |
| Industrial Processing | 1,469,000 | 1,446,970 |
| Interstate Telecommunications | 6,100 | 6,000 |
| Interstate Trucks and Trailers | 43,110 | 43,110 |

| Tax/Tax Expenditure | FY 2020 (000) | FY 2021 (000) |
|---|--------------------------|--------------------------|
| Commerce (Continued) | | |
| Investment Coins | 1,510 | 1,490 |
| Newspapers, Periodicals, and Films | 110,000 | 110,000 |
| Radio and TV | 6,640 | 6,570 |
| Returned Vehicles | 1,140 | 1,140 |
| Sale of Water | 71,900 | 72,600 |
| Services (except education, health, and nonprofits) | 9,007,780 | 9,449,970 |
| Tax on the Difference - Vehicles | 47,440 | 53,120 |
| Telephone Services | 17,280 | 18,100 |
| Vehicle and Aircraft Transfers | \$39,490 | \$37,520 |
| Vending Machines | 21,700 | 22,130 |
| TOTAL | \$18,518,330 | \$19,077,748 |
| Education | | |
| Income Tax | | |
| College Savings Account | \$13,590 | \$14,020 |
| Fellowships and Scholarships | 19,550 | 22,520 |
| Higher Education/Public Contribution Credit | \$0 | \$0 |
| Property Tax | | |
| Exempt Public Education Property | 546,000 | 553,000 |
| Sales Tax | | |
| Services | 487,270 | 497,020 |
| TOTAL | \$1,066,410 | \$1,086,560 |
| Government and Nonprofit Organizations | | |
| Aviation Gasoline Tax | | |
| Federally Owned Aircraft | \$331 | \$336 |
| Income Tax | | |
| Historic Preservation Credit | 60 | 50 |
| U.S. Government Bond Interest Deduction | 11,660 | 11,770 |
| Motor Fuel Taxes | | |
| Public Vehicles | 17,843 | 18,093 |
| Motor Vehicle Weight Tax | | |
| Public and Nonprofit Vehicles | 13,757 | 13,950 |
| Oil and Gas Severance Tax | | |
| Public Land | 600 | 600 |
| Property Tax | | |
| Tax Exempt Property | 1,596,000 | 1,618,000 |

| Tax/Tax Expenditure | FY 2020 (000) | FY 2021 (000) |
|---|--------------------------|--------------------------|
| Government and Nonprofit Organizations (Continued) | | |
| Sales and Use Taxes | | |
| Church Cars | 1,980 | 1,930 |
| Church Construction | 2,310 | 2,020 |
| Government or Red Cross | 219,000 | 221,000 |
| Nonprofit Organizations | 193,400 | 195,300 |
| Services | 110,591 | 113,911 |
| Watercraft Registration Fee | | |
| Publicly Owned Watercraft | 15 | 15 |
| TOTAL | \$2,167,547 | \$2,196,975 |

Income Distribution

| | | |
|--|-----------|-----------|
| City Income Tax | | |
| Nonresident Reduced Rate | \$252,510 | \$256,300 |
| Personal Exemption | 13,410 | 13,470 |
| General Property Tax | | |
| Disabled Veteran Homestead Exemption | \$47,900 | \$49,100 |
| Homestead Exemption | 3,770,000 | 3,860,000 |
| Poverty Exemption | 6,220 | 6,310 |
| Taxable Value Cap | 2,666,935 | 2,963,879 |
| Income Tax | | |
| Adjustments to Income (gains/losses and other) | 0 | 0 |
| Adjustments to Income (federal) | 36,170 | 36,390 |
| Dependent Exemption | 20,080 | 20,280 |
| Earned Income Tax Credit | 113,930 | 90,240 |
| Employer Contributions to Health and Life Insurance | 1,082,790 | 1,148,260 |
| Employer Pension Plans | 784,660 | 826,070 |
| Gain on Sale of Primary Residence | 222,130 | 229,670 |
| Home Heating Assistance Credit | 110 | 110 |
| Homestead Property Tax Credit (excluding veterans) | 784,320 | 738,960 |
| Income Maintenance Benefits | 3,570 | 5,280 |
| Individual Retirement Account | 316,540 | 322,040 |
| Interest on Life Insurance Savings | 75,810 | 69,700 |
| Miscellaneous Deductions | 8,650 | 8,910 |
| Other State Tax Credit | 84,680 | 89,190 |
| Pension and Retirement Benefits Deduction | 494,040 | 498,990 |

| Tax/Tax Expenditure | FY 2020 (000) | FY 2021 (000) |
|--|--------------------------|--------------------------|
| Income Distribution (Continued) | | |
| Personal Exemption | 1,487,210 | 1,539,140 |
| Railroad Retirement Benefits | 920 | 910 |
| Senior Investment Income Deduction | 16,520 | 16,680 |
| Senior Special Deduction | 448,160 | 515,380 |
| Social Security Benefits (federal exclusion) | 235,990 | 244,320 |
| Social Security Benefits (in federal AGI) | 504,330 | 524,500 |
| Special Exemption | 15,490 | 15,650 |
| State and Local Income Tax Refunds | 22,840 | 23,070 |
| Student Loan Deduction | 13,410 | 13,810 |
| Workers' Compensation | 41,030 | 39,800 |
| Sales and Use Taxes | | |
| Donated Vehicles | 125 | 125 |
| Food | 1,448,000 | 1,468,000 |
| Food for Students | 18,500 | 15,150 |
| Residential Utilities | 169,200 | 172,600 |
| TOTAL | \$15,206,180 | \$15,822,284 |
| Military Affairs | | |
| Cigarette Tax | | |
| Sales on Military Bases and Reservations | \$4,200 | \$4,160 |
| Income Tax | | |
| Disabled Veteran Exemption | 510 | 510 |
| Military Pay | 28,300 | 29,320 |
| Veterans' Benefits | 83,370 | 82,070 |
| Veterans' Property Tax Credit | 500 | 370 |
| Motor Vehicle Weight Tax | | |
| Disabled Veteran Vehicles | 739 | 749 |
| Sales and Use Taxes | | |
| Military Post-Exchange Sales | 200 | 200 |
| TOTAL | \$117,819 | \$117,379 |

| Tax/Tax Expenditure | FY 2020 (000) | FY 2021 (000) |
|---|--------------------------|--------------------------|
| Natural Resources | | |
| Income Tax | | |
| Income from Extractive Activities Deduction | \$800 | \$800 |
| Corporate Income Tax | | |
| Income from Extractive Activities Deduction | 300 | 300 |
| Property Tax | | |
| Air and Water Pollution | 130,000 | 130,000 |
| Sales and Use Taxes | | |
| Air and Water Pollution | 56,030 | 54,910 |
| TOTAL | \$187,130 | \$186,010 |
| Public Health | | |
| Income Tax | | |
| Medical Care Savings | \$36,590 | \$38,660 |
| Sales and Use Taxes | | |
| Medical Services | 3,809,859 | 3,935,819 |
| Nonprofit Hospital Construction | 7,000 | 7,000 |
| Ophthalmic and Orthopedic Products | 68,200 | 70,200 |
| Prescription Drugs | 704,000 | 742,000 |
| TOTAL | \$4,625,649 | \$4,793,679 |
| Transportation | | |
| Aviation Gasoline Tax | | |
| Interstate Flight Refund | \$2,700 | \$2,600 |
| Motor Fuel Taxes | | |
| Diesel Fuel for Jobsites | 6,220 | 6,307 |
| Evaporation and Loss Allowance | 16,550 | 16,906 |
| Fuel for Off-Road Use | 1,579 | 1,601 |
| Marine Vessel Fuel | \$764 | \$775 |
| Municipal Franchise Vehicles | 1,804 | 1,829 |
| Sales and Use Taxes | | |
| Driver Training | 110 | 110 |
| Rail Rolling Stock | 6,960 | 6,870 |
| Utility Property Tax | | |
| Railroad Right-of-Way | 42,150 | 44,050 |
| TOTAL | \$78,837 | \$81,048 |

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 \$980.5 million in FY 2020 to \$949.2 million in FY 2021. 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

This year's report includes tax expenditures for the corporate income tax, which replaced the MBT for most corporate taxpayers effective January 1, 2012. A big difference between the corporate income tax and the MBT is that business entities other than traditional corporations (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 2018 data. Insurance and oil and gas severance tax expenditure estimates are also reliable because they were based on recent data collected by the state.

Business Privilege Tax Expenditure Changes

Public Act 215 of 2017 amended the Revenue Act to allow a taxpayer and the Department of Treasury to settle payment disputes through a new mechanism prior to an informal conference.

Public Act 216 of 2017 amended the Income Tax Act to exempt self-insured groups for worker's compensation from the corporate income tax. This codified existing practice so there should be no change in the revenues from the tax.

Public Act 217 of 2017 amended the Michigan Business Tax Act to allow for a project that had been approved for a brownfield tax credit to be amended to extend the period for project completion and remain eligible for the credit.

Public Act 57 of 2018 created the Recodified Tax Increment Financing Act to recodify several tax increment financing statutes, increase reporting requirements for authorities, and repeal without recodifying two tax increment financing statutes while providing for the continuation of an obligation under the repealed statute.

Public Act 173 of 2018 repealed the Health Insurance Claims Assessment Act, a tax imposed on health care claims paid by insurance carriers and third-party administrators. The repeal was effective on October 1, 2018, and was replaced by the Insurance Provider Assessment Act enacted under Public Act 175.

Public Act 175 of 2018 created the Insurance Provider Assessment Act, an assessment that would apply at varying rates to non-Medicaid health insurers, Medicaid managed care services, and specialty prepaid health plans. The revenue raised from the assessment will support the Medicaid program.

Public Act 222 of 2018 amended the Income Tax Act to change the tax rate on qualified health insurance premiums subject to the tax on insurance companies. The rate is generally 1.25 percent of gross direct premiums. The Act would set the rate on premiums attributable to qualified health insurance premiums at 0.95 percent, beginning January 1, 2019. Beginning with calendar year 2020, the rate attributable to qualified health insurance premiums is subject to change each year.

Public Act 458 of 2018 amended the Michigan Strategic Fund Act to include in the definition of a “qualified new job” under the Michigan Business Development Program an employee of a business who is not a Michigan resident but is employed at a project location that is in Michigan and for that business not less than 75 percent of the employees of the business are Michigan residents.

Public Act 460 of 2018 amended the Income Tax Act to alter the definition of equity capital for financial institutions. In addition, the Act eliminated five-year averaging of equity capital in the tax base for tax years beginning after December 31, 2020.

Public Act 540 of 2018 created the Economic Development Incentive Evaluation Act to require the Department of Technology, Management, and Budget to contract with an outside entity to evaluate the state’s economic development incentives.

Public Acts 90 through 92 of 2019 amended the Michigan Business Tax Act, the Michigan Economic Growth Authority Act, and the Income Tax Act, respectively, to allow an acquiring firm to claim a credit that the acquired firm was awarded under the Michigan Business Tax. The acquiring firm would be eligible for up to \$12 million of the credit for which the acquired firm was eligible.

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 \$354.8 million for FY 2021; revenue goes to the State General Fund.

FY 2021 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.

Disability Insurance Exclusion

\$7,600,000

Exempts the first \$190,000,000 of disability insurance premiums written in Michigan.

Michigan Association and Facilities Credit

\$29,600,000

Provides a credit for payments made to the Michigan workers' compensation placement facility, the Michigan basic property insurance association, the Michigan automobile insurance placement facility, the property and casualty guaranty association, and the life and health guaranty association.

Michigan Examination Fees Credit

\$5,600,000

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.

Workers' Disability Supplemental Benefit (WDSB) Credit

\$200,000

Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Prior to the identical Single Business Tax (SBT) credit, firms were reimbursed through the appropriations process for these payments.

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 \$20.9 million for FY 2021; revenue goes to the State General Fund.

FY 2021 Estimate

Marginal Wells

\$2,200,000

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

FY 2021 Estimate

Public Land

\$600,000

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

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.

Revenues from the corporate income tax were estimated at the January 2022 Consensus Conference to be \$1,698.1 million in FY 2021. The net revenues from the MBT were estimated at -\$489.6 million in FY 2021, 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.

FY 2021 Estimate

Brownfield Redevelopment Credit (MBT Certificated Credit)

\$40,300,000

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.

Compensation and Investment Tax Credits (Non-Certificated Credits)

\$37,000,000

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.

| | <u>FY 2021 Estimate</u> |
|--|--------------------------------|
| Farmland Preservation Credit (MBT Certificated Credit) | \$1,500,000 |
| 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. | |
| Foreign Dividends Exemption (Corporate Income) | \$217,300,000 |
| 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. | |
| Government Securities Interest Exemption (Corporate Income) | \$600,000 |
| Excludes interest income from obligations or securities of the federal government, State of Michigan or Michigan governmental unit. | |
| Historic Preservation Credit (MBT Certificated Credit) | \$8,800,000 |
| Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. | |
| Income from Extractive Activities Deduction (Corporate Income) | \$300,000 |
| The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes. | |
| Michigan Economic Growth Authority (MEGA) Credits (MBT Certificated Credit) | \$552,900,000 |
| 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. | |
| MEGA Polycrystalline Silicon Manufacturing Credit (MBT Certificated Credit) | \$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. | |
| Other Non-Certificated Credits | \$2,600,000 |
| These include the Arts and Culture, Large Food Retailer, Low-Grade Hematite, and Worker's Disability Supplemental Benefit credits. | |

FY 2021 Estimate

Personal Property Tax Credit (Non-Certificated Credit) \$6,100,000

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) \$10,000,000

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) \$19,400,000

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) \$6,400,000

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) \$200,000

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).

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 \$19,318.8 million in FY 2021, a 3.4 percent increase over the FY 2020 level of \$18,683.7 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 2020 and FY 2021. Sales and use tax expenditure estimates are based on FY 2008 through FY 2017 data. Alcohol and cigarette tax expenditure estimates were based on FY 2019 and FY 2020 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 218 through 221 of 2017 amended the General Sales Tax Act and the Use Tax Act to make dental prosthetics exempt from sales and use taxes and clarified the definitions of those products.

Public Acts 1 and 2 of 2018 amended the Use Tax Act and the General Sales Tax Act, respectively, to increase the maximum trade-in value subtracted from the sales price when a motor vehicle is used as payment for a new or used motor purchased from a dealer. The Acts also eliminated the cap on the value of a recreational vehicle used as payment on the purchase of a recreational vehicle from a dealer.

Public Acts 113 and 114 of 2018 amended the General Sales Tax Act and the Use Tax Act, respectively, to exempt certain tangible personal property used in agriculture including greenhouses. To qualify, a greenhouse cannot be primarily used to grow marijuana.

Public Acts 167 and 168 of 2018 amended the General Sales Tax Act and the Use Tax Act, respectively, to allow a purchaser to claim a refund of sales or use tax from the Department of Treasury if the purchaser failed to present a claim of exemption or otherwise notify the seller of a

valid exemption at the time of purchase. The refund claim must be submitted within four years of the original purchase and must be accompanied by the required evidence to support the exemption claim.

Public Act 174 of 2018 amended the Use Tax Act to delete a provision that would have reinstated the use tax on managed care medical services provided under Medicaid upon the repeal of the Health Insurance Claims Assessment.

Public Act 201 of 2018 amended the Use Tax Act to provide a limited exemption for property obtained by contractors who satisfy three conditions. First, the property was purchased by another person. Second, the other person is not exempt from either the Michigan sales tax or use tax. Finally, the property was acquired by the contractor for the sole purpose of affixing the property to real estate for that other person.

Public Act 249 of 2018 amended the General Sales Tax Act to increase the limit on aggregate sales at retail that would allow certain non-profit entities to be exempt from paying sales tax. Under prior law, the limit was \$5,000, so that if sales at retail exceeded \$5,000 all sales were subject to tax. Under the new law, if aggregate sales at retail are less than \$25,000, the first \$10,000 of sales of tangible personal property for fund-raising purposes are exempt.

Public Act 530 of 2018 amended the General Sales Tax Act to expand the exemption for purchases by non-profit organizations to include organizations exempt from federal income tax under section 501(c)(19) of the Internal Revenue Code. The exemption is limited on a purchase of a single item for fund raising purposes to items with a sales price not greater than \$25,000.

Public Acts 673 and 679 of 2018 amended the General Sales Tax Act and the Use Tax Act, respectively, to exempt the sales and use tax liability from private contractors on buses that are used to provide transportation services to or from school or school-related events.

Public Acts 143 through 146 of 2019 amended the General Sales Tax and Use Tax Acts to require marketplace facilitators to report and remit sales and use taxes for sales that occur on their marketplace, and to codify the nexus standards implemented by the state following the U.S. Supreme Court decision in *South Dakota v. Wayfair*. Those sellers with either \$100,000 in gross receipts or 200 or more separate transactions would be required to report and remit Michigan sales or use tax on sales sourced to Michigan.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2021 (millions of dollars).

**Alcoholic Beverage Taxes
(millions)**

| <u>Tax</u> | <u>Location of Deposit</u> | <u>FY 2021 Revenue</u> |
|-----------------------------|--------------------------------------|----------------------------|
| Beer and Wine Excise | General Fund | \$52.0 |
| 4.0 Percent Liquor Excise | School Aid Fund | \$76.7 |
| 4.0 Percent Liquor Specific | General Fund | \$80.5 |
| 4.0 Percent Liquor Tourism | Convention Facility Development Fund | \$80.5 |

FY 2021 Estimate

| | |
|---|----------|
| Beer Shipped Out-of-State Exempts beer manufactured in Michigan, or imported into this state, and then shipped for sale and consumption outside the state. | n.a. |
| Damaged Beer Exempts beer from the beer tax when consumed on the manufacturer's property or not offered for sale. | n.a. |
| Homemade Wine Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use. | n.a. |
| Small Brewer's Credit Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced. | \$90,000 |

Tobacco Products Tax

In 1947, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers. The tax rate is currently \$2.00 per pack of 20 cigarettes. Cigarette tax revenues are mainly distributed to the School Aid Fund, the Medicaid Benefits Trust Fund, and the General Fund-General Purpose account. In FY 2021, the tax on cigarettes yielded an estimated \$780.0 million. Taxes on other tobacco products (smokeless tobacco and cigars) yielded \$109.8 million.

FY 2021 Estimate

Bad Debt Deduction \$360,000

Allows cigarette wholesalers to deduct any losses from bad debts.

Licensee Expenses \$12,580,000

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 \$4,160,000

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 2021 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 \$9,407.2 million in FY 2021. 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 \$2,132.3 million in FY 2021. Use tax collections do not include the local community stabilization share tax described under Public Act 80 of 2014. Current law directs \$491.5 million of the tax collected for FY 2021 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.

| | <u>FY 2021 Estimate</u> |
|---|--------------------------------|
| Air and Water Pollution | \$54,910,000 |
| Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities. | |
| Aircraft Parts | \$14,470,000 |
| Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax. | |
| Bad Debts | \$10,400,000 |
| Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible. | |
| Cargo Aircraft | \$22,750,000 |
| Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo. | |
| Church Construction | \$2,020,000 |
| Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998. | |
| Church Cars | \$1,930,000 |
| Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship. | |
| Collection Fee | \$31,500,000 |
| 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 2021 Estimate

| | |
|---|-----------------|
| Commercial Domestic Aircraft | \$4,130,000 |
| Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation. | |
| Commercial Vessels | n.a. |
| Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce. | |
| Communication and Telephone Exemption | \$29,180,000 |
| 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. | |
| Data Centers | \$1,230,000 |
| 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. | |
| Donated Vehicles | \$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. | |
| Driver Training | \$110,000 |
| Exempts property used for demonstration or driver training programs. | |
| Employee Meals | \$16,840,000 |
| Exempts meals provided by employers to their employees. | |
| Food | \$1,468,000,000 |
| Exempts food for human consumption, except prepared food intended for immediate consumption. | |
| Food for Students | \$15,150,000 |
| Exempts sales of food by nonprofit schools or other similar educational institutions to students. | |

| | <u>FY 2021 Estimate</u> |
|--|--------------------------------|
| Government or Red Cross | \$221,000,000 |
| 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. | |
| Gratuity and Tips | \$85,240,000 |
| Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds. | |
| Horticultural and Agricultural Products | \$311,100,000 |
| Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business. | |
| Imported Property | \$1,910,000 |
| 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. | |
| Industrial Processing | \$1,446,970,000 |
| 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. | |
| International Telecommunications | \$6,000,000 |
| Exempts international and WATS calls from the use tax. | |
| Interstate Trucks and Trailers | \$43,110,000 |
| Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax. | |
| Investment Coins | \$1,490,000 |
| Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins. | |
| Isolated Sales | n.a. |
| Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license. | |
| Military PX Sales | \$200,000 |
| Exempts military post-exchange sales. | |

FY 2021 Estimate

| | |
|--|---------------|
| Military Vehicle Sales | 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. | |
| Newspapers, Periodicals, and Films | \$110,000,000 |
| Exempts sales of copyrighted films, newspapers, and periodicals. | |
| Nonprofit Ambulance and Fire Service | n.a. |
| Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services. | |
| Nonprofit Hospital or Housing Construction | \$7,000,000 |
| Exempts tangible personal property used by contractors where the property is affixed to and made a structural part of the real estate of a nonprofit hospital or nonprofit housing. | |
| Nonprofit Organizations | \$195,300,000 |
| Exempts sales to nonprofit schools, hospitals, homes for the care of children or aged persons, and other benevolent institutions operated by an entity of government, a regularly-organized church, a religious or fraternal organization, a veteran's organization, a nonprofit corporation, or a parent-cooperative preschool. | |
| Nonprofit Sales Under \$25,000 | n.a. |
| Exempts sales made for raising funds up to \$10,000 for qualified nonprofit organizations. | |
| Nonresident Merchandise Transfer | n.a. |
| Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state. | |
| Nonresident Property | n.a. |
| Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state. | |
| Ophthalmic and Orthopedic Products | \$70,200,000 |
| Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances. | |
| Prescription Drugs | \$742,000,000 |
| Exempts drugs, both prescription and over-the-counter drugs dispensed by a prescription, for human consumption. | |

| | <u>FY 2021 Estimate</u> |
|--|--------------------------------|
| Radio and TV | \$6,570,000 |
| Exempts sales to persons licensed to operate commercial radio or television stations when the property is used as a component of a film, tape, or recording produced for resale or transmission. | |
| Rail Rolling Stock | \$6,870,000 |
| Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes. | |
| Residential Utilities | \$172,600,000 |
| Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate. | |
| Returned Vehicles | \$1,140,000 |
| Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law. | |
| Sale of Business | n.a. |
| Excludes from the use tax non-inventoried property purchased as part of a business. | |
| Sale of Water | \$72,600,000 |
| Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons. | |
| Services | \$13,996,720,000 |
| Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately \$4.48 billion of the total represents services purchased by consumers. | |

**Service Tax Expenditures, FY 2021
(millions)**

| <u>Category</u> | <u>For Profit</u> | <u>Nonprofit</u> | <u>Total</u> |
|---|-------------------|------------------|--------------|
| Accommodations and Food Service | \$14.7 | \$0.0 | \$14.7 |
| Admin., Support, and Waste Mgmt. | 1,056.2 | 16.9 | 1,073.1 |
| Arts, Entertainment, and Recreation | 162.6 | 43.6 | 206.2 |
| Construction | 1,672.9 | 0.0 | 1,672.9 |
| Educational Services | 76.3 | 420.7 | 497.0 |
| Health Care and Social Assistance | 1,837.8 | 2,098.0 | 3,935.8 |
| Information | 357.0 | 0.0 | 357.0 |
| Other Services (except Public Admin.) | 536.5 | 114.9 | 651.4 |
| Professional, Scientific, and Technical | 2,777.4 | 17.9 | 2,795.3 |
| Real Estate and Rental and Leasing | 1,069.4 | 0.0 | 1,069.4 |
| Transportation and Warehousing | 1,609.9 | 0.0 | 1,609.9 |
| Utilities | <u>0.0</u> | <u>113.9</u> | <u>113.9</u> |
| TOTAL | \$11,170.8 | \$2,825.9 | \$13,996.7 |

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 2021 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

\$53,120,000

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 \$7,000 in 2021 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

\$18,100,000

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 2021 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

\$37,520,000

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

\$22,130,000

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 1.6 percent from \$7,825.1 million in FY 2020 to \$7,946.9 million in FY 2021. Federal income tax expenditures are projected to increase 3.8 percent from \$3,086.4 million in FY 2020 to \$3,202.8 million in FY 2021. Individual income tax expenditure estimates were based on tax year 2019 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 2019. 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 Acts 109-111 of 2017 created the Good Jobs for Michigan Program which allowed businesses that create new jobs to capture some amount of the withholding taxes from new employees depending on the number, location, and wages of the new positions. The captured withholding taxes paid on the qualified new jobs would be transferred to the Good Jobs for Michigan Fund and then used to pay the businesses in the program.

Public Act 149 of 2017 amended the Income Tax Act to provide subtractions for retirement or pension benefits from government employment for taxpayers who: (1) were born after 1952; (2) were retired as of January 1, 2013; and (3) received benefits from employment with a governmental agency not covered by the Social Security Act.

Public Acts 31 and 32 of 2018 amended the Income Tax Act to exclude a health maintenance organization (HMO) from the definition of “insurance company” and to exempt HMOs from the tax imposed on insurance companies. These Public Acts codified existing practice.

Public Act 38 of 2018 amended the Income Tax Act to make several changes related to personal and dependency exemptions. The Act specified the number of exemptions a taxpayer is allowed and deleted the statutory reference to the number of exemptions claimed on the taxpayer's federal return. The exemption amount was increased by \$50 for tax year 2018 to \$4,050, increased to \$4,400 for 2019, \$4,750 for 2020, and \$4,900 for 2021. After 2021, the exemption amount will be the inflation-adjusted exemption plus an additional \$600. The references to the Internal Revenue Code were updated to require taxpayers to use either the Code in effect as of January 1, 2018, or the version in effect for the tax year.

Public Act 103 of 2018 amended the Income Tax Act to allow certain renaissance zones that were granted an extension or renewal to be qualified renaissance zones for the deduction under the Income Tax Act.

Public Act 118 of 2018 amended the Income Tax Act to change the due date for the annual reconciliation of withholding tax, commonly filed using Form MI-W3. The new due date is consistent with the federal due date for reporting withholding each year.

Public Act 161 of 2018 amended the Income Tax Act to extend through fiscal year 2021 – 2022 a specific method for determining the amount of weatherization funding that may be provided from federal funds under the Low Income Home Energy Assistance Program, require certain additional reporting from taxpayers claiming the home heating credit in order to comply with federal requirements, and to require additional reporting from the Department of Health and Human Services to the Legislature.

Public Acts 588 and 589 of 2018 amended the Income Tax Act to provide a deduction for compensation received under the Wrongful Imprisonment Compensation Act, to the extent included in adjusted gross income. In addition, this compensation is excluded from total household resources, the income measure used to calculate the homestead property tax credit and home heating credit. Public Act 589 provides an additional personal exemption if a taxpayer has a certificate of stillbirth, beginning for tax year 2019.

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 2021, the State of Michigan collected an estimated \$11,853.4 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 2019, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.25 percent to an average effective rate of 2.35 percent. Detailed information on income tax expenditures is presented in Exhibits 13 through 16.

FY 2021 Estimate

| | |
|---|--------------|
| College Savings Account | \$14,020,000 |
| 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. | |
| Dependent Exemption | \$20,280,000 |
| 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. | |
| Disabled Veterans Exemption | \$510,000 |
| Allows a taxpayer to claim an additional exemption of \$400 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran. | |
| Earned Income Tax Credit | \$90,240,000 |
| Provides a refundable income tax credit equal to 6 percent of any federal earned income tax credit for which a taxpayer is eligible. | |
| Farmland Development Credit | \$55,840,000 |
| 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 | \$50,000 |
| 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 | \$110,000 |
| Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2021, these credits totaled an estimated \$67.2 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$81,400 in FY 2021. | |

FY 2021 Estimate

Homestead Property Tax Credit

\$739,330,000

Provides a refundable credit against income tax liability for property tax paid. Beginning for tax year 2018, 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 2019, homestead credits, excluding the farmland credit itemized separately, totaled \$784.8 million (Exhibit 16). Of the homestead credits, 57.0 percent went to general taxpayers, 34.7 percent went to senior citizens, and the remaining 8.3 percent went to veterans and blind and disabled persons.

Income Attributable to Another State

\$3,658,450,000

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.

Income from Extractive Activities Deduction

\$800,000

The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes.

Income Tax Paid to Another State Credit

\$89,190,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2019, taxpayers claimed \$80.1 million in credits.

Military Pay

\$29,320,000

Exempts compensation received while on active duty in the U.S. Armed Forces.

Miscellaneous Deductions

\$8,910,000

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.

Net Operating Loss Deduction

\$4,200,000

Taxpayers may only deduct the Michigan portion of a net operating loss.

FY 2021 Estimate

Net Adjustment for Gains/Losses

\$89,710,000

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.

Pension and Retirement Benefits Deduction

\$498,990,000

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 \$54,404 for singles and \$108,808 for married couples filing a joint return (2021 limits). The deduction for pension and retirement benefits is replaced with the Michigan standard deduction against all income when those born after 1945 reach age 67, with the deduction for those born after 1952 subject to additional restrictions.

Personal Exemption

\$1,539,140,000

Exempts \$4,900 (tax year 2021) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption reduced tax year 2019 revenue by approximately \$1,433 million.

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

Renaissance Zones

\$780,000

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

\$16,680,000

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.

FY 2021 Estimate

| | |
|---|---------------|
| Senior Standard Deduction | \$515,380,000 |
| <p>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.</p> | |
| Social Security Benefits Included in AGI | \$524,500,000 |
| <p>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.</p> | |
| Special Exemption | \$15,650,000 |
| <p>Allows a taxpayer and his or her spouse to each claim a \$2,800 exemption for tax year 2021 if they or a dependent are disabled. These exemptions are adjusted periodically for inflation.</p> | |
| State and Local Income Tax Refunds | \$23,070,000 |
| <p>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.</p> | |
| Tribal Tax Agreements | n.a. |
| <p>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.</p> | |
| U.S. Government Bond Interest Deduction | \$11,770,000 |
| <p>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.</p> | |

Exhibit 13
Selected Individual Income Tax Expenditures by Income Class, CY 2019

| Adjusted Gross Income | MI-1040s | | Gen. Prop Tax Credit | | Effective Exemptions⁽¹⁾ | |
|----------------------------------|------------------|----------------|-----------------------------|----------------------|---|------------------------|
| | Number | Percent | Number | Amount | Number | Amount |
| Zero Income ⁽²⁾ | 110,535 | 2.2% | 10,897 | \$9,165,879 | 0 | \$0 |
| \$0 - 2,000 | 167,408 | 3.4% | 12,807 | 9,484,098 | -64,073 | -11,981,643 |
| 2,001 - 4,000 | 137,261 | 2.8% | 9,517 | 6,501,988 | 9,448 | 1,766,762 |
| 4,001 - 6,000 | 136,868 | 2.8% | 12,314 | 8,087,041 | 31,777 | 5,942,351 |
| 6,001 - 8,000 | 134,540 | 2.7% | 15,858 | 10,379,675 | 44,505 | 8,322,392 |
| 8,001 - 10,000 | 134,243 | 2.7% | 20,056 | 13,467,061 | 63,946 | 11,957,966 |
| 10,001 - 12,000 | 146,250 | 3.0% | 32,238 | 23,205,841 | 104,991 | 19,633,228 |
| 12,001 - 14,000 | 135,933 | 2.8% | 29,690 | 20,965,845 | 107,673 | 20,134,789 |
| 14,001 - 16,000 | 142,126 | 2.9% | 40,309 | 29,770,907 | 161,508 | 30,202,043 |
| 16,001 - 18,000 | 125,039 | 2.5% | 33,666 | 24,127,336 | 135,552 | 25,348,140 |
| 18,001 - 20,000 | 122,538 | 2.5% | 34,174 | 24,193,461 | 141,037 | 26,373,977 |
| 20,001 - 25,000 | 289,643 | 5.9% | 80,478 | 53,126,846 | 337,775 | 63,163,904 |
| 25,001 - 30,000 | 273,342 | 5.6% | 80,140 | 50,047,274 | 344,409 | 64,404,506 |
| 30,001 - 35,000 | 251,951 | 5.1% | 76,175 | 45,574,511 | 340,818 | 63,733,025 |
| 35,001 - 40,000 | 221,171 | 4.5% | 65,737 | 38,119,054 | 312,025 | 58,348,710 |
| 40,001 - 45,000 | 192,736 | 3.9% | 54,559 | 30,888,657 | 281,228 | 52,589,715 |
| 45,001 - 50,000 | 170,789 | 3.5% | 45,398 | 25,130,704 | 258,479 | 48,335,593 |
| 50,001 - 55,000 | 155,531 | 3.2% | 36,980 | 17,117,262 | 245,031 | 45,820,745 |
| 55,001 - 60,000 | 142,179 | 2.9% | 28,559 | 6,468,092 | 236,530 | 44,231,124 |
| 60,001 - 70,000 | 252,666 | 5.1% | 4,369 | 1,107,186 | 455,508 | 85,180,082 |
| 70,001 - 80,000 | 214,659 | 4.4% | 359 | 166,182 | 429,286 | 80,276,567 |
| 80,001 - 90,000 | 186,050 | 3.8% | 101 | 68,814 | 396,976 | 74,234,466 |
| 90,001 - 100,000 | 160,228 | 3.3% | 50 | 38,014 | 359,376 | 67,203,320 |
| Over 100,000 | <u>911,343</u> | <u>18.5%</u> | <u>184</u> | <u>162,349</u> | <u>2,207,716</u> | <u>412,842,838</u> |
| TOTAL | 4,915,029 | 100.0% | 724,615 | \$447,364,077 | 6,941,522 | \$1,298,064,602 |

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

⁽²⁾ Includes 39,558 credit-only returns.

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 14
Effective Income Tax Rates by Income Class, CY 2019⁽¹⁾

| <u>Adjusted Gross Income</u> | <u>Total Adjusted Gross Income</u> | <u>Total Income Tax Paid</u> | <u>Effective Tax Rate</u> |
|---|--|----------------------------------|-------------------------------|
| Zero Income ⁽²⁾ | (\$7,420,391,880) | (\$64,154,380) | |
| \$0 - 2,000 | 124,977,187 | (\$80,722,535) | -64.59% |
| 2,001 - 4,000 | 412,286,514 | (\$27,406,399) | -6.65% |
| 4,001 - 6,000 | 684,527,056 | (\$24,115,901) | -3.52% |
| 6,001 - 8,000 | 941,555,425 | (\$22,276,069) | -2.37% |
| 8,001 - 10,000 | 1,209,472,156 | (\$20,844,037) | -1.72% |
| 10,001 - 12,000 | 1,607,783,740 | (\$28,386,213) | -1.77% |
| 12,001 - 14,000 | 1,766,063,685 | (\$18,674,757) | -1.06% |
| 14,001 - 16,000 | 2,129,591,789 | (\$27,492,218) | -1.29% |
| 16,001 - 18,000 | 2,124,782,617 | (\$7,061,065) | -0.33% |
| 18,001 - 20,000 | 2,327,226,964 | \$906,945 | 0.04% |
| 20,001 - 25,000 | 6,514,494,606 | \$49,439,086 | 0.76% |
| 25,001 - 30,000 | 7,507,708,230 | \$101,488,757 | 1.35% |
| 30,001 - 35,000 | 8,177,242,288 | \$147,685,873 | 1.81% |
| 35,001 - 40,000 | 8,282,634,529 | \$174,531,213 | 2.11% |
| 40,001 - 45,000 | 8,182,118,087 | \$187,197,796 | 2.29% |
| 45,001 - 50,000 | 8,104,584,436 | \$196,739,316 | 2.43% |
| 50,001 - 55,000 | 8,160,023,903 | \$210,734,782 | 2.58% |
| 55,001 - 60,000 | 8,170,252,153 | \$222,724,249 | 2.73% |
| 60,001 - 70,000 | 16,386,399,727 | \$461,746,752 | 2.82% |
| 70,001 - 80,000 | 16,073,209,621 | \$460,940,592 | 2.87% |
| 80,001 - 90,000 | 15,792,120,146 | \$459,098,154 | 2.91% |
| 90,001 - 100,000 | 15,203,153,313 | \$449,013,907 | 2.95% |
| Over 100,000 | <u>252,822,171,205</u> | <u>\$6,245,408,193</u> | <u>2.47%</u> |
| TOTAL | \$385,283,987,497 | \$9,046,522,041 | 2.35% |
| Effective rate excluding zero income AGI and Taxes Paid | | | 2.32% |
| Effective rate excluding zero income AGI | | | 2.30% |

(1) Values in this table are based on a sample of the 4,875,471 MI-1040 and MI-1040CR returns.

(2) Includes 39,558 credit-only returns (zero income).

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 15
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2019

| Adjusted Gross Income | Effective Exemptions ⁽¹⁾ | Adjustments to Income | Nonrefundable Credits ⁽²⁾ | Prop. Tax Credits |
|--------------------------|--|--------------------------|---|----------------------|
| Less Than \$2,000 | 655.3% | 375.3% | -0.3% | 1344.7% |
| 2,001 - 4,000 | 129.0% | 63.3% | -0.2% | 155.8% |
| 4,001 - 6,000 | 86.0% | 44.2% | 0.0% | 96.0% |
| 6,001 - 8,000 | 67.9% | 38.7% | 0.1% | 76.6% |
| 8,001 - 10,000 | 58.5% | 34.5% | 0.1% | 64.1% |
| 10,001 - 12,000 | 54.9% | 29.0% | 0.1% | 61.4% |
| 12,001 - 14,000 | 48.9% | 29.5% | 0.1% | 50.8% |
| 14,001 - 16,000 | 51.3% | 24.5% | 0.1% | 49.4% |
| 16,001 - 18,000 | 42.5% | 24.0% | 0.2% | 40.1% |
| 18,001 - 20,000 | 39.0% | 23.5% | 0.1% | 35.7% |
| 20,001 - 25,000 | 32.4% | 23.0% | 0.2% | 27.9% |
| 25,001 - 30,000 | 27.1% | 21.1% | 0.2% | 21.5% |
| 30,001 - 35,000 | 23.3% | 18.5% | 0.2% | 17.2% |
| 35,001 - 40,000 | 20.5% | 17.9% | 0.3% | 13.9% |
| 40,001 - 45,000 | 18.5% | 18.3% | 0.3% | 11.4% |
| 45,001 - 50,000 | 17.0% | 18.8% | 0.3% | 9.2% |
| 50,001 - 55,000 | 15.7% | 19.2% | 0.3% | 6.3% |
| 55,001 - 60,000 | 14.9% | 20.0% | 0.3% | 2.6% |
| 60,001 - 70,000 | 13.9% | 20.4% | 0.3% | 0.6% |
| 70,001 - 80,000 | 12.9% | 19.9% | 0.3% | 0.4% |
| 80,001 - 90,000 | 12.0% | 19.7% | 0.4% | 0.4% |
| 90,001 - 100,000 | 11.2% | 19.4% | 0.4% | 0.3% |
| Over 100,000 | 4.3% | 37.4% | 0.5% | 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.

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 16
Property Tax Credits by County, CY 2019

| County | General | | Seniors | | Veterans | |
|----------------|---------|------------|---------|------------|----------|---------|
| | Number | Amount | Number | Amount | Number | Amount |
| ALCONA | 300 | \$130,000 | 400 | \$192,500 | < 50 | \$2,000 |
| ALGER | 400 | 153,300 | 300 | 167,300 | < 50 | 1,000 |
| ALLEGAN | 6,000 | 3,024,000 | 4,000 | 2,720,900 | < 50 | 4,900 |
| ALPENA | 1,400 | 528,400 | 1,300 | 655,900 | < 50 | 4,500 |
| ANTRIM | 1,100 | 517,700 | 900 | 538,800 | < 50 | 1,100 |
| ARENAC | 600 | 218,400 | 600 | 313,600 | < 50 | 1,300 |
| BARAGA | 200 | 79,800 | 200 | 111,300 | < 50 | 600 |
| BARRY | 2,600 | 1,301,700 | 2,000 | 1,364,900 | < 50 | 1,900 |
| BAY | 6,800 | 2,836,300 | 5,100 | 2,845,700 | 100 | 17,100 |
| BENZIE | 900 | 412,600 | 700 | 385,300 | < 50 | 2,700 |
| BERRIEN | 10,200 | 4,910,700 | 6,600 | 4,308,000 | 100 | 7,700 |
| BRANCH | 2,400 | 1,115,600 | 1,400 | 980,400 | < 50 | 1,500 |
| CALHOUN | 9,300 | 4,700,800 | 5,300 | 3,762,000 | 100 | 12,000 |
| CASS | 2,000 | 851,300 | 1,400 | 841,000 | < 50 | 1,100 |
| CHARLEVOIX | 1,600 | 748,800 | 1,200 | 792,600 | < 50 | 1,000 |
| CHEBOYGAN | 1,200 | 468,600 | 1,000 | 500,500 | < 50 | 2,600 |
| CHIPPEWA | 1,700 | 656,500 | 1,100 | 656,100 | < 50 | 4,100 |
| CLARE | 1,500 | 610,600 | 1,000 | 536,500 | < 50 | 5,000 |
| CLINTON | 2,900 | 1,531,100 | 2,200 | 1,578,600 | < 50 | 2,600 |
| CRAWFORD | 500 | 240,900 | 400 | 185,100 | < 50 | 1,900 |
| DELTA | 1,800 | 718,100 | 1,600 | 888,700 | < 50 | 6,600 |
| DICKINSON | 1,400 | 544,600 | 1,200 | 717,400 | < 50 | 4,200 |
| EATON | 8,000 | 4,487,400 | 5,200 | 3,764,600 | < 50 | 4,100 |
| EMMET | 2,300 | 1,186,600 | 1,400 | 921,800 | < 50 | 1,500 |
| GENESEE | 31,700 | 16,738,900 | 14,900 | 9,325,100 | 100 | 28,100 |
| GLADWIN | 1,000 | 431,100 | 1,100 | 630,300 | < 50 | 4,800 |
| GOGEBIC | 700 | 243,500 | 600 | 313,100 | < 50 | 4,500 |
| GRAND TRAVERSE | 7,100 | 4,185,300 | 4,100 | 2,955,400 | < 50 | 2,600 |
| GRATIOT | 2,100 | 880,200 | 1,400 | 876,300 | < 50 | 2,300 |
| HILLSDALE | 2,100 | 985,000 | 1,500 | 909,900 | < 50 | 2,500 |
| HOUGHTON | 1,600 | 666,700 | 900 | 530,400 | < 50 | 5,300 |
| HURON | 1,800 | 791,500 | 1,800 | 1,197,600 | < 50 | 3,800 |
| INGHAM | 26,000 | 15,831,300 | 9,900 | 7,953,800 | 100 | 12,800 |
| IONIA | 3,300 | 1,530,200 | 2,000 | 1,232,500 | < 50 | 4,200 |
| IOSCO | 1,100 | 430,200 | 1,000 | 523,300 | 100 | 5,000 |
| IRON | 400 | 160,700 | 500 | 233,800 | < 50 | 2,000 |
| ISABELLA | 3,900 | 1,795,700 | 1,600 | 1,062,400 | < 50 | 3,800 |
| JACKSON | 9,900 | 5,076,600 | 6,200 | 4,330,500 | 100 | 10,100 |
| KALAMAZOO | 20,200 | 11,578,600 | 9,300 | 7,234,500 | < 50 | 5,900 |
| KALKASKA | 900 | 378,500 | 500 | 291,400 | < 50 | 2,000 |
| KENT | 55,200 | 32,995,800 | 22,200 | 16,357,100 | 100 | 16,800 |
| KEWEENAW | 100 | 27,200 | 100 | 33,400 | < 50 | 300 |

Exhibit 16 (Continued)

| County | General | | Seniors | | Veterans | |
|---------------------|----------------|----------------------|----------------|----------------------|--------------|------------------|
| | Number | Amount | Number | Amount | Number | Amount |
| LAKE | 500 | \$194,900 | 400 | \$192,600 | < 50 | \$1,600 |
| LAPEER | 3,900 | 1,941,600 | 2,700 | 1,579,500 | < 50 | 3,300 |
| LEELANAU | 600 | 319,800 | 600 | 363,800 | < 50 | 1,700 |
| LENAAWEE | 5,900 | 3,006,500 | 4,500 | 2,989,500 | < 50 | 2,500 |
| LIVINGSTON | 500 | 194,900 | 400 | 192,600 | < 50 | 1,600 |
| LUCE | 100 | 53,700 | 100 | 43,100 | < 50 | 800 |
| MACKINAC | 500 | 175,200 | 400 | 211,400 | < 50 | 2,500 |
| MACOMB | 75,200 | 55,186,300 | 43,100 | 35,424,300 | 100 | 27,600 |
| MANISTEE | 1,200 | 516,900 | 1,200 | 725,700 | < 50 | 1,000 |
| MARQUETTE | 4,000 | 1,780,500 | 1,900 | 1,166,600 | 100 | 11,200 |
| MASON | 1,900 | 878,800 | 1,600 | 1,090,300 | < 50 | 1,700 |
| MECOSTA | 1,900 | 869,600 | 1,100 | 627,400 | < 50 | 3,000 |
| MENOMINEE | 1,100 | 424,300 | 800 | 429,500 | < 50 | 1,900 |
| MIDLAND | 4,800 | 2,317,700 | 2,900 | 1,948,800 | < 50 | 10,200 |
| MISSAUKEE | 700 | 291,700 | 500 | 288,000 | < 50 | 900 |
| MONROE | 7,100 | 3,747,700 | 5,100 | 3,169,000 | < 50 | 5,400 |
| MONTCALM | 3,600 | 1,629,400 | 2,500 | 1,573,000 | < 50 | 4,500 |
| MONTMORENCY | 400 | 145,400 | 400 | 206,800 | < 50 | 2,200 |
| MUSKEGON | 13,000 | 6,524,300 | 7,600 | 5,199,300 | 100 | 12,000 |
| NEWAYGO | 2,300 | 1,101,600 | 1,800 | 1,182,100 | < 50 | 4,000 |
| OAKLAND | 70,200 | 51,836,200 | 40,400 | 34,787,600 | 100 | 27,900 |
| OCEANA | 1,400 | 594,300 | 1,200 | 746,400 | < 50 | 3,300 |
| OGEMAW | 1,100 | 420,000 | 900 | 456,900 | < 50 | 2,800 |
| ONTONAGON | 200 | 62,500 | 200 | 119,500 | < 50 | 2,900 |
| OSCEOLA | 1,100 | 452,200 | 900 | 535,200 | < 50 | 1,500 |
| OSCODA | 200 | 81,100 | 200 | 100,000 | < 50 | 1,100 |
| OTSEGO | 1,500 | 689,600 | 800 | 460,800 | < 50 | 2,600 |
| OTTAWA | 17,200 | 9,850,900 | 10,800 | 7,735,000 | < 50 | 3,000 |
| PRESQUE ISLE | 500 | 186,000 | 600 | 287,100 | < 50 | 2,700 |
| ROSCOMMON | 1,300 | 523,100 | 1,200 | 613,400 | < 50 | 2,500 |
| SAGINAW | 13,500 | 6,212,300 | 7,100 | 4,169,400 | 100 | 16,000 |
| ST. CLAIR | 10,600 | 5,370,800 | 7,000 | 4,508,400 | 100 | 7,800 |
| ST. JOSEPH | 3,400 | 1,481,200 | 2,000 | 1,226,000 | < 50 | 2,800 |
| SANILAC | 2,100 | 969,400 | 1,700 | 1,033,400 | < 50 | 3,500 |
| SCHOOLCRAFT | 300 | 96,300 | 300 | 115,000 | < 50 | 2,100 |
| SHIAWASSEE | 4,800 | 2,298,200 | 3,300 | 2,044,600 | < 50 | 6,500 |
| TUSCOLA | 2,800 | 1,199,300 | 2,200 | 1,231,000 | < 50 | 4,000 |
| VAN BUREN | 4,900 | 2,348,600 | 3,200 | 2,241,600 | < 50 | 5,800 |
| WASHTENAW | 23,700 | 17,769,600 | 8,900 | 8,408,200 | < 50 | 10,200 |
| WAYNE LESS DETROIT | 83,400 | 61,098,900 | 42,700 | 36,113,200 | 100 | 31,900 |
| WEXFORD | 2,200 | 1,005,600 | 1,400 | 884,400 | < 50 | 2,800 |
| OUTSIDE OF MICHIGAN | 6,200 | 3,723,300 | 2,100 | 1,608,400 | < 50 | 3,000 |
| DETROIT | 99,800 | 66,906,300 | 19,400 | 14,886,600 | 200 | 48,500 |
| TOTAL | 724,600 | \$447,364,100 | 368,900 | \$272,087,100 | 3,100 | \$503,600 |

Exhibit 16 (Continued)

| County | Blind and Disabled | | Farmland | | Total Credits | |
|----------------|--------------------|-----------|----------|-----------|---------------|------------|
| | Number | Amount | Number | Amount | Number | Amount |
| ALCONA | 100 | \$20,400 | < 50 | \$14,300 | 800 | \$359,300 |
| ALGER | < 50 | 25,300 | < 50 | 100 | 700 | 347,000 |
| ALLEGAN | 700 | 483,900 | 100 | 852,000 | 10,800 | 7,085,700 |
| ALPENA | 300 | 179,100 | < 50 | 21,400 | 3,000 | 1,389,300 |
| ANTRIM | 100 | 57,800 | < 50 | 74,800 | 2,100 | 1,190,100 |
| ARENAC | 100 | 54,200 | 100 | 267,800 | 1,400 | 855,300 |
| BARAGA | < 50 | 20,900 | < 50 | 0 | 500 | 212,600 |
| BARRY | 300 | 201,500 | 100 | 717,400 | 5,000 | 3,587,300 |
| BAY | 1,200 | 807,700 | 200 | 1,661,600 | 13,400 | 8,168,400 |
| BENZIE | 100 | 68,300 | < 50 | 2,500 | 1,700 | 871,400 |
| BERRIEN | 1,200 | 880,700 | 100 | 422,900 | 18,100 | 10,529,900 |
| BRANCH | 300 | 177,800 | 200 | 976,900 | 4,300 | 3,252,200 |
| CALHOUN | 1,600 | 1,215,100 | 200 | 1,203,800 | 16,400 | 10,893,700 |
| CASS | 200 | 130,700 | 100 | 864,900 | 3,700 | 2,689,100 |
| CHARLEVOIX | 100 | 100,400 | < 50 | 52,000 | 3,000 | 1,694,900 |
| CHEBOYGAN | 200 | 130,300 | < 50 | 14,500 | 2,400 | 1,116,400 |
| CHIPPEWA | 200 | 113,700 | < 50 | 30,200 | 3,100 | 1,460,700 |
| CLARE | 300 | 172,400 | < 50 | 140,000 | 2,900 | 1,464,600 |
| CLINTON | 300 | 200,600 | 100 | 772,700 | 5,500 | 4,085,600 |
| CRAWFORD | 100 | 46,000 | < 50 | 15,000 | 1,000 | 488,900 |
| DELTA | 300 | 181,200 | < 50 | 51,700 | 3,700 | 1,846,400 |
| DICKINSON | 200 | 123,900 | < 50 | 16,800 | 2,900 | 1,406,900 |
| EATON | 700 | 633,100 | 100 | 666,200 | 14,200 | 9,555,500 |
| EMMET | 200 | 137,900 | < 50 | 8,200 | 3,900 | 2,255,900 |
| GENESEE | 4,800 | 3,840,900 | 100 | 421,400 | 51,600 | 30,354,500 |
| GLADWIN | 200 | 112,200 | < 50 | 72,300 | 2,400 | 1,250,700 |
| GOGEBIC | 100 | 68,800 | < 50 | 0 | 1,400 | 629,800 |
| GRAND TRAVERSE | 500 | 367,900 | < 50 | 40,900 | 11,700 | 7,552,000 |
| GRATIOT | 300 | 202,300 | 300 | 2,316,100 | 4,200 | 4,277,200 |
| HILLSDALE | 300 | 173,900 | 200 | 932,200 | 4,200 | 3,003,400 |
| HOUGHTON | 200 | 90,000 | < 50 | 0 | 2,800 | 1,292,400 |
| HURON | 300 | 141,800 | 900 | 8,091,500 | 4,800 | 10,226,200 |
| INGHAM | 2,400 | 2,080,600 | 100 | 1,605,500 | 38,500 | 27,484,000 |
| IONIA | 400 | 241,800 | 100 | 927,500 | 5,800 | 3,936,100 |
| IOSCO | 200 | 110,900 | < 50 | 76,500 | 2,400 | 1,145,900 |
| IRON | 100 | 40,700 | < 50 | 3,400 | 1,000 | 440,600 |
| ISABELLA | 300 | 240,300 | 100 | 613,000 | 6,000 | 3,715,200 |
| JACKSON | 1,300 | 1,011,400 | 100 | 470,900 | 17,500 | 10,899,600 |
| KALAMAZOO | 1,900 | 1,653,900 | 100 | 638,300 | 31,500 | 21,111,200 |
| KALKASKA | 100 | 50,000 | < 50 | 400 | 1,600 | 722,300 |
| KENT | 4,100 | 3,557,700 | 100 | 861,500 | 81,600 | 53,788,800 |
| KEWEENAW | < 50 | 1,700 | < 50 | 0 | 100 | 62,500 |

Exhibit 16 (Continued)

| County | Blind and Disabled | | Farmland | | Total Credits | |
|---------------------|---------------------------|---------------------|-----------------|---------------------|----------------------|----------------------|
| | Number | Amount | Number | Amount | Number | Amount |
| LAKE | 200 | \$93,300 | < 50 | \$3,600 | 1,000 | \$486,100 |
| LAPEER | 500 | 344,000 | 100 | 301,700 | 7,200 | 4,170,100 |
| LEELANAU | < 50 | 23,800 | < 50 | 46,500 | 1,300 | 755,600 |
| LENAWEE | 800 | 653,700 | 400 | 2,657,100 | 11,600 | 9,309,300 |
| LIVINGSTON | 600 | 469,300 | < 50 | 3,600 | 12,600 | 8,797,200 |
| LUCE | < 50 | 14,200 | < 50 | 0 | 300 | 111,800 |
| MACKINAC | 100 | 31,300 | < 50 | 6,100 | 900 | 426,600 |
| MACOMB | 7,300 | 7,458,500 | < 50 | 124,800 | 125,800 | 98,221,500 |
| MANISTEE | 200 | 122,400 | < 50 | 6,900 | 2,700 | 1,372,800 |
| MARQUETTE | 300 | 234,300 | < 50 | 3,200 | 6,300 | 3,195,900 |
| MASON | 200 | 149,800 | < 50 | 144,100 | 3,800 | 2,264,600 |
| MECOSTA | 200 | 137,100 | < 50 | 209,700 | 3,300 | 1,846,800 |
| MENOMINEE | 100 | 59,100 | < 50 | 66,500 | 2,000 | 981,300 |
| MIDLAND | 500 | 387,900 | < 50 | 259,400 | 8,400 | 4,924,100 |
| MISSAUKEE | 100 | 48,300 | 100 | 656,300 | 1,300 | 1,285,200 |
| MONROE | 900 | 689,100 | 100 | 736,900 | 13,200 | 8,348,100 |
| MONTCALM | 500 | 332,100 | 100 | 1,057,500 | 6,900 | 4,596,500 |
| MONTMORENCY | 100 | 38,500 | < 50 | 12,000 | 900 | 404,800 |
| MUSKEGON | 2,000 | 1,531,200 | < 50 | 325,700 | 22,700 | 13,592,500 |
| NEWAYGO | 500 | 290,300 | 100 | 303,800 | 4,600 | 2,881,800 |
| OAKLAND | 5,500 | 5,431,500 | < 50 | 114,400 | 116,200 | 92,197,500 |
| OCEANA | 200 | 121,400 | 100 | 314,200 | 2,900 | 1,779,600 |
| OGEMAW | 200 | 110,900 | < 50 | 115,200 | 2,200 | 1,105,800 |
| ONTONAGON | < 50 | 24,400 | < 50 | 1,300 | 500 | 210,500 |
| OSCEOLA | 200 | 84,800 | < 50 | 265,900 | 2,300 | 1,339,600 |
| OSCODA | 100 | 26,900 | < 50 | 0 | 500 | 209,100 |
| OTSEGO | 200 | 102,900 | < 50 | 0 | 2,500 | 1,255,800 |
| OTTAWA | 1,200 | 999,700 | 200 | 1,998,100 | 29,400 | 20,586,700 |
| PRESQUE ISLE | 100 | 49,000 | < 50 | 23,400 | 1,200 | 548,200 |
| ROSCOMMON | 300 | 150,900 | < 50 | 16,000 | 2,800 | 1,306,100 |
| SAGINAW | 2,000 | 1,416,400 | 400 | 2,805,800 | 23,100 | 14,619,800 |
| ST. CLAIR | 1,500 | 1,146,200 | < 50 | 205,600 | 19,300 | 11,238,800 |
| ST. JOSEPH | 400 | 227,500 | 100 | 1,029,300 | 6,000 | 3,966,800 |
| SANILAC | 400 | 211,200 | 400 | 2,428,300 | 4,600 | 4,645,700 |
| SCHOOLCRAFT | 100 | 21,300 | < 50 | 0 | 600 | 234,600 |
| SHIAWASSEE | 800 | 538,000 | 200 | 1,167,400 | 9,100 | 6,054,700 |
| TUSCOLA | 500 | 298,900 | 600 | 4,178,300 | 6,000 | 6,911,500 |
| VAN BUREN | 600 | 433,100 | 100 | 403,600 | 8,800 | 5,432,600 |
| WASHTENAW | 1,600 | 1,545,400 | 200 | 1,538,100 | 34,300 | 29,271,400 |
| WAYNE LESS DETROIT | 8,500 | 8,762,500 | < 50 | 51,500 | 134,700 | 106,057,800 |
| WEXFORD | 300 | 193,800 | < 50 | 63,200 | 3,900 | 2,149,700 |
| OUTSIDE OF MICHIGAN | 400 | 360,000 | < 50 | 256,500 | 8,800 | 5,951,200 |
| DETROIT | 9,700 | 9,352,500 | < 50 | 9,900 | 129,100 | 91,203,800 |
| TOTAL | 75,800 | \$64,867,100 | 6,800 | \$50,128,100 | 1,179,300 | \$834,950,000 |

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 2021 Estimate

Accelerated Depreciation

\$123,250,000

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

\$1,148,260,000

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.

| | <u>FY 2021 Estimate</u> |
|---|--------------------------------|
| Employer Pension Plans | \$826,070,000 |
| Exempts employer payments into qualified employee pension plans from taxation. | |
| Federal Adjustments to Income | \$36,390,000 |
| Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI. | |
| Fellowships and Scholarships | \$22,520,000 |
| Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI. | |
| Gain on Sale of Primary Residence | \$229,670,000 |
| 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. | |
| Income Maintenance Benefits | \$5,280,000 |
| Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation. | |
| Individual Retirement Accounts | \$322,040,000 |
| Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. The maximum contribution is \$6,000 for 2021. Only persons with an AGI below \$105,000 on a joint return (\$66,000 on a single return) or those not covered by an employer retirement plan can take the full \$6,000 deduction. A partial deduction, phased out according to income, is available between \$105,000-\$125,000 for joint filers and \$66,000-\$76,000 for single filers. | |
| Interest on Life Insurance Savings | \$69,700,000 |
| Exempts interest earned from life insurance from tax if used to buy additional life insurance. | |
| Medical Care Savings Account | \$38,660,000 |
| Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account. | |

FY 2021 Estimate

Railroad Retirement Benefits

\$910,000

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

Social Security Benefits Excluded from AGI

\$244,320,000

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

\$13,810,000

Allows a deduction for interest paid on qualified education loans.

Veterans' Benefits

\$82,070,000

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

Workers' Compensation

\$39,800,000

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 \$62.30 million in FY 2020 to \$63.16 million in FY 2021. Transportation tax expenditure estimates were based on FY 2019 and FY 2020 data.

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

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

Transportation Tax Expenditure Changes

Public Act 55 of 2018 amended the Motor Fuel Tax Act to exempt certain fuels used to power industrial boilers and diesel-powered marine vessels. Previously these fuels were subject to tax upon sale but the purchasers could seek a refund of the tax if the fuel was used for a non-highway purpose.

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 \$414,000 to the state's Aeronautics Fund in FY 2021.

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 2021, the aviation fuel tax raised \$4.2 million, which is deposited into the state's Aeronautics Fund.

FY 2021 Estimate

Federally-Owned Aircraft

\$336,000

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

Interstate Flight Refund

\$2,600,000

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 2021 Estimate

Marine Vessel Exemption

\$775,000

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 26.3 cents per gallon, effective January 1, 2017. The diesel fuel tax rate also increased to 26.3 cents per gallon in January 2017. 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 2021, motor fuel taxes raised an estimated \$1,351.5 million including the new revenue from the higher tax rates.

FY 2021 Estimate

| | |
|--|--------------|
| Diesel Fuel for Railroads | n.a. |
| Exempts diesel fuel used by railroad locomotives from motor fuel taxes. | |
| Evaporation and Loss Allowance | \$16,906,000 |
| The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes. | |
| Fuel for Job Sites and Charter Firms | \$6,307,000 |
| Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes. | |
| Fuel for Off-Road Use | \$1,601,000 |
| Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads. | |
| Municipal Franchise Vehicles | \$1,829,000 |
| Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs. | |
| Public Vehicles | \$18,093,000 |
| Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes. | |
| Tribal Tax Agreements | n.a. |
| Provides for tribes to obtain tax-free motor fuel for use by the tribe, tribal entities, and resident tribal members. Sales to other parties made by tribal retailers will be fully taxed. | |

Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, the registration fee for passenger vehicles became based on the vehicle's value rather than its weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2021, the motor vehicle registration fee raised \$1,400.0 million, including the higher fees.

FY 2021 Estimate

| | |
|--|--------------|
| Disabled Veterans' Vehicles | \$749,000 |
| Provides totally disabled veterans free vehicle license plates. | |
| Handicapper Vans | n.a. |
| Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair. | |
| Intercity Commercial Buses | n.a. |
| Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight. | |
| Public and Nonprofit Vehicles | \$13,950,000 |
| Motor vehicles owned and operated by the state, a state institution, a municipality, a nonprofit college or university, or other nonprofit organization pay a lower rate of \$5 for license plates with a five-year registration period. | |

Watercraft Registration Fee

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

FY 2021 Estimate

| | |
|---|----------|
| Publicly-Owned Watercraft | \$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 4.9 percent from \$12,278.1 million in FY 2020 to \$12,884.8 million in FY 2021. Estimates related to property taxes have stopped decreasing due to the stabilization of property values in many parts of the state. Estimates were based on FY 2019 and FY 2020 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 42 of 2017 amended the General Property Tax Act to allow a filing extension for a personal property tax exemption in 2017 only. A larger number of properties would likely qualify for an exemption as eligible manufacturing personal property, which would reduce revenues from the State Education Tax and local property taxes.

Public Acts 46 through 50 of 2017 created incentives for Transformational Brownfield Plans (TBP) by amending the Brownfield Redevelopment Financing, Income Tax, General Sales Tax, Use Tax, and Michigan Renaissance Zone Acts. Plans could be approved through December 31, 2022. There are several key provisions of the new incentive program.

- To qualify as a TBP, the project must be determined to have a transformational impact on local economic development and community revitalization.

- The project must involve a minimum capital investment, based on the population of the local unit where the project will occur.
- The project must be mixed-use development, with some combination of retail, office, residential, or hotel uses included in the plan.
- A qualified project could capture tax increment revenues, income tax from construction workers employed within the eligible property, income tax revenue from residents, and withholding tax revenue from employees working on the eligible property after completion.
- Tangible property that would be affixed and made a structural part of the real property would be exempt from sales and use taxes.
- Generally, the Michigan Strategic Fund could approve no more than 5 TBPs in any year statewide, and no more than 5 in any individual local unit for all years.
- Allow for the rescission of the income tax exemptions that apply in a designated Renaissance Zone upon the request of the property owner and the local unit designating the Zone, and the approval of the Michigan Strategic Fund and city imposing an income tax within the Zone.

Public Acts 121 and 122 of 2017 amended the General Property Tax Act to prevent a retroactive action to rescind an out-of-state exemption to allow a person to claim a current or retroactive personal residence exemption and impose penalties for wrongfully obtaining or attempting to claim an exemption.

Public Act 135 of 2017 prohibited local units of government from imposing an excise tax on the manufacture, distribution, wholesale sale or retail sale of food, whether for immediate or nonimmediate consumption.

Public Act 189 of 2017 amended the General Property Tax Act to allow a township, city, or the state to sue a person for unpaid property taxes only if that person owned the property on the tax day for the year in which the unpaid tax was levied.

Public Acts 261 through 264 of 2017 amended the General Property Tax Act, State Essential Services Assessment Act, Alternative State Essential Services Assessment Act, and Public Act 198 of 1974 for plant rehabilitation and industrial development districts, respectively, to revise the due date for filing personal property tax exemptions and appeals when the due date of February 20 falls on a weekend or a legal holiday.

Public Act 39 of 2018 amended the City Income Tax Act to restore the personal and dependency exemptions by revising the definition to grant an exemption for each exemption claimed under the Michigan Income Tax Act.

Public Act 132 of 2018 amended the General Property Tax Act to amend the filing requirements for claiming an exemption for eligible personal property under the small taxpayer exemption.

Public Act 133 of 2018 amended the General Property Tax Act to remove a requirement that a property remain unoccupied in order for an individual to claim a principal residence exemption

when the individual resides in a nursing home, assisted living facility, or any other location if residing there solely for purposes of convalescence.

Public Act 172 of 2018 amended the State Real Estate Transfer Tax Act to change one of the eligibility requirements for an exemption from the tax. To claim an exemption after the change, the property would need to have been the principal residence of the seller; the state equalized value at the time of the sale was equal to or less than the lesser of the SEV on (1) the first Tax Day after the issuance of a certificate of occupancy was issued, or (2) the date of the seller's acquisition of the property; and was for a price that would be arrived at in an arm's length transaction.

Public Act 203 of 2018 amended the Brownfield Redevelopment Financing Act to modify the definition of demolition. The new definition expands the activities that would qualify as eligible activities.

Public Acts 247 and 248 of 2018 amended the Local Community Stabilization Authority (LCSA) Act to make changes to the administrative provisions of the Act, including reporting and payment dates, requiring the Department of Treasury to make distribution calculations available online, and to earmark a portion of the LCSA fund to fire protection grants.

Public Acts 250 and 251 of 2018 amended the Commercial Rehabilitation Act and the Obsolete Property Rehabilitation Act, respectively, to create a process for a certificate holder to have a rehabilitation certificate revoked and potentially later reinstated. The Acts flow from a situation where a property covered by a certificate had a decline in taxable value, but the certificate locked in the taxes at the higher taxable value.

Public Act 456 of 2018 amended the City Income Tax Act to establish requirements for voluntary withholding by employers not located in Detroit on the income of employees who reside within the City of Detroit. The Act also gives the City of Detroit administrative lien and levy powers to collect unpaid income tax.

Public Act 474 of 2018 amended the Michigan Renaissance Zone Act to require that, under certain conditions, a facility previously approved as a renaissance zone for a renewable energy facility on or before December 31, 2009 shall become renewed as a zone designated for an agricultural processing facility.

Public Acts 480 and 481 of 2018 amended the Brownfield Redevelopment Financing Act and the Recodified Tax Increment Financing Act, respectively, to change the calculation of the captured tax paid to an authority if the capture of school operating taxes is reduced due to certain exemptions and make eligible for reimbursement the exemption of industrial personal property from school operating taxes.

Public Act 484 of 2018 amended Public Act 33 of 1951 to require that a special assessment levied under Public Act 33 be spread on the taxable value of the property assessed based on the special benefit provided to the property. In addition, a special assessment under Public Act 33 must be levied on all properties within the special assessment district that are not exempt from the collection of taxes under the General Property Tax Act.

Public Acts 505 and 541 of 2018 amended the Alternative State Essential Services Assessment Act and the State Essential Services Assessment Act, respectively, to change the date by which an exemption could be rescinded if payment of the assessment is not received, and to change the penalty for late filing.

Public Act 553 of 2018 amended the Revenue Act to add a liability under the City Income Tax Act for a city income tax administered by the Department of Treasury to the list of liabilities to which the Department may apply a state tax refund. This would only apply to the City of Detroit currently.

Public Act 616 of 2018 amended the Local Community Stabilization Authority Act to make changes to the administration of the reimbursements provided under the Act.

Public Act 633 of 2018 amended the General Property Tax Act to allow for the continuation of a principal residence exemption when the owner is not living in the residence due to damage or destruction but meets the criteria that indicate an intent to return to the property.

Public Act 672 of 2018 amended the General Property Tax Act to increase the limitation on acres of qualified forest property that can be exempted from the tax levied by the local school district for operating purposes from 1.2 million acres to 2.5 million acres.

Public Acts 116 through 118 of 2019 amended the General Property Tax Act to exempt an alternative energy system with a generating capacity of not more than 150 kilowatts, under certain conditions.

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 2021 collections were \$32.4 million.

FY 2021 Estimate

Broadband Investment Credit

\$28,460,000

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

\$44,050,000

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

General Property Tax

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

FY 2021 Estimate

Agricultural Transfers

\$46,850,000

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

Air and Water Pollution Control

\$130,000,000

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

Cultural Organizations

n.a.

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

Exhibit 17
Average Statewide Millage Rates

| Calendar Year | Homestead Property | Non-homestead Property | All Property |
|--------------------------|-------------------------------|-----------------------------------|---------------------|
| 1993 | n.a. | n.a. | 56.64 |
| 1994 | 30.22 | 48.17 | 38.19 |
| 1995 | 31.00 | 48.79 | 38.88 |
| 1996 | 31.36 | 49.54 | 39.32 |
| 1997 | 31.36 | 49.63 | 39.25 |
| 1998 | 31.43 | 49.68 | 39.27 |
| 1999 | 31.40 | 49.76 | 39.16 |
| 2000 | 31.54 | 50.10 | 39.32 |
| 2001 | 32.12 | 50.72 | 39.78 |
| 2002 | 32.60 | 51.00 | 40.17 |
| 2003 | 31.81 | 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 |

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 2021 Estimate

| | |
|---|-----------------|
| Disabled Veteran Homestead Exemption | \$49,100,000 |
| 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. | |
| Fairground Property | n.a. |
| Exempts property owned by an agricultural society and used primarily for fair purposes. | |
| Homestead Exemption | \$3,860,000,000 |
| 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 | \$192,000,000 |
| Exempts qualified agricultural property, including houses, from local school operating mills. | |
| Industrial Facilities Development | \$253,400,000 |
| 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 2021 Estimate

Neighborhood Enterprise Zones \$30,500,000

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

Obsolete Property Rehabilitation Exemption \$13,700,000

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 \$390,200,000

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 \$75,100,000

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 \$457,000,000

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.

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 \$6,310,000

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 2021 Estimate

| | |
|---|-----------------|
| Renaissance Zones | \$41,800,000 |
| 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 | \$2,171,000,000 |
| 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 \$39.4 billion. If taxed at the 2019 average nonhomestead statewide rate of 53.38 mills, tax-exempt property would have yielded \$2.10 billion in property tax revenue. | |
| Note: Tax-exempt property for Ingham and Wayne counties is not included in estimates. Both counties contain <i>substantial</i> 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 | \$303,000,000 |
| Exempts real property owned by counties, townships, cities, villages, and school districts. | |
| Tax-Exempt Federal Property | \$369,000,000 |
| Exempts real property belonging to the United States government. | |
| Tax-Exempt Other Real Tax Exempt Property | \$258,000,000 |
| Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities. | |

FY 2021 Estimate

Tax-Exempt Personal Property \$464,000,000

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 \$553,000,000

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 \$224,000,000

Exempts real property owned by the State of Michigan.

Tax Increment Financing \$333,900,000

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 2021 Estimate

Taxable Value Cap

\$4,423,700,000

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

\$1,340,000

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 \$8.0 million in FY 2021. The state's share of the iron ore specific tax is deposited into the School Aid Fund. The state received \$4.6 million in FY 2021.

Exhibit 18
Estimated Taxable Value of Exempt Real and Personal Property by County, 2020
(Taxable Value in Thousands)

| <u>County</u> | Industrial Facilities Tax | Federal | State | County and Municipal | Public Education |
|------------------|--|----------------|--------------|-------------------------------------|-----------------------------|
| ALCONA | \$188,200 | \$107,321 | \$6,771 | \$26,009 | \$38,608 |
| ALGER* | 113 | 22,328 | 1,757 | 2,230 | 7,253 |
| ALLEGAN * | 120,594 | 0 | 0 | 0 | 0 |
| ALPENA * | 704 | 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 * | 861 | 20,100 | 39,143 | 20,860 | 24,515 |
| BARRY | 16,441 | 0 | 936 | 64,681 | 30,644 |
| 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 | 81,031 | 5,148 | 56,221 | 284,917 | 28,617 |
| 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 * | 5,903 | 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 | 17,458 | 4,496 | 91,059 | 18,059 | 50,130 |
| EATON | 50,530 | 362 | 23,190 | 143,370 | 50,728 |
| EMMET | 7,139 | 0 | 61,189 | 324 | 2,308 |
| GENESEE | 97,010 | 20,397 | 68,260 | 583,691 | 680,656 |
| GLADWIN * | 2,689 | 0 | 25,000 | 13,000 | 31,000 |
| GOGEBIC | 969 | 163,922 | 3,423 | 31,205 | 224 |
| GRAND TRAVERSE * | 12,522 | 11,299 | 107,530 | 326,037 | 116,585 |
| GRATIOT * | 28,137 | 1,650 | 9,250 | 8,700 | 185,000 |
| HILLSDALE | 13,020 | 277 | 3,900 | 23,000 | 100,000 |
| HOUGHTON | 62 | 18,977 | 104,660 | 15,549 | 142,372 |
| HURON* | 56,841 | 39,400 | 10,542 | 85,700 | 0 |
| INGHAM * | 80,817 | 899 | 254,499 | 72,864 | 39,846 |
| IONIA * | 16,624 | 0 | 3,297 | 17,255 | 21,800 |
| IOSCO * | 0 | 7,893 | 49,295 | 3,394 | 185 |
| IRON | 823 | 24,080 | 26,662 | 4,858 | 1,606 |
| ISABELLA | 5,502 | n.a. | n.a. | n.a. | n.a. |
| JACKSON * | 94,089 | 2,000 | 201,000 | 38,000 | 98,000 |
| KALAMAZOO | 204,931 | 42,866 | 435,807 | 920,432 | 1,706,706 |
| KALKASKA * | 2,996 | 1,000 | 100,000 | 100,000 | 95,000 |
| KENT * | 543,538 | 24,450 | 23,766 | 174,895 | 484,900 |
| KEWEENAW | 0 | 33,546 | 2,700 | 540 | 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 | \$877 | \$179,586 | \$776,664 | 18.8% |
| ALGER* | 55,000 | 0 | 88,568 | \$404,418 | 18.0% |
| ALLEGAN * | 113,900 | 0 | 113,900 | \$5,204,416 | 2.1% |
| ALPENA * | 36,547 | 0 | 285,795 | \$962,241 | 22.9% |
| ANTRIM | 0 | 0 | 0 | \$2,012,390 | 0.0% |
| ARENAC | 34,483 | 0 | 42,205 | \$602,678 | 6.5% |
| BARAGA * | 53,017 | 3,427 | 161,062 | \$292,374 | 35.5% |
| BARRY | 125,345 | 59,271 | 280,877 | \$2,359,259 | 10.6% |
| BAY * | 72,382 | 4,521 | 93,883 | \$2,946,138 | 3.1% |
| BENZIE * | 0 | 15,503 | 159,796 | \$1,361,447 | 10.5% |
| BERRIEN | 12,066 | 760,410 | 772,476 | \$8,252,997 | 8.6% |
| BRANCH * | 0 | 6,500 | 22,304 | \$1,546,595 | 1.4% |
| CALHOUN | 535,205 | 135,877 | 1,045,985 | \$3,750,050 | 21.8% |
| CASS * | 0 | 0 | 157,309 | \$2,331,096 | 6.3% |
| CHARLEVOIX * | 3,526 | 13 | 95,653 | \$2,282,270 | 4.0% |
| CHEBOYGAN * | 6,200 | 21,998 | 197,248 | \$1,512,367 | 11.5% |
| CHIPPEWA * | 21,200 | 3,500 | 1,374,928 | \$1,179,043 | 53.8% |
| CLARE * | 72,638 | 0 | 139,129 | \$1,131,201 | 11.0% |
| CLINTON * | 43,215 | 0 | 86,430 | \$3,027,057 | 2.8% |
| CRAWFORD * | 53,403 | 20,000 | 459,331 | \$657,215 | 41.1% |
| DELTA * | 0 | 0 | 309,625 | \$1,202,467 | 20.5% |
| DICKINSON | 7,101 | 32,801 | 203,646 | \$919,469 | 18.1% |
| EATON | 235,475 | 175,133 | 628,258 | \$3,875,912 | 13.9% |
| EMMET | 0 | 0 | 63,821 | \$3,140,524 | 2.0% |
| GENESEE | 995,308 | 59,547 | 2,407,859 | \$10,178,182 | 19.1% |
| GLADWIN * | 6,315 | 2,460 | 77,775 | \$1,029,187 | 7.0% |
| GOGEBIC | 908 | 4,707 | 204,389 | \$554,426 | 26.9% |
| GRAND TRAVERSE * | 0 | 189,865 | 751,316 | \$5,651,353 | 11.7% |
| GRATIOT * | 135,000 | 10,000 | 349,600 | \$1,479,339 | 19.1% |
| HILLSDALE | 15,000 | 44,625 | 186,802 | \$1,411,505 | 11.7% |
| HOUGHTON | 4,107 | 17,774 | 303,439 | \$973,571 | 23.8% |
| HURON* | 0 | 0 | 135,642 | \$2,466,743 | 5.2% |
| INGHAM * | 119,197 | 150,356 | n.a. | \$8,440,080 | n.a. |
| IONIA * | 3,900 | 0 | 46,252 | \$1,767,315 | 2.6% |
| IOSCO * | 0 | 597 | 61,364 | \$1,205,254 | 4.8% |
| IRON | 0 | 5,500 | 62,706 | \$537,273 | 10.5% |
| ISABELLA | n.a. | n.a. | 0 | \$1,976,397 | 0.0% |
| JACKSON * | 200,000 | 5,000 | 544,000 | \$4,841,702 | 10.1% |
| KALAMAZOO | 156,552 | 124,749 | 3,387,112 | \$9,211,501 | 26.9% |
| KALKASKA * | 100,000 | 55,000 | 451,000 | \$842,070 | 34.9% |
| KENT * | 1,840,872 | 158,010 | 2,706,893 | \$25,416,818 | 9.6% |
| KEWEENAW | 870 | 6,900 | 44,826 | \$157,158 | 22.2% |

Exhibit 18 (Continued)

| <u>County</u> | Industrial | County | | | Public |
|----------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | Facilities | Tax | Federal | State | and |
| | | | | Municipal | |
| LAKE * | \$118 | \$73,422 | \$41,768 | \$8,266 | \$9,252 |
| LAPEER * | 34,906 | 1,055 | 28,783 | 68,188 | 37,909 |
| LEELANAU | 0 | 707,279 | 28,490 | 109,277 | 6,530 |
| 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 | 4,455 | 153,615 | 45,084 | 40,100 | 43,020 |
| MARQUETTE * | 90 | 64,000 | 45,000 | 24,000 | 210,000 |
| MASON * | 7,350 | 143,000 | 34,700 | 93,300 | 178,600 |
| MECOSTA * | 1,072 | 8,136 | 15,860 | 11,775 | 452,000 |
| MENOMINEE * | 4,473 | 0 | 74,966 | 94 | 705 |
| MIDLAND * | 162,044 | 335 | 9,130 | 75,210 | 90,150 |
| MISSAUKEE | 1,630 | 80 | 58,053 | 30,300 | 68,678 |
| MONROE * | 132,623 | 145 | 10,908 | 80,528 | 177,373 |
| MONTCALM * | 10,868 | n.a. | 0 | n.a. | n.a. |
| MONTMORENCY | 610 | 270 | 220,590 | 1,960 | 936 |
| MUSKEGON | 50,533 | 18,056 | 90,108 | 151,647 | 956,537 |
| NEWAYGO | 16,294 | n.a. | n.a. | n.a. | n.a. |
| OAKLAND * | 271,865 | 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 | 226,033 | 28,637 | 4,586 | 11,261 |
| OSCEOLA | 3,778 | 0 | 4,790 | 5,700 | 23,800 |
| OSCODA | 963 | 160,865 | 55,258 | 12,650 | 19,252 |
| OTSEGO * | 2,041 | 2,016 | 22,300 | 6,285 | 80,000 |
| OTTAWA * | 278,643 | 21,391 | 31,971 | 213,112 | 893,584 |
| PRESQUE ISLE * | 373,177 | 0 | 40,315 | 108,911 | n.a. |
| ROSCOMMON* | 1,485 | 113 | 230,000 | 5,717 | 32,088 |
| SAGINAW * | 154,000 | 28,000 | 162,000 | 220,000 | 715,000 |
| 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 | 4,424 | 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 * | 120,974 | 1,823 | 1,882 | 262,253 | 32,507 |
| WEXFORD * | 18,230 | n.a. | n.a. | n.a. | 0 |
| TOTAL | \$4,878,672 | \$6,689,577 | \$4,052,455 | \$5,489,414 | \$10,032,131 |

Exhibit 18 (Continued)

| <u>County</u> | <u>Personal</u> | | <u>Exempt</u> | <u>Total Taxable</u> | <u>Exempt</u> |
|----------------|--------------------|--------------------|---------------------|---|--|
| | <u>Property</u> | <u>Other</u> | <u>Total</u> | <u>Value Real and</u> <u>Personal Property</u> | <u>as a Percent</u> <u>of Taxable</u> |
| LAKE * | \$680 | \$5,462 | \$138,850 | \$619,424 | 18.3% |
| LAPEER * | 13,111 | 69,962 | 219,008 | \$3,178,925 | 6.4% |
| LEELANAU | 0 | 110,894 | 962,470 | \$3,009,940 | 24.2% |
| LENAWEE * | 0 | 21,000 | 362,400 | \$3,644,791 | 9.0% |
| LIVINGSTON * | 9,364 | 43,531 | 245,776 | \$9,803,981 | 2.4% |
| LUCE * | 650 | 1,749 | 17,321 | \$192,904 | 8.2% |
| MACKINAC * | 7,817 | 2,164 | 131,295 | \$1,081,177 | 10.8% |
| MACOMB * | 159,121 | 415,808 | 4,939,127 | \$29,808,022 | 14.2% |
| MANISTEE | 56,442 | 62,121 | 400,382 | \$1,185,824 | 25.2% |
| MARQUETTE * | 10 | 242,000 | 585,010 | \$2,560,014 | 18.6% |
| MASON * | 0 | 84,000 | 533,600 | \$2,028,023 | 20.8% |
| MECOSTA * | 64,696 | 4,200 | 556,667 | \$1,432,179 | 28.0% |
| MENOMINEE * | 0 | 4,431 | 80,196 | \$818,091 | 8.9% |
| MIDLAND * | 154,540 | 110,240 | 439,605 | \$3,573,832 | 11.0% |
| MISSAUKEE | 0 | 0 | 157,111 | \$667,063 | 19.1% |
| MONROE * | 0 | 8,671 | 277,625 | \$6,461,917 | 4.1% |
| MONTCALM * | 89,554 | 0 | 89,554 | \$1,987,550 | 4.3% |
| MONTMORENCY | 0 | 3,687 | 227,442 | \$506,419 | 31.0% |
| MUSKEGON | 849,251 | 0 | 2,065,599 | \$4,790,920 | 30.1% |
| NEWAYGO | n.a. | 18,265 | 18,265 | \$1,628,898 | 1.1% |
| OAKLAND * | 170,604 | n.a. | 170,604 | \$62,997,745 | 0.3% |
| OCEANA * | 4,100 | 0 | 43,900 | \$1,273,954 | 3.3% |
| OGEMAW * | 0 | 2,844 | 36,331 | \$896,063 | 3.9% |
| ONTONAGON | 27,996 | 117,213 | 415,726 | \$276,956 | 60.0% |
| OSCEOLA | 0 | 6,750 | 41,040 | \$771,247 | 5.1% |
| OSCODA | 3,915 | 4,632 | 256,572 | \$412,495 | 38.3% |
| OTSEGO * | 45,800 | 3,665 | 160,066 | \$1,328,134 | 10.8% |
| OTTAWA * | 0 | 819,463 | 1,979,521 | \$12,476,232 | 13.7% |
| PRESQUE ISLE * | n.a. | n.a. | 149,226 | \$704,538 | 17.5% |
| ROSCOMMON* | 8,400 | 9,514 | 285,832 | \$1,392,572 | 17.0% |
| SAGINAW * | 1,548,000 | 250,000 | 2,923,000 | \$5,327,959 | 35.4% |
| SAINT CLAIR* | 129,346 | 178,053 | 850,371 | 6,479,850 | 11.6% |
| SAINT JOSEPH * | n.a. | n.a. | 0 | 2,099,829 | 0.0% |
| SANILAC | 0 | 7,062 | 7,062 | 1,674,168 | 0.4% |
| SCHOOLCRAFT * | n.a. | n.a. | 48,867 | 378,815 | 11.4% |
| SHIAWASSEE * | 12,000 | 0 | 192,175 | 1,917,000 | 9.1% |
| TUSCOLA* | 0 | 0 | 0 | 1,987,954 | 0.0% |
| VAN BUREN * | 1,500 | 0 | 22,500 | 3,461,389 | 0.6% |
| WASHTENAW * | 774 | 647 | 12,384 | 18,474,642 | 0.1% |
| WAYNE * | 95,484 | 30,391 | 424,340 | 44,211,966 | 1.0% |
| WEXFORD * | n.a. | n.a. | 0 | 1,029,811 | 0.0% |
| TOTAL | \$8,416,403 | \$4,682,949 | \$39,362,930 | \$325,771,332 | 10.8% |

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, 2019

| <u>County</u> | <u>Estimated Acreage</u> | <u>County</u> | <u>Estimated Acreage</u> |
|----------------|------------------------------|----------------|------------------------------|
| ALCONA | 410 | LAKE * | 1,052 |
| ALGER* | 14,000 | LAPEER * | 1,950 |
| ALLEGAN * | 1,000 | LEELANAU | 1,244 |
| ALPENA * | 5,800 | LENAWEE * | 9,200 |
| ANTRIM | 1,000 | LIVINGSTON * | 1,213 |
| ARENAC * | 23,112 | LUCE * | 2,300 |
| BARAGA | 492,120 | MACKINAC * | 240 |
| BARRY | 8,341 | MACOMB * | 5,467 |
| BAY* | 889 | MANISTEE | 4,500 |
| BENZIE * | 554 | MARQUETTE * | 140 |
| BERRIEN * | 20,667 | MASON * | 620 |
| BRANCH * | 425 | MECOSTA * | 2,400 |
| 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 | 2,500 |
| CRAWFORD * | 1,519 | NEWAYGO * | 6,800 |
| DELTA * | 5,295 | OAKLAND * | 4,562 |
| DICKINSON | 250 | OCEANA * | 500 |
| EATON | 3,165 | OGEMAW * | 693 |
| EMMET * | 1,000 | ONTONAGON | 200 |
| GENESEE | 12,000 | OSCEOLA * | 1,285 |
| GLADWIN * | 1,000 | OSCODA * | 193 |
| GOGEBIC | 2,090 | OTSEGO * | 735 |
| GRAND TRAVERSE | 2,484 | OTTAWA * | 7,267 |
| GRATIOT * | 300 | PRESQUE ISLE * | 92,659 |
| HILLSDALE | 2,900 | ROSCOMMON | 1,398 |
| HOUGHTON | 8,075 | SAGINAW * | 4,500 |
| HURON * | 341 | SAINT CLAIR * | 11,972 |
| INGHAM * | n.a. | 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 | 13,300 | TOTAL | <u>1,007,035</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 2021 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 2021 Estimate

Mobile Home Tax Expenditure

\$66,570,000

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 15th and is deposited into the General Fund. The ESA yielded \$125.8 million in FY 2021.

FY 2021 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 \$42.3 million in 2019 (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 \$490.3 million in FY 2021.

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 \$36.2 million in 2019 (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 2019, city income taxes totaled \$611.0 million after raising \$566.0 million in 2018 (see Exhibit 22). For 2021, 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 2021 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 | \$256,300,000 |
| 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 | \$13,470,000 |
| 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 \$40.5 million in 2019.

Exhibit 20
Miscellaneous Local Taxes Kept by Counties, 2019

| <u>County</u> | <u>Accommodations</u> | <u>Mobile Home (County Share)</u> | <u>Real Estate Prop. Trans.</u> |
|----------------|-----------------------|---------------------------------------|-------------------------------------|
| ALCONA | \$0 | \$126 | \$63,039 |
| ALGER * | 0 | 174 | 40,903 |
| ALLEGAN | 0 | 26,171 | 692,715 |
| ALPENA | 0 | 1,310 | 95,714 |
| ANTRIM * | 0 | 343 | 198,945 |
| ARENAC * | 0 | 1,983 | 54,954 |
| BARAGA | 0 | 0 | 20,334 |
| BARRY | 0 | 9,328 | 318,028 |
| BAY | 0 | 11,384 | 315,766 |
| BENZIE * | 0 | 419 | 144,914 |
| BERRIEN * | 0 | 0 | 676,479 |
| BRANCH * | 0 | 4,193 | 140,170 |
| CALHOUN * | 1,436,009 | 82,430 | 433,866 |
| CASS * | 0 | 4,379 | 255,819 |
| CHARLEVOIX | 0 | 3,567 | 315,082 |
| CHEBOYGAN | 0 | 658 | 156,720 |
| CHIPPEWA | 0 | 2,659 | 118,575 |
| CLARE | 0 | 1,679 | 105,667 |
| CLINTON | 0 | 11,148 | 371,968 |
| CRAWFORD | 0 | 114 | 216 |
| DELTA | 0 | 3,966 | 155,668 |
| DICKINSON | 0 | 2,517 | 84,547 |
| EATON * | 0 | 9,336 | 472,141 |
| EMMET | 0 | 2,930 | 537,629 |
| GENESEE | 1,514,826 | 55,040 | 1,639,318 |
| GLADWIN | 0 | 1,815 | 113,422 |
| GOGEBIC * | 0 | 240 | 28,228 |
| GRAND TRAVERSE | 0 | 12,730 | 903,394 |
| GRATIOT * | 0 | 3,851 | 84,427 |
| HILLSDALE | 0 | 1,948 | 164,211 |
| HOUGHTON * | 0 | 0 | 93,099 |
| HURON | 0 | 2,866 | 151,365 |
| INGHAM * | 3,195,664 | 13,495 | 1,079,039 |
| IONIA | 0 | 5,111 | 207,252 |
| IOSCO | 0 | 1,641 | 108,054 |
| IRON | 0 | 126 | 77,167 |
| ISABELLA | 0 | 4,450 | 237,817 |
| JACKSON | 0 | 26,060 | 674,839 |
| KALAMAZOO * | 2,851,544 | 27,062 | 1,270,656 |
| KALKASKA * | 0 | 110 | 77,915 |
| KENT | 11,371,398 | 55,117 | 4,328,833 |
| KEWEENAW * | 0 | 0 | 18,802 |

Exhibit 20 (Continued)

| <u>County</u> | <u>Accommodations</u> | <u>Mobile Home (County Share)</u> | <u>Real Estate Prop. Trans.</u> |
|----------------|-----------------------|---------------------------------------|-------------------------------------|
| LAKE | \$0 | \$0 | \$63,030 |
| LAPEER * | 0 | 10,397 | 411,685 |
| LEELANAU | 0 | 630 | 355,202 |
| LENAWEE | 0 | 11,256 | 426,613 |
| LIVINGSTON | 0 | 25,147 | 1,485,488 |
| LUCE | 0 | 0 | 37,787 |
| MACKINAC | 0 | 0 | 150,092 |
| MACOMB * | 0 | 71,371 | 4,468,553 |
| MANISTEE | 0 | 156 | 134,363 |
| MARQUETTE * | 0 | 2,598 | 271,997 |
| MASON | 0 | 3,621 | 138,379 |
| MECOSTA | 0 | 2,607 | 170,566 |
| MENOMINEE | 0 | 2,147 | 110,035 |
| MIDLAND | 0 | 5,488 | 451,958 |
| MISSAUKEE | 0 | 47 | 0 |
| MONROE * | 0 | 40,190 | 727,451 |
| MONTCALM | 0 | 4,045 | 236,131 |
| MONTMORENCY * | 0 | 74 | 54,110 |
| MUSKEGON | 909,648 | 20,955 | 669,497 |
| NEWAYGO | 0 | 6,156 | 192,377 |
| OAKLAND | 0 | 98,399 | 0 |
| OCEANA | 0 | 1,487 | 126,400 |
| OGEMAW * | 0 | 457 | 38,328 |
| ONTONAGON | 0 | 0 | 61,641 |
| OSCEOLA | 0 | 128 | 77,872 |
| OSCODA | 0 | 42 | 37,782 |
| OTSEGO | 0 | 519 | 159,792 |
| OTTAWA | 0 | 37,513 | 2,056,550 |
| PRESQUE ISLE * | 0 | 354 | 32,736 |
| ROSCOMMON * | 0 | 1,833 | 162,807 |
| SAGINAW | 3,274,668 | 12,499 | 630,034 |
| SAINT CLAIR * | 0 | 19,246 | 673,451 |
| SAINT JOSEPH * | 0 | 4,069 | 240,257 |
| SANILAC * | 0 | 6,402 | 127,945 |
| SCHOOLCRAFT | 0 | 0 | 46,438 |
| SHIAWASSEE * | 0 | 14,686 | 218,675 |
| TUSCOLA | 0 | 3,862 | 154,913 |
| VAN BUREN | 0 | 460 | 100,307 |
| WASHTENAW | 6,871,041 | 39,647 | 2,846,865 |
| WAYNE * | 4,788,153 | 86,032 | 6,792,972 |
| WEXFORD * | 0 | 2,194 | 120,721 |
| TOTAL | \$36,212,951 | \$929,182 | \$42,289,496 |

* Figures carried forward from a previous year.

Exhibit 21
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2019

| <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 | 15,966 | \$95,796 | 2,668 | \$9,541 |
| Battle Creek | 42,409 | 318,068 | 38,132 | 142,995 |
| Benton Harbor | 861 | 6,458 | 4,031 | 15,116 |
| Big Rapids* | 2,551 | 15,306 | 11,316 | 33,948 |
| Detroit | 322,842 | 4,648,925 | 381,518 | 2,746,930 |
| East Lansing | 14,317 | 85,902 | 37,502 | 112,506 |
| Flint | 36,572 | 219,432 | 70,867 | 212,601 |
| Grand Rapids | 121,790 | 1,096,110 | 165,836 | 746,262 |
| Grayling * | 666 | 19,980 | 3,893 | 58,395 |
| Hamtramck | 18,109 | 108,654 | 9,885 | 29,655 |
| Highland Park | 6,082 | 72,984 | 5,747 | 34,482 |
| Hudson * | 1,625 | 16,250 | 1,512 | 7,560 |
| Ionia | 4,628 | 32,396 | 13,096 | 45,836 |
| Jackson * | 14,819 | 88,914 | 29,690 | 89,070 |
| Lansing * | 66,413 | 398,478 | 113,453 | 340,359 |
| Lapeer * | 4,842 | 29,052 | 28,154 | 84,462 |
| Muskegon | 10,509 | 63,054 | 24,378 | 73,134 |
| Muskegon Heights | 1,277 | 7,662 | 3,019 | 9,057 |
| Pontiac * | 18,782 | 112,692 | 55,534 | 166,602 |
| Port Huron | 10,983 | 65,898 | 17,350 | 52,050 |
| Portland | 2,995 | 29,950 | 2,326 | 11,630 |
| Saginaw | 26,044 | 292,995 | 35,962 | 202,286 |
| Springfield * | 3,604 | 27,030 | 5,700 | 21,375 |
| Walker | 21,725 | 130,350 | 36,902 | 110,706 |
| TOTAL | 770,411 | \$7,982,335 | 1,098,471 | \$5,356,558 |

* Used from previous year's survey

Exhibit 22
City Tax Rates and Exemption Allowances, 2021

| <u>City</u> | <u>City Income Tax Rate</u> | | | <u>Personal Exemption</u> | <u>Collections (000s)</u> |
|------------------|-----------------------------|---------------------|--------------------|---------------------------|---------------------------|
| | <u>Resident</u> | <u>Non-Resident</u> | <u>Corporation</u> | | |
| Albion | 1.00% | 0.50% | 1.00% | \$600 | \$1,061 |
| Battle Creek | 1.00% | 0.50% | 1.00% | 750 | 16,656 |
| Big Rapids | 1.00% | 0.50% | 1.00% | 600 | 2,098 |
| Detroit | 2.40% | 1.20% | 2.00% | 600 | 282,153 |
| Flint | 1.00% | 0.50% | 1.00% | 600 | 15,604 |
| Grand Rapids | 1.50% | 0.75% | 1.50% | 600 | 90,553 |
| Grayling | 1.00% | 0.50% | 1.00% | 3,000 | 552 |
| Hamtramck | 1.00% | 0.50% | 1.00% | 600 | 2,202 |
| Highland Park | 2.00% | 1.00% | 2.00% | 600 | 3,398 |
| Hudson | 1.00% | 0.50% | 1.00% | 1,000 | 463 |
| Ionia | 1.00% | 0.50% | 1.00% | 700 | 2,326 |
| Jackson | 1.00% | 0.50% | 1.00% | 600 | 8,307 |
| Lansing | 1.00% | 0.50% | 1.00% | 600 | 34,077 |
| Lapeer | 1.00% | 0.50% | 1.00% | 600 | 3,173 |
| Muskegon | 1.00% | 0.50% | 1.00% | 600 | 8,291 |
| Muskegon Heights | 1.00% | 0.50% | 1.00% | 600 | 1,050 |
| Pontiac | 1.00% | 0.50% | 1.00% | 600 | 12,625 |
| Port Huron | 1.00% | 0.50% | 1.00% | 600 | 6,532 |
| Portland | 1.00% | 0.50% | 1.00% | 1,000 | 624 |
| Saginaw | 1.50% | 0.75% | 1.50% | 750 | 12,998 |
| Springfield | 1.00% | 0.50% | 1.00% | 750 | 930 |
| Walker | 1.00% | 0.50% | 1.00% | 600 | 11,082 |
| TOTAL | | | | | \$516,755 |