

**MICHIGAN'S INDIVIDUAL INCOME TAX
1998**



MICHIGAN
DEPARTMENT OF
TREASURY

**Office of Revenue and Tax Analysis
Michigan Department of Treasury
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I. EXECUTIVE SUMMARY

Returns and Revenue

For the tax year 1998, Michigan's personal income tax generated more than \$5.9 billion in state revenues after all credits and refunds were paid.

Net revenue increased \$379.0 million (6.8 percent) from 1997 levels. Adjusted gross income (AGI) increased by \$14.4 billion (7.6 percent) from 1997 to 1998.¹

Over 4.35 million returns were filed for the 1998 tax year, approximately 41,400 (1.0 percent) more than the previous year.

Although the personal income tax was levied at a nominal flat rate of 4.4 percent, the effective tax rate varied from negative 7.1 percent for filers with an AGI under \$2,000 to positive 3.2 percent for taxpayers with an AGI above \$50,000. The overall effective rate was 2.9 percent. The negative effective rates for lower incomes arise because some taxpayers receive net payments from the state, due principally to the refundable credits for property taxes and home heating expenses.

Property Tax Credit

Over 1.1 million Michigan homeowners, renters, and farmers received \$469.7 million in property tax credits for 1998, including farmland preservation credits. The average property tax credit was \$416.12. The total amount of property tax credits increased by almost \$7.0 million (1.5 percent) with 12,500 fewer taxpayers benefiting compared to tax year 1997.

Senior citizens received over \$218.2 million in homestead property tax credits, an increase of \$1.5 million from tax year 1997. For the more than 374,800 senior citizens receiving homestead property tax credits, the average credit was \$582.16.

Home Heating Credit

Home heating credits totaled \$45.4 million for tax year 1998 with 304,700 households qualifying for an average credit of \$148.93. Home heating credits increased almost \$1.1 million from 1997 although 7,800 fewer taxpayers claimed the credit.

City Income Tax Credit

In 1998, city income tax credits were claimed by more than 1 million taxpayers amounting to \$37.4 million in total credits. This was an increase of \$599,200 from the prior year with an additional 8,700 taxpayers claiming the credit.

¹ The AGI above includes returns reporting a negative AGI totaling a negative \$1.212 billion. AGI data for these returns were not available prior to 1997. The data for negative AGI returns are used throughout this report unless otherwise noted.

College Contribution Credit

Michigan taxpayers claimed over \$22.0 million in credits for contributions to Michigan colleges, libraries, museums, and public broadcasting stations for tax year 1998. This was an increase of \$486,600 over tax year 1997, although 600 fewer taxpayers claimed the credit.

Community Foundation Credit

For tax year 1998, 21,200 taxpayers claimed \$2.0 million in community foundation credits. This was an increase of 2,300 taxpayers and \$253,100 in credits from 1997.

Prescription Drug Credit

Taxpayers claimed 30,900 prescription drug credits totaling \$15.2 million for tax year 1998. This was almost a \$1.0 million decrease from the 1997 total with 3,300 fewer taxpayers claiming the credit.

Homeless Shelter/Food Bank Credit

Taxpayers claimed 157,800 homeless shelter/food bank credits totaling \$11.2 million for tax year 1998. Compared with tax year 1997, this was an increase of \$1.0 million with an additional 10,300 taxpayers claiming a credit.

College Tuition Credit

For tax year 1998, 134,700 taxpayers claimed \$22.6 million in tuition credits. Compared with tax year 1997, this was an increase of \$10.5 million with 27,900 more taxpayers claiming a credit.

Tax Law Changes

Michigan's 1994 school finance reforms, known as "Proposal A," dramatically changed the tax structure in Michigan. Local school property taxes were greatly reduced and voters chose to replace those property taxes with a higher sales tax, along with a mix of other taxes. The income tax was affected in two ways: the rate was lowered to 4.4 percent on May 1, 1994, and lower property taxes resulted in a reduced total of homestead property tax credits. While these two changes tend to offset one another, strong economic growth since the passage of Proposal A has resulted in increased income tax revenues.

Public Acts 1 through 6 of 1999 reduced the Michigan income tax rate over a period of 5 years from 4.4 percent to 3.9 percent, beginning in tax year 2000. The tax rate for 2000 was further reduced to 4.2 percent by Public Act 40 of 2000. There was also a change in the percentage of income tax revenue earmarked to the School Aid Fund (SAF). Since October 1, 1996, 23 percent of gross collections before refunds have been allocated to the SAF. On January 1, 2000, the percentage of gross collections earmarked to the SAF became 1.012 percent divided by the income tax rate. The new formula will increase the percentage of income tax revenues allocated to school aid as the income tax rate declines, and ensure that the income tax rate cut reduces General Fund/General Purpose (GF/GP) revenues, but not SAF revenues.

II. INTRODUCTION

This report summarizes information regarding the Michigan individual income tax for tax year 1998. It is based on returns filed and processed in calendar year 1999.

Section III reports the history of the Michigan individual income tax. Section IV presents an overview of the number of taxpayers, revenue collections, refunds, and effective tax rates. Section V details the major income tax credits, while Section VI discusses the designated contributions listed on the personal income tax form. Section VII compares Michigan's personal income tax to the income taxes levied by other states. Section VIII lists the geographic pattern of revenue and credits by county.

The Michigan income tax builds on the federal income tax, specifically federal AGI. As such, changes in federal law that alter the calculation of AGI will generally impact both the Michigan income tax base and tax revenues. For example, the Tax Reform Act of 1986 resulted in the most significant changes in Michigan's income tax base since the state income tax was enacted in 1967. Section IX summarizes the significant changes in federal law and how those affect Michigan's income tax base. Section X summarizes the Michigan Public Acts of 1998, 1999, and 2000 that amend the Individual Income Tax or City Income Tax Acts.

Section XI contains tables and charts presenting detailed data on returns, exemptions, credits, revenue, and effective tax rates. The analysis is based on the 4.35 million returns on file with the Michigan Department of Treasury. Details of the methods used in obtaining the data and estimates contained in this report are available from Treasury's Office of Revenue and Tax Analysis.

III. HISTORY OF THE MICHIGAN INDIVIDUAL INCOME TAX

The Michigan individual income tax became effective on October 1, 1967 under Public Act 281. The tax was enacted to help eliminate a state budget deficit. When originally enacted, the state income tax was levied at 2.6 percent and allowed a \$1,200 personal exemption per dependent. On August 1, 1971, the personal income tax rate was raised to 3.9 percent. In 1973, the personal exemption was increased to \$1,500 and the homestead property tax credit was established. The income tax rate rose to 4.6 percent on May 1, 1975 to offset revenue lost from the new sales tax exemption for food and prescription drugs. Initially scheduled to return to 4.4 percent on July 1, 1977, the state income tax rate was permanently set at 4.6 percent on June 30, 1977.

Michigan suffered from budget deficits in the early 1980s due to an economic recession. In response, the state income tax rate was temporarily raised to 5.6 percent between April 1 and September 30, 1982. In 1983, the income tax rate was increased to 6.35 percent. In 1984, the income tax rate was lowered to 5.85 percent and to 5.33 percent in 1985. In 1986, the rate was lowered back to 4.6 percent. The rate was lowered to 4.4 percent on May 1, 1994, following the passage of the property tax reform package known as Proposal A. For the 1995 tax year, the Headlee Amendment Refund reduced the income tax liability of all Michigan taxpayers by 2.0 percent, effectively lowering the statutory tax rate to 4.312 percent. On January 1, 2000, the income tax rate declined to 4.2 percent and will remain there throughout 2001. Beginning in 2002, the income tax rate will decline by 0.1 percentage point for three years, bringing the rate to 3.9 percent in 2004 and thereafter.

Since the Michigan income tax is based on federal AGI, changes in federal tax law can affect Michigan income tax collections. The broad changes in federal AGI effected by the Tax Reform Act of 1986 increased the Michigan income tax base. In response, the personal exemption was increased 40 percent from 1986 to 1990. The exemption increased to \$1,600 in 1987, \$1,800 in 1988, \$2,000 in 1989, and \$2,100 in 1990. Public Act 2 of 1995 increased the personal exemption to \$2,400 for tax years 1995 and 1996. The exemption increased to \$2,500 in 1997 and Public Act 3 of 1995 indexed the personal exemption for inflation in \$100 increments after tax year 1997. Public Act 86 of 1997 increased the personal exemption by an additional \$200 starting in tax year 1998.

The Michigan individual income tax is a flat rate tax. The Michigan Constitution prohibits graduated income tax rates. Proposals to switch to graduated rates were defeated by voters in 1968, 1972, and 1976. A degree of progressivity is achieved with exemptions and credits, such as the homestead property tax and home heating credits. These provisions help to make the tax less burdensome on lower income taxpayers.

A portion of income tax revenue is earmarked to the SAF with the remainder allocated as GF/GP revenues. Beginning in fiscal year 1996-97, 23 percent of gross income tax collections are statutorily allocated to the SAF with the remainder of net income tax revenue allocated to GF/GP. The percentage of gross income tax collections earmarked to the SAF changed beginning in tax year 2000 to equal 1.012 percent divided by the income tax rate. For example, the 2000 income tax rate of 4.2 percent will result in an SAF earmarking percentage of approximately 24.1 percent.

IV. INCIDENCE OF THE INDIVIDUAL INCOME TAX

The Michigan individual income tax is based on federal AGI with additions (principally interest on obligations issued by other states) and subtractions (including income from U.S. Government bonds, military pay, social security benefits, most pension income, and income attributable to another state). In 1998, a \$2,800 per-person personal exemption was allowed, while an extra \$900 exemption was provided for senior citizens, filers with certain disabilities, and filers receiving at least 50 percent of their AGI from unemployment compensation. Credits were provided for property taxes, city income taxes, taxes paid to another state, home heating expenses, certain tuition paid to Michigan colleges, and contributions to Michigan colleges, community foundations, and food banks.

For tax year 1998, 4.35 million MI-1040 returns were filed, which represented an increase of 41,400 from 1997. An additional 312,251 “credit-only” returns were filed for 1998. These returns only claim a property tax credit, prescription drug credit, home heating credit, or some combination of these credits without filing an MI-1040. A new methodology was used to calculate the number of these returns beginning in 1998. Using the revised method, there were 340,256 credit-only returns in 1997, approximately 54,200 fewer than reported in 1997. For tax year 1998, 3,048 returns claimed only a prescription drug credit, 52,907 returns claimed only a home heating credit, 66,397 claimed only a property tax credit, and 88,286 claimed a combination of the refundable credits.

The personal income tax generated \$5.9 billion in net revenue for tax year 1998, which is total revenue after all credits and refunds are paid. Net income tax revenues increased \$379.0 million (6.8 percent) from 1997. The increase in income tax revenues was due primarily to economic growth in Michigan. AGI increased by \$14.4 billion (7.6 percent) from 1997 to 1998. The increase in the general price level (1.6 percent in 1998) also contributes to higher income tax revenues.

Exhibit 1 presents a historical comparison of income tax rates and revenues. The number of income tax returns and tax revenues both generally increase when the economy expands and decrease during a recession, such as in 1991. Changes in AGI are composed of both changes in income and changes in the definition of AGI at the federal level. For example, ending the 60 percent deduction for capital gains and including all unemployment benefits increased AGI beginning in 1987.

Even though the nominal personal income tax was levied at a flat 4.4 percent in 1998, exemptions and credits helped to lessen the relative burden on taxpayers with lower adjusted gross incomes. As shown in Exhibit 10, the effective tax rate varied from negative 7.1 percent for taxpayers in the \$0 - \$2,000 AGI group to positive 3.2 percent for taxpayers with an AGI above \$50,000. Overall, the effective tax rate was 2.9 percent rather than the nominal 4.4 percent. Taxpayers with AGIs of less than \$10,000 on average received net payments from the state, mostly due to refundable credits for property taxes and the home heating credit. The effective rates in Exhibit 10 were calculated before the deduction of the farmland credit and the prescription drug credit, because the distribution of these credits by AGI is not available. Farmland credits totaled over \$18.0 million in 1998 and prescription drug credits totaled \$15.2

million. Subtracting these credits reduces the effective rate by a marginal amount. The average effective tax rate was nearly the same in 1998 and 1997. Exhibits 2 and 3 report net revenue collections and average effective rates, respectively.

Exhibit 12 details the effects of the personal exemption, various adjustments, and credits on the distribution of the Michigan income tax burden. The personal exemption and property tax credit were the major provisions that reduced the effective tax rate. In addition, the personal exemption, property tax credit, and home heating credit make Michigan's income tax more progressive, since these provisions decline as a percentage of AGI as income increases. The non-refundable credits, which include the city income tax, college tuition, and college contribution credits, have a much more proportional effect on income. Exhibit 4 reveals the influence of the various exemptions and credits on the effective tax rate and illustrates the data in Exhibit 12. As a percentage of income, the \$2,800 personal exemption and property tax credit benefit lower income taxpayers the most, while reducing the effective tax rate for all taxpayers.

Michigan taxpayers claimed over 8.7 million personal exemptions in 1998. Since the total exemption amount for some taxpayers is greater than their income, not all exemptions were used at lower income levels. As noted in Exhibit 10, there were more than 8.0 million effective exemptions, i.e., exemptions that actually offset income. For the lowest income groups, the personal exemption offsets all income.

The Michigan tax data overstate the aggregate effective tax rate, since taxpayers who itemize deductions on their federal returns may deduct their state income tax. For tax year 1998, 32.7 percent of Michigan taxpayers itemized deductions on their federal income tax returns.² With federal deductibility, taxpayers offset part of their state income tax with a lower federal tax liability. For example, taxpayers in the 28 percent federal income tax bracket who itemized would have up to 28 percent of their state income tax offset by lower federal income tax liability. Federal deductibility provides greater benefits to taxpayers with higher incomes, because higher income people are both more likely to itemize their deductions and face higher marginal tax rates. For 1998, 94 percent of Michigan taxpayers reporting an AGI of \$100,000 or more itemized their deductions, while 40 percent of taxpayers with an AGI between \$20,000 and \$75,000 itemized.³ While providing relief for some taxpayers, federal deductibility in general reduces the progressivity of the Michigan income tax.

² Information on itemized deductions was obtained from *Statistics of Income Bulletin, Spring 2000*, published by the Internal Revenue Service.

³ *Statistics of Income Bulletin, Spring 2000*.

Exhibit 1
Fifteen-Year History of Income Tax Rates and Revenue

<u>Year</u>	<u>Number of 1040s Filed</u>	<u>Adjusted Gross Income</u>	<u>Average AGI</u>	<u>Nominal Rate</u>	<u>Average Effective Rate</u>	<u>Revenue</u>
1984	3,450,900	\$79,819,877,500	\$23,130	5.85	3.76	\$3,001,955,165
1985	3,517,000	86,201,065,200	24,510	5.33	3.50	3,015,007,700
1986	3,729,300	96,915,547,900	25,988	4.60	3.04	2,942,762,400
1987	3,763,900	103,933,417,600	27,613	4.60	3.01	3,127,237,800
1988	3,880,300	116,315,971,600	29,976	4.60	2.95	3,436,724,700
1989	3,977,900	124,400,414,100	31,273	4.60	2.88	3,579,951,000
1990	4,022,300	127,897,387,600	31,797	4.60	2.85	3,647,260,200
1991	4,011,600	131,533,587,500	32,788	4.60	2.74	3,607,799,000
1992	3,984,600	134,802,283,400	33,831	4.60	2.77	3,730,007,100
1993	4,034,000	141,599,188,400	35,101	4.60	2.75	3,888,847,900
1994	4,123,200	153,895,394,200	37,324	4.47	3.03	4,668,579,100
1995	4,214,300	167,307,933,500	39,700	4.40	2.87	4,794,937,300
1996	4,260,200	180,087,338,100	42,272	4.40	2.88	5,177,919,400
1997	4,308,600	190,806,002,400	44,285	4.40	2.90	5,540,653,700
1998	4,350,000	205,229,640,000	47,179	4.40	2.88	5,919,624,100

Exhibit 2
Individual Income Tax
Annual Collections
(billions of dollars)

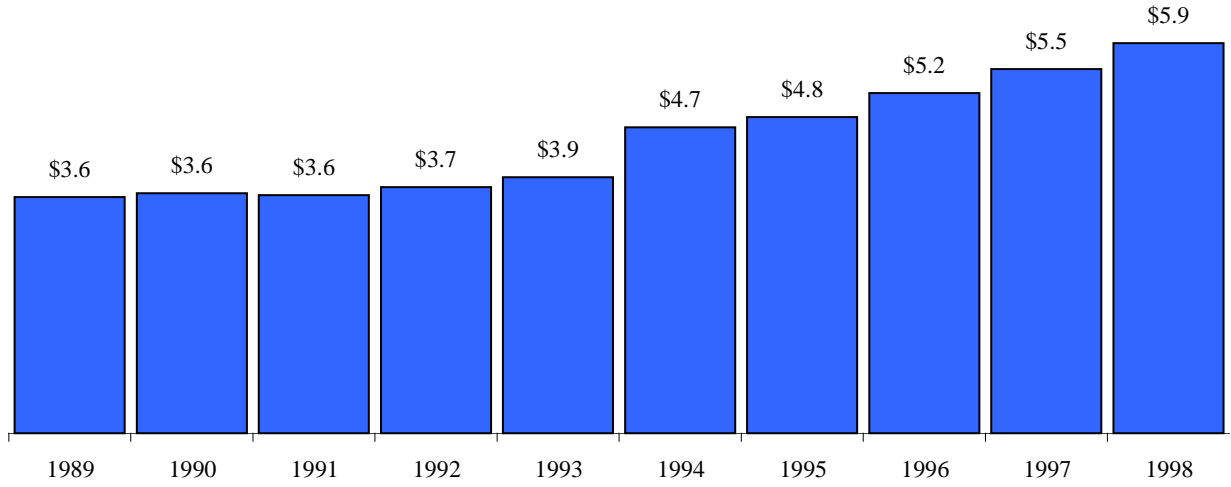


Exhibit 3
Individual Income Tax
Effective Tax Rate

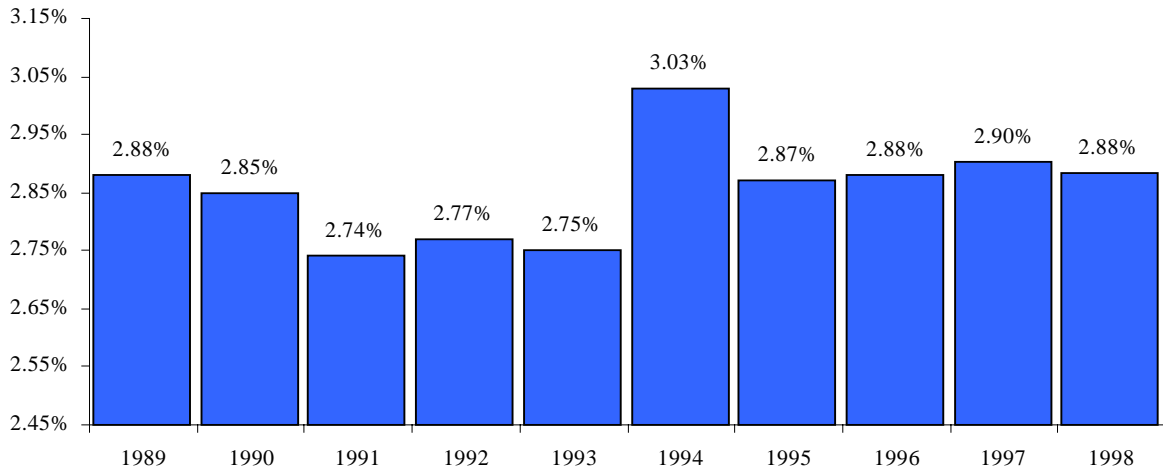
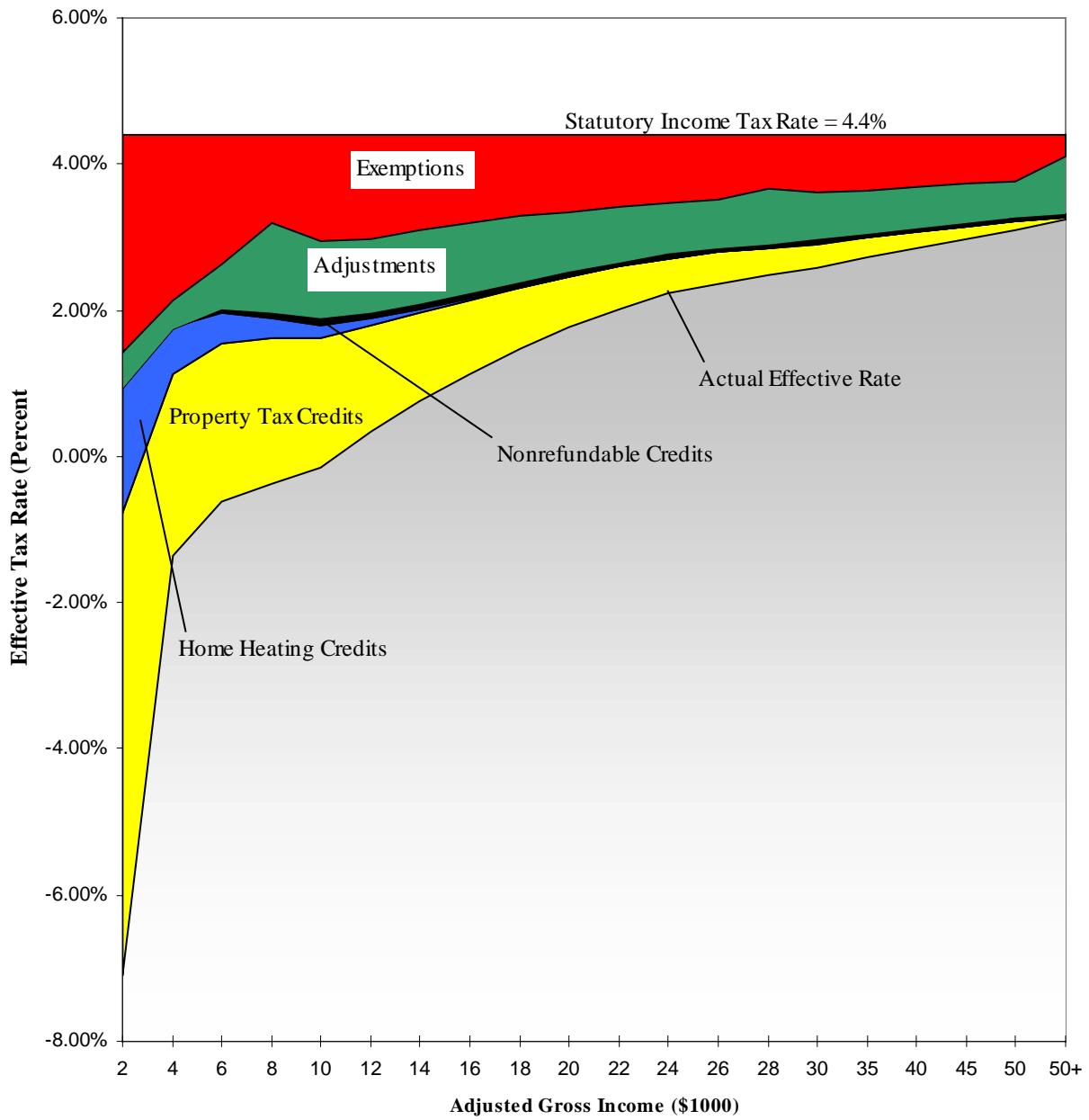


Exhibit 4
Effective Income Tax Rate, 1998



V. INCOME TAX CREDITS

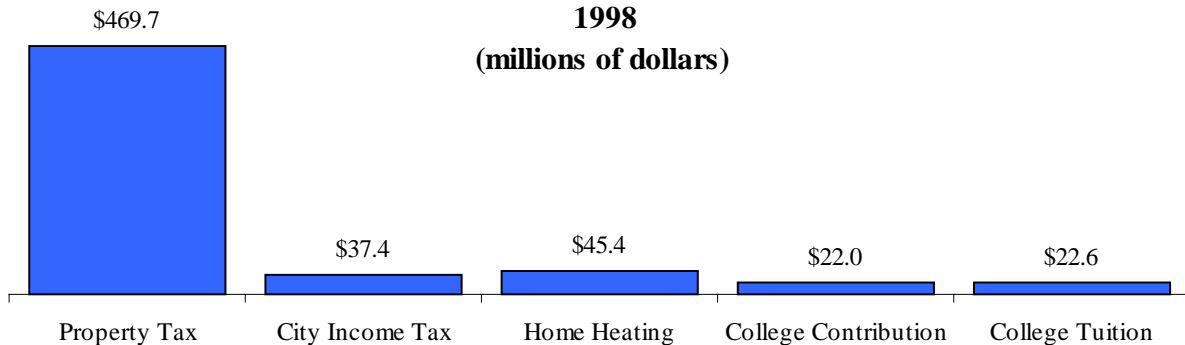
Property Tax Credit

Michigan’s property tax credit system is a “circuit breaker” system relating property taxes to total income. When property taxes exceed specific income thresholds, the system “trips” to provide relief to taxpayers. Senior citizens received the largest credits with other homeowners and renters also eligible to receive credits. Homeowners and renters receive credits equal to 60 percent of the amount by which homestead property taxes (or 20 percent of rent for renters) exceed 3.5 percent of income. Seniors and filers with certain disabilities receive a credit for 100 percent of their property taxes above specified income percentages, as follows:

<u>Income</u>	<u>Percent Not Refundable</u>
\$ 0 - \$3,000	0.0%
\$3,001 - \$4,000	1.0%
\$4,001 - \$5,000	2.0%
\$5,001 - \$6,000	3.0%
Over \$6,000	3.5%

Over 1.1 million Michigan taxpayers received \$451.7 million of homestead property tax credits and \$18.0 million in farmland preservation property tax credits in 1999 (1998 returns). Michigan’s property tax credit program is one of the largest property tax relief programs in the country. The \$469.7 million in total property tax credits represented an increase of \$7.0 million from a year ago, although 12,500 fewer taxpayers received assistance. Senior citizens received \$218.2 million of the credits, a \$1.5 million increase from 1997. Exhibit 5 illustrates the amount of money paid to taxpayers for property tax credits compared to other tax credits.

Exhibit 5
Individual Income Tax Credits
1998
(millions of dollars)



The average 1998 homestead property tax credit was \$402.92 (excluding the farmland credit), a \$10.16 increase from the tax year 1997 average. Senior citizens' credits averaged \$582.16, a \$22.20 increase from 1997. Following is a summary of the number of credits received by taxpayers, according to AGI levels.

	<u>Adjusted Gross Income</u>	<u>Number of Credits Allowed</u>	<u>Dollar Amount of Credits</u>	<u>Average Credit</u>
Under	\$10,000	404,100	\$182,956,300	\$452.81
	\$10,001 - \$20,000	281,000	109,487,900	389.68
	\$20,001 - \$50,000	344,100	121,832,700	354.02
	Over \$50,000	<u>91,800</u>	<u>37,377,500</u>	<u>407.11</u>
Totals		1,121,000	\$451,654,400	\$402.92

The table above and Exhibit 12 confirm that the homestead property tax credit is a progressive element in the state income tax structure. Credits as a fraction of AGI decline continuously as incomes rise. While accounting for only 5.4 percent of total AGI, taxpayers with incomes between \$10,000 and \$20,000 received approximately 24.2 percent of the total homestead credits. On the other hand, taxpayers with AGIs over \$50,000 accounted for 70.9 percent of total 1998 Michigan AGI, but received only 8.3 percent of total homestead credits.

The farmland preservation program, originally Public Act 116 of 1974 which was replaced by Public Act 451 of 1994 (part 361 of chapter 1, article III of the Natural Resources and Environmental Protection Act), provides property tax relief for farmers. Under the farmland program, farmers may receive additional property tax relief by entering into an agreement with the state not to convert the farmland to other uses for at least seven years. The program benefited approximately 7,700 farms in 1998, providing credits of \$18.0 million for an average credit of \$2,332.

Public Act 269 of 1982 provides a special tax credit for senior citizens with high rent burdens. This additional credit is the amount by which rent paid exceeds 40 percent of household income. For 1998, 12,100 senior citizens claimed an additional \$4.3 million using this alternate calculation. These amounts represent a decrease of \$366,700 from 1997 with 600 fewer people claiming the credit. The amount of this credit is included in the senior citizens' homestead property tax credit statistics, but shown separately in Exhibit 15.

Home Heating Credit

The home heating credit program, designed to help low-income taxpayers with the high cost of heating their homes, is financed with state and federal funds. The maximum credit allowable is based on the number of exemptions claimed by the household. Senior citizens, disabled, and blind individuals are entitled to extra exemptions.

Home heating credits totaled \$45.4 million for tax year 1998 with 304,700 households qualifying. This represented a \$1.1 million increase over the previous year with 7,800 fewer households receiving assistance. Prior to 1991, recipients of Aid to Families with Dependent Children or General Assistance were not eligible for this credit, but were provided comparable benefits from other state and local programs. Senior citizens received \$9.9 million of the \$45.4 million in home heating credits claimed for tax year 1998.

	<u>Number of Credits Allowed</u>	<u>Dollar Amount of Credits</u>	<u>Average Credit</u>
Senior Citizen	79,700	\$9,918,600	\$124.38
General	206,400	32,903,100	159.42
Handicapped	17,500	2,420,500	138.49
Veteran	<u>1,100</u>	<u>138,000</u>	<u>124.80</u>
Totals	304,700	\$45,380,200	\$148.93

Approximately 23,700 taxpayers used the alternative calculation based on energy consumption claiming credits worth \$6.7 million. The average credit under the standard calculation was \$136.77 compared to \$282.67 under the alternative calculation.

City Income Tax Credit

Partial credit is allowed for taxpayers who paid city income taxes to select Michigan cities. The credit is based on the amount paid less any refunds. The credit converts the flat rate income tax (1.0 percent for city residents and 0.5 percent for nonresidents for most cities) into a slightly progressive tax structure. The credit is calculated as follows:

<u>City Income Tax</u>	<u>Credit</u>
Under \$100	20 Percent
\$101 - \$150	\$20.00 + 10 percent of excess over \$100
Over \$150	\$25.00 + 5 percent of excess over \$150

In 1998, 22 cities in Michigan levied an income tax: Albion, Battle Creek, Big Rapids, Detroit, Flint, Grand Rapids, Grayling, Hamtramck, Highland Park, Hudson, Ionia, Jackson, Lansing, Lapeer, Muskegon, Muskegon Heights, Pontiac, Port Huron, Portland, Saginaw, Springfield and Walker. City income tax credits amounted to \$37.4 million for tax year 1998, a \$599,200 increase from 1997, while the number of claimants increased by 8,700. The following table lists the number of city income tax credits, total credits received, and the average city income tax credit for taxpayers at different levels of AGI.

<u>Adjusted Gross Income</u>	<u>Number of Credits Allowed</u>	<u>Dollar Amount of Credits</u>	<u>Average Credit</u>
Under \$10,000	159,973	\$1,980,470	\$12.38
\$10,001 - \$20,000	161,326	3,847,111	23.85
\$20,001 - \$50,000	342,272	12,350,335	36.08
Over \$50,000	<u>360,430</u>	<u>19,220,673</u>	53.33
Totals	1,024,001	\$37,398,589	\$36.52

College Contribution Credit

Taxpayers may claim partial credits for contributions to Michigan colleges and universities, public libraries and museums, and public broadcasting stations. The credit is equal to 50 percent of the amount contributed up to a maximum credit of \$200 for a joint return (\$100 on a single return). For 1998, 264,800 taxpayers received more than \$22.0 million in credits. Credits increased by almost \$500,000 from the prior year when 265,400 taxpayers received \$21.6 million in credits.

Community Foundation Credit

The community foundation credit, implemented in tax year 1989, is a partial credit for donations to specified community foundations. The credit is equal to 50 percent of the donation up to a maximum of \$200 for a joint return (\$100 on a single return). For tax year 1998, 21,200 taxpayers claimed \$2.0 million in community foundation credits. This was an increase of 2,300 taxpayers and \$253,000 in credits from 1997.

Prescription Drug Credit

The prescription drug credit was established to help low income senior citizens pay for medication prescribed by their doctors. The credit is calculated by subtracting 5 percent of household income from non-reimbursed prescriptions. The maximum credit is \$600 per senior, or \$1,200 for a joint return with two seniors. State law limits the total amount for all prescription drug credits and grants under a pharmaceutical assistance program to \$20 million. For tax year 1998, 30,900 taxpayers claimed \$15.2 million in prescription drug credits, an average of \$493.65 per credit. The totals for 1998 represented a decline in claimants of 3,300 and \$1.0 million less in total credits paid.

Homeless Shelter/Food Bank Credit

The homeless shelter/food bank credit provides a partial credit for cash donations to a qualifying homeless shelter, food bank, or food kitchen whose primary purpose is to give accommodations or food to indigent persons. The credit is equal to 50 percent of the donation up to a maximum of \$200 for a joint return (\$100 on a single return). For tax year 1998, 157,800 taxpayers

claimed \$11.2 million in food bank credits. This represented an increase of 10,300 taxpayers and \$1.0 million in credits claimed over the previous tax year.

College Tuition and Fees Credit

Created by Public Act 7 of 1996, the college tuition and fees credit allows taxpayers with AGIs of less than \$200,000 to claim a credit equal to a percentage of undergraduate tuition and fee payments made on the behalf of the taxpayer or any other student. Residents may claim the credit only if the school has certified that tuition and fees will not increase by more than the rate of inflation. For tax year 1998, 134,700 taxpayers claimed the credit, 27,900 more than in 1997. The \$22.6 million in credits for 1998 represented an increase of \$10.5 million from tax year 1997.

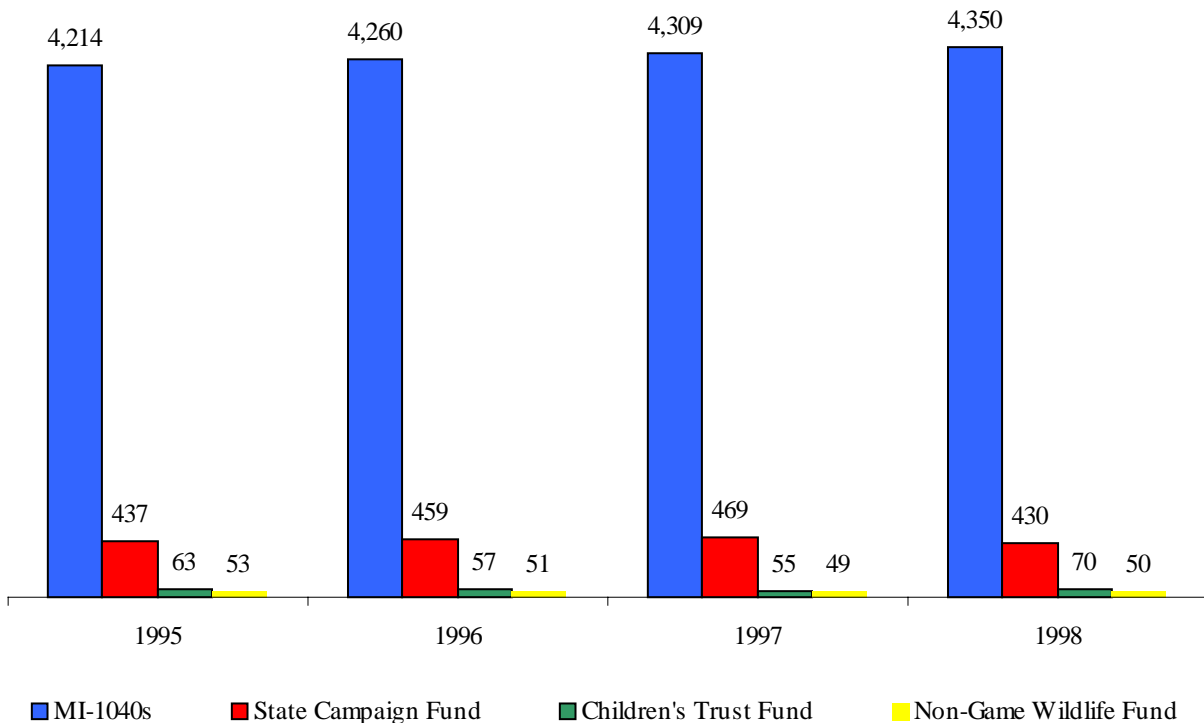
VI. DESIGNATED CONTRIBUTIONS

For the 1998 tax year, taxpayers were able to designate \$3.00 of their tax liability for the State Campaign Fund, which supports the state gubernatorial campaigns. For 1998, 429,600 taxpayers contributed \$1.29 million to the State Campaign Fund. On average, there is one designation for every 10 returns.

Taxpayers may donate a portion of their income tax refund or increase their liability to help finance the Children’s Trust Fund (CTF), created by Public Act 211 of 1982. Contributions are returned to local communities and dedicated to the prevention of child abuse. For 1998, 70,500 filers contributed \$859,000 toward the CTF. On average, there is one contribution for every 62 returns.

Taxpayers may designate a portion of their refund or increase their liability to support the Michigan Non-Game Fish and Wildlife Fund, created by Public Act 189 of 1983. Contributions are used for research and management of non-game fish and wildlife. There were 49,600 returns designating \$559,500 in Non-Game Wildlife Fund contributions for 1998. On average, there is one contribution for every 88 returns.

Exhibit 6
Returns Designating Contributions
(thousands)



VII. INTERSTATE COMPARISONS

In 1998, Michigan along with five other states (Colorado, Illinois, Indiana, Massachusetts, and Pennsylvania) had a flat rate income tax. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) had no state personal income tax. Two states (New Hampshire and Tennessee) taxed only dividend and interest income. The remaining 35 states had income taxes with graduated rates. A state-by-state comparison of the income tax burden per person and tax revenue as a percentage of personal income is shown in Exhibit 7. Exhibits 8 and 9 compare Michigan's income tax to that of other states in the Great Lakes region.

In fiscal year 1998, Michigan ranked 17th highest in income taxes per person with Massachusetts ranking first overall. Michigan ranked 23rd highest in state income taxes as a percentage of personal income with Oregon ranking first. Michigan's income tax as a percentage of personal income, at 2.62 percent, was 0.36 percentage point above the U.S. average, but 0.14 percentage point below the average of the 41 states with a general income tax. In fact, income taxes as a percentage of personal income are virtually unchanged from 1994, when they were 2.64 percent. The above calculations use the U.S. Bureau of Economic Analysis estimates of quarterly state personal income released in April 2001, compiled by the Office of Revenue and Tax Analysis for each state's fiscal year.

Consistent economic growth from 1994 through 1998 has resulted in increased income tax collections on a per capita basis. Over the preceding four years, collections per person have risen from \$585 in fiscal year 1994 to \$692 in fiscal year 1998. While total collections have increased, the income tax burden in Michigan has been declining relative to that in other states over this period. In fiscal year 1994, Michigan ranked 11th highest in per capita income taxes and 14th highest in income taxes as a percentage of personal income. For fiscal year 1998, Michigan ranked 17th and 23rd, respectively.

It is important to note that the U.S. Census Bureau compiles the tax collection figures used for this section, and the total collections that they report represents Michigan tax collections before refundable tax credits, such as the homestead property tax credit. This will cause Michigan income tax collections to be overstated, resulting in higher collections per person and as a percentage of personal income than actually occurred. If net Michigan income tax collections for 1998 were used, income taxes per person would be \$643 per person, dropping Michigan to 21st highest in the nation. That is four positions lower than without subtracting refundable credits. Using the adjusted numbers, net income tax collections accounted for 2.43 percent of personal income. This would place Michigan at 29th highest in the nation.

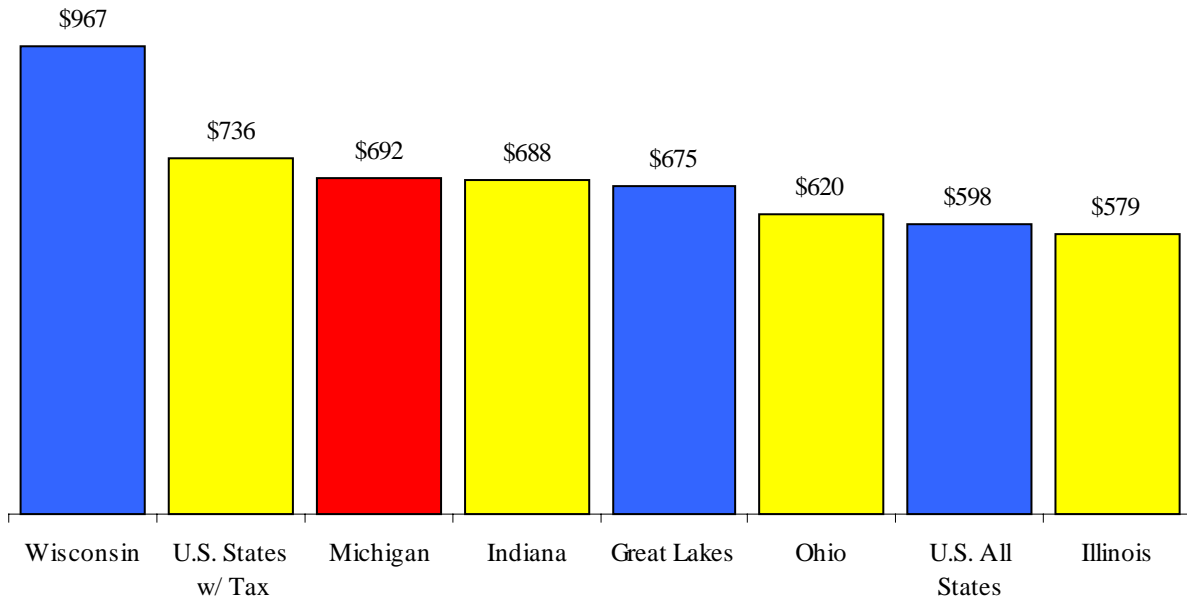
Exhibit 7

**State Individual Income Taxes for FY 1998
Per Person and Percent of Personal Income**

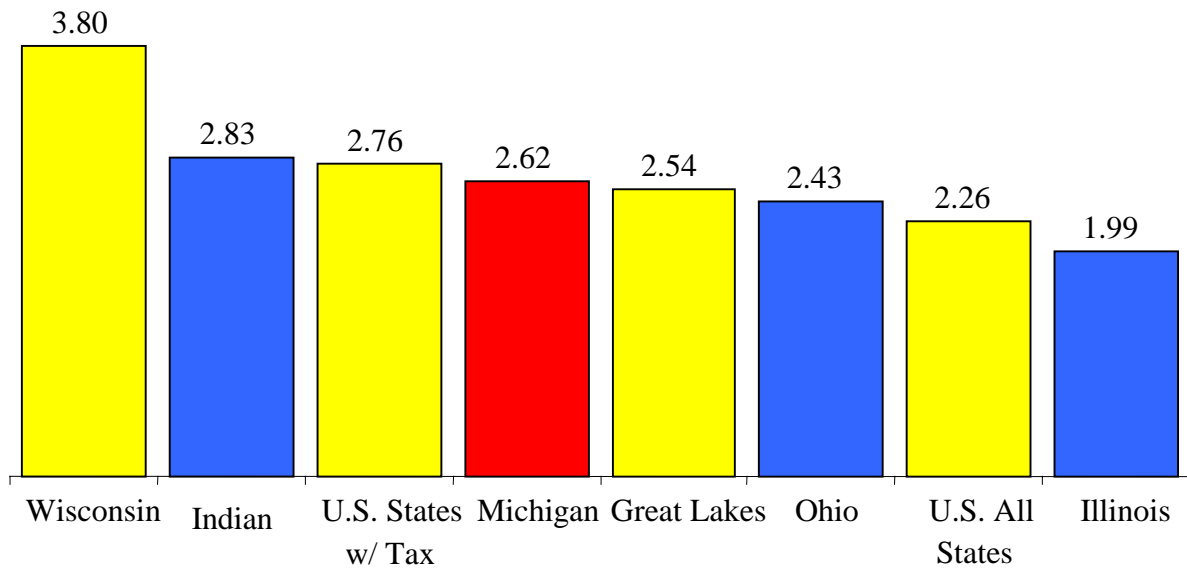
<u>State</u>	<u>Per Person Individual Income Taxes</u>	<u>Rank</u>	<u>Income Taxes as a Percent of Personal Income</u>	<u>Rank</u>
Alabama	\$412	37	1.89%	36
Alaska	No Tax	N/A	No Tax	N/A
Arizona	399	38	1.73%	38
Arkansas	548	31	2.65%	22
California	850	9	3.12%	10
Colorado	726	15	2.53%	27
Connecticut	1,041	3	2.84%	14
Delaware	1,023	4	3.63%	4
Florida	No Tax	N/A	No Tax	N/A
Georgia	696	16	2.78%	17
Hawaii	910	8	3.44%	6
Idaho	633	23	2.99%	12
Illinois	579	29	1.99%	35
Indiana	688	19	2.83%	16
Iowa	643	22	2.65%	21
Kansas	661	20	2.66%	20
Kentucky	615	27	2.83%	15
Louisiana	333	39	1.53%	40
Maine	727	14	3.18%	9
Maryland	807	11	2.70%	19
Massachusetts	1,307	1	4.06%	2
Michigan	692	17	2.62%	23
Minnesota	1,005	6	3.54%	5
Mississippi	308	40	1.59%	39
Missouri	620	24	2.51%	28
Montana	535	33	2.58%	25
Nebraska	586	28	2.34%	32
Nevada	No Tax	N/A	No Tax	N/A
New Hampshire	52	42	0.18%	42
New Jersey	691	18	2.08%	34
New Mexico	461	36	2.23%	33
New York	1,007	5	3.26%	8
North Carolina	812	10	3.30%	7
North Dakota	279	41	1.28%	41
Ohio	620	25	2.43%	30
Oklahoma	565	30	2.61%	24
Oregon	1,048	2	4.14%	1
Pennsylvania	502	34	1.88%	37
Rhode Island	745	13	2.73%	18
South Carolina	544	32	2.50%	29
South Dakota	No Tax	N/A	No Tax	N/A
Tennessee	30	43	0.12%	43
Texas	No Tax	N/A	No Tax	N/A
Utah	654	21	3.04%	11
Vermont	619	26	2.57%	26
Virginia	796	12	2.91%	13
Washington	No Tax	N/A	No Tax	N/A
West Virginia	478	35	2.41%	31
Wisconsin	967	7	3.80%	3
Wyoming	No Tax	N/A	No Tax	N/A
U.S. Average	\$598		2.26%	
U.S. Average for States With a General Income Tax	\$736		2.76%	

Sources: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

**Exhibit 8
State Income Taxes Per Person
Great Lakes Region
FY 1998**



**Exhibit 9
State Income Taxes as Percentage of Personal Income
Great Lakes Region
FY 1998**



VIII. GEOGRAPHIC PATTERN OF TAX AND CREDITS

Exhibit 20 reports the distribution of income tax collections and property tax and home heating credits by county. Since farms receive special treatment for the homestead property tax credit and the separate farmland credit, rural counties benefit substantially from these programs.

Exhibit 21 provides a ranking by county of average AGI, average income tax before and after credits, credits as a percentage of income tax before credits, ratio of property tax credits to returns filed, and average property tax credit. A summary of Exhibit 22 is provided below.

Exhibits 23 and 24 compare the average AGI and property tax credit for each Michigan county.

	<u>State Average</u>	<u>High County</u>	<u>Low County</u>
Average AGI	\$47,188	\$64,073 Oakland	\$25,637 Lake
Average Income Tax Before Credits	\$1,511	\$2,397 Oakland	\$682 Montmorency
Average Income Tax After Credits	\$1,364	\$2,218 Oakland	\$570 Lake
Income Tax Credits as a Percent of Tax Before Credits	9.7%	31.6% Huron	5.5% Midland
Ratio of Property Tax Credits to 1040s Filed	25.9%	33.7% Wayne	10.7% Luce
Average Property Tax Credit	\$416	\$874 Huron	\$170 Luce

Property tax credits include farmland preservation credits. The average AGI presented above is slightly different from the average in Exhibit 10 due to variances in the estimation procedure used by the Office of Revenue and Tax Analysis.

IX. FEDERAL INCOME TAX INTERACTION

The starting point for calculating the Michigan income tax is federal AGI. Thus, Michigan income tax revenues can be influenced by changes in federal tax law that modify the calculation of AGI. For example, a change in federal tax law requiring self-employed individuals and rental property owners to depreciate their assets over a longer time period would expand the Michigan tax base and increase tax revenues. Conversely, a change in federal tax law increasing the amount a taxpayer can contribute each year to a tax-deferred retirement account would reduce the Michigan tax base, thus lowering revenues.

The Michigan income tax base increased due to significant changes in federal tax law contained in the Tax Reform Act of 1986 (TRA-86). Almost all of the changes to federal law in the 1990s have caused AGI to become narrower, thus reducing the Michigan tax base. The changes in the 1990s pale, however, in comparison to the scope of the expansions brought about by TRA-86.

Changes in AGI at the federal level can be offset or reinforced at the state level. Expansions in the tax base can be offset with tax cuts. In response to TRA-86, the personal exemption was increased from \$1,500 in 1986 to \$1,600 in 1987, \$1,800 in 1988, \$2,000 in 1989, and \$2,100 in 1990. The special exemptions for senior citizens, blind persons, and those taxpayers with 50 percent or more of their AGI attributable to unemployment compensation were also created.

Summary of Federal Tax Law Changes

Significant federal tax law changes affecting Michigan's tax base are discussed below. The changes are grouped based on when they first became effective.

1987

The Tax Reform Act of 1986 contained many provisions that expanded the definition of AGI. The dividend exclusion and 60 percent long-term capital gain deduction were eliminated. The deduction for married couples when both work was eliminated. Most employee and moving expenses were no longer removed from AGI but only subtracted as an itemized deduction. However, self-employed taxpayers were allowed to subtract 25 percent of their health insurance premiums as an adjustment to income.

New rules reduced the deductibility of IRA contributions for taxpayers covered by pensions through an employer. Losses from passive activities, such as real estate partnerships, were generally no longer deductible from other income. New rules limited the deductibility of losses from rental property activities. New depreciation rules slowed the rate at which investment assets could be depreciated. Finally, all unemployment compensation was included in AGI.

TRA-86 made other changes to Michigan's tax base unrelated to AGI. Michigan taxpayers had been allowed to claim the same number of exemptions on their Michigan return as they claimed on that year's federal return. Before 1987, taxpayers were able to claim an extra full federal exemption if they were blind or a senior citizen. TRA-86 replaced these extra federal exemptions with an increased standard deduction. Also, individuals eligible to be claimed as

dependents on someone else's tax return, such as a parent's return, were no longer able to claim their own personal exemption.

In response to the reduced number of federal exemptions, new Michigan exemptions were created for taxpayers who were deaf, blind or disabled, or a senior citizen. In response to the full inclusion of unemployment benefits in AGI, a new exemption was created for taxpayers who received unemployment compensation equal to at least 50 percent of their AGI. The new special exemption amount was set so that a taxpayer claiming one extra exemption received the same exemption amount in tax years 1987 through 1990 as in 1986. For tax years beginning in 1988 and following, an individual required to file a tax return and eligible to be claimed as a dependent on another taxpayer's return, could claim a smaller personal exemption. The exemption was set at \$500 in tax year 1988 and \$1,000 for tax years beginning after 1988.

1994

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) made minor revisions to federal tax law, generally reducing reported AGI. Moving expenses were reinstated as an adjustment to income. This reduced AGI for taxpayers with these expenses, thus lowering their Michigan income tax liability. Similarly, OBRA-93 also made it easier for taxpayers to deduct losses from rental activities if they "materially participate" in operating the rental properties. Such losses only affect the Michigan income tax for properties located in Michigan.

1995

AGI could now be reduced by 30 percent of the amount paid for health insurance by the self-employed. Separate legislation later increased the deductible percentage to 40 percent for tax year 1997, 45 percent for 1998, and 60 percent for tax year 1999. For tax years after 2002, all health insurance premiums for the self-employed will be deductible.

1996

New legislation made payments from qualified state tuition programs (QSTPs) taxable only if the amount received was greater than the amount originally contributed. This resolved a legal dispute initially begun over the Michigan Education Trust (MET), a prepaid tuition program Michigan started in 1988. The new law has led to the rapid growth of QSTPs, including the Michigan Education Savings Program described in Chapter XII.

1997

A number of federal law changes became effective in 1997, resulting in changes to Michigan's tax base. Most gains on the sale of a primary residence were excluded from AGI if the taxpayer owned and lived in the house for two of the last five years preceding the sale. Single taxpayers have a \$250,000 exclusion, and married taxpayers filing a joint return may exclude \$500,000. Previously, gains on the sale of a primary residence were deferred only if the taxpayer purchased a new residence for a price greater than the taxpayer's cost basis in the former residence. Prior to the effective date of this new provision, taxpayers who were 55 or older were allowed under

certain conditions to make a one-time exclusion of a gain on the sale of a primary residence of up to \$125,000.

Taxpayers were granted a full \$2,000 IRA deduction for a non-working spouse. Previously, the deduction for a spouse without earned income was \$250. A new deduction for contributions to medical savings accounts was also created. This new federal deduction resulted in the elimination of the separate Michigan deduction for contributions to these accounts.

1998

Effective for 1998, taxpayers were able to establish new Education and Roth IRAs. Contributions to these accounts are not deductible, but both accounts allow investment earnings to accumulate tax-deferred and withdrawals may be tax-free. If a distribution from an Education IRA is used for qualified higher education expenses, the distribution is exempt from tax. If a distribution from a Roth IRA is received five years after the taxpayer established the account and after the taxpayer reaches age 59 ½, the entire distribution is exempt from tax.

Education IRAs will only affect Michigan income tax revenues by excluding the investment earnings on these particular savings arrangements from income tax. Eventually the tax exemption will reduce income tax revenues somewhat, but the short-term impact will be insignificant. While Roth IRAs also allow investment earnings to accumulate tax-exempt, they also resulted in an immediate, short-term increase in Michigan income tax collections. Taxpayers eligible to contribute to a Roth IRA are also allowed to convert a traditional IRA into a Roth IRA. The amount converted is generally included in the taxpayer's AGI in the year of conversion. A provision in the initial legislation, however, allowed taxpayers to spread the conversion amount over four years, from 1998 through 2001. This provision was only available in 1998, and it resulted in a large number of conversions. The increase in AGI from these conversions resulted in a one-time, four-year increase in Michigan income tax revenues. However, for taxpayers meeting the distribution rules described above, withdrawals from Roth IRAs will be free from further income taxes.

New legislation effective in 1998 also increased the deductibility of contributions to traditional IRAs. The income limits for making deductible contributions when the taxpayer participates in an employer-sponsored retirement plan were increased. These limits will continue to increase each year up to \$50,000 for singles and \$80,000 for married couples for tax years beginning after 2006. Full deductions were also allowed for taxpayers with AGIs below \$150,000 whose spouses participate in an employer-sponsored retirement plan. Taxpayers who do not participate themselves nor have a spouse participating in an employer-sponsored retirement plan have been allowed a full IRA deduction since the inception of these arrangements.

A new adjustment to income allowed taxpayers to subtract a percentage of the interest they pay on student loans. For tax year 1998, the deduction was limited to \$1,000. The limit increased to \$1,500 in 1999 and will increase to \$2,500 in 2001.

X. PUBLIC ACTS - INCOME TAX

1998

Public Act 19 amended the Income Tax Act of 1967 to extend to tax years 1989 and 1990 a credit for taxpayers who have repaid money claimed as income in a previous year. Previously, the credit had been available only for tax years after 1990.

Public Act 500 amended the City Income Tax Act of 1964 to revise the population threshold necessary for Detroit to levy an income tax at 3 percent for residents and 1.5 percent for nonresidents. The new threshold is 750,000, lower than the previous threshold of 1,000,000. The Act will also lower the maximum Detroit income tax rates. The reduction is phased in over a 10-year period beginning on July 1, 1999. When fully implemented in July 2008, the maximum rates will be 2 percent for residents and 1 percent for nonresidents. The rate reduction is contingent upon employment and revenue stability within the city, as defined in this Public Act.

Public Act 535 created a 25 percent income tax credit for qualified expenditures to rehabilitate a historic resource approved by the Michigan Historical Center. The credit supplements a similar federal tax credit and is reduced if the resource is sold within five years of claiming a credit.

1999

Public Act 1 amended the Income Tax Act to change the percentage of gross collections allocated to the SAF for tax years following the 1999 tax year. The new percentage is equal to 1.012 percent divided by the statutory income tax rate. The percentage had previously been 23 percent of gross collections.

Public Acts 2 through 6 amended the Income Tax Act to lower the income tax rate by 0.1 percentage point each year beginning in the 2000 tax year and continuing through the 2004 tax year. For the 2004 tax year and following, the tax rate will be 3.9 percent.

Public Act 181 amended the Income Tax Act to allow a deduction for amounts received by victims of the Holocaust as a settlement for previously confiscated assets, to the extent that recovery is included in AGI. The deduction would be allowed for tax years beginning on or after January 1, 1994.

Public Act 214 amended the Income Tax Act to make technical changes in the historic preservation credit.

2000

Public Act 40 amended the Income Tax Act to reduce the Michigan income tax rate for 2000 from 4.3 percent to 4.2 percent.

Public Act 41 amended the Income Tax Act to increase property tax credits for certain disabled filers, resulting in the uniform treatment of all senior citizens and disabled filers. The new credits are available for tax years that begin after December 31, 1999.

Public Act 42 amended the Income Tax Act to increase the child deduction to \$600 for children ages 7 through 12 years old and create a \$600 exemption for children ages 13 through 18. The deduction is available for tax years that begin after 1999.

Public Acts 162 and 163 amended the Income Tax Act to create a deduction for contributions to the Michigan Education Savings Program (MESP). Earnings on an account established under MESP and withdrawals from an account that are used to pay higher education expenses would also be deductible to the extent included in AGI. Withdrawals from MESP accounts that are not used for higher education expenses would generally have to be added to AGI. A new deduction was also created for withdrawals from individual retirement accounts used to pay higher education expenses to the extent those withdrawals are included in AGI.

Public Act 195 amended the Income Tax Act to revise the requirements for certification as a community foundation. The new requirements include financial audits, minimum accumulated endowment funds, and allowing new foundations to locate only in counties without a certified community foundation.

Public Act 301 amended the Income Tax Act to increase the special exemption amount to \$1,800 in tax year 2000. The Act also combined all disability exemptions so taxpayers can claim one special exemption if they or their spouse are blind, deaf, paraplegic, quadriplegic, hemiplegic, or totally and permanently disabled. The exemption amount will be increased in \$100 increments to reflect increases in the Consumer Price Index. The Act also created new special exemptions for dependents who are either senior citizens or have one of the disabilities described above. P.A. 301 also increased the exemption for taxpayers who are eligible to be claimed as a dependent on another taxpayer's return. For tax years beginning after 1999, this exemption will be \$1,500, a \$500 increase from the amount previously allowed.

Public Acts 393 and 394 amended the Income Tax Act to create a refundable credit for qualified adoption expenses. This new Michigan credit is only for those expenses exceeding the limits on the similar federal income tax credit.

Public Act 400 amended the Income Tax Act to create a deduction for charitable contributions made with funds withdrawn from a retirement plan. In order to qualify, the contribution must be made within 60 days after the funds are withdrawn from the retirement plan.

Public Act 421 amended the Natural Resources and Environmental Protection Act to lower the income threshold for farmland preservation income tax credits. The Act lowered the threshold from 7 percent to 3.5 percent for tax years after 2000.

XI. DATA TABLES AND CHARTS

Exhibit 10

**Effective Rate of the Michigan
Individual Income Tax, 1998**

Adjusted Gross Income Class	Number of Returns Filed (1)	Adjusted Gross Income	Effective Exemptions (2)	Claimed Exemptions	Subtractions Minus Additions	Total Credits (3)	Effective Tax	Effective Tax as a % of Income
Less than \$1 (4)	337,139	(\$1,211,847,168)		40,895	(\$570,835,084)	\$102,912,230	(\$100,642,868)	
\$ 1 - 2,000	172,772	196,920,451	47,588	145,043	21,647,401	15,790,149	(13,941,013)	-7.1%
2,001 - 4,000	212,908	637,314,405	116,564	195,750	56,850,799	19,843,957	(8,664,295)	-1.4%
4,001 - 6,000	199,889	996,187,456	142,946	215,897	141,682,065	26,096,774	(6,109,424)	-0.6%
6,001 - 8,000	182,053	1,272,155,415	124,064	231,260	358,361,985	29,679,373	(4,757,155)	-0.4%
8,001 - 10,000	172,970	1,556,252,303	184,537	247,693	372,934,851	31,575,574	-2,244,565	-0.1%
10,001 - 12,000	161,756	1,777,641,712	206,104	245,858	406,364,249	29,009,879	5,934,301	0.3%
12,001 - 14,000	155,179	2,016,485,918	213,615	248,527	461,362,346	26,941,161	15,166,933	0.8%
14,001 - 16,000	148,460	2,225,640,853	216,570	246,618	494,458,944	24,149,147	25,341,411	1.1%
16,001 - 18,000	142,958	2,429,641,735	219,491	243,067	496,881,965	21,954,414	36,045,746	1.5%
18,001 - 20,000	134,968	2,563,046,590	220,428	235,980	474,053,757	19,268,168	45,490,736	1.8%
20,001 - 22,000	128,456	2,696,684,269	216,845	228,021	459,612,976	17,220,342	54,495,468	2.0%
22,001 - 24,000	120,010	2,759,281,839	209,084	216,401	436,683,742	15,078,874	61,356,282	2.2%
24,001 - 26,000	114,057	2,850,587,170	202,111	209,223	437,577,662	13,841,571	67,430,817	2.4%
26,001 - 28,000	107,759	2,908,427,058	176,630	200,892	495,782,839	12,462,740	71,932,758	2.5%
28,001 - 30,000	100,362	2,909,334,482	184,929	190,079	425,536,397	11,450,490	75,053,421	2.6%
30,001 - 35,000	228,137	7,401,594,859	451,530	454,363	1,006,457,837	23,351,104	202,406,480	2.7%
35,001 - 40,000	202,909	7,600,703,009	439,632	439,512	967,239,042	20,326,980	217,382,788	2.9%
40,001 - 45,000	186,292	7,910,658,569	431,773	431,161	941,727,227	17,784,336	235,654,259	3.0%
45,001 - 50,000	171,681	8,150,527,437	426,752	421,496	882,452,966	15,457,661	251,761,770	3.1%
Over 50,000	1,281,542	145,582,401,614	3,601,678	3,660,782	26,020,744,988	93,058,838	4,723,927,330	3.2%
Totals	4,662,257	\$205,229,639,976	8,032,870	8,748,518	\$34,787,578,954	\$587,253,760	\$5,953,021,180	2.9%

(1) Includes 312,251 credit-only returns.

(2) Since the value of some taxpayers' exemptions exceed their income, "effective exemptions" are defined as those exemptions that offset income.

(3) Does not include Farmland Preservation Credits or Prescription Drug Credits.

(4) The less than \$1 category includes tax returns reporting a negative AGI.

Exhibit 11

**Breakdown of Upper Income Filers
Individual Income Tax, 1998**

Adjusted Gross Income Class	Number of Returns Filed	Adjusted Gross Income	Effective Exemptions (1)	Claimed Exemptions	Subtractions Minus Additions	Total Credits (2)	Effective Tax	Effective Tax as a % of Income
\$50,000 - 55,000	159,611	\$8,374,180,705	415,501	411,303	\$879,846,899	\$14,051,610	\$264,509,382	3.2%
55,001 - 60,000	145,818	8,377,738,037	394,382	389,587	865,087,467	12,812,775	269,156,033	3.2%
60,001 - 65,000	129,436	8,083,320,461	355,049	357,287	841,949,082	9,911,239	264,967,016	3.3%
65,001 - 70,000	113,524	7,657,835,260	323,465	321,059	758,688,990	10,533,543	253,178,056	3.3%
70,001 - 75,000	98,222	7,115,510,391	287,381	284,017	683,482,064	8,685,832	238,918,027	3.4%
75,001 - 80,000	84,291	6,527,366,685	249,915	247,031	595,976,798	6,166,576	224,025,001	3.4%
80,001 - 85,000	72,384	5,967,090,507	216,388	214,550	526,360,137	4,092,892	208,640,265	3.5%
85,001 - 90,000	61,287	5,358,314,673	185,209	183,363	472,693,387	3,213,912	188,935,723	3.5%
90,001 - 95,000	52,275	4,831,380,836	154,811	156,695	429,805,951	3,016,528	171,580,065	3.6%
95,001 - 100,000	44,431	4,329,146,669	135,159	134,129	371,187,562	2,650,863	154,847,732	3.6%
Over 100,000	320,263	78,960,517,390	884,418	961,761	19,595,666,651	17,923,069	2,485,170,030	3.1%
Totals	1,281,542	\$145,582,401,614	3,601,678	3,660,782	\$26,020,744,988	\$93,058,838	\$4,723,927,330	3.2%

(1) Since the value of some taxpayers' exemptions exceed their income, "effective exemptions" are defined as those exemptions that offset income.

(2) Does not include Farmland Preservation Credits or Prescription Drug Credits.

Exhibit 12
Tax Base Deductions as a Percent of AGI
Individual Income Tax, 1998

<u>Adjusted Gross Income Class</u>	<u>Effective Exemptions</u>	<u>Subtractions</u>		<u>Nonrefundable Credits (1)</u>	<u>Property Tax Credits</u>	<u>Home Heating Credits</u>
		<u>Minus</u>	<u>Additions</u>			
\$ 1 - 2,000	67.7%	11.0%		-2.3%	143.7%	40.8%
2,001 - 4,000	51.2%	8.9%		-0.5%	56.4%	14.8%
4,001 - 6,000	40.2%	14.2%		1.1%	49.0%	9.4%
6,001 - 8,000	27.3%	28.2%		1.4%	45.2%	6.4%
8,001 - 10,000	33.2%	24.0%		1.8%	40.1%	4.2%
10,001 - 12,000	32.5%	22.9%		1.7%	33.0%	2.3%
12,001 - 14,000	29.7%	22.9%		1.7%	27.4%	1.3%
14,001 - 16,000	27.2%	22.2%		1.5%	22.5%	0.7%
16,001 - 18,000	25.3%	20.5%		1.5%	18.6%	0.4%
18,001 - 20,000	24.1%	18.5%		1.4%	15.5%	0.2%
20,001 - 22,000	22.5%	17.0%		1.4%	13.0%	0.1%
22,001 - 24,000	21.2%	15.8%		1.3%	11.0%	0.1%
24,001 - 26,000	19.9%	15.4%		1.4%	9.6%	0.0%
26,001 - 28,000	17.0%	17.0%		1.3%	8.4%	0.0%
28,001 - 30,000	17.8%	14.6%		1.4%	7.5%	0.0%
30,001 - 35,000	17.1%	13.6%		0.9%	6.2%	0.0%
35,001 - 40,000	16.2%	12.7%		1.3%	4.8%	0.0%
40,001 - 45,000	15.3%	11.9%		1.3%	3.8%	0.0%
45,001 - 50,000	14.7%	10.8%		1.2%	3.1%	0.0%
Over 50,000	6.9%	17.9%		0.9%	0.6%	0.0%
Overall Percent	11.0%	17.0%		1.8%	5.0%	0.5%

(1) Nonrefundable credits, home heating credits, and property tax credits are divided by the tax rate (4.4%) to determine the equivalent income tax deduction. Nonrefundable credits for 1998 are: the city income tax credit, the college contribution credit, the homeless shelter/food bank

Exhibit 13
Distribution of Personal Exemptions
Claimed on 1998 Individual Income Tax Returns (1)

Adjusted Gross Income	Exemptions Claimed							Total Returns	Total Exemptions (2)
	Zero	One	Two	Three	Four	Five	Six or More		
Zero Income	900	14,338	6,293	1,322	1,140	585	360	24,938	40,895
\$ 1 - 2,000	57,679	97,103	10,807	4,430	1,787	682	354	172,842	145,043
2,001 - 4,000	67,416	115,437	17,444	7,905	3,034	1,065	607	212,908	195,750
4,001 - 6,000	48,341	112,672	22,821	10,012	3,841	1,381	754	199,822	215,897
6,001 - 8,000	28,641	106,144	28,265	11,822	4,554	1,641	957	182,024	231,260
8,001 - 10,000	17,020	101,903	31,580	13,183	5,685	2,223	1,318	172,912	247,693
10,001 - 12,000	10,448	93,960	35,063	13,099	5,786	2,168	1,213	161,737	245,858
12,001 - 14,000	6,348	87,463	38,377	13,389	6,015	2,310	1,219	155,121	248,527
14,001 - 16,000	3,985	81,581	39,690	13,289	6,159	2,436	1,282	148,422	246,618
16,001 - 18,000	2,492	77,970	38,888	13,319	6,476	2,514	1,270	142,929	243,067
18,001 - 20,000	1,632	72,189	37,311	13,004	6,763	2,724	1,355	134,978	235,980
20,001 - 22,000	1,153	67,645	36,125	12,572	6,812	2,706	1,376	128,389	228,021
22,001 - 24,000	773	63,300	33,067	11,678	6,901	2,819	1,462	120,000	216,401
24,001 - 26,000	617	59,906	30,484	11,252	7,303	3,007	1,478	114,047	209,223
26,001 - 28,000	448	56,090	28,737	10,482	7,236	3,177	1,579	107,749	200,892
28,001 - 30,000	350	51,492	26,637	9,857	7,251	3,207	1,529	100,323	190,079
30,001 - 35,000	625	109,153	62,084	24,125	19,587	8,608	3,897	228,079	454,363
35,001 - 40,000	398	83,423	59,237	24,012	22,029	9,502	4,279	202,880	439,512
40,001 - 45,000	310	66,200	56,463	24,180	24,312	10,365	4,346	186,176	431,161
45,001 - 50,000	218	52,936	52,632	24,355	26,110	11,008	4,393	171,652	421,496
<u>Over 50,000</u>	<u>1,159</u>	<u>182,100</u>	<u>462,592</u>	<u>216,843</u>	<u>270,215</u>	<u>111,037</u>	<u>38,132</u>	<u>1,282,078</u>	<u>3,660,782</u>
Totals	250,953	1,753,005	1,154,597	484,130	448,996	185,165	73,160	4,350,006	8,748,518

(1) Values in this table are based on a sample of 4,350,006 MI-1040 tax returns on file.

(2) Total exemptions calculation assumes 7 exemptions for each return listing 6 or more exemptions.

Exhibit 14
Distribution of Credits (1)
Individual Income Tax, 1998

Adjusted Gross Income Class	Number of MI-1040s Filed	% of Total MI-1040s Filed (2)	General Property Tax Credit			City Income Tax Credit			College Contribution Credit		
			Number Claiming Credit	AGI Group % of MI-1040s Filed	\$ Amount of Credit	Number Claiming Credit	AGI Group % of MI-1040s Filed	\$ Amount of Credit	Number Claiming Credit	AGI Group % of MI-1040s Filed	\$ Amount of Credit
Less than \$1	24,888	0.6%	8,622	1.3%	\$5,690,465	1,055	0.1%	\$53,474	397	0.1%	\$32,747
\$ 1 - 2,000	172,772	4.0%	14,286	2.1%	4,546,541	15,810	1.5%	81,008	411	0.2%	19,049
2,001 - 4,000	212,908	4.9%	23,623	3.5%	7,014,258	35,090	3.4%	304,423	1,007	0.4%	43,343
4,001 - 6,000	199,889	4.6%	31,209	4.6%	9,658,499	37,675	3.7%	440,200	1,414	0.5%	65,953
6,001 - 8,000	182,053	4.2%	36,228	5.3%	11,632,719	36,003	3.5%	517,873	1,761	0.7%	90,242
8,001 - 10,000	172,970	4.0%	38,149	5.6%	12,451,818	34,340	3.4%	583,492	2,131	0.8%	111,240
10,001 - 12,000	161,756	3.7%	37,420	5.5%	12,007,923	33,152	3.2%	646,880	2,484	0.9%	135,548
12,001 - 14,000	155,179	3.6%	37,465	5.5%	11,694,350	32,937	3.2%	718,286	2,926	1.1%	164,923
14,001 - 16,000	148,460	3.4%	36,706	5.4%	11,000,639	32,016	3.1%	769,744	3,031	1.1%	172,225
16,001 - 18,000	142,958	3.3%	35,890	5.3%	10,519,441	31,764	3.1%	829,775	3,378	1.3%	196,253
18,001 - 20,000	134,968	3.1%	34,163	5.0%	9,935,010	31,457	3.1%	882,426	3,604	1.4%	214,789
20,001 - 22,000	128,456	3.0%	32,631	4.8%	9,370,970	30,495	3.0%	915,675	3,780	1.4%	228,442
22,001 - 24,000	120,010	2.8%	29,679	4.4%	8,468,814	29,020	2.8%	900,745	3,641	1.4%	226,054
24,001 - 26,000	114,057	2.6%	27,746	4.1%	8,075,208	27,523	2.7%	893,959	3,800	1.4%	237,343
26,001 - 28,000	107,759	2.5%	25,196	3.7%	7,251,000	25,907	2.5%	862,004	3,933	1.5%	247,657
28,001 - 30,000	100,362	2.3%	22,355	3.3%	6,566,855	24,329	2.4%	838,997	4,027	1.5%	251,809
30,001 - 35,000	228,137	5.2%	46,997	6.9%	13,991,965	56,327	5.5%	2,022,225	10,325	3.9%	673,045
35,001 - 40,000	202,909	4.7%	36,267	5.3%	11,272,424	51,832	5.1%	1,974,860	10,768	4.1%	722,622
40,001 - 45,000	186,292	4.3%	28,290	4.2%	9,355,957	49,652	4.8%	1,980,812	11,350	4.3%	772,352
45,001 - 50,000	171,681	3.9%	22,432	3.3%	7,904,528	47,187	4.6%	1,961,058	11,465	4.3%	804,530
Over 50,000	<u>1,281,542</u>	<u>29.5%</u>	<u>73,624</u>	<u>10.8%</u>	<u>27,578,447</u>	<u>360,430</u>	<u>35.2%</u>	<u>19,220,673</u>	<u>179,185</u>	<u>67.7%</u>	<u>16,637,360</u>
Totals	4,350,006	100.0%	678,978	100.0%	\$215,987,831	1,024,001	100.0%	\$37,398,589	264,818	100.0%	\$22,047,526

(1) Values in this table are based on a sample of 4,350,006 correct 1998 MI-1040 tax returns on file.

(2) 22,753 general property tax credits for a total of \$6,680,187 were claimed on MI-1040CR returns which were filed without an MI-1040.

Exhibit 15

**Four-Year Comparison of Individual Income Tax Credits
(number and amount in thousands)**

	1995			1996			1997			1998		
	<u>Number</u>	<u>Amount</u>	<u>Average</u>	<u>Number</u>	<u>Amount</u>	<u>Average</u>	<u>Number</u>	<u>Amount</u>	<u>Average</u>	<u>Number</u>	<u>Amount</u>	<u>Average</u>
Property Tax Credits												
General	658.2	\$191,569.7	\$291.05	689.6	\$208,123.4	\$301.80	700.1	\$217,637.4	\$310.86	701.7	\$222,668.0	\$317.31
Senior Citizen(1)												
Standard	396.9	205,228.1	517.08	392.2	210,308.9	536.23	387.0	212,043.4	547.92	374.9	218,225.7	582.16
Low Income Rent	13.8	5,180.7	375.41	13.7	5,225.2	381.40	12.7	4,644.1	365.68	12.1	4,277.4	354.23
Veteran	17.0	2,163.9	127.29	15.6	1,999.7	128.19	15.1	1,894.9	125.60	13.7	1,729.5	126.38
Blind	1.7	210.1	123.59	1.5	191.3	127.53	2.0	243.4	121.05	1.6	194.4	123.53
Disabled(2)	25.1	6,981.5	278.15	26.0	6,766.3	260.24	28.8	8,505.7	295.84	29.1	8,836.7	303.44
Farmland and Solar	12.1	17,594.4	1,456.24	11.4	18,895.2	1,657.47	8.2	17,733.9	2,150.08	7.7	18,018.6	2,331.90
Total Property Tax Credits	1,111.0	\$428,928.4	\$386.08	1,136.3	\$451,510.0	\$397.35	1,141.2	\$462,702.7	\$405.47	1,128.7	\$469,673.0	\$416.12
City Income Tax Credit	987.0	\$33,879.0	\$34.33	991.2	\$34,806.1	\$35.12	1,015.3	\$36,799.4	\$36.24	1,024.0	\$37,398.6	\$36.52
College Contribution Credit	256.8	\$20,004.5	\$77.90	258.4	\$20,540.3	\$79.49	265.4	\$21,560.9	\$81.24	264.8	\$22,047.5	\$83.26
Home Heating Credit	291.8	\$33,428.9	\$114.56	321.7	\$42,592.0	\$132.40	312.6	\$44,315.3	\$141.79	304.7	\$45,380.2	\$148.93
Credit for Income Tax Paid to Another State	37.1	\$19,437.5	\$523.92	37.5	\$22,155.7	\$590.82	39.4	\$24,208.4	\$615.04	41.7	\$26,386.7	\$633.49
Prescription Drug Credit	35.3	\$16,047.0	\$455.07	35.4	\$16,436.6	\$464.31	34.2	\$16,237.6	\$475.17	30.9	\$15,248.9	\$493.65
Community Foundation Credit	12.5	\$1,109.6	\$88.77	15.6	\$1,375.3	\$88.16	18.9	\$1,772.3	\$93.77	21.2	\$2,025.4	\$95.35
Medical Care Savings Account Credit (3)	6.6	\$120.6	\$18.27	4.6	\$95.6	\$20.78						
Homeless/Food Bank Credit	112.9	\$7,235.4	\$64.09	130.0	\$8,667.3	\$66.67	147.6	\$10,232.2	\$69.32	157.8	\$11,245.2	\$71.24
College Tuition Credit	90.4	\$8,026.5	\$88.79	114.4	\$12,213.5	\$106.76	106.8	\$12,093.7	\$113.24	134.7	\$22,598.1	\$167.75

(1) The low-income rent credit amount represents an amount over the standard senior credit. Therefore, the number of filers listed for the standard senior credit includes the low-income rent credit recipients, and the number of low-income rent credits is not included (again) in the total number of property tax credits.

(2) This category includes credits for paraplegic, quadriplegic and totally disabled.

(3) The Medical Care Savings Account Credit was eliminated beginning in 1997.

Exhibit 16

Distribution of Property Tax Credits Claimed (1)
Individual Income Tax, 1998

Adjusted Gross Income	General				Senior Citizens (2)				Veterans				Disabled (3)				
	Number		% of		Number		% of		Number		% of		Number		% of		
	of Credits Allowed	Total Credits	Allowed	Total Credits	of Credits Allowed	Total Credits	Allowed	Total Credits	of Credits Allowed	Total Credits	Allowed	Total Credits	of Credits Allowed	Total Credits	Allowed	Total Credits	
	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	\$ Amount of Credit	
Zero Income (4)	28,056	4.0%	\$11,553,271	114,949	30.7%	\$63,593,476	2,638	19.3%	\$ 385,618	17,323	56.4%	\$4,934,992					
\$ 1 - 2,000	14,446	2.1%	4,582,223	11,207	3.0%	7,380,470	134	1.0%	19,620	1,489	4.9%	471,181					
2,001 - 4,000	23,849	3.4%	7,061,780	13,193	3.5%	8,383,566	173	1.3%	24,941	1,191	3.9%	349,664					
4,001 - 6,000	31,480	4.5%	9,729,314	18,188	4.9%	11,340,489	248	1.8%	34,700	1,201	3.9%	377,615					
6,001 - 8,000	36,507	5.2%	11,702,977	21,631	5.8%	13,214,341	306	2.2%	38,183	1,126	3.7%	342,258					
8,001 - 10,000	38,441	5.5%	12,530,670	24,834	6.6%	14,544,383	386	2.8%	50,459	1,048	3.4%	310,168					
10,001 - 12,000	37,664	5.4%	12,073,483	23,401	6.2%	13,447,906	430	3.1%	56,005	882	2.9%	267,702					
12,001 - 14,000	37,702	5.4%	11,754,133	21,398	5.7%	12,213,966	428	3.1%	52,764	868	2.8%	274,183					
14,001 - 16,000	36,923	5.3%	11,052,205	18,827	5.0%	10,696,740	499	3.6%	62,303	680	2.2%	202,398					
16,001 - 18,000	36,101	5.1%	10,572,134	15,955	4.3%	9,112,916	467	3.4%	59,616	570	1.9%	155,500					
18,001 - 20,000	34,335	4.9%	9,975,262	12,892	3.4%	7,243,313	417	3.0%	52,716	531	1.7%	162,616					
20,001 - 22,000	32,780	4.7%	9,403,674	10,378	2.8%	5,893,755	398	2.9%	48,415	440	1.4%	137,400					
22,001 - 24,000	29,804	4.2%	8,498,858	8,222	2.2%	4,725,015	370	2.7%	46,342	377	1.2%	104,703					
24,001 - 26,000	27,846	4.0%	8,095,196	6,716	1.8%	3,839,420	341	2.5%	43,195	323	1.1%	97,997					
26,001 - 28,000	25,288	3.6%	7,269,809	5,868	1.6%	3,390,661	287	2.1%	36,545	269	0.9%	80,501					
28,001 - 30,000	22,429	3.2%	6,583,530	5,114	1.4%	2,967,713	284	2.1%	34,673	225	0.7%	71,854					
30,001 - 35,000	47,158	6.7%	14,026,554	10,109	2.7%	6,009,855	763	5.6%	92,259	485	1.6%	143,770					
35,001 - 40,000	36,366	5.2%	11,295,930	7,353	2.0%	4,484,722	716	5.2%	88,118	393	1.3%	126,961					
40,001 - 45,000	28,345	4.0%	9,374,030	5,773	1.5%	3,608,061	729	5.3%	89,566	285	0.9%	93,399					
45,001 - 50,000	22,464	3.2%	7,910,782	4,613	1.2%	2,982,588	631	4.6%	78,093	198	0.6%	58,791					
Over 50,000	73,747	10.5%	27,622,203	14,232	3.8%	9,152,354	3,040	22.2%	335,388	792	2.6%	267,519					
Totals	701,731	100.0%	\$222,668,018	374,853	100.0%	\$218,225,710	13,685	100.0%	\$ 1,729,519	30,696	100.0%	\$ 9,031,172					

(1) Values in this table are based on a sample of the 4,662,257 MI-1040 and MI-1040CR returns.

(2) Includes Senior Citizen Low-Income Rent Credits.

(3) Includes blind, paraplegic, quadriplegic, and totally disabled persons.

(4) Represents those individuals who had no taxable income but did receive a property tax credit.

Exhibit 17
Distribution of Senior Citizen Property Tax Credits by Household Income
Individual Income Tax, 1998

<u>Household Income</u>	<u>Number of Returns</u>	<u>Property Tax Paid</u>	<u>Property Tax Credit</u>	<u>Property Tax Paid After Credit</u>
\$1,000 and below	1,251	\$3,011,724	\$1,289,388	\$1,722,336
1,001 - 2,000	414	496,162	337,624	158,538
2,001 - 3,000	688	621,521	494,442	127,079
3,001 - 4,000	1,441	1,110,880	949,366	161,514
4,001 - 5,000	3,019	2,261,179	1,882,724	378,455
5,001 - 6,000	7,167	5,190,976	4,452,153	738,823
6,001 - 7,000	12,495	8,966,988	6,607,464	2,359,524
7,001 - 8,000	10,702	8,868,948	5,949,938	2,919,010
8,001 - 9,000	12,531	10,926,813	7,043,424	3,883,389
9,000 - 10,000	12,693	11,696,842	7,250,987	4,445,855
10,001 - 11,000	12,167	12,144,203	7,119,898	5,024,305
11,001 - 12,000	12,078	12,528,562	7,198,852	5,329,710
12,001 - 13,000	12,018	13,242,252	7,134,879	6,107,373
13,001 - 14,000	12,398	14,015,757	7,444,554	6,571,203
14,001 - 15,000	12,636	15,016,801	7,548,209	7,468,592
15,001 - 16,000	12,561	15,159,357	7,441,516	7,717,841
16,001 - 17,000	12,389	15,597,673	7,319,267	8,278,406
17,001 - 18,000	12,344	15,721,589	7,303,264	8,418,325
18,001 - 19,000	11,923	15,998,388	6,984,051	9,014,337
19,001 - 20,000	11,682	15,801,765	6,859,826	8,941,939
20,001 - 21,000	11,108	15,489,302	6,474,808	9,014,494
21,001 - 22,000	10,830	15,505,753	6,218,164	9,287,589
22,001 - 23,000	10,423	15,233,932	5,996,242	9,237,690
23,001 - 24,000	9,965	14,659,615	5,619,722	9,039,893
24,001 - 25,000	9,461	14,779,254	5,410,149	9,369,105
25,001 - 26,000	9,234	14,281,952	5,220,806	9,061,146
26,001 - 27,000	8,720	14,053,358	4,981,649	9,071,709
27,001 - 28,000	8,189	13,309,940	4,597,650	8,712,290
28,001 - 29,000	7,792	12,998,727	4,388,780	8,609,947
29,001 - 30,000	7,380	12,988,376	4,142,878	8,845,498
30,001 - 35,000	30,444	55,899,165	16,912,078	38,987,087
35,001 - 40,000	21,391	43,100,723	11,954,938	31,145,785
40,001 - 45,000	14,548	33,208,846	8,462,326	24,746,520
45,001 - 50,000	9,760	24,358,794	5,856,961	18,501,833
Over 50,000	<u>21,011</u>	<u>66,097,519</u>	<u>13,376,733</u>	<u>52,720,786</u>
Totals	374,853	\$564,343,636	\$218,225,710	\$346,117,926

Exhibit 18
Distribution of General Property Tax Credits by Household Income
Individual Income Tax, 1998

<u>Household Income</u>	<u>Number of Returns</u>	<u>Property Tax Paid</u>	<u>Property Tax Credit</u>	<u>Property Tax Paid After Credit</u>
\$1,000 and below	9,929	\$15,659,014	\$6,404,832	\$9,254,182
1,001 - 2,000	3,500	3,053,679	1,574,426	1,479,253
2,001 - 3,000	5,386	4,228,772	2,048,916	2,179,856
3,001 - 4,000	7,915	6,213,946	2,757,019	3,456,927
4,001 - 5,000	10,947	8,262,766	3,527,338	4,735,428
5,001 - 6,000	17,973	13,620,826	5,587,015	8,033,811
6,001 - 7,000	19,523	15,427,226	5,991,417	9,435,809
7,001 - 8,000	19,614	16,342,097	6,089,326	10,252,771
8,001 - 9,000	21,027	18,358,193	6,562,836	11,795,357
9,000 - 10,000	22,182	19,982,450	6,997,455	12,984,995
10,001 - 11,000	21,915	20,312,392	6,842,917	13,469,475
11,001 - 12,000	21,734	20,644,300	6,789,375	13,854,925
12,001 - 13,000	21,124	20,566,509	6,507,523	14,058,986
13,001 - 14,000	20,631	20,728,108	6,278,330	14,449,778
14,001 - 15,000	20,415	20,771,184	6,147,343	14,623,841
15,001 - 16,000	19,995	20,994,154	5,941,243	15,052,911
16,001 - 17,000	19,731	21,353,009	5,799,467	15,553,542
17,001 - 18,000	19,143	21,297,326	5,589,632	15,707,694
18,001 - 19,000	18,747	21,534,883	5,429,759	16,105,124
19,001 - 20,000	18,391	21,642,026	5,347,287	16,294,739
20,001 - 21,000	17,720	21,371,347	5,150,890	16,220,457
21,001 - 22,000	17,228	21,280,477	4,937,149	16,343,328
22,001 - 23,000	16,016	20,370,345	4,554,149	15,816,196
23,001 - 24,000	15,858	20,770,462	4,523,053	16,247,409
24,001 - 25,000	15,140	20,360,103	4,382,520	15,977,583
25,001 - 26,000	14,654	20,600,018	4,239,672	16,360,346
26,001 - 27,000	14,009	20,035,618	3,986,946	16,048,672
27,001 - 28,000	13,083	20,078,708	3,800,258	16,278,450
28,001 - 29,000	12,383	18,679,513	3,625,633	15,053,880
29,001 - 30,000	11,576	17,753,865	3,386,513	14,367,352
30,001 - 35,000	50,288	83,013,240	14,880,746	68,132,494
35,001 - 40,000	38,542	72,087,253	11,975,867	60,111,386
40,001 - 45,000	29,328	61,087,504	9,576,332	51,511,172
45,001 - 50,000	23,178	54,147,705	8,254,622	45,893,083
Over 50,000	<u>72,906</u>	<u>217,253,021</u>	<u>27,180,212</u>	<u>190,072,809</u>
Totals	701,731	\$1,019,882,039	\$222,668,018	\$797,214,021

Exhibit 19

**Distribution of Home Heating Credits Claimed on MI-1040CR-7 Returns
Individual Income Tax, 1998**

<u>Household Income</u>	<u>Senior Citizens</u>			<u>General</u>			<u>Disabled (1)</u>			<u>Veterans</u>		
	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>
\$ 1,000 and below	703	\$320,116	6,573	\$2,408,078	92	\$34,727	1	\$716				
1,001 - 2,000	238	78,727	3,368	903,556	45	13,695	3	637				
2,001 - 3,000	469	137,700	5,313	1,289,393	100	24,936	3	840				
3,001 - 4,000	1,066	268,654	7,464	1,655,210	205	44,680	6	894				
4,001 - 5,000	2,495	549,579	11,264	2,354,681	470	97,690	15	2,410				
5,001 - 6,000	6,448	1,192,485	22,578	3,983,459	4,569	665,648	77	11,940				
6,001 - 7,000	11,952	1,908,553	25,580	4,004,594	4,411	597,890	167	21,803				
7,001 - 8,000	9,552	1,316,116	20,637	3,018,696	1,600	210,754	102	13,397				
8,001 - 9,000	10,714	1,243,883	20,071	2,679,525	1,479	184,271	112	11,468				
9,001 - 10,000	10,182	962,169	17,022	2,487,143	1,413	172,473	72	7,845				
Over 10,000	<u>25,926</u>	<u>1,940,578</u>	<u>66,519</u>	<u>8,118,816</u>	<u>3,253</u>	<u>399,523</u>	<u>388</u>	<u>40,251</u>				
Totals	79,745	\$9,918,560	206,389	\$32,903,151	17,637	\$2,446,287	946	\$112,201				
Average Credit		\$124.38		\$159.42		\$138.70		\$118.61				

(1) Includes blind, paraplegic, quadriplegic, and totally disabled persons.

Exhibit 20 1998 Income Tax Collections by County

County	Property Tax Credits	Home Heating Credits	Tax After Credits	Percent of Total Tax
Alcona	\$264,631	\$103,467	\$3,042,306	0.1%
Alger	170,227	68,552	3,282,147	0.1%
Allegan	3,276,378	326,769	47,151,881	0.8%
Alpena	1,064,679	249,085	12,607,745	0.2%
Antrim	949,904	115,641	8,889,976	0.1%
Arenac	743,707	189,453	5,246,927	0.1%
Baraga	162,390	67,018	2,953,315	0.0%
Barry	1,399,502	142,017	27,504,594	0.5%
Bay	5,371,911	620,496	53,754,277	0.9%
Benzie	413,813	81,090	5,539,053	0.1%
Berrien	5,974,419	1,000,377	80,793,894	1.4%
Branch	1,683,757	216,908	17,099,686	0.3%
Calhoun	5,464,032	729,806	63,813,902	1.1%
Cass	1,780,756	235,382	17,045,817	0.3%
Charlevoix	785,078	112,465	14,467,294	0.2%
Chesbogan	688,366	185,345	9,449,724	0.2%
Chippewa	641,646	235,820	11,634,933	0.2%
Clare	628,870	299,815	9,671,427	0.2%
Clinton	2,371,595	156,802	28,860,097	0.5%
Crawford	239,000	92,748	3,575,476	0.1%
Delta	947,924	302,271	16,395,403	0.3%
Dickinson	1,003,426	159,133	12,098,150	0.2%
Eaton	3,002,028	228,597	41,804,171	0.7%
Emmet	1,219,425	134,055	18,273,792	0.3%
Genesee	13,156,294	2,293,257	238,018,601	4.0%
Gladwin	834,374	236,795	8,338,966	0.1%
Gogebic	316,638	167,545	4,687,923	0.1%
Grand Traverse	2,159,722	182,024	31,712,978	0.5%
Gratiot	1,752,442	289,479	16,199,983	0.3%
Hillsdale	1,463,493	313,257	17,959,874	0.3%
Houghton	556,899	262,919	11,009,490	0.2%
Huron	4,879,160	326,758	11,710,336	0.2%
Ingham	16,571,258	1,149,838	165,779,853	2.8%
Ionia	1,849,285	243,416	28,312,203	0.5%
Iosco	664,433	215,889	8,596,836	0.1%
Iron	232,816	131,470	3,849,404	0.1%
Isabella	1,513,518	223,462	22,375,080	0.4%
Jackson	4,712,170	611,393	77,661,400	1.3%
Kalamazoo	8,821,065	750,955	121,846,484	2.1%
Kalkaska	165,164	51,267	3,297,960	0.1%
Kent	20,525,136	1,625,972	366,280,502	6.2%
Keweenaw	19,667	15,306	575,191	0.0%
Lake	223,699	147,766	1,926,381	0.0%
Lapeer	2,437,873	228,669	48,577,766	0.8%
Leelanau	779,527	48,158	8,817,668	0.1%

Exhibit 20 (cont.)

<u>County</u>	Property Tax		Home Heating		Tax After		Percent of <u>Total Tax</u>
	<u>Credits</u>		<u>Credits</u>		<u>Credits</u>		
Lenawee	\$4,545,779		\$338,165		\$48,831,199		0.8%
Livingston	4,286,162		155,794		92,399,358		1.6%
Luce	46,369		50,501		2,030,106		0.0%
Mackinac	309,737		85,703		4,319,552		0.1%
Macomb	43,671,178		1,629,091		429,069,651		7.2%
Manistee	656,488		160,188		8,651,394		0.1%
Marquette	1,365,504		299,189		26,681,905		0.4%
Mason	1,035,450		201,150		10,779,416		0.2%
Mecosta	842,063		214,207		12,972,453		0.2%
Menominee	565,726		195,556		9,483,839		0.2%
Midland	2,165,605		300,954		58,725,542		1.0%
Missaukee	530,757		103,548		3,629,655		0.1%
Monroe	3,775,017		289,789		60,533,497		1.0%
Montcalm	2,166,907		394,143		25,973,533		0.4%
Montmorency	169,679		101,876		2,920,531		0.0%
Muskegon	5,415,327		967,768		72,820,323		1.2%
Newaygo	1,260,804		253,676		15,773,349		0.3%
Oakland	87,563,337		2,336,865		1,330,650,111		22.4%
Oceana	945,716		192,956		8,949,908		0.2%
Ogemaw	448,281		207,284		5,789,527		0.1%
Ontonagon	129,731		77,514		2,400,292		0.0%
Osceola	728,837		225,118		8,263,720		0.1%
Oscoda	103,556		71,807		1,861,700		0.0%
Otsego	404,807		87,374		10,930,172		0.2%
Ottawa	8,256,746		398,020		159,678,861		2.7%
Presque Isle	399,817		160,557		4,577,470		0.1%
Roscommon	708,534		224,867		7,700,761		0.1%
Saginaw	7,108,493		1,373,562		99,815,802		1.7%
St. Clair	6,249,787		558,695		73,209,306		1.2%
St. Joseph	1,891,250		274,041		27,637,197		0.5%
Sanilac	2,891,886		363,342		17,266,290		0.3%
Schoolcraft	104,821		86,713		3,020,170		0.1%
Shiawassee	2,952,768		316,318		36,702,012		0.6%
Tuscola	3,642,053		331,507		24,328,468		0.4%
Van Buren	3,330,098		487,609		33,256,671		0.6%
Washtenaw	20,724,500		539,116		250,538,758		4.2%
Wayne (excl. Detroit)	64,778,959		2,817,723		610,373,699		10.3%
Wexford	990,887		220,258		13,043,396		0.2%
Outside Michigan	9,667,887		574,523		248,348,862		4.2%
Detroit	48,959,575		12,144,425		358,443,674		6.0%
	\$469,672,975		\$45,380,199		\$5,934,872,996		100.0%

Exhibit 21

1998 Income Tax Data by County

County	1998 AGI (Millions)	1998 Average AGI	Income Tax Before			Average Income Tax Before			Average Income Tax After			Credits as a % of Tax Before		Ratio of Property Tax Credits to 1040s		Average Property Tax Credit (1)	
			Credits	Rank	Rank	Credits	Rank	Rank	Credits	Rank	Rank	Filed	Rank	Filed	Rank	Credit (\$)	Rank
Alcona	\$136.2	\$29,269	\$3,458,569	75	\$743	79	\$654	80	19.7%	52	\$288	60	19.7%	52	\$288	60	
Alger	120.2	30,456	3,581,350	73	907	58	832	56	8.4%	63	258	71	16.7%	73	258	71	
Allegan	1,488.3	37,998	51,182,931	22	1,307	20	1,204	20	7.9%	69	419	16	20.0%	48	419	16	
Alpena	443.7	32,675	14,086,780	47	1,024	49	916	47	10.5%	29	294	59	26.3%	10	294	59	
Antrim	333.4	36,747	10,079,920	57	1,111	37	980	39	11.8%	17	440	14	23.8%	21	440	14	
Arenac	217.8	27,825	6,277,843	65	802	72	670	78	16.4%	5	396	25	24.0%	19	396	25	
Baraga	107.9	29,971	3,223,877	78	895	59	820	58	8.4%	60	282	64	16.0%	76	282	64	
Barry	843.4	42,198	29,317,464	30	1,467	11	1,376	9	6.2%	79	377	34	18.6%	65	377	34	
Bay	1,826.2	36,626	60,688,202	19	1,217	28	1,078	31	11.4%	20	383	31	28.1%	6	383	31	
Benzie	208.3	31,892	6,108,182	66	935	56	848	53	9.3%	50	307	56	20.7%	42	307	56	
Berrien	2,688.7	37,180	88,991,771	12	1,231	27	1,117	26	9.2%	53	344	44	24.0%	20	344	44	
Branch	594.2	32,913	19,247,591	39	1,066	44	947	45	11.2%	24	443	13	21.1%	38	443	13	
Calhoun	2,181.1	36,930	71,567,356	17	1,212	29	1,080	29	10.8%	27	360	38	25.7%	13	360	38	
Cass	608.9	34,652	19,746,573	38	1,124	36	970	41	13.7%	9	497	7	20.4%	44	497	7	
Charlevoix	479.0	39,917	15,537,173	44	1,295	23	1,206	19	6.9%	76	343	45	19.1%	58	343	45	
Cheboygan	352.9	31,310	10,464,019	54	928	57	838	55	9.7%	44	323	49	18.9%	62	323	49	
Chippewa	431.4	29,563	12,802,549	49	877	63	797	62	9.1%	54	259	70	17.0%	72	259	70	
Clare	372.5	28,561	10,756,470	53	825	70	742	68	10.1%	37	262	68	18.4%	67	262	68	
Clinton	935.6	41,650	31,990,329	27	1,424	12	1,285	11	9.8%	43	454	12	23.2%	23	454	12	
Crawford	138.0	28,822	3,991,411	72	834	69	747	67	10.4%	31	251	73	19.9%	50	251	73	
Della	565.4	33,155	17,896,213	41	1,049	48	961	42	8.4%	61	285	63	19.5%	54	285	63	
Dickinson	426.4	34,604	13,512,720	48	1,097	39	982	38	10.5%	30	330	47	24.7%	15	330	47	
Eaton	1,344.4	39,924	45,789,153	23	1,360	17	1,241	14	8.7%	57	394	27	22.6%	28	394	27	
Emmet	589.1	40,530	19,867,336	37	1,367	15	1,257	12	8.0%	67	372	35	22.5%	31	372	35	
Genesee	7,696.4	39,704	258,065,458	6	1,331	19	1,228	16	7.8%	70	305	57	22.3%	34	305	57	
Gladwin	330.9	30,953	9,515,991	61	890	60	780	65	12.4%	12	317	52	24.6%	17	317	52	
Gogebic	185.1	27,242	5,259,388	67	774	77	690	74	10.9%	26	224	79	20.8%	41	224	79	
Grand Traverse	1,029.8	38,466	34,437,106	26	1,286	24	1,185	22	7.9%	68	360	37	22.4%	33	360	37	
Gratiot	567.5	32,708	18,530,289	40	1,068	43	934	46	12.6%	10	515	5	19.6%	53	515	5	
Hillsdale	616.2	32,960	20,257,346	36	1,084	40	961	43	11.3%	21	413	18	18.9%	61	413	18	
Houghton	397.0	29,086	12,029,295	51	881	62	807	60	8.5%	59	247	75	16.5%	74	247	75	
Huron	531.4	30,638	17,131,033	43	988	52	675	77	31.6%	1	874	1	32.2%	2	874	1	
Ingham	5,459.9	40,454	188,751,060	7	1,399	13	1,228	15	12.2%	13	384	30	32.0%	3	384	30	
Ionia	878.0	35,109	30,898,388	28	1,236	26	1,132	25	8.4%	62	402	22	18.4%	68	402	22	
Iosco	352.9	29,563	9,574,709	60	802	73	720	70	10.2%	33	261	69	21.3%	36	261	69	
Iron	149.6	27,207	4,272,522	71	777	75	700	73	9.9%	41	212	80	19.9%	49	212	80	
Isabella	758.2	35,760	24,648,241	34	1,162	31	1,055	32	9.2%	51	356	40	20.0%	47	356	40	
Jackson	2,493.5	38,493	84,501,096	13	1,304	21	1,199	21	8.1%	66	346	43	21.0%	40	346	43	
Kalamazoo	3,838.8	42,893	132,849,765	9	1,484	9	1,361	10	8.3%	64	358	39	27.5%	8	358	39	
Kalkaska	116.5	27,877	3,552,073	74	850	68	769	63	7.2%	75	250	74	15.8%	77	250	74	
Kent	11,118.5	45,116	396,416,774	4	1,609	6	1,486	6	7.6%	71	350	41	23.8%	22	350	41	
Keweenaw	23.5	27,323	620,122	83	721	80	669	79	7.2%	73	209	81	10.9%	82	209	81	
Lake	86.6	25,637	2,323,719	80	689	82	570	83	17.3%	3	256	72	25.8%	12	256	72	
Lapeer	1,496.1	42,655	51,912,823	21	1,480	10	1,385	7	6.4%	77	386	29	18.0%	71	386	29	
Leelanau	314.0	43,662	9,810,860	58	1,364	16	1,226	17	10.1%	34	477	8	22.7%	26	477	8	

Exhibit 21 (cont)

County	1998 AGI (Millions)	1998 Average AGI	Income Tax		Average Income Tax		Credits as a % of Tax		Ratio of Property Tax Credits to 1040s		Average Property Tax Credit	
			Before	Rank	After	Rank	Before	Rank	Filed	Rank	Credit (\$)	Rank
Lenawee	\$1,642.5	\$38,474	\$55,324,089	20	\$1,296	22	\$1,144	24	11.7%	19	\$471	9
Livingston	2,699.6	54,529	97,926,852	11	1,978	3	1,866	3	5.6%	81	435	15
Luce	75.6	29,817	2,163,648	81	854	67	801	61	6.2%	80	170	83
Mackinac	159.9	28,977	4,783,112	69	867	65	783	64	9.7%	45	311	54
Macomb	13,726.0	44,193	480,289,896	3	1,546	7	1,381	8	10.7%	28	466	10
Manistee	316.0	30,858	9,578,340	59	935	55	845	54	9.7%	46	304	58
Mason	385.0	33,990	29,068,284	31	1,083	42	994	36	8.2%	65	266	66
Mecosta	469.4	32,114	14,468,718	45	1,010	50	897	49	11.2%	23	350	42
Menominee	344.8	32,500	10,374,664	55	978	53	888	51	10.3%	32	311	53
Midland	1,769.1	50,765	62,141,217	18	1,783	4	1,685	4	8.6%	58	285	61
Missaukee	143.5	28,682	4,326,004	70	865	66	725	69	5.5%	83	328	48
Monroe	2,096.4	43,342	73,457,988	16	1,519	8	1,251	13	16.1%	6	457	11
Montcalm	864.5	32,940	28,842,978	32	1,099	38	990	37	9.9%	40	407	20
Montmorency	129.5	27,355	3,227,776	77	682	83	617	82	9.5%	49	229	77
Muskegon	2,425.2	34,752	80,720,101	15	1,157	32	1,043	33	17.6%	2	319	51
Newaygo	544.0	33,589	17,548,851	42	1,084	41	974	40	10.1%	35	380	33
Oakland	38,445.2	64,073	1,438,243,122	1	2,397	1	2,218	1	7.5%	72	521	4
Oceana	328.4	30,505	10,225,349	56	950	54	831	57	12.5%	11	418	17
Ogemaw	231.5	28,481	6,527,682	64	803	71	712	72	11.3%	22	285	62
Ontonagon	90.7	27,088	2,638,092	79	787	74	717	71	9.0%	55	238	76
Osceola	307.8	28,969	9,365,481	62	882	61	778	66	11.8%	18	366	36
Oscoda	77.6	26,087	2,067,614	82	695	81	626	81	10.0%	39	226	78
Otsego	365.2	36,048	11,578,384	52	1,143	34	1,079	30	5.6%	82	266	67
Ottawa	4,781.3	46,717	170,383,007	8	1,665	5	1,560	5	6.3%	78	399	24
Presque Isle	186.6	27,642	5,198,275	68	770	78	678	76	11.9%	16	311	55
Roscommon	332.7	29,460	8,758,686	63	776	76	682	75	12.1%	14	276	65
Saginaw	3,358.8	37,398	111,036,518	10	1,236	25	1,111	27	10.1%	36	341	46
St. Clair	2,369.6	39,590	81,325,465	14	1,359	18	1,223	18	10.0%	38	396	26
St. Joseph	916.0	33,951	30,367,762	29	1,126	35	1,024	34	9.0%	56	383	32
Sanilac	616.7	31,340	20,771,566	35	1,056	46	878	52	16.9%	4	560	3
Schoolcraft	111.2	29,825	3,255,404	76	873	64	810	59	7.2%	74	203	82
Shiawassee	1,231.7	36,459	40,566,191	24	1,201	30	1,086	28	9.5%	48	388	28
Tuscola	890.6	32,967	28,753,098	33	1,064	45	901	48	15.4%	7	625	2
Van Buren	1,115.5	34,348	37,408,828	25	1,152	33	1,024	35	11.1%	25	406	21
Washtenaw	7,546.9	57,077	275,978,869	5	2,087	2	1,895	2	9.2%	52	505	6
Wayne (incl. Detroit)	33,090.5	40,199	1,125,644,142	2	1,367	14	1,177	23	13.9%	8	410	19
Wexford	446.2	32,460	14,434,687	46	1,050	47	949	44	9.6%	47	320	50
Detroit	13,341.5	33,316	438,296,297	46	1,095	47	895	44	18.2%	32	342	342
Outside Michigan	23,844.6	122,589	265,189,666	46	1,363	47	1,277	44	6.4%	52	390	390
Totals	\$205,267.6	\$47,188	\$6,571,627,659	46	\$1,511	47	\$1,364	44	9.7%	47	\$416	416

(1) Includes Farmland Preservation credits.

Exhibit 22
Average Annual Individual Income Tax Rates

<u>Year</u>	<u>Rate</u>
1968	2.60%
1969	2.60%
1970	2.60%
1971	3.14%
1972	3.90%
1973	3.90%
1974	3.90%
1975	4.37%
1976	4.60%
1977	4.60%
1978	4.60%
1979	4.60%
1980	4.60%
1981	4.60%
1982	5.10%
1983	6.35%
1984	5.85%
1985	5.33%
1986	4.60%
1987	4.60%
1988	4.60%
1989	4.60%
1990	4.60%
1991	4.60%
1992	4.60%
1993	4.60%
1994	4.47%
1995	4.40%
1996	4.40%
1997	4.40%
1998	4.40%
1999	4.40%
2000	4.20%

Exhibit 23
Average Adjusted Gross Income by County
1998

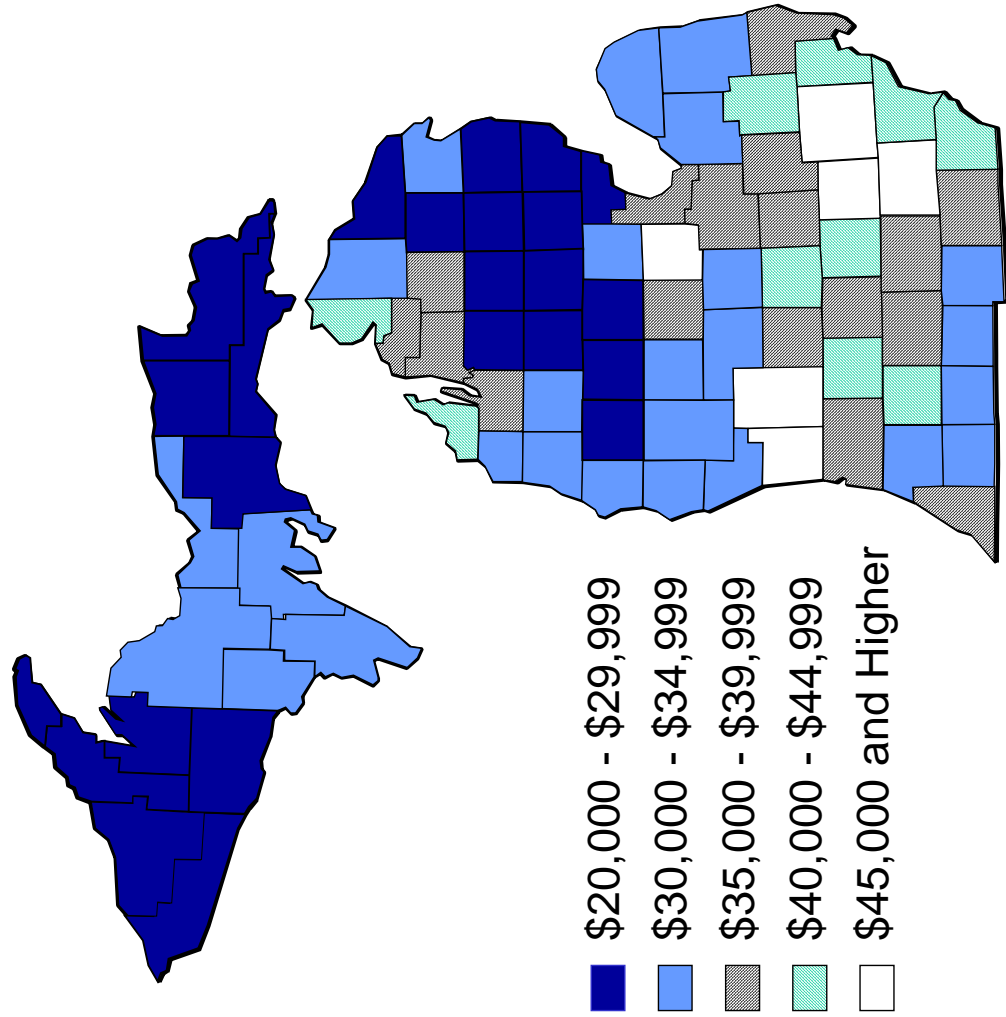


Exhibit 24
Average Property Tax Credits by County
1998

