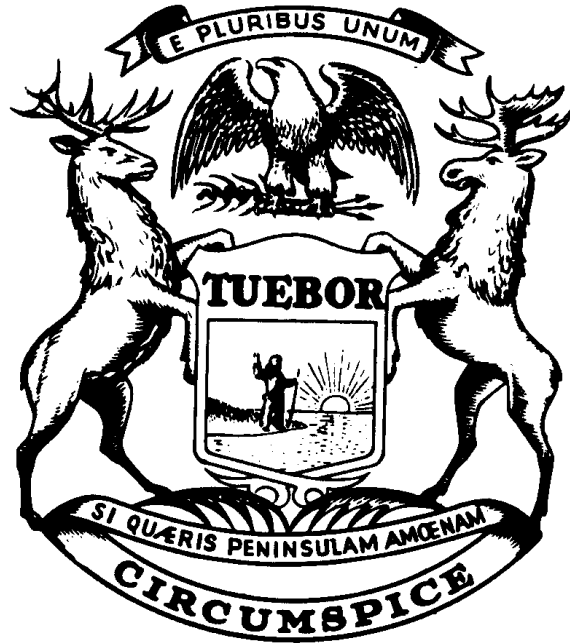


Executive Budget Tax Expenditure Appendix Fiscal Year 2004



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

**Executive Budget
Tax Expenditure Appendix
Fiscal Year 2004**



**State of Michigan
Michigan Department of Treasury
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This report is available on the Internet at <http://www.michigan.gov/treasury>, and copies of this report are available from the Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Jay B. Rising
State Treasurer
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TAX EXPENDITURE REPORT PUBLICATION HISTORY

<u>Fiscal Year</u>	<u>Date of Release</u>	<u>Lead Department</u>
1977 – 1978	August 1978	Management and Budget
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

TAX EXPENDITURE APPENDIX
EXECUTIVE SUMMARY
FY 2004

The *Tax Expenditure Appendix* is a compilation of the revenue cost of the various tax expenditures in Michigan. Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax expenditure items along with the annual presentation of the *Executive Budget* to the Legislature.

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as exclusions, deductions, exemptions, credits, deferrals, 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 3.8 percent between Fiscal Year (FY) 2003 and FY 2004, from \$26.0 billion to \$27.0 billion. The tax expenditures are divided into five broad categories: business privilege, consumption, individual income, local property, and transportation.

Business privilege tax expenditures are predicted to increase 8.7 percent from \$1,274.1 million to \$1,385.5 million. The single business tax (SBT) rate has fallen from 2.3 percent in tax year 1998 to 1.9 percent in tax year 2002 as part of the SBT phase out contained in Public Act 115 of 1999. The decline in the SBT rate was paused for tax year 2003 at 1.9 percent. The new Brownfield credit was the fastest growing business tax expenditure.

Consumption tax expenditures are predicted to increase 2.5 percent between FY 2003 and FY 2004, from \$10,683.3 million to \$10,952.6 million. 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 a change in the methodology used to calculate tax expenditures related to services.

Individual income tax expenditures are predicted to rise from \$5,531.6 million in FY 2003 to \$5,647.7 million in FY 2004, a 2.1 percent increase. Public Acts 1 through 6 of 1999 and Public Act 40 of 2000 implement reductions in the income tax rate. The tax rate fell to 4.0 percent in 2003, and will fall to 3.9 percent in 2004. The reduction in the income tax rate reduces the size of most income tax expenditures, especially exemptions and deductions.

Local tax expenditures are predicted to increase 5.8 percent between FY 2003 and FY 2004, rising from \$8,469.5 million to \$8,963.6 million, as property values rise and new construction adds to the property tax base.

Transportation tax expenditures are predicted to increase 2.3 percent between FY 2003 and FY 2004, from \$52.7 million to \$53.9 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 expenditure items 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 expenditure items enumerated in this act. The message shall include tax expenditures by budget and also shall contain a separate report on tax expenditures 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.

While the act does not explicitly define tax expenditures, it does list specific tax expenditures to be included in the report. The *Tax Expenditure Appendix* is a compilation of the revenue cost of the various tax expenditures in the Michigan state and local tax structure. When known, the number of taxpaying units taking advantage of a given tax expenditure is also included.

The *Tax Expenditure 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 to providing a brief description of each tax expenditure.

Defining Tax Expenditures

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as exclusions, deductions, exemptions, credits, deferrals, 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.

Classifying items as tax expenditures is a subjective process. Some argue that the tax expenditure definition should be as broad as possible, encompassing all deductions or credits that reduce the taxable base from 100 percent of income or wealth. Others recommend a more narrow definition that includes only those tax deductions or credits that are adjustments to the “normal” or appropriate tax structure. The narrow tax expenditure definition reserves the term tax expenditure for items that are true substitutes for direct spending. This report does not make any assumptions regarding the correct definition of the term tax expenditure but rather reports all exemptions, deductions, and credits that are explicitly outlined in statute.

Changes in law can affect revenues and not involve a tax expenditure. For example, recent changes to the single business tax (SBT) that cut revenue but are not tax expenditures include rate cuts; apportionment formula changes; shifting the tax on certain royalties from the payer to the recipient; and Public Act 603 of 2002, which transfers officer compensation from the tax base of a client to the tax base of the professional employer organization that employs the client's officers.

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 SBT credits for small, low-profit firms all shift the relative tax burden. These tax expenditures are designed to reduce the tax burden on low-income individuals and businesses. Second, tax expenditures create an incentive for individuals or firms to change their behavior. The college contribution credit, intended to increase contributions to colleges and universities, is an example of a tax expenditure designed to influence taxpayer behavior.

Tax expenditures are so named because they can be viewed as alternatives to direct government appropriations or regulation. In fact, tax expenditures are very similar to direct appropriations in many respects. The main difference is that while appropriations achieve policy goals directly, tax expenditures achieve policy goals indirectly by changing relative prices or reducing costs. For example, the government may help the poor directly by providing food stamps. Alternatively, the government can exempt food from the sales tax, which lowers the cost of food purchases relative to other goods. This will aid poorer residents because they spend a greater proportion 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 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 the cost incurred 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 should 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 education aid formula.

Income Tax Personal Exemption

For tax year 2002, individual Michigan taxpayers could claim a \$3,000 personal exemption for themselves and each of their dependents. The personal exemption is classified as a tax expenditure in this report. Some contend that the exemption is essential for determining an appropriate income tax base and should not be considered a tax expenditure. Yet even using a narrow definition of tax expenditures, the personal exemption would be considered a tax expenditure because it changes the distribution of the tax burden based on family size.

Industrial Processing Exemption From Sales Tax

The levy of a “pure” retail sales tax takes place only at the retail level, that is, sales to the final consumer. Goods or services used in the production of consumer goods are exempt from this

pure retail sales tax. States differ as to the business purchases they exempt from the sales tax. In Michigan, sales of goods used in industrial processing are exempt, although sales of goods used in business, but not in the actual manufacturing process, are subject to taxation. In this sense, the exclusion of non-retail sales from a pure retail sales tax base is not a tax expenditure. However, Michigan's sales tax is not a pure retail sales tax because many final consumer goods, such as services, are not subject to taxation. Hence, this report includes the business purchase exemption as a tax expenditure to the state sales tax.

Measuring Tax Expenditures

The estimates in this report for FY 2003 and FY 2004 are based on the most recent data available. Tax year 2001 income tax data (returns processed in the spring of 2002) are used, as are 2001 property and sales tax data, and tax year 1998-99 SBT data. Unless otherwise noted, estimates of the cost (in terms of foregone revenue) of exemptions, deductions, reductions, and credits 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 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 manner, the elimination of a tax expenditure is similar to a price increase. This drop in food purchases offsets some of the revenue gain from eliminating the exemption.

Assumption 2. Each tax expenditure is independent.

The repeal of certain tax expenditure provisions can increase or decrease the revenue losses associated with other provisions that are kept in place. For example, reducing or removing one SBT deduction or credit may allow firms to take greater advantage of other deductions or credits, offsetting 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, the reported estimate for each tax expenditure is an isolated estimate. That is, estimates assume 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 economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would necessarily 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 federal, state, and local changes in 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 available data.

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

1. High reliability level.

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

2. Average reliability level.

Tax expenditure estimates in this category were also based on tax return data. However, specific economic assumptions were necessary to derive these estimates because less recent data or sample data were used. The personal exemption from city income taxes is

an example of an estimate with average reliability. Estimates were based on a recent survey of city treasurers. Some city estimates were carried forward from last year, while other estimates were based on rounded figures. While this will affect the precision of the total estimate, the impact should be relatively small.

3. Low reliability level.

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

Why Report Tax Expenditures?

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

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

1. Tax Equity.

Reviewing tax expenditures helps to ensure both vertical and horizontal equity in the tax structure. Horizontal equity refers to taxpayers in similar income groups, while vertical equity refers to taxpayers in different income groups. If a voluntary tax system 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 of how the tax system should be designed. In addition, lawmakers would indicate publicly whether they support or oppose certain tax expenditures, much like the appropriations process.

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

CHAPTER 2

SUMMARY OF TAX EXPENDITURES

Chapter 2 lists tax expenditures by tax category. Categories include business privilege, consumption, individual income, transportation, local property, and other local tax expenditures. Chapter 2 also includes aggregated tax expenditures. As noted earlier, aggregated measures of tax expenditures should be viewed with caution. The independence assumption underlying individual tax expenditure estimates is unrealistic and, if relaxed, aggregated figures would likely decrease.

Total tax expenditures are projected to increase from \$26.011 billion in FY 2003 to \$27.003 billion in FY 2004, a 3.8 percent increase (see Exhibit 1). Much of the increase in total tax expenditures is due to growth in business privilege, local property tax, and consumption tax expenditures.

Exhibit 1
Total Tax Expenditures, FY 2003 and FY 2004

<u>Tax Category</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>	<u>Change</u>
Business Privilege	\$1,274,133	\$1,385,469	\$111,336
Consumption	10,683,324	10,952,585	269,261
Individual Income	5,531,639	5,647,698	116,059
Property	8,273,910	8,765,865	491,955
Other Local (City Income)	195,600	197,700	2,100
Transportation	<u>52,655</u>	<u>53,892</u>	<u>1,237</u>
TOTAL	\$26,011,261	\$27,003,209	\$991,948

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2004, consumption tax expenditures comprised 40.6 percent of total tax expenditures, while income tax expenditures comprised 20.9 percent and property and other local taxes comprised 33.2 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 food, services, and industrial processing exemptions.

Exhibit 2
FY 2004 Distribution of Tax Expenditures

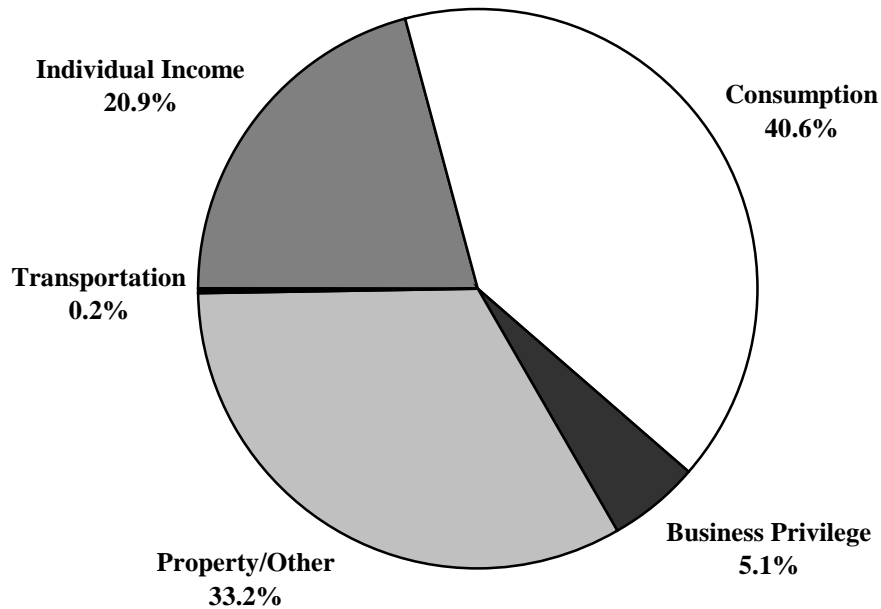


Exhibit 3
FY 2004 Tax Expenditures and Projected Revenue
(millions of dollars)

<u>Tax Category</u>	<u>Tax Expenditure</u>	<u>Projected Revenues*</u>	<u>Percent of Revenues</u>
Business Privilege			
Oil and Gas Severance	\$4.1	\$34.0	12.0%
Single Business	1,380.6	2,084.9	66.2%
Consumption			
Total Alcohol	0.1	152.5	0.1%
Cigarette and Tobacco	19.6	851.8	2.3%
Sales and Use	10,932.9	8,357.4	130.8%
Individual Income Tax	3,634.8	5,930.5	61.3%
Transportation			
Aviation Fuel	4.3	7.0	61.9%
Gasoline	29.3	966.2	3.0%
Diesel Fuel	5.1	153.4	3.3%
Motor Vehicle Registration	14.5	892.5	1.6%
City Income Tax	197.7	565.3	35.0%
TOTAL	\$16,222.9	\$19,995.5	81.1%

*From Consensus Revenue Estimating Conference, January 2003.

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 *Tax Expenditure Appendix*. For more detailed information regarding these changes, consult the specific chapter relating to the tax expenditure.

**Exhibit 4
Business Privilege Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>
Insurance Company Retaliatory		
Supplemental Workers' Compensation	\$874	\$830
Oil and Gas Severance Tax		
Marginal Wells	1,875	1,837
Public Land	2,291	2,245
SUBTOTAL	<u>\$4,166</u>	<u>\$4,082</u>
Single Business Tax Expenditures		
Agricultural Producers	\$12,355	\$12,602
Apprenticeship Tax Credit	79	81
Brownfield Zone Credit*	30,567	62,851
Business Loss Deduction	104,254	111,386
Community Foundation Credit	757	795
Compensation Exemption	138,438	142,591
Corporate Farm Property Tax Credit	1,169	1,192
Enterprise Zone Credit	1,258	1,283
Excess Compensation Reduction	183,047	192,422
Floor Plan Interest Deduction	1,500	1,500
Government Utilities Exemption	14,756	15,068
Gross Receipts Reduction	164,179	172,588
Gross Receipts Threshold*	70,016	77,437
Higher Education Contributions Credit	1,939	1,978
Historic Preservation Credits	395	403
Homeless/Food Bank Credit	345	352
Insurer's Exemption From Gross Receipts	1,159	1,194
Insurer's Facility Assessment Credit	42,686	43,966
Investment Tax Credit	159,340	170,241
Iron Ore Credit	1,400	1,400
Minority Venture Capital Credit	0	0
Michigan Economic Growth Authority	29,758	37,471
Multiple Employer Welfare Arrangement	25	27
Next Energy Credit*	667	3,813
Nonprofit Organizations	116,919	124,918
Pharmaceutical Research Credit*	5,250	7,675
Renaissance Zones*	3,121	2,650
Small Business Credit	78,871	84,266
Statutory Exemption	24,881	26,583
Supplemental Workers' Compensation	5,368	5,099
Tribal Tax Agreement*	n.a.	n.a.
Unincorporated Business Credit	63,894	65,811
Utility Property Tax Credit	10,700	10,914
SUBTOTAL	<u>\$1,269,093</u>	<u>\$1,380,557</u>
TOTAL	\$1,274,133	\$1,385,469

* Indicates tax expenditure was created, expanded, or otherwise modified.

Exhibit 5
Consumption Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>
Alcoholic Beverages Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Homemade Wine	n.a.	n.a.
Small Brewer's Credit	\$110	\$120
SUBTOTAL	\$110	\$120
Cigarette Tax		
Bad Debt Deduction*	\$600	\$800
Licensee Expenses*	12,800	12,562
Sales on Military Bases and Reservations	6,250	6,250
SUBTOTAL	\$19,650	\$19,612
Sales and Use Tax Expenditures		
Air and Water Pollution	\$39,000	\$41,000
Aircraft Parts	8,125	8,516
Bad Debts	59,445	62,576
Cargo Aircraft	30,000	30,000
Church Construction	3,100	3,200
Church Cars	4,160	4,379
Collection Fee	15,575	16,395
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Damaged Beer	n.a.	n.a.
Delayed Payment on Construction Materials	2,892	3,045
Donated Property	n.a.	n.a.
Driver Training	590	602
Employee Meals	7,000	7,600
Enterprise Zone Credit	n.a.	n.a.
Food	856,161	901,248
Food for Students	48,319	49,285
Government or Red Cross	161,605	170,116
Gratuity and Tips	48,929	51,506
Horticultural and Agricultural Products	130,275	130,275
Industrial Processing	767,705	808,134

Exhibit 5 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2003 (000)</u>	<u>FY 2004 (000)</u>
Inmate Purchases	\$573	\$590
Interstate Communications	42,507	44,745
Interstate Trucks and Trailers	37,922	39,919
Investment Coins	300	400
Isolated Sales	n.a.	n.a.
Military PX Sales	1,539	1,620
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	91,411	96,225
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	10,249	10,789
Nonprofit Organizations	173,331	182,459
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	46,855	49,323
Prescription Drugs	435,600	489,120
Radio and TV	4,400	4,400
Rail Rolling Stock	1,591	1,675
Residential Utilities	107,000	112,000
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	81,578	81,578
Services (Including Nonprofits)	7,242,900	7,319,628
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	16,895	17,233
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	120,431	126,773
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	22,500	23,400
SUBTOTAL	\$10,663,563	\$10,932,854
TOTAL	\$10,683,323	\$10,952,586

* Indicates tax expenditure was created, expanded, or otherwise modified.

Note: May differ from Exhibit 1 due to rounding.

Exhibit 6
Individual Income Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>
State Income Tax		
Adjustments to Income	\$1,717,358	\$1,738,538
Adoption Credit	700	700
Child Deduction	53,360	52,554
City Income Tax Credit	37,928	38,497
College Savings Accounts	8,918	11,212
Community Foundation Credit	3,012	3,313
Dependent Exemption	22,853	22,619
Farmland Credit	29,962	29,812
Higher Education/Public Contributions Credit	26,931	28,277
Historic Preservation Credit	468	561
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	116	116
Homeless/Food Bank Credit	17,519	19,271
Homestead Property Tax Credit	576,526	599,587
Income Tax Paid to Other State Credit	34,107	35,813
Military Pay and Pensions	20,938	21,005
Personal Exemption	1,001,119	986,007
Renaissance Zones	300	300
Special Exemption	39,610	40,557
Tribal Tax Agreements	n.a.	n.a.
Tuition Credit	5,693	6,061
TOTAL STATE	\$3,597,418	\$3,634,800
Federal Adjustments		
Accelerated Depreciation*	\$47,307	\$65,912
Employer Contributions to Insurance	593,854	606,721
Employer Pension Plans*	600,559	652,694
Federal Adjustments to Income	11,443	16,710
Fellowships and Scholarships	6,179	6,597
Gain on Sale of Primary Residence	115,135	109,324
Income Maintenance Benefits	3,474	3,110

Exhibit 6 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>
Federal Adjustments (continued)		
Individual Retirement Accounts*	\$130,805	\$138,853
Interest on Life Insurance Savings	106,292	111,631
Medical Savings Account	93	94
Railroad Retirement Benefits	1,595	1,759
Social Security Benefits	225,005	208,175
Student Loan Deduction	2,060	3,511
Veterans' Benefits	37,033	34,692
Workers' Compensation	53,387	53,115
TOTAL FEDERAL	\$1,934,221	\$2,012,898
TOTAL STATE AND FEDERAL	\$5,531,639	\$5,647,698

* Indicates a tax expenditure was created, expanded, or otherwise modified.

Exhibit 7
Transportation Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$251	\$256
Interstate Flight Refund	3,956	4,074
Marine Vessel Exemption	687	700
SUBTOTAL	<u>\$4,894</u>	<u>\$5,030</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$4,964	\$5,063
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,478	14,743
Fuel for Off-Road Use	917	935
Municipal Franchise Vehicles	389	397
Public Vehicles	12,966	13,225
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	<u>\$33,714</u>	<u>\$34,363</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$149	\$174
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	13,885	14,311
SUBTOTAL	<u>\$14,034</u>	<u>\$14,485</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	\$13	\$14
TOTAL	<u>\$52,655</u>	<u>\$53,892</u>

Exhibit 8
Local Property and Other Local Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$12,800	\$18,700
Air and Water Pollution Control	140,000	140,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	650	590
Enterprise Zone Credit	1,200	1,200
Fairground Property	n.a.	n.a.
Homestead Exemption	2,560,000	2,700,000
Homestead Exemption for Farm Property	130,000	130,000
Industrial Facilities Development	330,000	340,000
Mobile Homes	48,000	47,700
Neighborhood Enterprise Zones*	3,100	3,300
Next Energy Exemption*	0	400
Obsolete Property Rehabilitation*	1,500	1,700
Poverty Exemption	2,200	2,300
Railroad Right-of-Way	22,700	29,100
Renaissance Zones*	32,700	52,800
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	2,018,000	2,057,000
Tax Increment Financing	270,000	280,000
Taxable Value Cap	2,700,000	2,960,000
Technology Park	10	0
Water Softeners	1,050	1,075
SUBTOTAL	\$8,273,910	\$8,765,865
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$171,000	\$172,900
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	24,600	24,800
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	\$195,600	\$197,700
TOTAL	\$8,469,510	\$8,963,565

* Indicates a tax expenditure was created, expanded, or otherwise modified.

CHAPTER 3

TAX EXPENDITURE BUDGET

Chapter 3 illustrates the concept of a tax expenditure budget. This presentation organizes tax expenditures by the spending category that benefits from the expenditure rather than by the revenue source that finances it. Tax expenditures are grouped in categories similar to direct expenditures in the *Executive Budget* such as commerce, education, transportation, and natural resources. This allows for a comparison of funding between direct appropriations and tax expenditures for selected spending categories.

By a wide margin, the commerce and income distribution budget categories tend to receive most funding from tax expenditures (see Exhibit 9). Relative to direct spending, tax expenditures appear to be a preferred method to fund these objectives. In contrast, transportation and higher education are funded much more intensively via direct appropriations (see Exhibit 10).

Exhibits 11 and 12 provide an itemized breakdown of tax expenditures by spending category. These exhibits are a simple reorganization of the summary tables provided in Chapter 2; only the groupings are different.

Exhibit 9
Tax Expenditure Budget, FY 2004

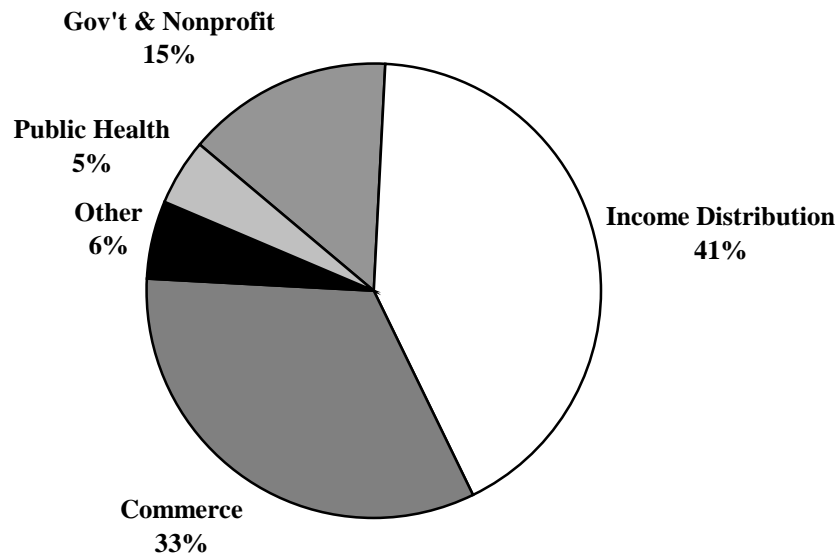


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2003

<u>Spending Category</u>	<u>Tax Expenditure (000)</u>	<u>Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$173,761	\$77,010	\$250,771	69.3%
Commerce (CIS)	7,217,037	312,509	7,529,546	95.8%
Higher Education	78,451	1,937,845	2,016,296	3.9%
Income Distribution (FIA)	6,551,303	1,242,380	7,793,683	84.1%
Military Affairs	67,409	63,520	130,929	51.5%
Natural Resources	39,000	220,163	259,163	15.0%
Public (Community) Health	1,216,117	3,315,020	4,531,137	26.8%
Transportation	45,472	2,122,964	2,168,436	2.1%
TOTAL	\$15,388,549	\$9,291,412	\$24,679,962	62.4%

Note: FY 2003 appropriation figures from *FY 2002-2003 Appropriations Report*, Senate Fiscal Agency.

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

Exhibit 11
Fiscal Summary, Tax Expenditure Budget

<u>Budget Category</u>	<u>FY 2003</u> <u>(000)</u>	<u>FY 2004</u> <u>(000)</u>
Agriculture	\$559,561	\$588,981
Commerce	8,552,597	8,897,166
Education	591,451	606,221
Government and Nonprofit Organizations	3,876,500	3,952,573
Income Distribution	10,922,503	11,385,037
Military Affairs	67,409	65,241
Natural Resources	179,650	181,590
Public Health	1,216,117	1,280,311
Transportation	45,472	46,089
TOTAL	\$26,011,260	\$27,003,210

Note: 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 2003 (000)	FY 2004 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	\$12,800	\$18,700
Homestead Exemption for Farm Property	130,000	130,000
Taxable Value Cap	243,000	266,400
Income Tax		
Farmland Development Credit (PA 116)	29,962	29,812
Sales and Use Taxes		
Horticultural or Agricultural Products	130,275	130,275
Single Business Tax		
Agricultural Producers	12,355	12,602
Corporate Farm Property Tax Credit	1,169	1,192
TOTAL	\$559,561	\$588,981
Commerce		
Alcoholic Beverage Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Small Brewer's Credit	\$110	\$120
Cigarette Tax		
Bad Debt Deduction	600	800
Licensee Expenses	12,800	12,562
Income Tax		
Accelerated Depreciation	47,307	65,912
Renaissance Zone Credit	300	300
Insurance Company Retaliatory Tax		
Supplemental Workers' Compensation Credits	874	830
Motor Vehicle Registration Tax		
Intercity Commercial Buses	n.a.	n.a.
Oil and Gas Severance Tax		
Marginal Wells	1,875	1,837

Tax/Tax Expenditure	FY 2003 (000)	FY 2004 (000)
Commerce (Continued)		
Property Tax		
Broadband Investment Credit	\$4,800	\$11,200
Enterprise Zone	1,200	1,200
Industrial Facilities Development	330,000	340,000
Mobile Homes	48,000	47,700
Neighborhood Enterprise Zones	3,100	3,300
Next Energy Exemption	0	400
Obsolete Property Rehabilitation	1,500	1,700
Renaissance Zones	32,700	52,800
Tax Increment Financing	270,000	280,000
Taxable Value Cap	648,000	710,400
Technology Park	10	0
Water Softeners	1,050	1,075
Sales and Use Taxes		
Aircraft Parts	8,125	8,516
Bad Debts	59,445	62,576
Cargo Aircraft	30,000	30,000
Collection Fee	15,575	16,395
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Delayed Payment on Construction Materials	2,892	3,045
Employee Meals	7,000	7,600
Enterprise Zone	n.a.	n.a.
Gratuities and Tips	48,929	51,506
Industrial Processing	767,705	808,134
Interstate Telecommunications	42,507	44,745
Interstate Trucks and Trailers	37,922	39,919
Investment Coins	300	400
Newspapers, Periodicals, and Films	91,411	96,225
Nonresident Merchandise Transfer	n.a.	n.a.
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Business	n.a.	n.a.
Sale of Water	81,578	81,578
Services (except education, health, and nonprofits)	4,627,278	4,676,317
Small Out-of-State Purchases	n.a.	n.a.

Tax/Tax Expenditure	FY 2003 (000)	FY 2004 (000)
Commerce (Continued)		
Telephone Services	16,895	17,233
Vehicle and Aircraft Transfers	120,431	126,773
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines	\$22,500	\$23,400
Single Business Tax		
Brownfield Zone Credit	30,567	62,851
Business Loss Deduction	104,254	111,386
Compensation Exemption	138,438	142,591
Enterprise Zone Credit	1,258	1,283
Excess Compensation Reduction	183,047	192,422
Floor Plan Internal Expense	1,500	1,500
Gross Receipts Reduction	164,179	172,588
Gross Receipts Threshold	70,016	77,437
Insurer's Exemption From Gross Receipts	1,159	1,194
Insurer's Facility Assessment Credit	42,686	43,966
Investment Tax Credit	159,340	170,241
Iron Ore Credit	1,400	1,400
MEGA	29,758	37,471
Minority Venture Capital Credit	0	0
Multiple Employer Welfare Arrangement	25	27
Next Energy Credit	667	3,813
Pharmaceutical Research Credit	5,250	7,675
Renaissance Zone Credit	3,121	2,650
Small Business Low-Profit Credit	78,871	84,266
Statutory Exemption	24,881	26,583
Supplemental Workers' Compensation Credit	5,368	5,099
Unincorporated Business Credit	63,894	65,811
Utility Property Tax Credit	10,700	10,914
TOTAL	\$8,552,597	\$8,897,166
Education		
Income Tax		
College Savings Account	\$8,918	\$11,212
Fellowships and Scholarships	6,179	6,597
Higher Education/Public Contribution Credit	26,931	28,277
Tuition Credit	5,693	6,061

Tax/Tax Expenditure	FY 2003 (000)	FY 2004 (000)
Education (Continued)		
Property Tax		
Exempt Public Education Property	513,000	523,000
Sales Tax		
Services	28,712	29,015
Textbooks Sold by Schools	n.a.	n.a.
Single Business Tax		
Apprenticeship Tax Credit	\$79	\$81
Higher Education and Library Credit	1,939	1,978
TOTAL	\$591,451	\$606,221
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$251	\$256
Income Tax		
Community Foundation	3,012	3,313
Historic Preservation Credit	468	561
Motor Fuel Taxes		
Public Vehicles	12,966	13,225
Motor Vehicle Weight Tax		
Handicapper Vans	n.a.	n.a.
Public and Nonprofit Vehicles	13,885	14,311
Oil and Gas Severance Tax		
Public Land	2,291	2,245
Property Tax		
Church Transfers	n.a.	n.a.
Tax Exempt Property	1,505,000	1,534,000
Sales and Use Taxes		
Church Cars	4,160	4,379
Church Construction	3,100	3,200
Donated Property	n.a.	n.a.
Government or Red Cross	161,605	170,116
Nonprofit Organizations	173,331	182,459
Nonprofit Sales	n.a.	n.a.
Services	1,863,591	1,883,310
Single Business Tax		
Community Foundation Credit	757	795
Government Utilities	14,756	15,068

Tax/Tax Expenditure	FY 2003 (000)	FY 2004 (000)
Government and Nonprofit Organizations (Continued)		
Historic Preservation Credit	395	403
Nonprofit Organizations	116,919	124,918
Watercraft Registration Fee		
Publicly Owned Watercraft	13	14
TOTAL	\$3,876,500	\$3,952,573
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	\$171,000	\$172,900
Personal Exemption	24,600	24,800
General Property Tax		
Homestead Exemption	2,560,000	2,700,000
Poverty Exemption	2,200	2,300
Taxable Value Cap	1,809,000	1,983,200
Income Tax		
Adjustments to Income (except military)	1,717,358	1,738,538
Adjustments to Income (federal)	11,443	16,710
Adoption Credit	700	700
Child Deduction	53,360	52,554
City Income Tax Credit	37,928	38,497
Dependent Exemption	22,853	22,619
Employer Contributions to Health and Life Insurance	593,854	606,721
Employer Pension Plans	600,559	652,694
Gain on Sale of Primary Residence	115,135	109,324
Holocaust Survivor	n.a.	n.a.
Home Heating Assistance Credit	116	116
Homeless Credit	17,519	19,271
Homestead Property Tax Credit (excluding veterans)	575,026	598,087
Income Maintenance Benefits	3,474	3,110
Individual Retirement Account	130,805	138,853
Interest on Life Insurance Savings	106,292	111,631
Other State Tax Credit	34,107	35,813
Personal Exemption	1,001,119	986,007
Railroad Retirement Benefits	1,595	1,759

Tax/Tax Expenditure	FY 2003 (000)	FY 2004 (000)
Income Distribution (Continued)		
Social Security Benefits	225,005	208,175
Special Exemption	39,610	40,557
Student Loan Deduction	2,060	3,511
Workers' Compensation	53,387	53,115
Sales and Use Taxes		
Food	\$856,161	\$901,248
Food for Students	48,319	49,285
Inmate Purchases	573	590
Residential Utilities	107,000	112,000
Single Business Tax		
Homeless Shelter Food Bank Credit	345	352
TOTAL	\$10,922,503	\$11,385,037
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	\$6,250	\$6,250
Income Tax		
Military Pay and Pension	20,938	21,005
Veterans' Benefits	37,033	34,692
Veterans' Property Tax Credit	1,500	1,500
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	149	174
Sales and Use Taxes		
Military Post-Exchange Sales	1,539	1,620
Military Vehicle Sales (nonresident)	n.a.	n.a.
Military Vehicle Sales (resident out-of-state)	n.a.	n.a.
TOTAL	\$67,409	\$65,241
Natural Resources		
Property Tax		
Air and Water Pollution	\$140,000	\$140,000
Energy Conservation Devices	650	590
Sales and Use Taxes		
Air and Water Pollution	39,000	41,000
TOTAL	\$179,650	\$181,590

Tax/Tax Expenditure	FY 2003 (000)	FY 2004 (000)
Public Health		
Income Tax		
Medical Care Savings - Federal	\$93	\$94
Sales and Use Taxes		
Medical Services	723,320	730,985
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital Construction	10,249	10,789
Ophthalmic and Orthopedic Products	46,855	49,323
Prescription Drugs	435,600	489,120
TOTAL	\$1,216,117	\$1,280,311
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,956	\$4,074
Motor Fuel Taxes		
Diesel Fuel for Jobsites	4,964	5,063
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	14,478	14,743
Fuel for Off-Road Use	917	935
Marine Vessel Fuel	687	700
Municipal Franchise Vehicles	389	397
Sales and Use Taxes		
Driver Training	590	602
Rail Rolling Stock	1,591	1,675
Utility Property Tax		
Railroad Right-of-Way	17,900	17,900
TOTAL	\$45,472	\$46,089

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and SBT expenditures. Business privilege tax expenditures are projected to increase 8.7 percent from \$1,274.1 million in FY 2003 to \$1,385.5 million in FY 2004. As discussed above, the SBT phase out was paused for 2003 since the budget stabilization fund dropped below \$250 million. Data from FY 1999 were used to derive SBT tax expenditure estimates. Other tax expenditure estimates from business privilege taxes were based on 2000 data.

- Estimate Reliability**
- (1) Community Foundation Credit
Higher Education Credit
Homeless/Food Bank Credit
Oil and Gas Severance Tax
Supplemental Worker's Compensation Credit
Unincorporated Credit
Utility Property Tax Credit
 - (2) Business Loss Deduction
Excess Compensation Reduction
Gross Receipts Reduction
Insurers' Facility Assessment Credit
Small Business Credit/Alternate Tax Rate
Statutory Exemption
 - (3) Other SBT Tax Expenditures

Most of the tax expenditure estimates for business privilege taxes are fairly accurate. SBT expenditure estimates were based on the entire population of 1998-99 SBT returns. These returns represent the most recent 12-month period where at least 99 percent of returns have been cleared. Because the SBT base is relatively stable, it is possible to adjust these data in a reliable fashion in order to derive estimates for FY 2003 and FY 2004. Additionally, many SBT expenditures are credits or deductions that filers must claim, as opposed to unreported exemptions, which are much more difficult to estimate. Insurance company retaliatory 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 512 of 2002 allows the Strategic Fund board to designate one of the five renaissance zones which it may create as an alternative energy zone for up to 20 years.

Public Act 531 of 2002 allows eligible taxpayers certified under the Michigan Next Energy Authority Act to claim both a nonrefundable and a refundable SBT credit for tax years beginning after December 31, 2002. The nonrefundable SBT credit is based on the increase in qualified business activity realized since tax year 2001. The refundable SBT credit is based on the taxpayer's qualified payroll amount. The act also provides for an increase in the SBT filing threshold from \$250,000 to \$350,000 for tax years beginning after December 31, 2002. Finally, the act repealed the SBT for tax years beginning after December 31, 2009.

Public Act 587 of 2002 allows the Strategic Fund board to designate one of the five renaissance zones that it may create as a pharmaceutical renaissance zone.

Public Act 588 of 2002 enacts an SBT credit for taxpayers engaged in pharmaceutical research in Michigan for tax years beginning after December 31, 2002. The credit equals 6.5 percent of a taxpayer's increased qualified expenses from pharmaceutical research activity in Michigan, over their average qualified expenses from the same activity in the three preceding tax years.

Public Act 593 of 2002 creates the Michigan Next Energy Authority Act to establish the Michigan Next Energy Authority. The authority is authorized to promote and increase the research, development, and manufacturing of alternative energy technologies and to certify businesses and their property as eligible for benefits allowed under Public Acts 531 and 549 of 2002. PA 593 contains definitions used in the three acts.

Public Act 603 of 2002 altered the treatment of "officer compensation" paid by "professional employer organizations" (PEO) on behalf of an entity whose employment operations are managed by the PEO. For tax years beginning after December 31, 2003, "officer compensation" is not considered to be part of the compensation of entities that hire PEOs. Rather, it is considered to be part of the PEOs' compensation.

Public Act 606 of 2002 explicitly eliminates a number of items from the definition of gross receipts for tax years beginning on or after October 1, 2003. The items excluded from the definition of gross receipts are: transfers to a third party of receivables included in gross receipts for federal income tax purposes (unless the third party both buys and sells any receivable in the tax year); proceeds from the original issue of stocks, equities, and debt instruments; refunds from returned merchandise; cash and in-kind discounts; trade discounts; federal, state, or local tax refunds; security deposits; payment of principal of loans; proceeds from disposition of capital assets as defined in section 1221(a) of the Internal Revenue Code (IRC) or land as defined in section 1231(b) of the IRC; and proceeds from insurance policies, settlements, or judgment in a civil action less any proceeds that are included in federal taxable income.

Public Acts 614 through 617 of 2002 allow the Michigan Department of Treasury to enter into agreements with federally recognized Indian tribes. The agreements would specify whether, and to what extent, Michigan's tax laws apply to each tribe, the tribe's members, and other individuals and businesses conducting business with a tribe or its members. The agreements would affect Michigan's single business, sales, use, income, tobacco, and motor fuel taxes. Agreements were subsequently signed with 7 of Michigan's 12 federally recognized tribes.

While the tribal agreements create and clarify exemptions, they are not tax expenditures as the concept is usually defined. Federal law precludes Michigan from collecting most state taxes from tribal members within the territorial boundaries of Indian country, as recognized by the federal government. The tribal agreements were designed to clarify how Michigan's tax laws would be applied in areas that were unclear under federal law, as well as gaining the assistance of the Indian tribes in collecting the taxes legally due from non-tribal members. There is no legally enforceable requirement for tribes to assist in this process.

Public Act 622 of 2002 revises the methods of calculating renaissance zone and next energy credits. The new methods establish limits to both credits by providing mechanisms that better reflect the eligible business activity for each credit that actually occurred in Michigan within the renaissance zone, and outside the renaissance zone.

Public Act 726 of 2002 extends the deadline for approval of brownfield projects eligible for an SBT credit from January 1, 2003, to January 1, 2008. Besides providing for more circumstances where the SBT brownfield credits can be assigned to others, the legislation allows for multiphase industrial and manufacturing projects, which cannot be divided into more than three components, and establishes penalties when those projects are not completed in a timely manner.

Public Act 727 of 2002 extends the deadline for approval of a brownfield-related tax increment financing program from before January 1, 2003, to before January 1, 2007. It also requires, for projects that include the capture of school operating taxes or the use of tax increment revenues for certain circumstances, Michigan Economic Growth Authority (MEGA) approval of work plans and the development of an agreement between the municipality and the owner of the property. Criteria that MEGA must consider in reviewing a work plan were expanded under the new law, and the time allowed for MEGA to respond to a request for approval of a work plan increases (from 60 to 65 days). However, requests not approved or denied within 65 days will be considered approved; the current deadline is 90 days.

Insurance Company Retaliatory Tax

Effective August 3, 1987, the Michigan tax on insurance premiums was replaced with a tax on gross receipts. The tax is levied on all insurers under the SBT and the rate is 1.0735 percent for tax year 2002. 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 SBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$257.0 million for FY 2004; revenue goes to the State General Fund.

FY 2004 Estimate

Supplemental Workers Compensation Credit

\$830,000

Provides a credit to out-of-state insurers for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Other firms claim an SBT credit. Previously, firms were reimbursed for these costs through the appropriations process.

Oil and Gas Severance Tax

Enacted in 1929, the oil and gas severance tax is levied on the privilege of producing oil and gas. The base is the gross cash market value of oil and gas that is severed from the ground. The tax rate is 6.6 percent for normal oil production, 5.0 percent for natural gas production, and 4.0 percent for stripper wells and marginal properties. The estimated yield is \$34.0 million for FY 2004; revenue goes to the State General Fund.

FY 2004 Estimate

Marginal Wells	\$1,837,000
Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.	
Public Land	\$2,245,000
Exempts oil and gas severed from publicly-owned lands from taxation.	

SBT Expenditures

Enacted in 1976, the SBT was enacted as a consumption-type, value-added tax that has numerous adjustments to provide tax relief to businesses. A value-added tax is a levy on the value firms add to goods and services purchased from other firms. The SBT base is equal to the sum of business income, labor compensation, net interest, and depreciation. Deductions and credits are then applied to determine final tax liability. Public Act 531 of 2002 repealed the SBT for tax years beginning after 2009. The estimated yield for FY 2004 is \$2,084.9 million; revenue goes to the State General Fund.

SBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the gross receipts reduction and the excess compensation reduction. Because most estimates were derived assuming no interaction between tax expenditures, most estimates should not be interpreted as the tax revenue that would be realized if a particular exemption were eliminated. Exhibit 13 presents a breakdown for certain SBT tax expenditures based on calendar year returns for 1999 and returns for fiscal years ending in December 1998 through November 1999.

FY 2004 Estimate

Agricultural Producers	\$12,602,000
Exempts agricultural production from the SBT.	

FY 2004 Estimate

Apprenticeship Tax Credit	\$81,000
Provides an SBT credit equal to 50 percent of the salary, wage and fringe benefits, plus 100 percent of classroom and related expenses for apprentices employed by businesses. The credit may not exceed \$2,000 per apprentice per year.	
Brownfield Zone Credit	\$62,851,000
Permits firms to claim an SBT credit equal to 10 percent of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in brownfield development zones.	
Business Loss Deduction	\$111,386,000
Permits a business that had a negative adjusted tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted tax bases may be carried forward for up to 10 years.	
Community Foundation Credit	\$795,000
Provides a 50 percent credit for contributions made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to 5 percent of tax liability before credits or \$5,000, whichever is less.	
Compensation Exemption	\$142,591,000
Removes unemployment insurance, workers' compensation, and social security payments from the SBT tax base.	
Corporate Farm Property Tax Credit	\$1,192,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Part 361 of Public Act 451 of 1994.	
Enterprise Zone Credit	\$1,283,000
Provides a credit for tax liability attributable to qualified business activity in an enterprise zone established before 1994. The city of Benton Harbor is the only enterprise zone under the Enterprise Zone Act (Public Act 224 of 1985) established before 1994. The Benton Harbor Enterprise Zone program ceased to enlist new businesses after December 31, 1996.	

	<u>FY 2004 Estimate</u>
Excess Compensation Reduction	\$192,422,000
Reduces the adjusted tax base by the percentage that labor compensation exceeds 63 percent of the total tax base, providing relief for labor-intensive businesses. This estimate accounts for interaction with the gross receipts deduction. In FY 1999, 44,627 firms used this provision. (See Exhibit 13.)	
Floor Plan Interest Deduction	\$1,500,000
Provides a deduction for interest payments on credits made by a motor vehicle manufacturer to a retailer to defray the retailer's expense of maintaining inventory of cars.	
Government Utilities Exemption	\$15,068,000
Exempts the value added of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.	
Gross Receipts Reduction	\$172,588,000
Reduces the adjusted tax base by the amount the tax base exceeds 50 percent of adjusted (apportioned) gross receipts. This estimate accounts for interaction with the excess compensation deduction. In FY 1999, 16,797 taxpayers used this filing method. (See Exhibit 13.)	
Gross Receipts Threshold	\$77,437,000
Exempts from the SBT firms with adjusted (apportioned) gross receipts less than \$250,000, and \$350,000 for tax years beginning after 2002.	
Higher Education Contribution Credit	\$1,978,000
Provides a 50 percent credit for contributions made to Michigan colleges, libraries, public broadcasting stations, and other educational institutions. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less. In FY 1999, 1,818 taxpayers used this credit. (See Exhibit 13.)	
Historic Preservation Credit	\$403,000
Public Act 534 of 1998 provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. Tax year 1999 was the first year the credit was available.	

Exhibit 13
Single Business Tax Expenditures by Liability Class, 1998-99*

Tax Liability Class	Capital Acquisition Deduction		Excess Compensation Reduction		Gross Receipts Reduction	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
\$0 - \$99	20,295	\$215,840,451	4,884	\$7,676,284	336	\$3,026,005
\$100 - \$499	4,942	2,612,077	3,411	1,383,946	164	344,248
\$500 - \$999	5,462	2,826,233	2,595	1,735,674	245	550,327
\$1,000 - \$4,999	22,013	11,945,323	11,389	16,254,992	6,611	17,953,562
\$5,000 - \$9,999	9,400	6,765,714	7,135	19,062,057	4,048	19,123,769
\$10,000 - \$49,999	14,785	27,655,648	11,490	79,380,195	4,121	61,286,765
\$50,000 - \$99,999	2,854	12,731,393	1,985	37,957,644	665	29,245,461
\$100,000 - \$499,999	2,380	19,877,283	1,516	71,355,314	528	63,920,060
\$500,000 - \$999,999	233	7,621,971	132	21,191,096	51	19,665,989
Over \$1,000,000	166	55,441,374	90	49,818,952	28	34,989,857
TOTAL	82,530	\$363,317,468	44,627	\$305,816,155	16,797	\$250,106,043

Tax Liability Class	Small Business Credit		Unincorporated Business Credit		Higher Education Contribution Credit	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
\$0 - \$99	9,083	\$18,737,826	2,142	\$244,487	11	\$2,652
\$100 - \$499	6,022	9,517,993	6,430	404,778	28	505
\$500 - \$999	7,012	13,070,311	6,491	864,649	44	1,727
\$1,000 - \$4,999	17,565	45,859,942	20,960	7,006,678	260	29,041
\$5,000 - \$9,999	383	2,740,566	6,135	5,532,768	204	52,645
\$10,000 - \$49,999	16	469,530	6,863	19,205,836	600	437,993
\$50,000 - \$99,999	4	120,638	1,154	10,021,310	274	418,623
\$100,000 - \$499,999	-	0	776	18,130,218	289	754,838
\$500,000 - \$999,999	-	0	34	2,667,839	53	195,187
Over \$1,000,000	-	0	21	5,126,048	55	243,596
TOTAL	40,085	\$90,516,806	51,006	\$69,204,611	1,818	\$2,136,807

*Data are from returns for firms with tax year ending in December 1998 through November 1999.

Capital Acquisition Deduction includes recapture. Number of firms claiming CAD includes firms claiming both a CAD and a recapture, only a CAD or only a recapture. CAD equals claimed CAD minus recapture.

FY 2004 Estimate

Homeless Shelter/Food Bank Credit	\$352,000
Provides a 50 percent credit for contributions made to a qualified homeless shelter, food bank, or food kitchen. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less.	
Insurers' Exemption From Gross Receipts	\$1,194,000
Provides that the SBT base and adjusted tax base of an insurance company is equal to one quarter of the company's apportioned adjusted receipts. Formerly, the base was equal to one quarter of apportioned gross receipts, excluding receipts on the sale of annuities and on reinsurance transactions. The calculation of adjusted receipts also excludes interest, dividends, proceeds from the sale of assets, and certain other receipts from affiliated insurers, nonprofit corporations, or agents or employees of a company. The provision is retroactive to January 1, 1991.	
Insurers' Facility Assessment Credit	\$43,966,000
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.	
Investment Tax Credit	\$170,241,000
For tax years beginning after 1999, Public Act 115 of 1999 replaces the capital acquisition deduction (CAD) with an investment tax credit (ITC). Public Act 44 of 2000 increased the ITC rate for smaller firms: 1.0 percent for firms with adjusted gross receipts (AGR) between \$2.5 and \$5 million, 1.5 percent for firms with AGR between \$1 and \$2.5 million, and 2.3 percent for firms with AGR of \$1 million or less. The ITC rate is reduced proportionally to the SBT rate cut. Under the ITC, taxpayers receive a credit for investment in tangible real and personal property located in Michigan and apportioned investment in mobile property wherever it is located. The switch from the CAD in effect for 1997-1999 with a 0.85 percent ITC was expected to be revenue neutral. This estimate takes account of interactions with other SBT provisions. In FY 1999, 82,530 firms claimed the CAD. (See Exhibit 13.)	
Iron Ore Credit	\$1,400,000
Provides a credit for taxpayers that consume qualified low-grade hematite in an industrial or manufacturing process.	

FY 2004 Estimate

Michigan Economic Growth Authority (MEGA)	\$37,471,000
<p>Provides a credit for new or expanding firms based on additional payroll costs or additional business activity costs associated with an expansion or new location.</p>	
Minority Venture Capital Credit	\$0
<p>Provides a 50 percent credit for investments in a minority venture capital company or federally-licensed small business investment company if the company is certified as eligible by the Michigan Strategic Fund.</p>	
Multiple Employer Welfare Arrangement	\$25,000
<p>For tax years beginning after 2000, the portion of the SBT tax base attributable to a Multiple Employer Welfare Arrangement (MEWA) that provides only dental benefits and that is registered at the Michigan Office of Financial and Insurance Services is exempt from the SBT.</p>	
Next Energy Credit	\$3,812,000
<p>Allows an eligible taxpayer certified under the Michigan Next Energy Authority Act to claim both a nonrefundable and a refundable SBT credit for tax years beginning after December 31, 2002. The nonrefundable credit is based on the increase in qualified business activity realized since tax year 2001. The refundable credit is based on the taxpayer's qualified payroll amount.</p>	
Pharmaceutical Research Credit	\$7,675,000
<p>Taxpayers engaged in pharmaceutical research in Michigan may claim a credit equal to 6.5 percent of the taxpayer's increase in qualified expenses from pharmaceutical research activity in Michigan compared with their average qualified expenses from the same activity in the three preceding tax years.</p>	
Nonprofit Organizations	\$124,918,000
<p>Exempts the value added of most firms exempt from the federal corporate income tax.</p>	
Renaissance Zones	\$2,650,000
<p>Provides a credit for the portion of tax attributable to business activity in a renaissance zone.</p>	

FY 2004 Estimate

Small Business-Low Profit Credit (Alternate Tax Rate)	\$84,266,000
For qualifying firms, provides an SBT reduction when adjusted business income is less than 45 percent of the adjusted tax base. In FY 1999, 7,037 SBT filers claimed a small business-low profit credit. An additional 33,048 firms used the alternate tax rate method, paying tax on 2 percent of adjusted business income. (See Exhibit 13.)	
Statutory Exemption	\$26,583,000
Provides an exemption of up to \$45,000. Partnerships receive an additional exemption of \$12,000 per partner up to a limit of \$48,000. This exemption is reduced by \$2 for every \$1 that modified business income exceeds these amounts.	
Supplemental Workers Compensation Credit	\$5,099,000
Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Previously, firms were reimbursed through the appropriations process for these payments.	
Tribal Tax Agreements	n.a.
Agreements between the State of Michigan and seven American Indian tribes clarify how the SBT will be applied to tribes, and resident tribal members within the specific areas of the state that are covered by the agreements.	
Unincorporated Business Credit	\$65,811,000
Provides a credit with a ceiling of 20 percent of the SBT liability for business income up to \$20,000 and a floor of 10 percent for business income over \$40,000. This credit exists to provide a more equal treatment of business income.	
In a corporation, business income may be divided into salaries, dividends, and retained earnings. While retained earnings are subject to the SBT, they are not subject to the individual tax. However, the business income of an unincorporated business is subject to both single business and individual income taxes. This provision was used by 51,006 taxpayers in FY 1999. (See Exhibit 13.)	
Utility Property Tax Credit	\$10,914,000
Provides a tax credit equal to 5 percent of the state utility property tax for telegraph and telephone companies.	

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 \$10,952.6 million in FY 2004, a 2.5 percent increase over the FY 2003 level of \$10,683.3 million. Sales and use tax expenditure estimates are based on FY 1999 through FY 2002 data. Alcohol and cigarette tax expenditure estimates were based on FY 2002 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 wholesaler tax return data. These estimates are reliable.

Consumption Tax Expenditure Changes

Public Act 255 of 2002 allows the lessor of an aircraft additional time to elect whether to pay sales tax on the purchase price of the aircraft or on receipts from the lease or rental of the aircraft.

Public Act 503 of 2002 increased the tax rate on both cigarettes and other tobacco products, effective August 1, 2002. In addition, the compensation rate paid to cigarette wholesalers for collecting and remitting the cigarette tax was increased from 1.25 percent to 1.5 percent.

Public Acts 510 and 511 of 2002 allow the sponsors of certain athletic events to apply the sales and use taxes to only the taxable portion of bundled tangible personal property and services. Generally, only separately identified sales of exempt property or services qualify for an exemption.

Public Act 607 of 2002 creates a deduction from the tobacco tax for wholesalers who incur a bad debt from credit sales of tobacco products once the debt is deemed worthless or uncollectible. The deduction is available beginning on January 1, 2003.

Public Acts 614 through 617 of 2002 would allow the Michigan Department of Treasury to enter into agreements with federally recognized Indian tribes. For more information, see the full description beginning on page 30.

The method used to calculate the tax expenditures associated with exempting most services from the sales and use taxes is different from the method used in prior editions of the *Tax Expenditure Appendix*. This methodological change will result in larger sales and use tax expenditures.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2004 (millions of dollars).

Alcohol Beverage Taxes (millions)		
<u>Tax</u>	<u>Location of Deposit</u>	<u>FY 2004 Revenue</u>
Beer and Wine Excise	General Fund	\$51.5
4.0 Percent Liquor Excise	School Aid Fund	\$30.0
4.0 Percent Liquor Specific	General Fund	\$30.0
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	\$11.0
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$30.0
		<u>FY 2004 Estimate</u>
Beer Shipped Out-of-State		n.a.
Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state.		
Homemade Wine		n.a.
Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.		
Small Brewer's Credit		\$120,000
Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced.		

Cigarette 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 \$1.25 per pack of 20 cigarettes. Cigarette tax revenues are distributed to the School Aid Fund, the Health and Safety Fund, the Healthy Michigan Fund, and the General Fund-General Purpose account. In FY 2004, the cigarette tax will yield an estimated \$830.7 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$21.1 million.

FY 2004 Estimate

Bad Debt Deduction	\$800,000
Allows cigarette wholesalers to deduct any losses from bad debts.	
Licensee Expenses	\$12,562,000
Exempts 1.5 percent of the total tax due from licensees to cover their expenses in administering the tax.	
Sales on Military Bases and Reservations	\$6,250,000
Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.	
Tribal Tax Agreements	n.a.
Establishes the number of cigarettes that each tribe may obtain tax-free for the tribe's resident members, while requiring retailers in each tribal agreement area to limit tax-free sales to resident members.	

State Convention Facility Development Tax

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

FY 2004 Estimate

Small Hotel Exemption	n.a.
Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.	

Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield \$6,953.1 million in FY 2004. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. A state law earmarks to the Comprehensive Transportation Fund 4.65 percent of the sales tax on transportation-related items. The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total \$1,404.3 million in FY 2004. Due to their complementary nature, sales and use tax expenditures are reported together.

	<u>FY 2004 Estimate</u>
Air and Water Pollution	\$41,000,000
Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	
Aircraft Parts	\$8,516,000
Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	
Bad Debts	\$62,576,000
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	\$30,000,000
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	\$3,200,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
Church Cars	\$4,379,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	

	<u>FY 2004 Estimate</u>
Collection Fee	\$16,395,000
Sales and use tax returns are due by the 15th 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 7th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 8th through the 15th of the month.	
Commercial Domestic Aircraft	\$5,000,000
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 sale 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	\$37,000,000
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.	
Damaged Beer	n.a.
Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale.	
Delayed Payment	\$3,045,000
Allows a delayed payment of the sales tax on certain construction materials that are purchased on credit. The cost of this exemption is an interest cost to the state resulting from the delayed receipt of the revenue. This exemption was created by Public Act 453 of 1998.	
Donated Property	n.a.
Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations.	
Driver Training	\$602,000
Exempts property used for demonstration or driver training programs.	

	<u>FY 2004 Estimate</u>
Employee Meals Starting in 2002, exempts meals provided by employers to their employees.	\$7,600,000
Enterprise Zone Credit Upon certification by the Enterprise Zone Authority, exempts qualified business from sales and use tax on property used in a qualified business activity in an enterprise zone.	n.a.
Food Exempts food for human consumption, except prepared food intended for immediate consumption.	\$901,248,000
Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students.	\$49,285,000
Government or Red Cross 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.	\$170,116,000
Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	\$51,506,000
Horticultural and Agricultural Products Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	\$130,275,000
Industrial Processing Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate only includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	\$808,134,000
Inmate Purchases Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	\$590,000
International Telecommunications Exempts international and WATTS calls from the use tax.	\$44,745,000

	<u>FY 2004 Estimate</u>
Interstate Trucks and Trailers	\$39,919,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax.	
Investment Coins	\$400,000
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	\$1,620,000
Exempts military post-exchange sales.	
Military Vehicle Sales	n.a.
Exempts vehicle sales to nonresidents serving in the U.S. armed forces.	
Military Vehicle Sales (Resident-Out-of-State)	n.a.
Exempts an automobile purchased in another state by a Michigan resident in the military service who pays a sales tax in the state where the automobile is purchased.	
Newspapers, Periodicals, and Films	\$96,225,000
Exempts sales of copyrighted motion picture 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	\$10,789,000
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.	

	<u>FY 2004 Estimate</u>
Nonprofit Organizations	\$182,459,000
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 \$5,000	n.a.
Exempts aggregate calendar year sales under \$5,000 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	\$49,323,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	
Prescription Drugs	\$489,120,000
Exempts prescription drugs for human consumption.	
Radio and TV	\$4,400,000
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	\$1,657,000
Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	
Residential Utilities	\$112,000,000
Exempts the residential use of electricity, natural gas, and home heating fuels from the two percent increase (May 1994) in the sales and use tax rate.	
Returned Vehicles	\$1,100,000
Exempts from gross proceeds "a refund less an allowance" for motor vehicle buybacks by manufacturers under provisions of the lemon law.	

FY 2004 Estimate**Sale of Business**

n.a.

Excludes from the use tax non-inventoried property purchased as part of a business.

Sale of Water

\$81,578,000

Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.

Services

\$7,319,628,000

Exempts services for items listed in the following table:

**Service Tax Expenditures, FY 2004
(millions)**

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$7.0	\$0.0	\$7.0
Admin., Support, and Waste Mgmt.	725.3	9.2	734.4
Arts, Entertainment, and Recreation	136.3	34.8	171.1
Construction	1,631.0	0.0	1,631.0
Educational Services	29.0	219.3	248.3
Health Care and Social Assistance	731.0	1,290.5	2,021.5
Information	376.2	0.0	376.2
Other Services (except Public Admin.)	282.7	238.4	521.2
Professional, Scientific, and Technical	1,130.1	15.4	1,145.5
Real Estate and Rental and Leasing	353.9	0.0	353.9
Transportation and Warehousing	33.8	8.2	42.0
Utilities	<u>0.0</u>	<u>67.5</u>	<u>67.5</u>
TOTAL	\$5,436.3	\$1,883.3	\$7,319.6

Source: Calculations by ORTA using the *1997 Economic Census: Geographic Area Series, Michigan*, U.S. Department of Commerce.

Small Out-of-State Purchases

n.a.

Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.

Telephone Services

\$17,233,000

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 or a two-way interactive device.

FY 2004 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

\$126,773,000

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

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

\$23,400,000

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 1.0 percent from \$3,597.4 million in FY 2003 to \$3,634.8 million in FY 2004. Federal income tax expenditures are projected to increase 4.1 percent from \$1,934.2 million in FY 2003 to \$2,012.9 million in FY 2004. Individual income tax expenditure estimates were based on tax year 2001 data.

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

State income tax expenditure estimates are reliable because they are based on actual individual tax returns for tax year 2001. 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 2 to 6 of 1999 began a phased-in reduction of the Michigan income tax rate. Michigan's income tax rate was 4.4 percent in 1999. The rate will be reduced over a period of five years, 2000 through 2004, by 0.5 percentage points to 3.9 percent.

A reduction in the income tax rate reduces the size of income tax expenditures dependent on the rate. For example, an income tax exemption or deduction of \$100 for one taxpayer represents a tax expenditure of \$4.40 at an income tax rate of 4.4 percent. At a 3.9 percent tax rate this exemption would represent a tax expenditure of \$3.90.

Public Acts 614 through 617 of 2002 would allow the Michigan Department of Treasury to enter into agreements with federally recognized Indian tribes. For more information, see the full description beginning on page 30.

State Income Tax Expenditures

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. The tax rate for tax year 2001 was 4.2 percent. The tax rate fell to 4.1

percent for tax year 2002, and 4.0 percent for tax year 2003. For FY 2004, the State of Michigan will collect an estimated \$5,930.5 million in net income tax revenue. Income tax revenue goes to the School Aid Fund and General Fund.

State income tax expenditures include the state personal exemption, subtractions from income, and various state tax credits. In tax year 2001, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.2 percent to an average effective rate of 2.6 percent. (See Exhibits 14 through 18.)

FY 2004 Estimate

Adjustments to Income

\$1,738,538,000

Subtractions from income include interest on U.S. Government bonds and obligations, military pay and retirement benefits, income attributable to another state, most retirement and pension benefits, the portion of Social Security benefits included in AGI, income eligible for the federal elderly and disabled credit, and a portion of interest and dividend income of senior citizens not claiming a pension subtraction. Additions to income include interest on bonds or obligations issued by states other than Michigan and their political subdivisions. The net amount of additions and subtractions reduced taxable income by \$39.8 billion in calendar year 2001. This reduced 2001 income taxes by \$1,669.7 million.

Adoption Credit

\$700,000

Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. Beginning in tax year 2002, the federal credit is a 100 percent credit for the first \$10,000 dollars of adoption expenses. The Michigan adoption credit provides a 100 percent credit for up to an additional \$1,200 in expenses over the \$10,000 federal credit.

Child Deduction

\$52,554,000

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

City Income Tax Credit

\$38,497,000

Provides a credit to individuals for income taxes paid to cities. In the 2001 tax year, city income tax credits totaled \$37.0 million. (See Exhibit 14.)

College Savings Account

\$11,212,000

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

FY 2004 Estimate

Community Foundation Credit

\$3,313,000

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

Dependent Exemption

\$22,619,000

Taxpayers claimed as a dependent on another taxpayer's return may not claim the full personal exemption for themselves when filing their own tax return. However, they may claim a dependent exemption equal to \$1,500. Public Act 301 of 2000 increased the dependent exemption from \$1,000 to \$1,500 starting in tax year 2000.

Farmland Development Credit

\$29,812,000

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 18 on page 58.) This credit was expanded by Public Act 421 of 2000.

Higher Education/Public Contributions Tax Credit

\$28,277,000

Provides a credit against income tax liability for contributions to Michigan colleges and universities, public libraries, public broadcasting stations, the State Art in Public Places Fund, municipal art institutes, and the State of Michigan Museum. The credit is equal to 50 percent of these contributions, not to exceed \$100 for a single return or \$200 on a joint return. Credit for resident estates or trusts cannot exceed 10 percent of tax liability or \$5,000, whichever is less. For tax year 2001, the higher education/public contributions tax credit totaled \$24.7 million. (See Exhibit 14.)

Historic Preservation Credit

\$561,000

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.

Exhibit 14
Selected Individual Income Tax Expenditures, CY 2001

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than \$2,000*	460,189	9.8%	13,614	\$133,297	1,234	\$88,209
2,001 - 4,000	194,622	4.1%	28,982	233,047	1,239	57,648
4,001 - 6,000	184,099	3.9%	31,636	363,673	1,678	83,422
6,001 - 8,000	171,194	3.6%	31,629	448,466	2,045	112,691
8,001 - 10,000	160,725	3.4%	30,324	506,226	2,288	129,975
10,001 - 12,000	155,859	3.3%	30,132	572,867	2,646	152,106
12,001 - 14,000	147,489	3.1%	28,971	614,857	2,765	165,193
14,001 - 16,000	143,079	3.0%	29,256	684,840	3,131	191,896
16,001 - 18,000	138,245	2.9%	29,580	750,035	3,462	216,054
18,001 - 20,000	132,786	2.8%	29,591	814,242	3,541	227,176
20,001 - 25,000	305,737	6.5%	72,099	2,205,589	9,326	608,975
25,001 - 30,000	270,650	5.7%	63,877	2,166,753	10,014	674,526
30,001 - 35,000	238,914	5.1%	56,643	2,033,863	10,554	717,684
35,001 - 40,000	209,901	4.5%	51,336	1,961,644	10,829	755,937
40,001 - 45,000	188,091	4.0%	46,798	1,877,699	11,361	816,912
45,001 - 50,000	172,529	3.7%	43,808	1,814,235	11,917	877,938
50,001 - 55,000	161,710	3.4%	42,529	1,823,457	12,003	895,069
55,001 - 60,000	148,866	3.2%	39,599	1,737,706	12,095	914,819
60,001 - 70,000	257,287	5.5%	68,103	3,068,404	23,698	1,876,648
70,001 - 80,000	202,754	4.3%	54,908	2,554,441	22,338	1,867,128
80,001 - 90,000	153,776	3.3%	42,295	2,077,143	19,800	1,715,099
90,001 - 100,000	115,324	2.4%	31,786	1,638,739	17,067	1,546,541
Over 100,000	<u>399,908</u>	<u>8.5%</u>	<u>98,950</u>	<u>6,870,269</u>	<u>90,667</u>	<u>10,029,664</u>
TOTAL	4,713,734	100.0%	996,446	\$36,951,491	285,698	\$24,721,310

*Includes 257,703 credit-only returns (zero income).

FY 2004 Estimate

Home Heating Assistance Credit \$116,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2002, these credits totaled an estimated \$61.5 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$116,000 in FY 2002.

Homestead Property Tax Credit \$599,587,000

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

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2001, homestead credits, excluding the farmland credit itemized separately, totaled \$577.7 million (Exhibit 18). Of the homestead credits, 53.2 percent went to general taxpayers, 42.5 percent went to senior citizens, and the remaining 4.3 percent went to veterans and blind and disabled persons.

Homeless/Food Bank Credit \$19,271,000

Provides a credit for 50 percent of the donations made to homeless shelters, food banks, and food kitchens. The credit is limited to \$100 for a single return or \$200 for a joint return.

Other State Tax Credit \$35,813,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2001, taxpayers claimed \$31.3 million in credits.

Personal Exemption \$986,007,000

Exempts \$3,000 (tax year 2002) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption increases in \$100 increments based on the rate of inflation. For tax year 2003, the personal exemption will be \$3,100. The personal exemption reduced tax year 2001 revenue by approximately \$1,026.7 million.

The distribution of effective exemptions across AGI classes is outlined in Exhibit 15. Effective exemptions are exemptions that offset actual income.

FY 2004 Estimate

Renaissance Zones

\$300,000

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.

Special Exemption

\$40,557,000

Allows a taxpayer and his or her spouse to each claim an \$1,800 exemption if they are seniors or disabled. Taxpayers who are both a senior and a disabled person may claim two exemptions. Taxpayers may also claim an exemption for disabled or senior dependents. These exemptions are adjusted periodically for inflation.

Tribal Tax Agreements

n.a.

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

Tuition Credit

\$6,061,000

Provides a credit equal to eight percent of college tuition costs for residents who earn less than \$200,000 annually provided the host college or university increases tuition and fees no more than the rate of inflation. The maximum credit is \$375 per student.

Exhibit 15
Selected Individual Income Tax Expenditures by Income Class, CY 2001

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions ⁽¹⁾	
	Number	Percent	Number	Amount	Number	Amount
Zero Income ⁽²⁾	298,079	6.3%	25,724	\$14,025,608	0	\$0
\$0 - 2,000	162,110	3.4%	13,878	5,680,956	26,891	3,275,334
2,001 - 4,000	194,622	4.1%	22,705	8,351,009	74,678	9,095,735
4,001 - 6,000	184,099	3.9%	29,440	10,946,442	99,427	12,110,211
6,001 - 8,000	171,194	3.6%	35,707	13,812,895	86,426	10,526,650
8,001 - 10,000	160,725	3.4%	38,063	14,812,549	122,616	14,934,655
10,001 - 12,000	155,859	3.3%	39,334	15,246,656	163,157	19,872,583
12,001 - 14,000	147,489	3.1%	38,293	14,458,680	146,040	17,787,714
14,001 - 16,000	143,079	3.0%	38,178	13,996,088	175,569	21,384,264
16,001 - 18,000	138,245	2.9%	37,677	13,404,625	182,319	22,206,514
18,001 - 20,000	132,786	2.8%	37,902	13,195,828	189,107	23,033,178
20,001 - 25,000	305,737	6.5%	87,844	29,793,088	473,065	57,619,289
25,001 - 30,000	270,650	5.7%	74,390	25,475,355	447,316	54,483,145
30,001 - 35,000	238,914	5.1%	61,082	21,548,057	420,548	51,222,699
35,001 - 40,000	209,901	4.5%	49,407	17,999,833	403,498	49,146,117
40,001 - 45,000	188,091	4.0%	39,670	14,983,587	390,347	47,544,289
45,001 - 50,000	172,529	3.7%	32,170	12,715,874	382,307	46,564,966
50,001 - 55,000	161,710	3.4%	26,891	11,117,615	379,081	46,172,081
55,001 - 60,000	148,866	3.2%	22,592	9,694,065	365,543	44,523,179
60,001 - 70,000	257,287	5.5%	34,472	15,549,276	666,735	81,208,351
70,001 - 80,000	202,754	4.3%	23,638	9,399,310	554,253	67,508,040
80,001 - 90,000	153,776	3.3%	5,483	839,877	434,820	52,961,088
90,001 - 100,000	115,324	2.4%	144	66,417	333,268	40,592,036
Over 100,000	<u>399,908</u>	<u>8.5%</u>	<u>282</u>	<u>150,938</u>	<u>1,911,973</u>	<u>232,878,284</u>
TOTAL	4,713,734	100.0%	814,966	\$307,264,628	8,428,985	\$1,026,650,402

⁽¹⁾ Effective exemptions in this exhibit are personal exemptions that offset exemptions.

This number does not include disabled and other special exemptions.

⁽²⁾ Includes 257,703 credit-only returns.

Exhibit 16
Effective Income Tax Rates by Income Class, CY 2001⁽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⁾	(\$2,316,125,099)	(\$108,204,077)	
\$0 - 2,000	179,517,735	(21,436,128)	-11.94%
2,001 - 4,000	582,882,719	(17,714,785)	-3.04%
4,001 - 6,000	917,791,971	(14,370,847)	-1.57%
6,001 - 8,000	1,196,745,037	(13,715,124)	-1.15%
8,001 - 10,000	1,445,750,787	(10,916,735)	-0.76%
10,001 - 12,000	1,712,352,857	(5,412,264)	-0.32%
12,001 - 14,000	1,916,882,482	3,414,913	0.18%
14,001 - 16,000	2,145,906,997	12,440,381	0.58%
16,001 - 18,000	2,349,144,426	22,991,497	0.98%
18,001 - 20,000	2,521,451,170	33,126,989	1.31%
20,001 - 25,000	6,863,761,548	122,295,389	1.78%
25,001 - 30,000	7,431,413,776	160,032,669	2.15%
30,001 - 35,000	7,749,439,844	183,605,612	2.37%
35,001 - 40,000	7,862,096,294	198,712,921	2.53%
40,001 - 45,000	7,984,975,848	212,235,824	2.66%
45,001 - 50,000	8,190,179,653	225,695,542	2.76%
50,001 - 55,000	8,485,587,561	241,160,168	2.84%
55,001 - 60,000	8,555,091,805	248,209,753	2.90%
60,001 - 70,000	16,677,423,854	497,667,851	2.98%
70,001 - 80,000	15,164,572,027	470,566,802	3.10%
80,001 - 90,000	13,035,510,734	424,382,795	3.26%
90,001 - 100,000	10,929,481,304	362,484,974	3.32%
Over 100,000	<u>91,379,054,248</u>	<u>2,591,071,191</u>	<u>2.84%</u>
TOTAL	\$222,960,889,578	\$5,818,325,311	2.61%
Effective rate excluding zero income AGI and Taxes Paid			2.63%
Effective rate excluding zero income AGI			2.58%

(1) Values in this table are based on a sample of the 4,629,701 MI-1040 and MI-1040CR returns.

(2) Includes 257,703 credit-only returns (zero income).

Exhibit 17
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2001

Adjusted Gross Income	Effective Exemptions⁽¹⁾	Adjustments to Income	Nonrefundable Credits⁽²⁾	Prop. Tax Credits
Less Than \$2,000	264.1%	13.5%	-4.9%	231.8%
2,001 - 4,000	105.9%	10.7%	-0.2%	79.1%
4,001 - 6,000	73.6%	14.0%	0.8%	62.5%
6,001 - 8,000	61.6%	30.2%	1.1%	57.4%
8,001 - 10,000	54.2%	27.0%	1.1%	51.1%
10,001 - 12,000	48.7%	23.4%	1.2%	43.4%
12,001 - 14,000	42.7%	28.2%	1.3%	36.3%
14,001 - 16,000	38.5%	23.9%	1.3%	30.4%
16,001 - 18,000	34.6%	22.3%	1.4%	25.1%
18,001 - 20,000	31.5%	19.6%	1.4%	21.4%
20,001 - 25,000	26.9%	16.7%	1.4%	16.2%
25,001 - 30,000	22.2%	16.0%	0.9%	11.9%
30,001 - 35,000	19.4%	15.6%	1.0%	9.3%
35,001 - 40,000	17.8%	14.5%	1.2%	7.4%
40,001 - 45,000	16.7%	13.7%	1.2%	6.1%
45,001 - 50,000	15.7%	13.2%	1.2%	5.0%
50,001 - 55,000	14.9%	12.6%	1.2%	4.2%
55,001 - 60,000	14.2%	12.4%	1.2%	3.6%
60,001 - 70,000	13.2%	12.1%	1.2%	2.9%
70,001 - 80,000	12.1%	11.4%	1.2%	1.8%
80,001 - 90,000	10.9%	10.4%	1.2%	0.2%
90,001 - 100,000	10.0%	10.1%	1.3%	0.0%
Over 100,000	4.2%	24.4%	1.4%	0.0%

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

(2) Income tax credits were divided by the tax rate (4.2%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, and the homeless food bank credit.

Exhibit 18
Property Tax Credits by County, CY 2001

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	500	\$127,300	400	\$161,500	100	\$5,700
ALGER	300	89,500	300	94,500	< 50	4,100
ALLEGAN	6,100	2,061,000	3,000	1,777,900	100	12,100
ALPENA	1,700	426,800	1,500	659,100	100	11,400
ANTRIM	1,400	470,200	1,000	597,200	< 50	3,800
ARENAC	900	293,800	700	364,700	< 50	4,900
BARAGA	300	61,100	200	100,700	< 50	5,600
BARRY	2,500	812,500	1,500	825,100	100	6,400
BAY	7,700	2,272,800	5,600	3,053,100	300	37,000
BENZIE	800	227,500	500	283,800	100	5,200
BERRIEN	11,400	3,293,000	6,300	3,192,600	200	18,300
BRANCH	2,500	821,300	1,500	779,100	100	9,200
CALHOUN	10,800	3,541,100	5,700	3,339,300	200	33,000
CASS	2,100	692,800	1,400	714,700	< 50	5,000
CHARLEVOIX	1,800	620,800	1,100	630,500	< 50	3,700
CHEBOYGAN	1,400	349,300	700	329,100	100	8,700
CHIPPEWA	1,700	439,300	900	382,800	200	18,400
CLARE	1,500	370,700	900	335,300	100	8,700
CLINTON	3,400	1,334,900	1,900	1,169,500	< 50	4,300
CRAWFORD	600	149,000	300	137,600	< 50	4,300
DELTA	1,900	525,500	1,400	577,400	200	23,400
DICKINSON	1,400	377,000	1,300	657,100	100	18,700
EATON	9,200	3,274,200	4,700	2,931,000	100	15,000
EMMET	2,300	788,100	1,300	786,100	100	4,500
GENESEE	32,700	9,589,800	12,400	6,360,900	500	57,900
GLADWIN	1,300	358,500	1,100	437,700	100	8,800
GOGEBIC	500	120,000	600	192,500	200	27,900
GRAND TRAVERSE	7,200	2,514,800	3,600	2,231,300	100	13,500
GRATIOT	1,800	632,400	1,300	685,100	100	7,900
HILLSDALE	2,400	846,700	1,400	697,600	100	8,800
HOUGHTON	1,100	276,100	900	351,600	200	20,600
HURON	2,500	1,173,800	2,500	1,606,300	100	7,200
INGHAM	29,700	10,852,900	9,500	6,312,900	200	26,900
IONIA	3,000	946,600	1,600	810,200	100	6,700
IOSCO	1,300	340,100	1,100	456,800	200	16,700
IRON	400	102,000	500	136,700	100	11,200
ISABELLA	4,300	1,382,800	1,700	981,300	100	6,900
JACKSON	9,300	2,814,500	4,700	2,365,500	200	21,700
KALAMAZOO	21,300	6,695,600	8,300	4,934,200	200	28,300
KALKASKA	800	213,800	400	199,800	< 50	3,900
KENT	46,700	15,163,700	18,900	10,894,200	400	45,400
KEWEENAW	0	18,800	0	13,000	< 50	1,900

Exhibit 18 (Continued)

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	500	\$120,600	300	\$135,500	100	\$5,900
LAPEER	4,700	1,673,900	2,100	1,082,500	100	6,200
LEELANAU	1,000	430,700	800	531,300	< 50	2,100
LENAWEE	6,400	2,229,700	3,900	2,387,800	100	13,300
LIVINGSTON	500	120,600	300	135,500	100	5,900
LUCE	200	36,000	100	22,300	< 50	3,600
MACKINAC	600	174,100	400	170,800	< 50	3,200
MACOMB	74,900	30,669,400	44,900	31,107,300	500	66,800
MANISTEE	1,200	350,200	1,100	516,400	100	11,000
MARQUETTE	2,900	702,500	1,700	709,200	300	38,400
MASON	1,700	491,700	1,300	658,500	100	8,700
MECOSTA	1,700	517,100	1,000	469,500	100	6,900
MENOMINEE	1,000	256,000	800	304,300	100	12,800
MIDLAND	4,500	1,330,200	2,400	1,285,900	100	14,600
MISSAUKEE	700	240,300	500	224,600	< 50	4,600
MONROE	8,300	2,962,400	5,200	3,078,700	100	16,700
MONTCALM	3,300	1,036,300	2,200	1,108,000	100	11,300
MONTMORENCY	400	109,800	300	102,600	100	4,600
MUSKEGON	11,500	3,207,500	6,300	3,185,800	300	36,400
NEWAYGO	2,300	760,700	1,400	774,500	100	7,100
OAKLAND	108,700	54,989,600	48,400	39,127,300	400	53,900
OCEANA	1,400	464,600	900	466,700	100	6,700
OGEMAW	1,200	320,200	800	328,900	100	8,600
ONTONAGON	200	56,300	200	72,200	100	6,600
OSCEOLA	1,100	339,600	800	351,900	100	8,700
OSCODA	300	54,900	100	47,500	< 50	2,400
OTSEGO	1,200	318,200	600	261,400	100	4,500
OTTAWA	16,100	5,488,400	8,800	5,279,200	200	16,900
PRESQUE ISLE	600	162,200	600	242,300	100	5,600
ROSCOMMON	1,500	409,900	1,100	438,100	100	8,900
SAGINAW	13,500	3,700,800	7,100	3,686,100	400	45,900
ST. CLAIR	12,900	4,465,400	6,900	4,225,900	300	27,800
ST. JOSEPH	3,200	969,500	1,900	902,500	100	10,000
SANILAC	2,900	1,134,200	2,000	1,198,300	100	8,200
SCHOOLCRAFT	300	62,900	200	50,600	100	5,500
SHIAWASSEE	5,000	1,503,400	2,800	1,427,100	100	12,200
TUSCOLA	3,100	1,075,300	2,200	1,261,600	100	13,700
VAN BUREN	5,500	1,805,600	3,000	1,725,500	100	10,700
WASHTENAW	34,300	16,141,900	9,400	7,813,900	100	10,300
WAYNE LESS DETROIT	95,300	40,646,700	52,700	39,564,300	600	89,500
WEXFORD	2,200	647,300	1,100	545,500	100	10,700
OUTSIDE OF MICHIGAN	9,600	3,837,100	4,500	3,311,300	100	11,000
DETROIT	118,500	40,644,500	31,300	19,714,700	700	153,700
TOTAL	815,000	\$307,264,600	381,800	\$245,680,500	11,400	\$1,407,100

Exhibit 18 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	100	\$14,800	< 50	\$14,500	1,000	\$323,800
ALGER	< 50	9,300	< 50	1,600	700	199,000
ALLEGAN	300	151,300	200	670,200	9,800	4,672,600
ALPENA	300	92,000	< 50	10,200	3,600	1,199,400
ANTRIM	100	43,100	< 50	54,100	2,500	1,168,400
ARENAC	100	31,600	100	219,000	1,800	914,000
BARAGA	< 50	12,200	< 50	0	600	179,600
BARRY	100	53,600	100	173,900	4,300	1,871,400
BAY	700	298,700	300	1,102,900	14,700	6,764,500
BENZIE	100	21,200	< 50	4,500	1,500	542,200
BERRIEN	900	377,900	100	293,400	18,800	7,175,300
BRANCH	100	51,700	200	706,600	4,400	2,367,900
CALHOUN	900	433,900	200	626,800	17,900	7,974,000
CASS	200	64,400	200	662,000	3,900	2,138,900
CHARLEVOIX	100	41,200	< 50	17,000	3,100	1,313,200
CHEBOYGAN	100	39,600	< 50	7,900	2,200	734,700
CHIPPEWA	100	43,500	< 50	20,100	2,900	904,100
CLARE	200	50,900	< 50	74,000	2,700	839,600
CLINTON	100	58,800	200	496,200	5,700	3,063,700
CRAWFORD	100	17,300	< 50	0	1,000	308,100
DELTA	200	69,200	< 50	69,500	3,700	1,264,900
DICKINSON	100	39,000	< 50	13,000	3,000	1,104,800
EATON	400	184,600	200	511,300	14,600	6,916,000
EMMET	100	55,000	< 50	5,000	3,800	1,638,800
GENESEE	2,500	1,131,500	100	206,000	48,200	17,346,000
GLADWIN	200	62,300	< 50	51,700	2,700	919,100
GOGEBIC	100	19,100	< 50	0	1,400	359,400
GRAND TRAVERSE	300	155,600	< 50	66,000	11,200	4,981,200
GRATIOT	200	50,700	500	1,202,200	3,900	2,578,200
HILLSDALE	200	80,300	200	484,300	4,300	2,117,800
HOUGHTON	200	46,600	< 50	600	2,300	695,400
HURON	200	71,600	1,100	4,328,400	6,300	7,187,200
INGHAM	1,600	767,700	200	900,100	41,200	18,860,400
IONIA	200	68,700	200	495,600	5,000	2,327,900
IOSCO	200	58,900	< 50	32,900	2,800	905,300
IRON	100	15,200	< 50	5,900	1,100	271,000
ISABELLA	200	97,400	100	371,600	6,400	2,839,900
JACKSON	600	270,300	100	284,200	14,900	5,756,200
KALAMAZOO	1,200	565,700	100	526,200	31,100	12,750,000
KALKASKA	< 50	13,000	< 50	5,300	1,300	435,800
KENT	2,000	971,200	100	454,100	68,200	27,528,600
KEWEENAW	< 50	2,000	< 50	0	100	35,800

Exhibit 18 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	100	\$30,600	< 50	\$7,300	1,000	\$300,000
LAPEER	200	79,200	100	189,500	7,100	3,031,400
LEELANAU	< 50	16,300	< 50	47,600	1,900	1,028,000
LENAWEE	400	206,100	600	1,792,200	11,400	6,629,000
LIVINGSTON	300	167,300	< 50	7,300	11,900	5,823,200
LUCE	< 50	4,700	< 50	0	300	66,500
MACKINAC	< 50	12,800	< 50	4,800	1,000	365,600
MACOMB	3,100	1,914,400	< 50	54,200	123,400	63,812,100
MANISTEE	100	45,800	< 50	7,200	2,600	930,700
MARQUETTE	300	93,700	< 50	5,700	5,200	1,549,400
MASON	100	51,200	100	158,700	3,300	1,368,800
MECOSTA	200	58,200	< 50	116,300	3,000	1,167,900
MENOMINEE	100	19,400	100	73,600	2,000	666,100
MIDLAND	300	117,300	100	179,400	7,400	2,927,500
MISSAUKEE	100	22,300	100	257,400	1,300	749,100
MONROE	600	274,000	200	543,800	14,400	6,875,500
MONTCALM	300	105,600	200	624,500	6,100	2,885,700
MONTMORENCY	100	12,000	< 50	2,600	800	231,600
MUSKEGON	1,200	512,700	100	248,400	19,400	7,190,900
NEWAYGO	200	84,700	100	235,200	4,100	1,862,200
OAKLAND	3,400	2,295,400	< 50	94,000	160,900	96,560,200
OCEANA	100	53,100	100	198,200	2,600	1,189,300
OGEMAW	200	58,600	< 50	84,500	2,200	800,700
ONTONAGON	< 50	6,500	< 50	1,700	500	143,200
OSCEOLA	100	38,700	100	174,900	2,200	913,700
OSCODA	< 50	12,600	< 50	1,900	500	119,400
OTSEGO	100	25,800	< 50	1,800	1,900	611,700
OTTAWA	500	269,300	200	980,000	25,800	12,033,800
PRESQUE ISLE	100	21,600	< 50	32,000	1,300	463,700
ROSCOMMON	100	51,500	< 50	11,900	2,800	920,300
SAGINAW	1,400	579,700	600	1,746,900	23,100	9,759,300
ST. CLAIR	800	379,900	100	152,500	20,900	9,251,600
ST. JOSEPH	200	91,100	200	591,000	5,600	2,564,000
SANILAC	200	87,000	600	1,504,800	5,800	3,932,500
SCHOOLCRAFT	< 50	8,400	< 50	4,300	500	131,600
SHIAWASSEE	400	156,000	300	627,700	8,500	3,726,300
TUSCOLA	300	113,600	700	2,727,200	6,400	5,191,500
VAN BUREN	400	178,700	100	471,400	9,100	4,191,800
WASHTENAW	1,000	610,700	200	729,200	44,900	25,305,900
WAYNE LESS DETROIT	4,600	3,009,000	< 50	67,200	153,200	83,376,700
WEXFORD	200	85,400	< 50	29,400	3,600	1,318,100
OUTSIDE OF MICHIGAN	300	196,800	100	162,200	14,500	7,518,400
DETROIT	8,200	4,457,800	< 50	4,500	158,700	64,975,100
TOTAL	45,800	\$23,318,100	9,500	\$30,264,300	1,263,500	\$607,934,600

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 Fiscal Year 2003*. Previous editions of the *Tax Expenditure Report* have used tax expenditure estimates generated by the Joint Committee on Taxation. The estimates in the *Budget of the United States Government* are slightly larger than the estimates produced by the Joint Committee.

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 2004 Estimate

Accelerated Depreciation

\$65,912,000

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 the expected life of the property. For tax purposes, a person may deduct depreciation at an accelerated rate.

Employer Contributions to Health and Life Insurance

\$606,721,000

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 2004 Estimate</u>
Employer Pension Plans Exempts employer payments into qualified employee pension plans from taxation.	\$652,694,000
Federal Adjustments to Income Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	\$16,710,000
Fellowships and Scholarships Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	\$6,597,000
Gain on Sale of Primary Residence Excludes from AGI a gain from the sale of a primary residence. To qualify for the full exemption, the taxpayer must have owned and lived in the home for at least two of the past five years and not claimed a similar exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.	\$109,324,000
Income Maintenance Benefits Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	\$3,110,000
Individual Retirement Accounts Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. In 1987, this deduction was reduced or eliminated for some taxpayers. Federal tax legislation enacted in 2001 increased the maximum contribution limit to \$3,000 for 2002. Only persons with an AGI below \$54,000 on a joint return (\$34,000 on a single return) or not covered by an employer retirement plan can take the full \$3,000 deduction. A partial deduction, phased out according to income, is available between \$54,000-\$64,000 for joint filers and \$34,000-\$44,000 for single filers.	\$138,853,000
Interest on Life Insurance Savings Exempts interest earned from life insurance from tax if used to buy additional life insurance.	\$111,631,000
Medical Care Savings Account Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	\$94,000

FY 2004 Estimate

Railroad Retirement Benefits	\$1,759,000
Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).	
Social Security Benefits	\$208,175,000
Exempts most social security benefits. Federal social security benefits are not taxable under federal law unless half of these benefits plus modified AGI exceed \$32,000 on a joint return or \$25,000 on an individual return. If benefits exceed this amount, a portion (generally no more than 50 percent but potentially up to 85 percent of social security benefits) is taxable under federal law.	
Student Loan Deduction	\$3,511,000
Allows a deduction for interest paid on qualified education loans. The Federal Taxpayer Relief Act of 1997 provides a maximum deduction of \$2,500 for tax year 2001 and following.	
Veterans' Benefits	\$34,692,000
Excludes veterans' benefits administered by the Veterans' Administration from AGI.	
Workers' Compensation	\$53,115,000
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 increase 2.3 percent from \$52.7 million in FY 2003 to \$53.9 million in FY 2004. Transportation tax expenditure estimates were based on FY 2001 and FY 2002 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, all estimates were based on recent data.

Transportation Tax Expenditure Changes

Public Acts 614 through 617 of 2002 would allow the Michigan Department of Treasury to enter into agreements with federally recognized Indian tribes. For more information, see the full description beginning on page 30.

Public Acts 667 through 669 amended the Motor Carrier Fuel Tax and Use Tax Acts to simplify the diesel fuel collection system. All diesel fuel taxes will now be collected at the supplier level. The 6-cent diesel discount for motor carriers is eliminated. A 6 percent diesel use tax replaces 6 cents of the motor carrier fuel tax.

Aircraft Registration and Transfer Fee

In lieu of general or local property taxes on aircraft, the state levies an aircraft registration fee. The tax base is either the maximum gross weight or maximum take-off weight, whichever is greater. The registration fee is assessed at one cent per pound. The transfer fee is \$1. These fees will yield an estimated \$285,000 to the state's Aeronautics Fund in FY 2004.

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 2004, the

aviation fuel tax is projected to yield \$7.0 million, which is deposited into the state's Aeronautics Fund.

	<u>FY 2004 Estimate</u>
Federally-Owned Aircraft	\$256,000
Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.	

	<u>FY 2004 Estimate</u>
Interstate Flight Refund	\$4,074,000
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.

	<u>FY 2004 Estimate</u>
Marine Vessel Exemption	\$700,000
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 is 19 cents per gallon. The diesel fuel tax rate at the pump is

15 cents per gallon, beginning April 1, 2003. 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 2004, motor fuel taxes will yield an estimated \$1,119.6 million.

	<u>FY 2004 Estimate</u>
<p>Diesel Fuel for Railroads Exempts diesel fuel used by railroad locomotives from motor fuel taxes.</p>	n.a.
<p>Evaporation and Loss Allowance The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.</p>	\$14,743,000
<p>Fuel for Job Sites and Charter Firms Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.</p>	\$5,063,000
<p>Fuel for Off-Road Use Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.</p>	\$935,000
<p>Municipal Franchise Vehicles Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.</p>	\$397,000
<p>Public Vehicles Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.</p>	\$13,225,000
<p>Tribal Tax Agreements 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.</p>	n.a.

Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, passenger vehicles became taxable on their value instead of their 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 2004, the motor vehicle registration fee is projected to yield \$892.5 million.

FY 2004 Estimate

Disabled Veterans' Vehicles	\$174,000
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	\$14,311,000
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 2004 Estimate

Publicly-Owned Watercraft	\$13,500
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 4.2 percent from \$8,469.5 million in FY 2003 to \$8,963.6 million in FY 2004. Estimates were based on FY 2001 and FY 2002 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 50 of 2002 provides a credit for the state utility property tax. A credit is allowed for a company that installs telecommunications equipment with information carrying capability exceeding 200 kilobits per second in both directions. A credit is also allowed for the maintenance fee levied by Public Act 48 of 2002 less any credit taken for equipment. Public Act 50 of 2002 was one of the laws created to help accelerate the introduction of broadband Internet access to Michigan.

Public Act 280 of 2002 amends the Plant Rehabilitation and Industrial Development Act, PA 198 of 1974, to extend through 2007 the approval deadline for granting tax abatements for electric generating plants. The act also allows a tax abatement for a federal reserve bank facility in Detroit.

Public Act 443 of 2002 reduced the tax rate of iron ore that is mined from 1.1 percent to 0.75 percent for five years, starting with calendar year 2002 until calendar year 2007.

Public Act 512 of 2002 allows the Strategic Fund board to designate one of the five renaissance zones which it may create as an alternative energy zone for up to 20 years.

Public Act 549 of 2002 exempts alternative energy personal property certified by the Michigan Next Energy Authority from personal property taxes. The exemption applies to taxes levied after December 31, 2002, and before January 1, 2013. Public Act 549 of 2002 was one of the laws enacted to help promote the research, development, and manufacturing of alternative energy technologies.

Public Act 575 of 2002 amends the Local Development Financing Act to permit the Michigan Economic Development Corporation to designate an additional five certified technology parks after November 1, 2002. PA 575 also provides that the two certified technology parks already authorized in Wayne County would count as one park toward the new limit of 15 technology parks. PA 575 also requires the state to reimburse local school districts, ISDs, and the School Aid Fund for tax revenue lost due to the five new certified technology parks.

Public Act 587 of 2002 allows the Strategic Fund board to designate one of the five renaissance zones that it may create as a pharmaceutical renaissance zone.

Public Act 593 of 2002 creates the Michigan Next Energy Authority Act to establish the Michigan Next Energy Authority. The Authority is authorized to promote and increase the research, development, and manufacturing of alternative energy technologies and to certify businesses and their property as eligible for benefits allowed under Public Acts 531 and 549 of 2002. PA 593 contains definitions used in the three acts.

Public Act 610 of 2002 amends the State Utility Property Tax Act, PA 282 of 1905, to provide that for tax years beginning after December 31, 2005, telephone and telegraph property excludes intangible personal property. PA 610 provides that the property of telephone and telegraph companies will be assessed in the same manner as property assessed under the General Property Tax Act.

Public Act 624 of 2002 allows a homeowner to claim a homestead property tax exemption for up to three previous years and to claim a rebate for overpayment of those taxes.

Public Act 744 of 2002 affects the personal property taxation of electric cooperative utilities. An assessor is now required when determining the true cash value of personal property owned by a cooperative electric utility to consider the number of kilowatt hours of electricity sold per mile of distribution line. Previously, an assessor would compare the number of kilowatt hours of electricity sold per mile of distribution line for all electric utilities.

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 2004 collections are projected to total \$128.8 million.

FY 2004 Estimate

Broadband Investment Credit \$11,200,000

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 \$17,900,000

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.

Average Statewide Millage Rates

Calendar Year	Homestead Property	Nonhomestead Property	All Property
1990	n.a.	n.a.	57.17
1991	n.a.	n.a.	57.34
1992	n.a.	n.a.	58.09
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

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

FY 2004 Estimate

Agricultural Transfers

\$18,700,000

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

\$140,000,000

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

FY 2004 Estimate

Cultural Organizations

n.a.

Exempts from the property tax real property owned and occupied by a nonprofit organization meeting specific requirements. Some of the requirements are that the organization must be: incorporated under state law; devoted exclusively to the development of literature, music, painting or sculpture; and available to the general public on a regular basis. The cost of this provision has not been estimated due to lack of data.

Energy Conservation Devices

\$590,000

Exempts energy conservation devices from property tax. This exemption must be approved and certified by the State Tax Commission.

Enterprise Zone

\$1,200,000

Exempts property owned by a qualified business in an Enterprise Zone established before 1994 (Benton Harbor) from ad valorem property tax and subjects it to a specific tax for a 10-year period. The Benton Harbor Enterprise Zone program ceased enlisting new businesses into the abatement program after December 31, 1996. Property located in a federally-designated zone is eligible for a five-year, 50 percent tax abatement on any increase in value, if authorized by the local government.

Fairground Property

n.a.

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

Homestead Exemption

\$2,700,000,000

Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills. For most school districts 18 mills are assessed locally for school operations.

Homestead Exemption for Farm Property

\$130,000,000

Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses.

Industrial Facilities Development

\$340,000,000

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

FY 2004 Estimate

For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility, except that the full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 20 displays a partial estimate of the revenue foregone by local units due to industrial facilities development.

Neighborhood Enterprise Zones \$3,300,000

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

Next Energy Exemption \$400,000

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

Obsolete Property Rehabilitation Exemption
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.

Poverty Exemption \$2,300,000

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

Renaissance Zones \$52,800,000

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

FY 2004 Estimate

Tax Exempt Property

\$2,057,000,000

Exhibit 20 (see page 79) reports the results from the 2002 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 19 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 \$39.0 billion. If taxed at the 2001 average nonhomestead statewide rate of 50.72 mills, tax-exempt property would have yielded \$2.1 billion in property tax revenue.

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

Tax Exempt Acreage

n.a.

Exhibit 21 (see page 83) 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 359,346 acres in 2002.

Tax Exempt County and Municipal Property

\$306,000,000

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

Tax Exempt Federal Property

\$254,000,000

Exempts real property belonging to the United States government.

Tax Exempt Other Real Tax Exempt Property

\$172,000,000

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

FY 2004 Estimate

Tax Exempt Personal Property \$619,000,000

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, insurance companies, 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 \$523,000,000

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 \$183,000,000

Exempts real property owned by the State of Michigan.

Tax Increment Financing \$280,000,000

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 2004 Estimate

Taxable Value Cap

\$2,960,000,000

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.

Technology Park

\$0

Exempts qualified “high technology” properties from the property tax. In lieu of the property tax, a specific tax equal to half the ad valorem millage rate is levied for up to 12 years. The program sunset on December 31, 1993, and exemptions granted before then remain in effect for up to 12 years.

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 are currently on the tax rolls.

Water Softeners and Water Coolers

\$1,075,000

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

Exhibit 19 Counties of Michigan



Exhibit 20
Estimated Taxable Value of Exempt Real and Personal Property by County, 2002
(Taxable Value in Thousands)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
ALCONA *	\$0	\$21,265	\$1,673	\$2,124	\$6,908
ALGER	113	22,328	1,757	2,230	7,253
ALLEGAN	205,645	0	0	0	0
ALPENA	14,222	7,331	55,745	83,570	55,174
ANTRIM	0	0	0	0	0
ARENAC	1,803	500	31,679	2,320	723
BARAGA	0	15,750	31,500	16,800	18,900
BARRY *	7,707	0	6,389	20,684	48,976
BAY	144,357	15,669	13,958	19,377	212,856
BENZIE *	0	34,926	90,670	21,800	13,164
BERRIEN *	97,488	48,949	89,856	478,734	533,490
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN *	330,553	35,000	4,200	68,500	100,000
CASS	24,698		46,075	116,775	116,813
CHARLEVOIX	18,827	965	21,740	24,065	68,983
CHEBOYGAN	91	1,990	4,900	33,600	19,400
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE	4,890	796	21,489	2,958	31,880
CLINTON	18,343	15	3,200	15,000	25,000
CRAWFORD *	2,775	28,545	230,000	6,233	21,150
DELTA	24,209	47,965	11,614	10,319	19,860
DICKINSON	68,287	7,800	9,100	8,400	27,400
EATON	79,043	453	165,859	126,527	124,779
EMMET	4,562	77	8,337	105	289
GENESEE	137,590	14,158	47,340	405,112	472,410
GLADWIN	1,072	50,000	21,000	11,000	30,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	7,909	2,750	15,000	85,000	66,800
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	70,100	270	648	20,500	71,000
HOUGHTON	4,821	12,520	80,155	7,920	94,650
HURON	60,110	n.a.	10,741	n.a.	n.a.
INGHAM	232,806	n.a.	n.a.	n.a.	n.a.
IONIA	34,267	n.a.	152,448	14,721	18,596
IOSCO	1,028	11,083	6,159	5,613	12,014
IRON	222	21,000	13,000	6,300	510
ISABELLA	11,870				
JACKSON	166,939	2,000	201,000	38,000	98,000
KALAMAZOO	143,240	29,692	301,857	637,575	1,237,612
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	614,658	24,450	23,766	174,895	484,900
KEWEENAW		57,030	5,631	8,130	910

Exhibit 20 (Continued)

County	Industrial Facilities	County and			Public
	Tax	Federal	State	Municipal	Education
LAKE	\$237	\$67,084	\$34,150	\$6,186	\$9,599
LAPEER	86,940	3,272	16,794	140,854	98,456
LEELANAU	0	846	15	435	36
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON **	66,618	48	1,551	13,048	21,158
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB	1,276,881	1,088,491	60,774	461,523	844,381
MANISTEE	17,007	16,286	31,586	28,022	29,292
MARQUETTE *	14,988	59,000	40,100	18,750	185,000
MASON	61,827	108,408	24,098	76,494	146,176
MECOSTA *	26,678	884,000	74,100	58,500	520,800
MENOMINEE	324		71,633	896	673
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	5,378	64	17,600	3,300	16,500
MONROE	242,798	122	9,374	70,685	155,691
MONTCALM	44,967	n.a.	n.a.	n.a.	n.a.
MONTMORENCY *	414	60	30,000	10,000	11,000
MUSKEGON	197,347	15,280	76,250	128,330	232,100
NEWAYGO	19,589				
OAKLAND *	828,118	216,940	66,562	781,432	944,339
OCEANA *	7,218	16,500	6,100	2,200	15,000
OGEMAW *	533	6,230	12,830	8,171	6,256
ONTONAGON	2,672	137,641	17,438	2,790	9,757
OSCEOLA	45,799		3,565	4,242	17,713
OSCODA	96	115,691	114,968	2,525	5,694
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	621,644	13,920	28,829	119,095	809,331
PRESQUE ISLE	42,273	0	0	0	0
ROSCOMMON	2,793	72	167,278	4,165	24,500
SAGINAW	263,381	21,700	129,000	181,000	570,000
SAINT CLAIR	96,880	5,198	79,761	774,142	218,819
SAINT JOSEPH *	126,315	0	7,759	14,389	38,754
SANILAC *	8,922	109	4,610	6,064	48,510
SCHOOLCRAFT	3,429	222,912	289,412	29,438	29,217
SHIAWASSEE	16,583	675	18,200	66,700	92,200
TUSCOLA	13,292	n.a.	n.a.	n.a.	n.a.
VAN BUREN	65,105	0	0	0	0
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD	<u>36,940</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>
TOTAL	\$7,162,059	\$4,817,613	\$3,470,806	\$5,793,967	\$9,910,663

Note: Wayne and Ingham Counties are not in totals. 2002 taxable value for Wayne County was \$41.9 billion.

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

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

Exhibit 20 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
ALCONA *	\$195	\$3,333	\$35,498	\$564,256	5.9 %
ALGER	55,000	0	88,568	227,249	28.0 %
ALLEGAN	0	0	0	3,019,164	0.0 %
ALPENA	141,282	0	343,102	728,864	32.0 %
ANTRIM	0	0	0	1,215,686	0.0 %
ARENAC		597	35,819	417,272	7.9 %
BARAGA	42,000	105,000	229,950	154,164	59.9 %
BARRY *	63,780	34,396	174,225	1,335,055	11.5 %
BAY	255,154	2,593	519,607	2,454,710	17.5 %
BENZIE *	0	17,001	177,561	691,905	20.4 %
BERRIEN *	325,747		1,476,776	4,645,643	24.1 %
BRANCH *	0	6,500	22,304	972,019	2.2 %
CALHOUN *	725,000	28,000	960,700	2,982,438	24.4 %
CASS	253,589	0	533,252	1,231,058	30.2 %
CHARLEVOIX	3,474	13	119,240	1,388,566	7.9 %
CHEBOYGAN	0	0	59,890	949,342	5.9 %
CHIPPEWA *	21,200	3,500	1,374,928	723,710	65.5 %
CLARE	29,480		86,603	724,256	10.7 %
CLINTON	0	0	43,215	1,632,304	2.6 %
CRAWFORD *	89,130	20,000	395,058	434,276	47.6 %
DELTA	0	0	89,758	854,350	9.5 %
DICKINSON	2,100	8,300	63,100	674,382	8.6 %
EATON	174,940	276,201	868,759	2,578,353	25.2 %
EMMET	0	0	8,808	2,002,453	0.4 %
GENESEE	386,369	n.a.	1,325,389	9,166,012	12.6 %
GLADWIN	0	0	112,000	670,959	14.3 %
GOGEBIC *	330	302	44,759	330,258	11.9 %
GRAND TRAVERSE *	118,200	51,400	339,150	2,876,573	10.5 %
GRATIOT *	135,000	10,000	349,600	682,572	33.9 %
HILLSDALE	63,100	45,000	200,518	1,018,763	16.4 %
HOUGHTON	2,176	9,455	206,876	484,821	29.9 %
HURON	n.a.	n.a.	10,741	1,244,608	0.9 %
INGHAM	n.a.	n.a.	n.a.	6,200,592	n.a. %
IONIA	3,765	56	189,586	1,079,403	14.9 %
IOSCO	5,776	2,246	42,891	859,418	4.8 %
IRON	0	0	40,810	307,456	11.7 %
ISABELLA			0	1,078,608	0.0 %
JACKSON	200,000	5,000	544,000	3,267,303	14.3 %
KALAMAZOO	10,664	81,278	2,298,678	6,138,162	27.2 %
KALKASKA *	100,000	55,000	451,000	546,622	45.2 %
KENT *	1,840,872	158,010	2,706,893	16,410,893	14.2 %
KEWEENAW	1,070	30,047	102,818	78,058	56.8 %

Exhibit 20 (Continued)

<u>County</u>	<u>Personal Property</u>	<u>Other</u>	<u>Exempt Total</u>	<u>Total Taxable Value Real and Personal Property</u>	<u>Exempt as a Percent of Taxable</u>
LAKE	\$6,900	\$3,923	\$127,842	\$349,475	26.8 %
LAPEER	184,151	0	443,527	2,348,559	15.9 %
LEELANAU	0	272	1,604	1,482,417	0.1 %
LENAWEE *	0	21,000	362,400	2,507,713	12.6 %
LIVINGSTON **	1,200	8,518	45,523	6,101,776	0.7 %
LUCE *	650	1,749	17,321	128,876	11.8 %
MACKINAC *	7,817	2,164	131,295	651,170	16.8 %
MACOMB	1,340,447	464,484	4,260,100	24,205,983	15.0 %
MANISTEE	40,000	52,275	197,461	737,372	21.1 %
MARQUETTE *	0	230,000	532,850	1,273,574	29.5 %
MASON	26,729	43,411	425,316	1,072,083	28.4 %
MECOSTA *	15,400	13,440	1,566,240	881,501	64.0 %
MENOMINEE	0	4,234	77,437	437,265	15.0 %
MIDLAND *	154,540	110,240	439,605	3,455,226	11.3 %
MISSAUKEE	60,564	19,800	117,828	375,211	23.9 %
MONROE	0	7,613	243,485	4,926,510	4.7 %
MONTCALM	n.a.	n.a.	0	1,302,943	n.a.
MONTMORENCY *	5,000	150	56,210	364,887	13.3 %
MUSKEGON	502,900	0	954,860	3,453,068	21.7 %
NEWAYGO			0	986,817	0.0 %
OAKLAND *	113,876	11,835	2,134,984	50,694,764	4.0 %
OCEANA *	4,100	0	43,900	707,565	5.8 %
OGEMAW *	n.a.	2,844	36,331	590,150	5.8 %
ONTONAGON	26,375	108,498	302,499	169,471	64.1 %
OSCEOLA	143,007	5,041	173,568	511,089	25.4 %
OSCODA	1,689	5,771	246,338	272,411	47.5 %
OTSEGO *	45,800	3,665	160,066	976,999	14.1 %
OTTAWA	2,624,723	736,559	4,332,457	7,179,279	37.6 %
PRESQUE ISLE	0	0	n.a.	456,372	n.a.
ROSCOMMON	5,284	7,095	208,394	961,478	17.8 %
SAGINAW	993,614	217,000	2,112,314	4,322,947	32.8 %
SAINT CLAIR	273,659	201,761	1,553,340	5,170,334	23.1 %
SAINT JOSEPH *	4,185	4,695	69,782	1,358,546	4.9 %
SANILAC *	66,701	7,277	133,271	1,089,401	10.9 %
SCHOOLCRAFT	17,762	18,105	606,846	232,899	72.3 %
SHIAWASSEE	12,200	0	189,975	1,364,171	12.2 %
TUSCOLA	n.a.	n.a.	0	1,108,272	0.0 %
VAN BUREN	0	0	0	1,834,596	0.0 %
WASHTENAW *	774	647	12,384	11,345,352	0.1 %
WEXFORD	<u>n.a.</u>	<u>n.a.</u>	<u>0</u>	<u>704,600</u>	0.0 %
TOTAL	\$11,729,440	\$3,267,294	\$38,989,783	\$226,935,085	14.7 %

Note: Wayne and Ingham Counties are not in totals. 2002 taxable value for Wayne County was \$41.9 billion.

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

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

Exhibit 21
General Property Tax – Estimated Exempt Acreage by County, 2002

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA*	382	LAKE	989
ALGER	14,000	LAPEER	4,600
ALLEGAN*	1,000	LEELANAU	2,116
ALPENA	5,800	LENAWEE*	9,200
ANTRIM*	1,000	LIVINGSTON**	1,564
ARENAC	195	LUCE*	2,300
BARAGA	7,350	MACKINAC*	240
BARRY*	7,000	MACOMB	6,300
BAY	3,650	MANISTEE	2,000
BENZIE*	1,547	MARQUETTE*	390
BERRIEN*	6,678	MASON	600
BRANCH*	425	MECOSTA*	2,500
CALHOUN*	5,670	MENOMINEE	141
CASS	60	MIDLAND*	2,000
CHARLEVOIX	350	MISSAUKEE	1,500
CHEBOYGAN	7,800	MONROE	3,200
CHIPPEWA*	1,500	MONTCALM*	n.a.
CLARE	146	MONTMORENCY*	200
CLINTON*	100	MUSKEGON	2,050
CRAWFORD*	1,619	NEWAYGO*	6,800
DELTA	700	OAKLAND*	12,871
DICKINSON	400	OCEANA*	500
EATON	800	OGEMAW*	693
EMMET	1,100	ONTONAGON	200
GENESEE	11,990	OSCEOLA	1,285
GLADWIN	1,000	OSCODA	529
GOGEBIC*	2,300	OTSEGO*	735
GRAND TRAVERSE*	10,500	OTTAWA	2,278
GRATIOT*	300	PRESQUE ISLE*	85,136
HILLSDALE	1,975	ROSCOMMON	1,398
HOUGHTON	2,210	SAGINAW	4,030
HURON	341	SAINT CLAIR	11,966
INGHAM*	1,200	SAINT JOSEPH*	2,600
IONIA	544	SANILAC*	28,500
IOSCO	344	SCHOOLCRAFT	370
IRON*	580	SHIAWASSEE	300
ISABELLA*	2,882	TUSCOLA*	475
JACKSON*	3,020	VAN BUREN*	630
KALAMAZOO	40,000	WASHTENAW*	200
KALKASKA*	340	WEXFORD*	500
KENT*	3,200		
KEWEENAW	3,462	TOTAL	359,346

* Based on a previous year's survey.

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

Iron Ore Specific Tax

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$5.5 million in FY 2002, \$1.6 million of which was remitted to the state. The state's share of the iron ore specific tax is deposited into the School Aid Fund. Public Act 443 of 2002 reduced the tax rate for five years to 0.75 percent.

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 2002 state share of this tax totaled \$3.3 million indicating \$4.9 million in total state and local collections. (See Exhibit 22, only the county share is shown.)

FY 2004 Estimate

Mobile Home Tax Expenditure

\$47,700,000

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.

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 \$38.2 million in 2001. (See Exhibit 22.)

The School Finance Reform Package of 1994 created a state real estate property transfer tax in addition to the county tax. The rate is \$3.75 per \$500 (0.75 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the county treasurer

and forwarded to the state. Revenue is deposited into the School Aid Fund. The state real estate transfer tax is projected to yield \$258 million in FY 2004.

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, and Washtenaw. 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 \$12.6 million in 2001. (See Exhibit 22.)

City Income Tax

A city income tax is levied by adoption of a city ordinance subject to referendum upon petition by the voters. Income earned and received by city residents, income earned in the city by nonresidents, and corporate income earned in the city are subject to city income taxes. In CY 2001, city income taxes totaled \$517.3 million. (See Exhibit 24.) Currently, 22 cities levy a city income tax. While rates vary, most cities levy a 1.0 percent tax on residents and corporations and a 0.5 percent tax on nonresidents. Revenue collections go to the general fund of the taxing city, and most revenue comes from city residents.

FY 2004 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.

**Exhibit 22
Miscellaneous Local Taxes Kept by Local Units, 2001**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA	\$0	\$1,125	\$55,892
ALGER	0	788	28,761
ALLEGAN	0	28,297	431,745
ALPENA	n.a.	917	77,760
ANTRIM	0	45	143,345
ARENAC	0	346	42,011
BARAGA			
BARRY	0	5,923	168,378
BAY	0	15,095	258,588
BENZIE	0	819	79,516
BERRIEN	0	18,581	550,525
BRANCH	0	3,885	114,221
CALHOUN	53,608	15,994	314,510
CASS	0	4,227	139,375
CHARLEVOIX	0	2,826	216,299
CHEBOYGAN	0	1,259	117,389
CHIPPEWA	0	3,147	81,748
CLARE	0	830	85,372
CLINTON	0	11,738	230,534
CRAWFORD	0	445	51,949
DELTA	0	3,513	71,902
DICKINSON	0	2,443	50,876
EATON	0	10,238	329,994
EMMET	0	2,436	324,860
GENESEE	1,289,244	83,895	1,247,018
GLADWIN	0	1,447	88,490
GOGEBIC	0	188	0
GRAND TRAVERSE	0	11,114	466,030
GRATIOT	0	4,622	92,372
HILLSDALE	0	1,816	126,541
HOUGHTON			
HURON	0	3,004	103,987
INGHAM	1,962,418	17,447	949,264
IONIA	0	5,475	122,495
IOSCO	0	950	111,374
IRON	0	333	59,006
ISABELLA	0	6,533	135,893
JACKSON	0	19,205	430,870
KALAMAZOO	1,321,730	24,981	791,637
KALKASKA	0	198	62,247
KENT	4,173,724	54,530	2,302,112
KEWEENAW	0	0	12,744

Exhibit 22 (Continued)

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$42,890
LAPEER	0	13,095	307,955
LEELANAU	0	242	208,734
LENAWEE	0	11,729	324,949
LIVINGSTON	0	19,363	1,113,212
LUCE	0	84	14,403
MACKINAC	0	124	66,245
MACOMB	0	86,570	4,032,174
MANISTEE	0	673	81,045
MARQUETTE	0	3,057	130,780
MASON	0	2,498	89,668
MECOSTA	0	2,796	102,533
MENOMINEE	0	780	46,009
MIDLAND	0	4,918	283,784
MISSAUKEE	0	44	38,009
MONROE	0	38,082	416,932
MONTCALM	0	3,262	149,240
MONTMORENCY	0	86	41,779
MUSKEGON	742,861	25,081	461,422
NEWAYGO			
OAKLAND	0	103,198	7,888,692
OCEANA	0	1,830	78,949
OGEMAW	0	463	63,747
ONTONAGON	0	35	19,683
OSCEOLA	0	679	57,027
OSCODA	0	24	33,658
OTSEGO	0	1,818	115,561
OTTAWA	0	38,120	1,009,442
PRESQUE ISLE	0	313	45,772
ROSCOMMON	0	551	132,415
SAGINAW	1,823,959	18,771	442,848
SAINT CLAIR	0	28,748	552,786
SAINT JOSEPH	0	5,107	138,388
SANILAC	0	5,085	111,631
SCHOOLCRAFT	0	50	30,345
SHIAWASSEE	0	13,717	173,555
TUSCOLA	0	4,162	98,437
VAN BUREN	0	8,323	222,891
WASHTENAW	1,244,845	32,698	1,882,228
WAYNE	0	77,511	6,494,946
WEXFORD	0	3,540	100,411
TOTAL	\$12,612,388	\$927,871	\$38,712,805

FY 2004 Estimate

Nonresident Reduced Rate

\$172,900,000

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

\$24,800,000

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 24. 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 one million or more. Currently, Detroit is the only Michigan city eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled \$50.3 million in FY 2001.

Exhibit 23
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2001

<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	13,736	\$82,416	4,947	\$14,841
Battle Creek	37,655	564,825	43,224	324,180
Big Rapids	3,497	20,982	17,231	51,693
Detroit	554,770	11,442,131	385,520	3,975,675
Flint	61,883	371,298	103,493	310,479
Grand Rapids	166,411	1,622,507	176,040	858,195
Grayling	1,011	15,165	3,603	27,023
Hamtramck	13,890	83,340	6,945	20,835
Highland Park*	12,000	144,000	18,000	108,000
Hudson	1,800	18,000	2,400	12,000
Ionia	4,448	31,136	18,958	66,353
Jackson	22,576	135,456	34,894	104,682
Lansing	79,565	477,390	116,328	348,984
Lapeer	7,979	47,874	19,539	58,617
Muskegon	18,206	109,236	38,008	114,024
Muskegon Heights	4,500	27,000	3,000	9,000
Pontiac	40,000	240,000	120,000	360,000
Port Huron	23,202	278,424	28,764	172,584
Portland	3,255	32,550	1,884	9,420
Saginaw*	38,214	573,210	59,773	448,298
Springfield	3,533	52,995	4,698	35,235
Walker	18,127	135,953	40,346	151,298
TOTAL	1,130,258	\$16,505,888	1,247,595	\$7,581,415

* Based on a previous year's survey.

**Exhibit 24
City Tax Rates and Exemption Allowances, 2001**

<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	\$1,135
Battle Creek	1.00 %	0.50 %	1.00 %	1,500	12,816
Big Rapids	1.00 %	0.50 %	1.00 %	600	1,816
Detroit	2.75 %	1.375 %	1.60 %	750	327,528
Flint	1.00 %	0.50 %	1.00 %	600	23,506
Grand Rapids	1.30 %	0.65 %	1.30 %	750	57,144
Grayling	1.00 %	0.50 %	1.00 %	1,500	253
Hamtramck	1.00 %	0.50 %	1.00 %	600	2,637
Highland Park	2.00 %	1.00 %	2.00 %	600	n.a.
Hudson	1.00 %	0.50 %	1.00 %	1,000	388
Ionia	1.00 %	0.50 %	1.00 %	700	1,563
Jackson	1.00 %	0.50 %	1.00 %	600	7,662
Lansing	1.00 %	0.50 %	1.00 %	600	26,829
Lapeer	1.00 %	0.50 %	1.00 %	600	2,152
Muskegon	1.00 %	0.50 %	1.00 %	600	7,063
Muskegon Heights	1.00 %	0.50 %	1.00 %	600	1,060
Pontiac	1.00 %	0.50 %	1.00 %	600	13,941
Port Huron	1.00 %	0.50 %	1.00 %	1,200	6,527
Portland	1.00 %	0.50 %	1.00 %	1,000	512
Saginaw	1.50 %	0.75 %	1.50 %	1,000	15,020
Springfield	1.00 %	0.50 %	1.00 %	1,500	655
Walker	1.00 %	0.50 %	1.00 %	750	7,142
TOTAL					\$517,349