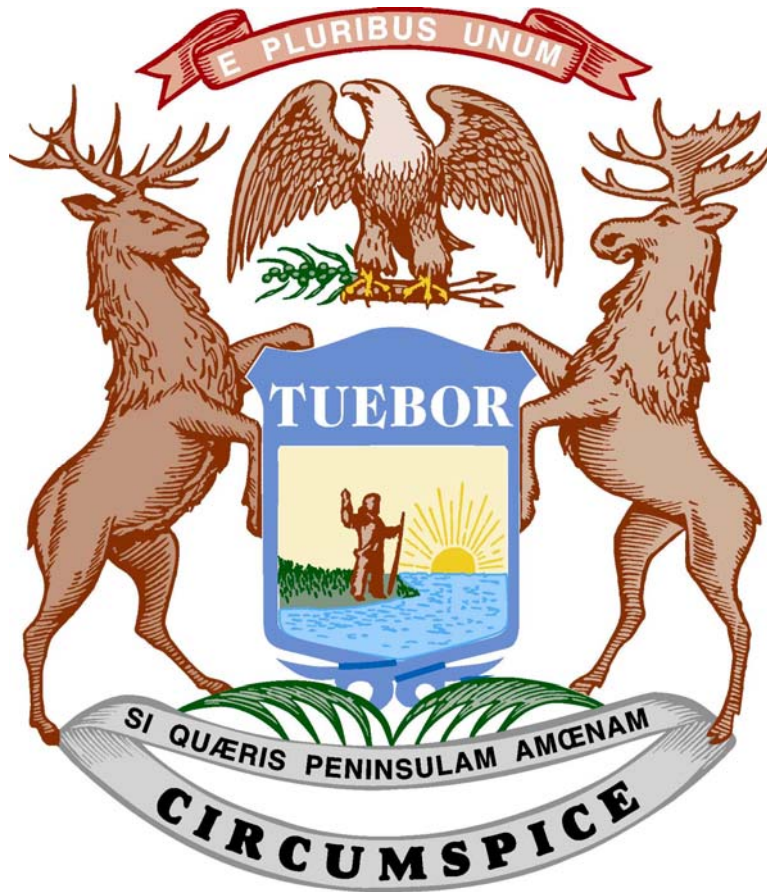
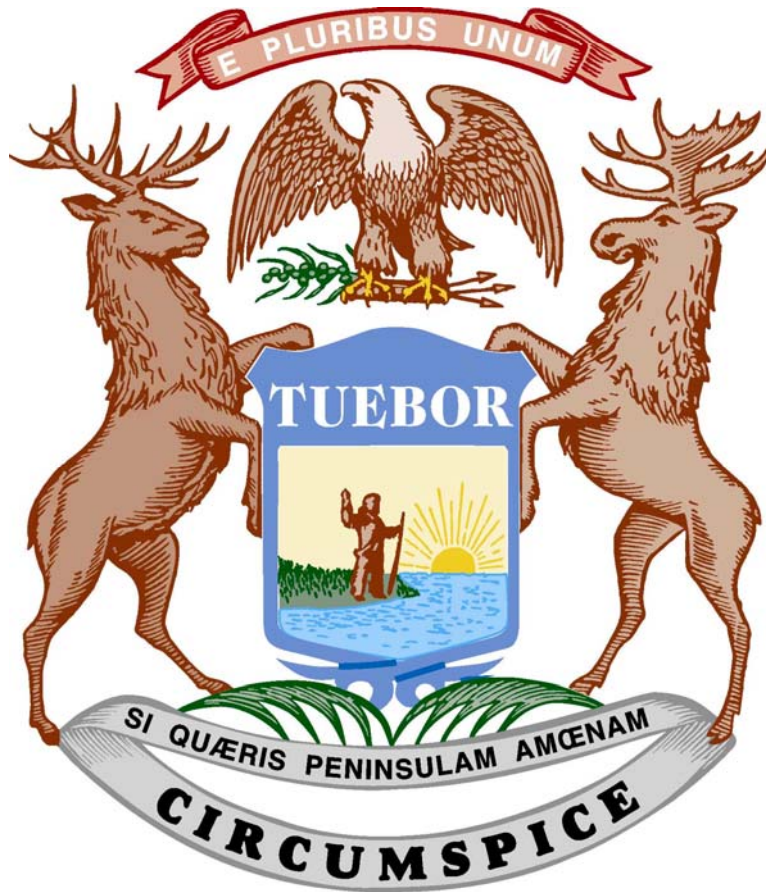


**MICHIGAN'S  
INDIVIDUAL INCOME TAX  
2003**



**Michigan Department of Treasury  
Bureau of Tax and Economic Policy  
Tax Analysis Division  
August 2005**

# MICHIGAN'S INDIVIDUAL INCOME TAX 2003



Tax Analysis Division  
August 2005

This report was prepared by Denise T. Heidt under the direction of Howard Heideman, Director of Tax Analysis Division, Bureau of Tax and Economic Policy. Scott Darragh and Eric Krupka of Tax Analysis Division provided assistance. Diane Burton of Tax Analysis Division provided editorial and secretarial assistance.

## TABLE OF CONTENTS

	<u>Page</u>
I. EXECUTIVE SUMMARY .....	1
Returns and Revenue .....	1
Interstate Comparisons .....	1
Property Tax Credit.....	1
Home Heating Credit.....	2
Adoption Credit.....	2
City Income Tax Credit.....	2
Public Contribution Credit.....	2
Community Foundation Credit.....	2
Homeless Shelter/Food Bank Credit.....	2
College Tuition Credit.....	2
Historical Preservation Credit.....	3
Use Tax Payments.....	3
Tax Law Changes.....	3
II. INTRODUCTION.....	4
III. HISTORY OF THE MICHIGAN INDIVIDUAL INCOME TAX.....	5
USE TAX PAYMENTS.....	8
IV. INCIDENCE OF THE INDIVIDUAL INCOME TAX.....	9
V. INCOME TAX CREDITS.....	18
REFUNDABLE CREDITS.....	18
Homestead Property Tax Credit.....	18
Home Heating Credit.....	20
Adoption Credit.....	21
NON-REFUNDABLE CREDITS.....	21
City Income Tax Credit.....	21
Public Contribution Credit.....	23
Community Foundation Credit.....	23
Homeless Shelter/Food Bank Credit.....	23
College Tuition and Fees Credit.....	23
Historic Preservation Credit.....	24
Credit for Income Paid to Another State.....	24

VI. DESIGNATED CONTRIBUTIONS.....	25
VII. INTERSTATE COMPARISONS .....	26
VIII. GEOGRAPHIC PATTERN OF TAX AND CREDITS .....	29
IX. FEDERAL INCOME TAX INTERACTION .....	30
Summary of Federal Tax Law Changes.....	30
X. PUBLIC ACTS – INCOME TAX .....	34
2003.....	34
2004.....	34
XI. EXHIBITS 21 THROUGH 38.....	36
XII. APPENDIX A .....	57
FEDERAL TAX LAW CHANGES.....	58
MICHIGAN PERSONAL INCOME TAX LEGISLATIVE HISTORY.....	61

## LIST OF EXHIBITS

<u>Exhibit</u>	<u>Page</u>
1 Michigan Individual Income Tax Exemption Allowances .....	6
2 Individual Income Tax Credits .....	7
3 Earmarking of Income Tax Revenue .....	7
4 Use Tax Liability Reported on Income Tax Returns .....	8
5 Fifteen-Year History of Income Tax Rates and Revenues .....	9
6 Annual Collections from Individual Income Tax .....	10
7 Individual Income Tax - Effective Tax Rate .....	11
8 Effective Income Tax Rate, 2003 .....	12
9 2003 Income Tax Return Distribution by Filing Status.....	14
10 2003 Income Tax Returns Distribution by Residency.....	14
11 Growth in Michigan Income 2002-2003.....	15
12 2003 Individual Income Tax Credits .....	19
13 2003 Homestead Property Tax Credits .....	19
14 2003 Home Heating Credits .....	21
15 Michigan Cities Income Tax.....	22
16 2003 City Income Tax Credits.....	22
17 Returns Designating Contributions.....	25
18 State Individual Income Taxes for FY 2003 - Per Person and Percentage of Personal Income.....	27
19 State Income Taxes Per Person - Great Lakes Region - FY 2003 .....	28
20 State Income Taxes - Percentage of Personal Income - Great Lakes Region - FY 2003 .....	28

<b><u>Exhibit</u></b>	<b><u>Page</u></b>
21 Effective Rate of the Michigan Individual Income Tax, 2003 .....	37
22 Breakdown of Upper Income Filers - Individual Income Tax, 2003.....	38
23 Tax Base Deductions as a Percentage of AGI - Individual Income Tax, 2003 .....	39
24 Distribution of Personal Exemptions Claimed on 2003 Individual Income Tax Returns.....	41
25 Distribution of Special Exemptions and Child Deductions Claimed on 2003 Individual Income Tax Returns.....	43
26 Four-Year Comparison of Individual Income Tax Credits.....	44
27 Distribution of Credits - Individual Income Tax, 2003 .....	45
28 Distribution of Property Tax Credits Claimed - Individual Income Tax, 2003 .....	46
29 Distribution of Senior Citizen Property Tax Credits by Household Income - Individual Income Tax, 2003.....	47
30 Distribution of General Property Tax Credits by Household Income - Individual Income Tax, 2003.....	48
31 Distribution of Home Heating Credits by Household Income - Individual Income Tax, 2003.....	49
32 2003 Income Tax Collections by County .....	50
33 2003 Income Tax Data by County.....	52
34 Average Annual Individual Income Tax Rates.....	54
35 Average Adjusted Gross Income by County, 2003 .....	55
36 Average Property Tax Credits by County, 2003.....	56

## I. EXECUTIVE SUMMARY

### **Returns and Revenue**

For tax year 2003, Michigan's personal income tax generated \$5.2 billion in state revenues after all credits and refunds were paid.

Net revenue decreased \$75.8 million (-1.4 percent) from 2002 levels, reflecting the rate cut from 4.1 to 4.0 percent. Adjusted gross income (AGI) increased by \$9.6 billion (4.5 percent) from 2002 to 2003.

About 4.4 million returns were filed for the 2003 tax year, or 35,700 fewer filers (-0.8 percent) than the previous year.

Although the personal income tax was levied at a nominal flat rate of 4.0 percent in 2003, the effective tax rate varied from negative 22.5 percent for filers with an AGI under \$2,000 to positive 3.3 percent for taxpayers with an AGI between \$130,000 and \$400,000. The overall effective tax rate was 2.4 percent. The negative effective rates for lower incomes arise because some taxpayers receive net payments from the state, due principally to the refundable credits for property taxes and home heating expenses.

### **Interstate Comparisons**

For fiscal year 2003, Michigan's income tax revenue is below the national average, both as a percentage of personal income and on a per capita basis. Michigan ranks 34<sup>th</sup> highest and 28<sup>th</sup> highest, respectively. Compared to the average for the 41 states with a general income tax, Michigan's income tax revenue is 22 percent below average on a per capita basis, and 21 percent below average as a percent of personal income.

### **Property Tax Credit**

About 1.4 million Michigan homeowners, renters, and farmers received \$747 million in property tax credits, including farmland preservation credits, for 2003. The average property tax credit was \$528. Excluding farmland preservation credits, the average property tax credit for tax year 2003 was \$511. The total amount of property tax credits, including farmland preservation credits, increased by over \$33.3 million (4.7 percent) with 35,500 more taxpayers benefiting compared to tax year 2002.

Senior citizens received about \$291 million in homestead property tax credits, an increase of almost \$37 million from tax year 2002. For about 413,000 senior citizens receiving homestead property tax credits, the average credit was \$703.

### **Home Heating Credit**

Home heating credits totaled \$62 million for tax year 2003 with about 356,800 households qualifying for an average credit of \$175. Home heating credits decreased \$6.5 million from 2002 while approximately 20,900 more taxpayers claimed the credit.

### **Adoption Credit**

This credit became effective for tax year 2001, and it has a maximum of \$1,200 per adopted child. In tax year 2003, a total of \$1.2 million in adoption credit was claimed by 1,300 taxpayers, resulting in an average credit of \$933.

### **City Income Tax Credit**

In 2003, city income tax credits were claimed by 922,300 taxpayers amounting to \$34.1 million in total credits. This was a decrease of \$266,900 from the prior year, with 7,500 fewer taxpayers claiming the credit.

### **Public Contribution Credit**

Michigan taxpayers claimed \$25.1 million in credits for contributions to Michigan colleges, libraries, museums, and public broadcasting stations for tax year 2003. This was an increase of \$573,700 over tax year 2002, with 9,700 more taxpayers claiming this credit.

### **Community Foundation Credit**

For tax year 2003, about 38,800 taxpayers claimed \$2.9 million in community foundation credits. This figure represents an increase of \$288,700 over tax year 2002, with 11,100 more taxpayers claiming the credit.

### **Homeless Shelter/Food Bank Credit**

About 214,000 taxpayers claimed homeless shelter/food bank credits totaling \$16.1 million for tax year 2003. Compared with tax year 2002, this represented an increase of \$667,200 with an additional 15,700 taxpayers claiming a credit.

### **College Tuition Credit**

For tax year 2003, 26,400 taxpayers claimed \$3.0 million in tuition credits. Compared with tax year 2002, this was a decrease of \$2.2 million with 25,100 fewer taxpayers claiming a credit.



### **Historical Preservation Credit**

For tax year 2003, about 700 taxpayers claimed \$514,700 in historic preservation credits. Compared with tax year 2002, this was a decrease of \$299,600 with 500 more taxpayers claiming a credit.

### **Use Tax Payments**

Starting in tax year 1999, taxpayers were asked to remit use tax payments along with their personal income tax returns. In 2003, 79,700 taxpayers paid \$3.3 million in use tax, higher than the 70,600 taxpayers who made \$2.9 million in payments on their 2002 return.

### **Tax Law Changes**

Public Acts (PA) 1 through 6 of 1999 reduced the Michigan income tax rate over a period of five years from 4.4 percent to 3.9 percent, beginning in tax year 2000. The tax rate for 2000 was further reduced to 4.2 percent by PA 40 of 2000. The tax rate for 2002 was 4.1 percent. The tax rate for 2003 was 4.0 percent, and under PA 239 of 2003, the rate dropped to 3.9 percent on July 1, 2004.

PA 199 of 2004 allowed active duty military service personnel serving in a combat zone an automatic extension to file and to pay any Michigan income tax liability due if the taxpayer was eligible for an automatic extension to file a federal return due to service in a combat zone.

PA 313 created a nonrefundable credit equal to 50 percent of the fair market value of certain automobile donations to qualified charitable organizations. The credit is limited to a maximum of \$50 (single filers) or \$100 (married, filing jointly).

PA 363 and 364 created the Military Family Relief Fund, which will assist families of Michigan residents serving in the armed forces who meet certain criteria of need established in the Acts. Contributions from a checkoff box on the Michigan income tax return (tax years 2004 through 2007) will be directed to the fund.

## II. INTRODUCTION

This report summarizes information regarding the Michigan individual income tax for tax year 2003. It is based on returns filed and processed in calendar year 2004.

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

The Michigan income tax builds on the federal income tax, specifically federal AGI. As such, changes in federal law that alter the calculation of AGI will generally have an impact on the Michigan income tax base and revenues. Section IX summarizes the significant changes in federal income tax law in 2002-2004 and how those changes affect Michigan's income tax base. Section X summarizes the Michigan Public Acts in 2003 and 2004 that amended the Michigan Income Tax Act.

Section XI contains tables and charts presenting detailed data on returns, exemptions, credits, revenue, and effective tax rates.

Section XII contains a summary of significant changes in federal income tax law since the landmark Tax Reform Act of 1986 through changes in 2001, and the Michigan personal income tax legislative history through 2002.

### III. HISTORY OF THE MICHIGAN INDIVIDUAL INCOME TAX<sup>1</sup>

The Michigan individual income tax became effective on October 1, 1967, under PA 281. The tax was enacted to help eliminate a state budget deficit. When originally enacted, the state income tax was levied at 2.6 percent and allowed a \$1,200 exemption per person. On August 1, 1971, the personal income tax rate was raised to 3.9 percent. In 1973, the personal exemption was raised from \$1,200 to \$1,500, and the homestead property tax credit was established. The income tax rate rose to 4.6 percent on May 1, 1975, to replace revenue lost from the exemption of food and prescription drugs from the state sales tax. Although scheduled to be rolled back to 4.4 percent on July 1, 1977, the state income tax rate was permanently set at 4.6 percent in 1977.

Michigan suffered from budget deficits in the early 1980s due to an economic recession. In response, the state income tax rate was raised to 5.6 percent between April 1 and September 30, 1982. In 1983, the income tax rate was increased to 6.35 percent. In 1984, the income tax rate was lowered to 5.85 percent and to 5.33 percent in 1985. In 1986, the rate was lowered back to 4.6 percent. The rate was lowered to 4.4 percent on May 1, 1994, following the passage of the property tax reform package known as Proposal A. For the 1995 tax year only, the Headlee Amendment Refund reduced the income tax liability of all Michigan taxpayers by 2.0 percent. Effective January 1, 2000, the income tax rate declined to 4.2 percent and remained at that rate throughout 2001. The income tax rate declined by 0.1 percentage point in 2002, 2003, and by 0.1 percentage point on July 1<sup>st</sup>, 2004, bringing the rate to 3.9 percent thereafter. (For a complete list of average Michigan Individual Income tax rates since 1968, see Exhibit 34 on page 54.)

The Michigan individual income tax is based on federal AGI with additions (principally interest on obligations issued by other states) and subtractions (including income from U.S. Government bonds, military pay, social security benefits, most pension income, and income attributable to another state). Therefore, changes in federal tax law can affect Michigan income tax collections. The broad changes in AGI effected by the Tax Reform Act of 1986 significantly increased the Michigan income tax base. In response, the personal exemption was gradually increased from \$1,500 in 1986 to \$2,100 in 1990, a 40 percent overall increase. PA 2 of 1995 increased the personal exemption to \$2,400 for tax years 1995 and 1996. The exemption increased to \$2,500 in 1997 and PA 3 of 1995 indexed the personal exemption to inflation with the personal exemption rounded to the nearest \$100 after tax year 1997. PA 86 of 1997 increased the personal exemption by an additional \$200 starting in tax year 1998.

In 2003, a \$3,100 per person personal exemption was allowed, while an extra \$1,900 exemption was provided for senior citizens, filers with certain disabilities, and filers receiving at least 50 percent of their AGI from unemployment compensation. As in 2002, the child exemption was \$600 per child aged 18 years and under, while the (claimed as) dependent exemption remained at \$1,500. Exhibit 1 summarizes the major changes in the Michigan individual income average annual tax rate and allowed exemptions since 1992.

---

<sup>1</sup> For a complete Michigan personal income tax legislative history through 2002, see Appendix A, p. 61.

**Exhibit 1**  
**Michigan Individual Income Tax Exemption Allowances**

<u>Tax Year</u>	<u>Average Rate</u>	<u>Personal Exemption</u>	<u>Claimed as Dependent Exemption</u>	<u>Special Exemptions</u>			<u>Child Exemptions</u>		
				<u>Senior</u>	<u>Blind or Disabled **</u>	<u>Deaf **</u>	<u>Unemployment Compensation</u>	<u>Age 6 and Under</u>	<u>Age 7 to 12 *</u>
1992	4.60%	\$2,100	\$1,000	\$900	\$900	\$900	\$900	na	na
1993	4.60%	2,100	1,000	900	900	900	900	na	na
1994	4.47%	2,100	1,000	900	900	900	900	na	na
1995	4.40%	2,400	1,000	900	900	900	900	na	na
1996	4.40%	2,400	1,000	900	900	900	900	na	na
1997	4.40%	2,500	1,000	900	900	900	900	na	na
1998	4.40%	2,800	1,000	900	900	900	900	600	300
1999	4.40%	2,800	1,000	900	900	900	900	600	300
2000	4.20%	2,900	1,500	1,800	1,800	1,800	1,800	600	600
2001	4.20%	2,900	1,500	1,900	1,900	1,900	1,900	600	600
2002	4.10%	3,000	1,500	1,900	1,900	1,900	1,900	600	600
2003	4.00%	3,100	1,500	1,900	1,900	1,900	1,900	600	600
2004	3.95% ***	3,100	1,500	2,000	2,000	2,000	2,000	600	600
2005	3.90%	3,200	1,500	2,000	2,000	2,000	2,000	600	600

\* Starting tax year 2000, includes children ages 7 to 18.

\*\* Starting tax year 2000, both exemptions were combined.

\*\*\* Tax rate equals 4.0% through June 2004, then it decreases to 3.9% thereafter.

The Michigan individual income tax is a flat rate tax. The Michigan Constitution prohibits graduated income tax rates. Proposals to allow graduated rates were defeated by voters in 1968, 1972, and 1976. A degree of progressivity is achieved with exemptions and credits, such as the homestead property tax and home heating credits. These provisions help to make the tax less burdensome on low income taxpayers. Except in 1994, when property taxes reductions enacted as a part of school finance reform let to reduced property tax credits, both refundable and nonrefundable credits paid and claimed have steadily increased over the years, a result of the increase in the number of credits available as well as the eligibility expansion for existing credits. (See Exhibit 2 for information on the total amount of refundable and nonrefundable credits paid since 1991.) For tax year 2003, credits were provided for property taxes, home heating expenses, qualified adoption expenses, city income taxes, taxes paid to another state, tuition paid to qualified Michigan colleges, qualified expenses made to rehabilitate historic resources, and contributions to community foundations, qualified homeless shelters, food banks or food kitchens, Michigan public colleges, universities, libraries, museums, and public broadcasting stations. (See Chapter V, on page 18, for more information on credits available in tax year 2003.)

**Exhibit 2**  
**Individual Income Tax Credits**  
(millions)

<u>Tax Year</u>	<u>Refundable Credits Paid</u>	<u>NonRefundable Credits Claimed</u>	<u>Total Credits</u>
1991	\$1,012.6	\$65.1	\$1,077.7
1992	\$1,035.3	\$68.3	\$1,103.6
1993	\$1,134.7	\$71.2	\$1,205.9
1994	\$530.7	\$76.5	\$607.2
1995	\$478.4	\$89.8	\$568.2
1996	\$510.5	\$99.9	\$610.4
1997	\$523.3	\$106.7	\$629.9
1998	\$530.3	\$121.7	\$652.0
1999	\$553.3	\$109.2	\$662.5
2000	\$590.6	\$117.0	\$707.6
2001	\$684.8	\$118.7	\$803.5
2002	\$784.4	\$113.7	\$898.1
2003	\$811.0	\$114.6	\$925.6

A portion of income tax revenues is earmarked to the School Aid Fund (SAF) with the remainder distributed as General Fund/General Purpose (GF/GP) revenues. Beginning in fiscal year 1996-97, 23 percent of gross income tax collections was statutorily allocated to the SAF with the remainder of net income tax revenue allocated to GF/GP. The percentage of gross income tax collections earmarked to the SAF changed for tax years beginning after 1999 to equal 1.012 percent divided by the income tax rate. For tax years 2000 and 2001, the income tax rate of 4.2 percent resulted in the earmarking percentage rising to approximately 24.1 percent. The lower rates of 4.0, 3.95, and 3.9 percent in tax years 2003, 2004, and 2005 resulted in an increase of the earmarking percentage to about 25.3, 25.6, and 25.9 percent, respectively. The following table summarizes the income tax revenue earmarking to the SAF and GF/GP since 1999.

**Exhibit 3**  
**Earmarking of Income Tax Revenue**

<u>Tax Year</u>	<u>Average Tax Rate</u>	<u>Earmarking Percentages</u>	
		<u>SAF</u>	<u>GF/GP</u>
2000	4.20%	24.10 %	75.90 %
2001	4.20%	24.10	75.90
2002	4.10%	24.68	75.32
2003	4.00%	25.30	74.70
2004	3.95%	25.62	74.38
2005	3.90%	25.95	74.05

## USE TAX PAYMENTS

A taxpayer owes use tax when he or she purchases tangible personal property, either for use, consumption, or storage in Michigan, from companies that do not collect Michigan sales or use tax. This includes mail order and Internet purchases, as well as purchases made while traveling in other states or foreign countries. In those cases, a compliant Michigan taxpayer must submit a use tax form, remitting the use tax owed on the total price (including shipping and handling charges) of all taxable items purchased from the out-of-state<sup>2</sup> retailer who does not collect Michigan tax.

Starting in tax year 1999, Michigan taxpayers were able to remit use tax payments while filing their income tax return, instead of filing numerous use tax forms. This alternative simplifies the tax compliance process for the taxpayer. In tax year 2003, 79,700 taxpayers remitted \$3.3 million in use tax.

**Exhibit 4**  
**Use Tax Liability Reported on Income Tax Returns**

<b>Tax Year</b>	<b>Number Of Returns</b>	<b>Use Tax Amount</b>	<b>Average Per Return</b>
1999	64,650	\$2,895,475	\$44.79
2000	79,627	2,976,223	\$37.38
2001	72,913	2,877,459	\$39.46
2002	70,619	2,872,252	\$40.67
2003	79,684	3,302,217	\$41.44

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury

---

<sup>2</sup>An out-of-state business that does not have a store, warehouse, or employees in Michigan does not have to register and collect Michigan use tax. However, many out-of-state businesses voluntarily collect use tax for their customers.

## IV. INCIDENCE OF THE INDIVIDUAL INCOME TAX

For tax year 2003, about 4.4 million MI-1040 returns were filed, 35,700 less than in 2002. (See Exhibit 5 below.) An additional 205,800 “credit-only” returns were filed for 2003. These returns claim only a refundable tax credit, such as a property tax credit, or a home heating credit, without filing a MI-1040. For tax year 2003, 52,700 returns claimed only a home heating credit, 43,100 claimed only a property tax credit, and 55,100 claimed a combination of both refundable credits.

The personal income tax generated \$5.2 billion in net revenue for tax year 2003, which is total revenue after all credits and refunds are paid. Income tax revenues decreased \$75.8 million (-1.4 percent) from 2002, despite an AGI increase of \$9.6 billion (4.5%) from 2002 to 2003<sup>3</sup>, which brought it back to 2001 AGI levels. The decrease in income tax revenues reflected primarily the reduction in the tax rate from 4.1 percent to 4.0 percent.

**Exhibit 5**  
**Fifteen-Year History of Income Tax Rates and Revenue**

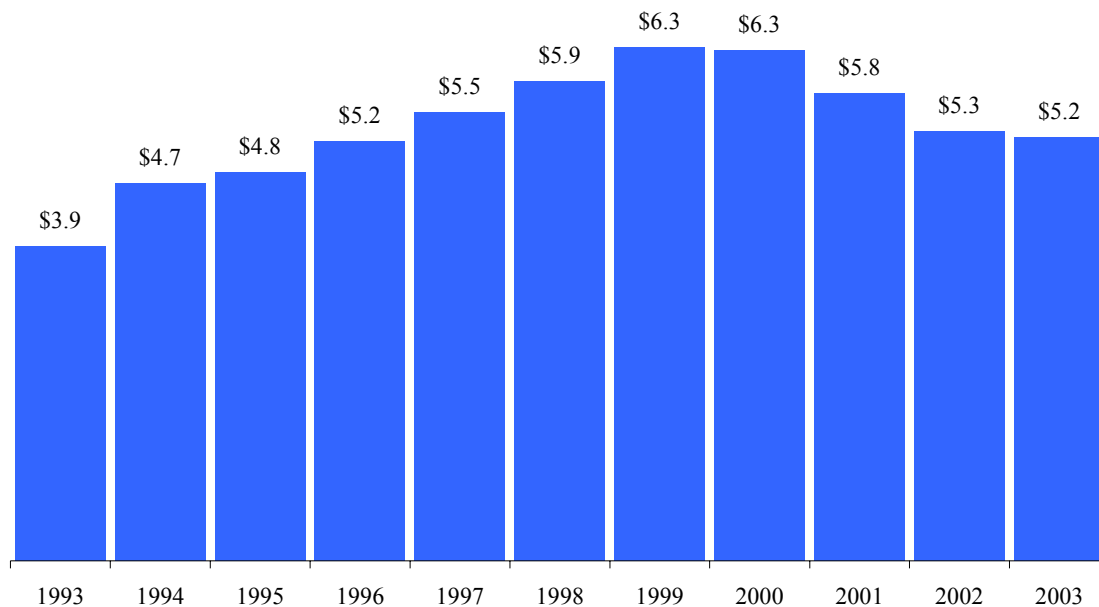
<u>Year</u>	<u>Number of 1040s Filed</u>	<u>Adjusted Gross Income</u>	<u>Average AGI</u>	<u>Nominal Rate</u>	<u>Average Effective Rate</u>	<u>Revenue</u>
1989	3,977,900	124,400,414,100	31,273	4.60%	2.88%	3,579,951,000
1990	4,022,300	127,897,387,600	31,797	4.60%	2.85%	3,647,260,200
1991	4,011,600	131,533,587,500	32,788	4.60%	2.74%	3,607,799,000
1992	3,984,600	134,802,283,400	33,831	4.60%	2.77%	3,730,007,100
1993	4,034,000	141,599,188,400	35,101	4.60%	2.75%	3,888,847,900
1994	4,123,200	153,895,394,200	37,324	4.47%	3.03%	4,668,579,100
1995	4,214,300	167,307,933,535	39,700	4.40%	2.87%	4,794,937,300
1996	4,260,200	180,087,338,060	42,272	4.40%	2.88%	5,177,919,400
1997	4,308,575	190,806,002,405	44,285	4.40%	2.90%	5,540,653,500
1998	4,350,006	205,229,640,000	47,179	4.40%	2.88%	5,919,624,100
1999	4,414,720	222,092,788,315	50,307	4.40%	2.86%	6,343,222,500
2000	4,511,561	235,714,626,207	52,247	4.20%	2.68%	6,313,315,900
2001	4,456,031	222,960,889,578	50,036	4.20%	2.59%	5,774,007,800
2002	4,405,687	213,455,154,939	48,450	4.10%	2.49%	5,309,790,100
2003	4,369,995	223,070,894,889	51,046	4.00%	2.35%	5,233,969,400

---

<sup>3</sup>The AGI above is reduced by returns reporting a negative AGI totaling a negative \$2.4 billion. AGI data for these returns were not available prior to 1997. The data for negative AGI returns are included throughout this report unless otherwise noted.

The number of income tax returns and tax revenues both generally increase when the economy expands and decrease during a recession, such as in 1991 and 2002. Changes in AGI reflect both economic growth and changes in the definition of federal AGI. For example, ending the 60 percent deduction for capital gains and including all unemployment benefits increased AGI beginning in 1987. Exhibit 6 below provides a graphical representation of Michigan individual income tax annual collections since 1993

**Exhibit 6**  
**Annual Collections from Michigan Individual Income Tax**  
**(billions of dollars)**



Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

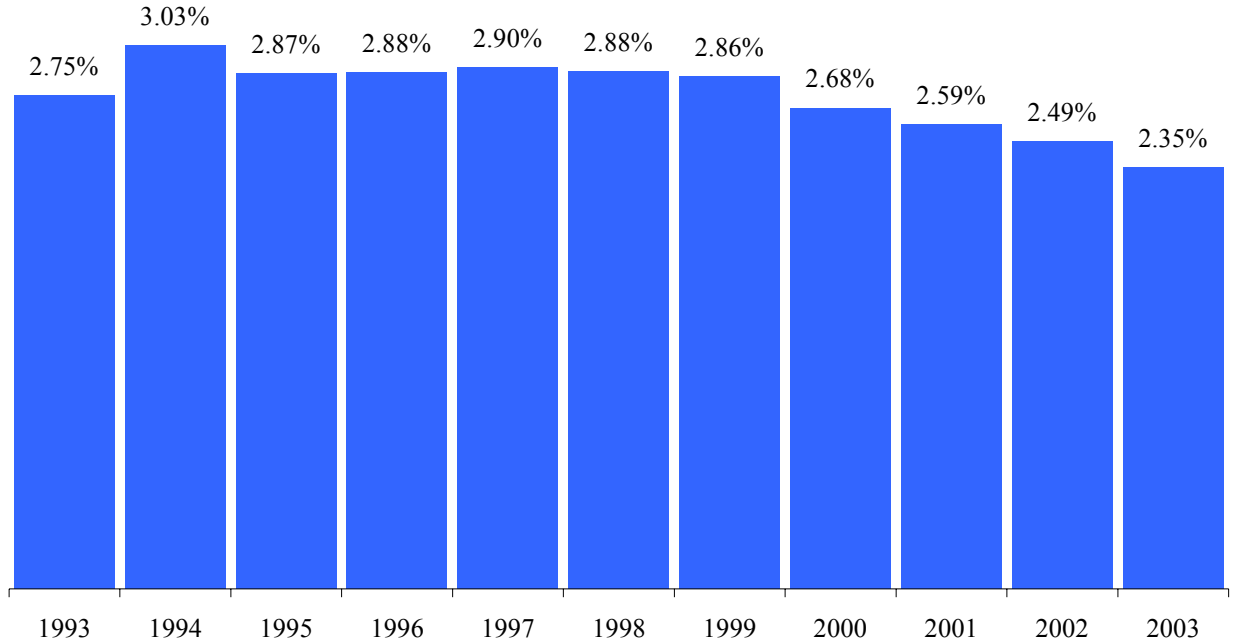
Even though the nominal Michigan personal income tax is levied at a flat rate (4.0 percent in 2003), exemptions and credits help to lessen the relative burden on taxpayers with lower AGIs. As a result, the average effective tax rate is considerably lower than the nominal flat rate. As shown in Exhibit 7, the average effective tax rate in 2003 decreased to 2.35 percent, compared to an average of 2.88 percent calculated for the 1995-1999 period, when the tax rate was 4.4 percent. Over the 1991-2003 period, the highest average effective rate was 3.03 percent in 1994, and the lowest average was 2.35 percent in 2003. The high average in 1994 resulted from the dramatic decline in homestead property tax credits, since property taxes across the state fell as a result of Proposal A<sup>4</sup>. The low average rate in 2003 results from a combination of lower tax rate, and increased and expanded credits and deductions.

---

<sup>4</sup> For more information on the impact of Proposal A, see Office of Revenue and Tax Analysis, *Proposal A: A Retrospective*, December 2003, at [www.michigan.gov/treasury](http://www.michigan.gov/treasury).



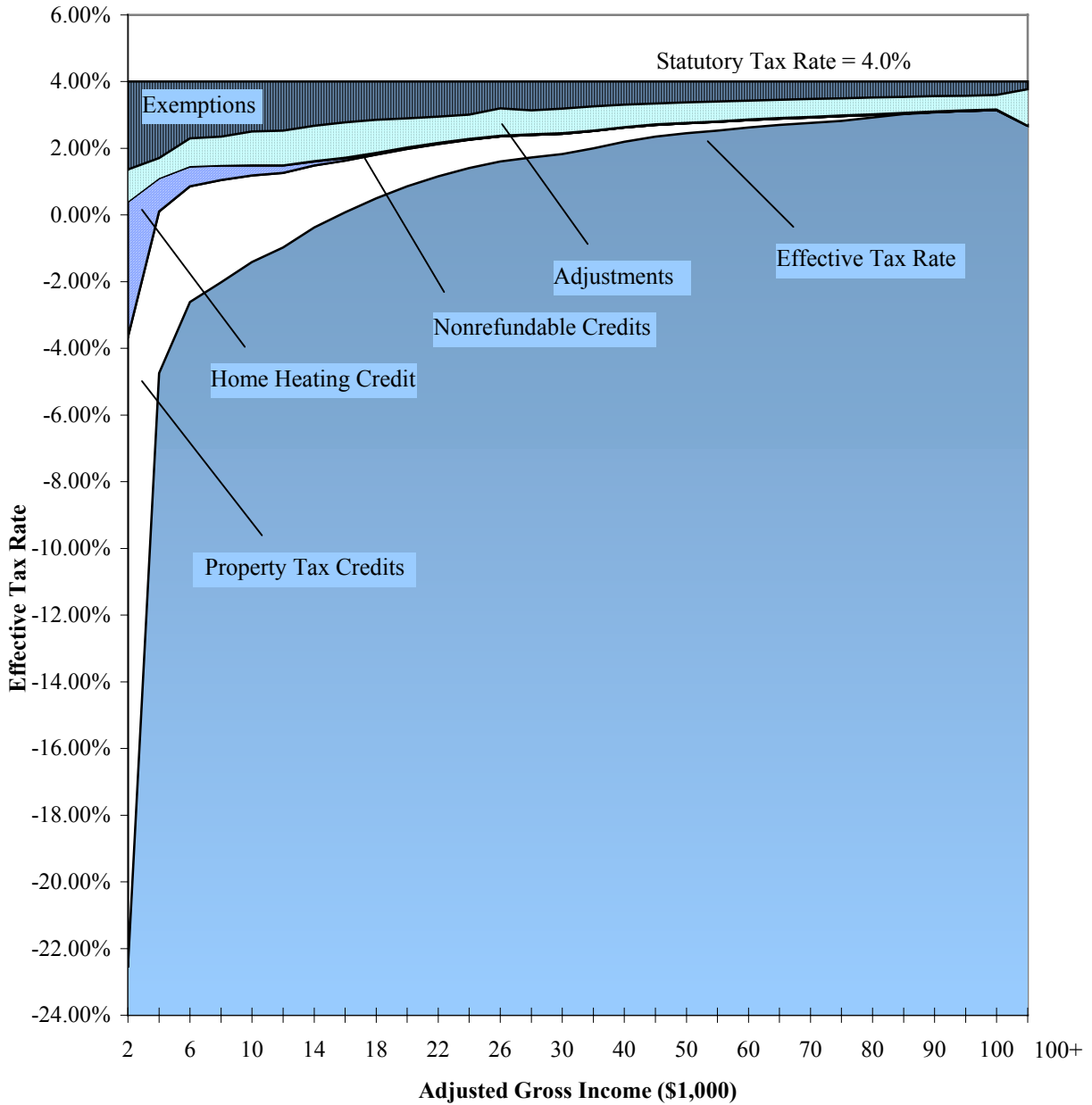
**Exhibit 7**  
**Individual Income Tax**  
**Effective Tax Rate**



Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

As shown in Exhibits 8, 21 and 22 (see pages 12, 37 and 38, respectively), the effective tax rate in 2003 varied from negative 22.5 percent for taxpayers in the \$0 - \$2,000 AGI group, to positive 3.3 percent for taxpayers with an AGI between \$130,001 and \$400,000. The effective rate for taxpayers with an AGI above \$1,000,000 was 1.2 percent, lower than the peak of 3.3 percent. The reason for this lower rate is because the above \$1,000,000 AGI group includes a large number of nonresidents with relatively low Michigan income compared to their total AGI, affording them large subtractions for income not taxable in Michigan, and consequently lower taxable income and effective rate. Resident taxpayers included in that AGI group are also more likely than resident taxpayers in other AGI groups to have part of their income from business activities outside of Michigan, resulting in their Michigan tax base being lower than their AGI. Overall, the effective tax rate was 2.4 percent rather than the nominal rate of 4.0 percent. Taxpayers with AGIs of less than \$10,000 on average received net payments from the state, mostly due to the refundable credits for property taxes and home heating expenses. The effective rates in Exhibits 21 and 22 were calculated before the deduction of the farmland credit, because the distribution of these credits by AGI is not available. In 2003, farmland credits totaled \$28.2 million. Subtracting these credits reduces the effective rate by a marginal amount.

**Exhibit 8  
Effective Income Tax Rates, 2003**



Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

Exhibit 8 reveals the influence of the various exemptions and credits on the effective tax rate and illustrates the data in Exhibit 23 (see page 39). Exhibit 23 details the effects of the personal exemption, various adjustments, and credits on the distribution of the Michigan income tax burden. As a percentage of income, the \$3,100 personal exemption and property tax credit benefit lower income taxpayers the most, while reducing the effective tax rate for most

taxpayers. The personal exemption, property tax credit, and home heating credit make Michigan's income tax more progressive, since these provisions decline as a percentage of AGI as income increases. The nonrefundable credits, which include the city income tax, college tuition, and college contribution credits, have a more proportional effect on income.

Michigan taxpayers claimed almost 8.8 million personal exemptions for 2003. Since the total exemption amount for some taxpayers is greater than their income, not all exemptions were used at lower income levels. In the lowest income groupings, the exemptions and child deductions offset all income. As noted in Exhibit 21 (see page 37), there were an estimated 7.9 million effective personal exemptions, i.e., exemptions that actually offset income. The effective exemptions for 2003 were calculated assuming all personal exemptions, special exemptions, and all child deductions were equally likely to offset taxable income.

Michigan taxpayers claimed over 1 million special exemptions for tax year 2003. About 85.2 percent of the special exemptions were claimed by senior citizens. Michigan families also claimed 2.5 million deductions for children age 18 and under. Exhibits 24 and 25 (see pages 41 through 43) present distributions of all the exemptions claimed for tax year 2003 by income group. The number of special exemptions or child deductions that actually offset taxable income for each income group can be estimated by dividing the number of effective exemptions listed for that income group in Exhibit 21 (see page 37) by the number of claimed exemptions, and then multiplying that quotient by the number of exemptions/deductions in Exhibit 25 (see page 43). For example, the number of effective deductions for children age 18 and under in the \$30,001 to \$35,000 income group would be estimated by dividing 395,077 by 446,057 and then multiplying the result (0.8857) by 120,175. The result is an estimate of 106,439 effective deductions.

Married taxpayers filing jointly reported 69.0 percent of AGI and paid 73.3 percent of the Michigan income tax. Married couples tend to be older and earn higher wages, due to greater accumulated human capital. Human capital includes formal education plus skills acquired through work experience and on-the-job training. Couples also have an additional potential worker. The Michigan income tax does not have a "marriage penalty" or "marriage bonus" as potentially exists with the federal income tax. Exhibit 9 summarizes the distribution of Michigan returns and net tax liability by filing status. Note that the total tax liability does not include refundable income tax credits claimed by individuals not required to file a Michigan income tax return.

**Exhibit 9**  
**2003 Income Tax Return Distribution by Filing Status**

<b><u>Filing Status</u></b>	<b><u>Number of Returns</u></b>	<b><u>Adjusted Gross Income</u></b>	<b><u>Total Tax Liability</u></b>
Single	2,454,458	\$65,853,668,136	\$1,364,541,833
Married filing jointly	1,841,901	153,894,681,581	3,944,054,444
Married filing separately	<u>57,637</u>	<u>2,824,055,261</u>	<u>63,449,675</u>
Totals	4,369,995	\$223,070,894,889	\$5,384,136,417

The Michigan income tax is paid almost exclusively by Michigan residents. Non- or part-year residents pay less than 2.8 percent of the income tax. Exhibit 10 below summarizes the distribution of Michigan returns and net tax liability by residency. While nonresidents report \$22.0 billion in AGI, they claim subtractions totaling \$11.2 billion, mostly for income not taxable in Michigan.

**Exhibit 10**  
**2003 Income Tax Returns Distribution by Residency**

<b><u>Residency</u></b>	<b><u>Number of Returns</u></b>	<b><u>Adjusted Gross Income</u></b>	<b><u>Total Tax Liability</u></b>
Resident	4,218,115	\$196,556,230,868	\$5,234,163,660
Part-year resident	81,131	4,516,520,255	74,289,642
Nonresident	<u>70,749</u>	<u>21,998,143,766</u>	<u>75,856,103</u>
Totals	4,369,995	\$223,070,894,889	\$5,384,309,405

Exhibit 11 presents estimates of the growth of Michigan personal income from 2002 to 2003. The U.S. Bureau of Economic Analysis prepared these estimates. While personal income grew 4.2 percent overall, the strongest growth was in other labor income (25.8 percent), followed by growth in proprietor's income (6.5 percent), adjustment for residence (5.4 percent), and transfer payments (4.7 percent). Dividend, interest, and rent income declined by 2.5 percent in 2003.

**Exhibit 11**  
**Growth in Michigan Income**  
**2002 – 2003**  
**(thousands)**

		<u>2002</u>	<u>2003</u>
Labor Earnings			
Wage and salary disbursements		\$173,425,286	\$176,645,291
Other labor income		27,688,439	34,828,635
Proprietors' income		<u>22,780,704</u>	<u>24,255,085</u>
Total labor earnings	(A)	\$223,894,429	\$235,729,011
Adjustments			
Personal contributions for social insurance		-\$13,544,255	-\$13,847,399
Adjustment for residence		<u>1,060,169</u>	<u>1,117,652</u>
Total adjustments	(B)	-\$12,484,086	-\$12,729,747
Net Michigan labor earnings	(C)=(A)-(B)	\$211,410,343	\$222,999,264
Dividends, interest, and rent	(D)	\$45,566,383	\$44,445,727
Transfer payments	(E)	<u>44,782,951</u>	<u>46,900,623</u>
Michigan Personal Income	(C)+(D)+(E)	\$301,759,677	\$314,345,614

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

The Michigan tax data overstate the aggregate effective tax rate, since taxpayers who itemize deductions on their federal returns may deduct their state income tax payments. Federal data for tax year 2003 shows that 35.8 percent of Michigan taxpayers itemized deductions on their federal income tax returns.<sup>5</sup> With federal deductibility, taxpayers offset part of their state income tax with a lower federal tax liability. For example, taxpayers in the 28 percent federal income tax bracket who itemized would have up to 28 percent of their state income tax offset by lower federal income tax liability. Federal deductibility provides greater benefits to taxpayers with higher incomes, since higher income people are both more likely to itemize their deductions and face higher marginal tax rates. For 2003, 92.4 percent of Michigan taxpayers reporting an AGI of \$100,000 or more itemized their deductions, while 38.7 percent of taxpayers with an AGI between \$30,000 and \$50,000 itemized. While providing relief for some taxpayers, federal deductibility reduces the progressivity of the Michigan income tax.

---

<sup>5</sup>Information on itemized deductions was obtained from the Internal Revenue Service, Individual Tax Statistics on State Income (July 2005 Michigan, Individual Income and Tax Data, by State and Size of Adjusted Gross Income). Tax year 2003: Historical Table 2 (SOI Bulletin).

Michigan income tax revenues are slightly income inelastic. Elasticity is a concept economists use to describe the responsiveness of one variable, in this case net tax revenues, to changes in another variable, in this case income. The income elasticity of tax revenue is equal to the percentage change in tax revenues divided by the percentage change in income. If tax revenues are inelastic, revenues on average grow at a slower rate than income. An inelastic tax is also less volatile than the business cycle and thus provides a more stable source of financing for government operations than an elastic tax.

A flat rate income tax like Michigan's, with no exemptions or credits, should theoretically have an income elasticity equal to exactly one. Exemptions and credits will result in the measured elasticity being potentially higher or lower than one. In general, a flat rate tax will be less elastic than a graduated-rate tax like the federal income tax. With a flat rate tax, tax liability for most taxpayers increases proportionally to an increase in income. With increasing marginal tax rates, tax liability increases more rapidly than income as income begins to be taxed at progressively higher rates.

A simple calculation will clarify the concept of elasticity. In Exhibit 5 (see page 9), net income tax revenues increased by 7.16 percent from 1998 to 1999 while total AGI increased by 8.22 percent over the same period. This resulted in an elasticity estimate of 0.871 (7.16 divided by 8.22). This means that a 10 percent increase/decrease in income will, on average, increase/decrease tax revenues by 8.71 percent. However, this method of calculating income elasticity is not suitable when changes in other important variables that also affect tax revenues are also present. For example, the Michigan individual income tax rate changed in 2000 and in 2002, and many exemptions increased in 2000, 2001, and 2002 as well. If we were to calculate income elasticity using 2000 data, the reported changes of net income tax revenues (-0.47 percent) and of AGI (6.13 percent) would result in a calculated elasticity of -0.077. This would suggest that a 10 percent increase/decrease in income will result, on average, on tax revenues declining/increasing 0.7 percent. The problem with this result is that the drop in tax revenue due to the decrease in the tax rate and to the increase in exemptions cannot be accounted for using the simple calculation method. On the other hand, if we were using 2001 data, the average method would result in a calculated income elasticity of 1.58 (net income tax revenue change of -8.54 percent, divided by an AGI change of -5.41 percent). The result suggests that a 10 percent increase/decrease in income will result, on average, in tax revenues increasing/decreasing 15.8 percent. However, the strong responsiveness of tax revenues to income suggested by the elasticity estimate is mainly attributed the fact that the simple calculation method does not properly account for the large drop in capital gains, which was concentrated among taxpayers with high marginal rates. Thus, another method of estimating elasticity is recommended.

Regression analysis provides a more thorough method of estimating the income elasticity of net income tax revenues. It allows the investigator to isolate the effect of changes in income on tax revenues by controlling other variables that influence tax collections, such as changes in the personal exemption or tax rate. Regression analysis of Michigan income tax collections from the fourth quarter of 1978 through the fourth quarter of 2003 results in an estimated elasticity of 0.896. This suggests that a 10 percent increase/decrease in income will result, on average, in tax revenues increasing/decreasing 8.96 percent. This estimate is based on net quarterly income tax collections and quarterly personal income as reported by the Bureau of Economic Analysis

(BEA), the latter added to annual capital gains realizations estimates from the Congressional Budget Office (CBO). Although the Michigan income tax is based on federal AGI, quarterly personal income is the best available proxy given that AGI is not available on a quarterly basis.<sup>6</sup>

---

<sup>6</sup> BEA's personal income figure does not include capital gains. Using personal income with this omission will produce a flawed elasticity estimate, because while tax revenues are fully included, the absolute value of the growth rate of income will be understated. Capital gains tend to be more volatile than other income sources (e.g., wages, interest, and pensions) so their exclusion will make the growth of the personal income variable lower than the growth AGI in good times and higher in bad times. In order to remedy this situation, the CBO's estimate of capital gains realizations was added to the personal income data.

## V. INCOME TAX CREDITS

For tax year 2003, Michigan's personal income tax offered 11 different credits to taxpayers: four refundable credits (homestead property tax, farmland preservation property tax, home heating credit, and the adoption credit), and seven nonrefundable credits (city income tax credit, college contribution credit, community foundation credit, homeless shelter/food bank credit, college tuition and fees credit, other state income tax credit, and the Michigan historic preservation credit). The credits convert the flat rate Michigan income tax into a more progressive tax structure.

### REFUNDABLE CREDITS

#### Homestead Property Tax Credit

Michigan's property tax credit is designed to provide property tax relief through the income tax. When property taxes exceed specific income thresholds, the credit provides relief to taxpayers. In tax year 2003, taxpayers with household income less than \$82,650 may claim a property tax credit, and the computed credit is reduced by 10 percent for every \$1,000 that household income exceeds \$73,650.

Most homeowners and renters receive credits equal to 60 percent of the amount by which homestead property taxes (or 20 percent of rent for renters) are greater than 3.5 percent of income. Senior citizens, paraplegic, hemiplegic, quadriplegic, totally and permanently disabled, deaf, or blind filers receive a credit for 100 percent of their property taxes above the following percentages of income:<sup>7</sup>

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

About 1.4 million Michigan taxpayers received \$719.3 million of homestead property tax credits and \$28.2 million in farmland preservation property tax credits in tax year 2003. Michigan's property tax credit program is one of the largest property tax relief programs in the country. The

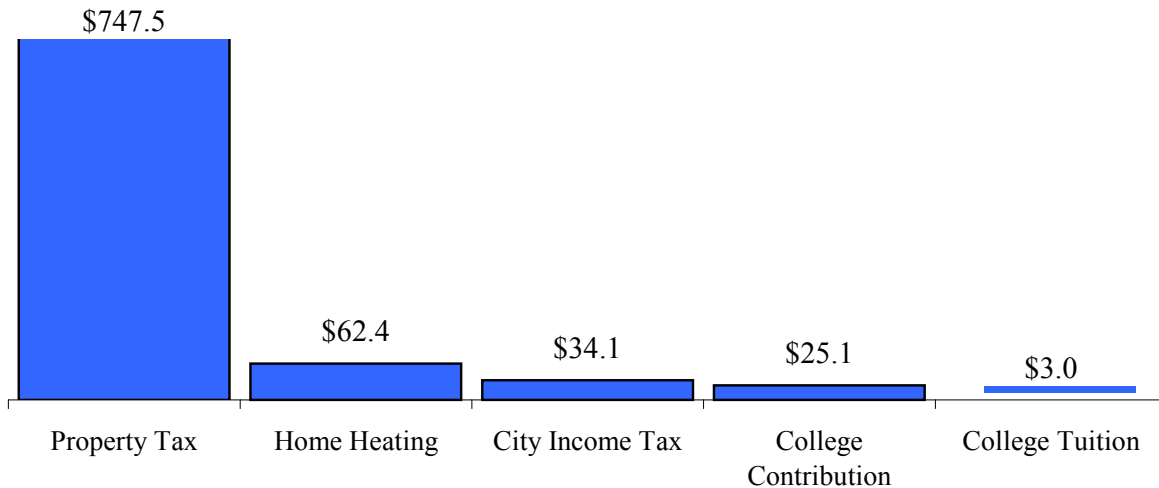
---

<sup>7</sup>Public Act 41 of 2001 increased the Homestead Property Tax Credit for taxpayers who are deaf, blind, or totally and permanently disabled. Prior to tax year 2003, deaf filers received the same credit as other homeowners and renters, while blind, or totally and permanently disabled filers received 60 percent of the credit calculated for senior citizens and paraplegic, hemiplegic, or quadriplegic.



\$747.5 million in total 2003 property tax credits represented an increase of \$33.3 million (4.7 percent) from the prior year, while 35,500 additional taxpayers received assistance. Senior citizens received \$290.5 million of the credits, a \$6.7 million increase from 2002. Exhibit 12 illustrates the amount of money paid to taxpayers for property tax credits compared to other credits.

**Exhibit 12**  
**2003 Individual Income Tax Credits**  
**(billions of dollars)**



Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

The average 2003 homestead property tax credit was \$511.51 (excluding the farmland credit), a \$13.28 increase from the tax year 2002 average. Senior citizens' credits averaged \$703.25, a \$10.85 increase from 2002 (see Exhibit 26 on page 44). Exhibit 13 below provides a summary of the number of credits received by taxpayers, according to AGI levels.

**Exhibit 13**  
**2003 Homestead Property Tax Credits**  
**(excludes farmland credit)**

<u>AGI Range</u>	<u>Number of Credits Allowed</u>	<u>Dollar Amount of Credit</u>	<u>Average Credit</u>
Under \$10,000	417,316	\$243,973,225	\$584.62
\$10,001 - \$20,000	319,168	162,835,287	510.19
\$20,001 - \$50,000	489,956	225,344,318	459.93
Over \$50,000	179,726	87,117,106	484.72
<b>Total</b>	<b>1,406,166</b>	<b>\$719,269,936</b>	<b>\$511.51</b>

Exhibits 13 and 23 (on pages 39 and 40) confirm that the homestead property tax credit is a progressive element in the state income tax structure. Credits as a fraction of AGI decline continuously as incomes rise. While accounting for only 4.7 percent of total AGI, taxpayers with incomes between \$10,001 and \$20,000 received 23.2 percent of the total homestead credits. On the other hand, taxpayers with AGIs over \$50,000 accounted for 74.9 percent of total 2003 Michigan AGI, but received only 12.1 percent of total homestead credits. Exhibits 27 through 30 (see pages 45 through 48) provide the distribution of property tax credits by income groups.

The farmland preservation program, originally PA 116 of 1974 which was replaced by PA 451 of 1994 (part 361 of chapter 1, article III of the Natural Resources and Environmental Protection Act), provides additional property tax relief for farmers. Under the farmland program, farmers may receive additional property tax relief by entering into an agreement with the state not to convert the farmland to other uses for at least seven years. The program benefited over 8,600 farms in 2003, providing credits of \$28.2 million for an average credit of \$3,273.09. Including the farmland preservation credit, the average property tax credit was \$528.34 in tax year 2003. For 7,500 farmers claiming both a farmland credit and homestead property tax credit, the combined credits averaged over 84 percent of total property taxes paid; property taxes totaled \$35.9 million, farmland credits totaled \$22.5 million, and homestead credits totaled \$7.8 million.

PA 269 of 1982 provided a special tax credit for senior citizens with high rent burdens. This additional credit is the amount by which rent paid exceeds 40 percent of household income. For 2003, 10,800 senior citizens claimed an additional \$3.6 million using this alternate calculation. These amounts represent a decrease of \$80,500 from 2002 with 70 more people receiving the additional credit. The amount of this credit is included in the senior citizens' homestead property tax credit statistics, but shown separately in Exhibit 26 (see page 44).

### **Home Heating Credit**

The home heating credit program, designed to help low-income taxpayers with the cost of heating their homes, is financed almost exclusively with federal funds. The credit is based on the number of exemptions for which the household is eligible. Senior citizens as well as individuals who are disabled, deaf, blind, or have received unemployment compensation greater than 50 percent of their AGI are entitled to extra exemptions.

Home heating credits totaled \$62.4 million for tax year 2003 with 356,800 households qualifying. This represented a \$6.5 million decrease over the previous year, with 20,900 additional households receiving assistance. Prior to 1991, recipients of Aid to Families with Dependent Children or General Assistance were not eligible for this credit, but were provided comparable benefits from other state and local programs. Senior citizens received \$11.3 million of the \$62.4 million in home heating credits claimed for tax year 2003 (see Exhibit 14). Exhibit 31 (see page 49) provides information on the distribution of the home heating credit by household income.

**Exhibit 14  
2003 Home Heating Credits**

	<b>Number of Credits <u>Allowed</u></b>	<b>Dollar Amount of Credit</b>	<b>Average Credit</b>
Senior Citizens	76,441	\$11,279,264	\$147.56
General	252,361	46,378,185	183.78
Disabled	27,452	4,631,076	168.70
Veteran	498	72,220	145.02
Total	356,752	\$62,360,745	\$174.80

About 48,400 taxpayers used the alternative calculation based on energy consumption claiming credits worth \$16.3 million. The average credit under the standard calculation was \$148.86 compared to \$337.01 under the alternative calculation.

**Adoption Credit**

Effective with tax year 2001, the adoption credit is available to persons who claimed the federal adoption expenses credit under Section 23 of the Internal Revenue Code for the same tax year. The credit equals the amount of qualified expenses that exceeded the amount of the federal adoption credit or \$1,200 per child, whichever is less. Qualified adoption expenses refer to those expenses eligible for the federal credit. In 2003, 1,300 taxpayers claimed total credits of \$1.2 million, resulting in an average credit of \$932.79 per taxpayer.

**NON-REFUNDABLE CREDITS**

**City Income Tax Credit**

Partial credit is allowed for taxpayers who paid income taxes to Michigan cities. The credit is based on the amount of tax paid less any refunds received during the tax year, and it is calculated as follows:

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

In 2003, 22 cities in Michigan levied an income tax (see Exhibit 15).

**Exhibit 15**  
**Michigan Cities that Levy an Income Tax**

<u>County</u>	<u>City</u>	<u>Year Adopted</u>	<u>2003 Rates</u>		<u>2004 Rates</u>	
			<u>Residents</u>	<u>Non-residents</u>	<u>Residents</u>	<u>Non-residents</u>
Calhoun	Albion	1972	1%	0.5%	1%	0.5%
Calhoun	Battle Creek	1967	1	0.5	1	0.5
Calhoun	Springfield	1989	1	0.5	1	0.5
Crawford	Grayling	1972	1	0.5	1	0.5
Genesee	Flint	1965	1	0.5	1	0.5
Ingham	Lansing	1968	1	0.5	1	0.5
Ionia	Ionia	1994	1	0.5	1	0.5
Ionia	Portland	1969	1	0.5	1	0.5
Jackson	Jackson	1970	1	0.5	1	0.5
Kent	Grand Rapids	1967	1.3	0.65	1.3	0.65
Kent	Walker	1988	1	0.5	1	0.5
Lapeer	Lapeer	1967	1	0.5	1	0.5
Lenawee	Hudson	1971	1	0.5	1	0.5
Mecosta	Big Rapids	1970	1	0.5	1	0.5
Muskegon	Muskegon	1993	1	0.5	1	0.5
Muskegon	Muskegon Heights	1990	1	0.5	1	0.5
Oakland	Pontiac	1968	1	0.5	1	0.5
Saginaw	Saginaw	1965	1.5	0.75	1.5	0.75
St. Clair	Port Huron	1969	1	0.5	1	0.5
Wayne	Detroit	1962	2.55	1.275	2.5	1.25
Wayne	Hamtramck	1962	1	0.5	1	0.5
Wayne	Highland Park	1966	2	1	2	1

City income tax credits amounted to \$34.1 million for tax year 2003 (see Exhibit 27 on page 45), a \$266,900 decrease from 2002, while the number of claimants decreased by 7,500. Exhibit 16 below lists the number of city income tax credits, total credits received, and the average city income tax credit for taxpayers at different levels of AGI.

**Exhibit 16**  
**2003 City Income Tax Credits**

<u>Adjusted Gross Income</u>	<u>Number of Credits Allowed</u>	<u>Dollar Amount of Credit</u>	<u>Average Credit</u>
Under \$10,000	118,927	\$1,413,070	\$11.88
\$10,001 - \$20,000	132,288	3,003,966	22.71
\$20,001 - \$50,000	305,073	10,808,129	35.43
Over \$50,000	366,020	18,895,069	51.62
<b>Totals</b>	<b>922,308</b>	<b>\$34,120,233</b>	<b>\$36.99</b>

### **Public Contribution Credit**

Taxpayers may claim partial credits for contributions to Michigan colleges and universities, public libraries, museums, and public broadcasting stations. The credit is equal to 50 percent of the amount contributed up to a maximum credit of \$200 for a joint return (\$100 on a single return). For 2003, 289,100 taxpayers received \$25.1 million in credits (see Exhibit 26 on page 44). Credits increased by about \$573,700 from the prior year when 279,400 taxpayers received \$24.5 million in credits.

### **Community Foundation Credit**

The community foundation credit, implemented in tax year 1989, is a partial credit for donations to certified community foundations. The credit is equal to 50 percent of the donation up to a maximum of \$200 for a joint return (\$100 on a single return). For tax year 2003, 38,800 taxpayers claimed \$2.9 million in community foundation credits. This was an increase of about 11,100 returns claiming \$288,700 more in credits than in 2002. (See Exhibit 26 on page 44.)

### **Homeless Shelter/Food Bank Credit**

The homeless shelter/food bank credit provides a partial credit for cash donations to a qualifying homeless shelter, food bank, or food kitchen whose primary purpose is to provide accommodations or food to indigent persons. The credit is equal to 50 percent of the donation up to a maximum of \$200 for a joint return (\$100 on a single return). For tax year 2003, 214,000 taxpayers claimed \$16.1 million in food bank credits. This represented an increase of 15,700 taxpayers and \$667,200 more in credits claimed over the previous tax year. (See Exhibit 26 on page 44.)

### **College Tuition and Fees Credit**

Created by Public Act 7 of 1996, the college tuition and fees credit allows resident taxpayers with AGIs of less than \$200,000 to claim a credit equal to a percentage of tuition and fee payments made on behalf of the taxpayer or any other student to a qualified Michigan college or university. To qualify, the school must have certified that tuition and fees will not increase by more than the rate of inflation. The amount of the credit is the lesser of 8 percent of the tuition and fees paid or \$375 for each student for tax year 2003. The credit cannot be claimed for more than 4 years for any one student. For tax year 2003, 26,400 taxpayers claimed the credit, 25,100 less than in 2002. The \$3.0 million in credits for 2003 represented a \$2.2 million decrease from tax year 2002. In order to qualify for tax year 2003, institutions had to limit tuition and fee increases for the 2003-2004 academic year to 2.3 percent over the 2002-2003 academic year. Only two private colleges and 4 community colleges qualified for tax year 2003. (See Exhibit 26 on page 44.)

### **Historic Preservation Credit**

The Michigan historic preservation credit provides tax incentives for homeowners, commercial property owners and businesses to rehabilitate historic commercial and residential resources located in the state of Michigan. The credit was created by Public Acts 534 and 535 of 1999, and is equal to 25 percent of the qualified expenditures. In tax year 2003, almost 700 taxpayers claimed a total of \$514,700 in historic preservation credits. (See Exhibit 26 on page 44.)

### **Credit for Income Paid to Another State**

In tax year 2003, 43,300 taxpayers received a total of \$32.9 million credit for income tax paid to another state, resulting in an average credit of \$757.98. This credit is designed so that taxpayers are not taxed twice (in two states) for the same income. In tax year 2002, 40,500 taxpayers claimed a total of \$30.8 million for this credit. (See Exhibit 26 on page 44.)

## VI. DESIGNATED CONTRIBUTIONS

### DESIGNATED CONTRIBUTIONS

For the 2003 tax year, taxpayers were able to designate \$3.00 of their tax liability for the State Campaign Fund, which supports state gubernatorial campaigns. For 2003, 492,600 taxpayers contributed \$1.5 million to the State Campaign Fund (see Exhibit 17 below). On average, there was one designation for every 9 returns.

Prior to tax year 2000, taxpayers could donate a portion of their income tax refund or increase their liability to support two other funds: the Children’s Trust Fund (CTF) and the Non-Game Wildlife Fund. The CTF was created by Public Act 211 of 1982. Contributions to the fund were returned to local communities and dedicated to the prevention of child abuse. The Michigan Non-Game Wildlife Fund was created by Public Act 189 of 1983. Contributions were used for research and management of non-game fish and wildlife. Public Act 291 of 2000 appropriated amounts to fully fund both the Children’s Trust and Non-Game Wildlife Funds, eliminating the need to continue to solicit contributions on the income tax form.

**Exhibit 17**  
**Returns Designating Contributions**

<u>Tax Year</u>	<u>Number of 1040's Filed</u>	<u>Number of CTF Donations</u>	<u>Number of Nongame Donations</u>	<u>Number of Campaign Checkoffs</u>	<u>Tax Year</u>	<u>Number of 1040's Filed</u>	<u>Number of Campaign Checkoffs</u>
1982	3,310,400	199,644	--	1,042,300	2001	4,456,031	534,955
1983	3,335,800	197,350	79,717	952,400	2002	4,405,687	506,120
1984	3,450,900	229,634	102,583	899,000	2003	4,369,995	492,625
1985	3,517,000	182,941	97,835	918,500			
1986	3,729,300	200,813	115,915	887,800			
1987	3,763,900	155,618	89,195	787,600			
1988	3,880,300	115,088	83,269	779,000			
1989	3,977,900	122,107	87,296	767,300			
1990	4,022,300	138,294	106,224	741,900			
1991	4,011,600	119,468	93,517	653,000			
1992	3,984,600	86,430	68,188	593,000			
1993	4,034,000	72,458	61,616	491,333			
1994	4,123,200	63,375	58,056	473,600			
1995	4,214,300	62,971	53,153	437,200			
1996	4,260,200	57,251	51,289	459,400			
1997	4,308,575	54,639	49,037	469,000			
1998	4,350,006	70,496	49,600	429,632			
1999	4,414,720	78,242	48,900	393,111			
2000	4,511,561	n.a.	n.a.	496,840			

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

## VII. INTERSTATE COMPARISONS

In 2003, Michigan along with five other states (Colorado, Illinois, Indiana, Massachusetts, and Pennsylvania) had a flat rate income tax. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) had no state personal income tax. Two states (New Hampshire and Tennessee) taxed only dividend and interest income, and one other state (Rhode Island) taxed a certain percentage of the taxpayer's federal income tax liability. The remaining 34 states had income taxes with graduated rates. A state-by-state comparison of the income tax burden per person and tax revenue as a percent of personal income is shown in Exhibit 18 (see page 27). Exhibits 19 and 20 (see page 28) compare Michigan's income tax to that of other states in the Great Lakes region.

In fiscal year 2003, Michigan ranked 34<sup>th</sup> highest in state income taxes as a percent of personal income with Oregon ranking first. Michigan's income tax, as a percent of personal income at 2.05 percent, was 0.06 of a percentage point below the U.S. average, and 0.54 of a percentage point below the average of the 41 states with a general income tax. This was the first annual increase of Michigan individual income taxes as a percent of personal income after four consecutive years of decline. However, Michigan's current income tax as a percent of personal income is still far below the 2.70 percent registered in 1999. The above calculations use estimates of quarterly state personal income, released by the U.S. Bureau of Economic Analysis on June 22, 2005, and compiled by the Tax Analysis Division for each state's fiscal year. Because personal income does not include capital gains but tax revenues include the tax on realized gains, and capital gains are not uniformly distributed among states, the calculated ratios are skewed.

Michigan ranked 28<sup>th</sup> highest in income taxes per person with Massachusetts ranking first. In fiscal year 2003, the average collections of \$650 per person in Michigan was still considerably lower than the \$750 average in fiscal year 1999, when the tax rate was 4.4 percent. National average income tax collections per person were \$672, and for the 41 states with an income tax, average income tax collections per person were \$837. (For Michigan income tax rates from 1968 to present, see Exhibit 34 on page 54.) Over the FY 1994 - 2003 period, the income tax burden in Michigan has been declining relative to that in other states. In fiscal year 1994, Michigan ranked 11<sup>th</sup> highest in per capita income taxes and 14<sup>th</sup> highest in income taxes as a percent of personal income. For fiscal year 2003, Michigan ranked 28<sup>th</sup> and 34<sup>th</sup>, respectively.

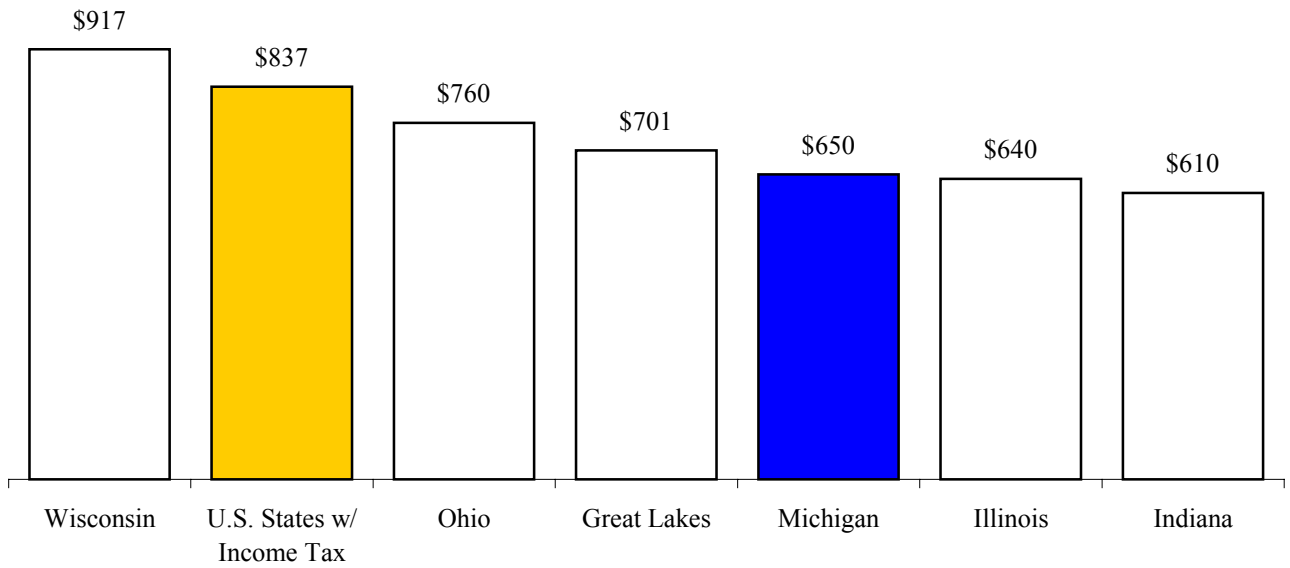


**Exhibit 18**  
**State Individual Income Taxes for FY 2003**  
**Per Person and Percentage of Personal Income**

<u>State</u>	<u>Per Person Individual Income Taxes</u>	<u>Rank</u>	<u>Income Taxes as a Percent of Personal Income</u>	<u>Rank</u>
Alabama	\$495	37	1.81%	37
Alaska	No Tax	N/A	No Tax	N/A
Arizona	403	39	1.47%	40
Arkansas	612	31	2.46%	21
California	1,014	6	2.99%	7
Colorado	742	18	2.12%	31
Connecticut	1,233	3	2.81%	11
Delaware	941	9	2.70%	13
Florida	No Tax	N/A	No Tax	N/A
Georgia	774	16	2.65%	14
Hawaii	926	10	2.99%	5
Idaho	652	27	2.49%	18
Illinois	640	30	1.91%	35
Indiana	610	32	2.08%	32
Iowa	663	24	2.26%	26
Kansas	700	21	2.34%	24
Kentucky	680	23	2.52%	16
Louisiana	484	38	1.80%	38
Maine	881	12	2.96%	8
Maryland	950	8	2.49%	19
Massachusetts	1,376	1	3.39%	3
<b>Michigan</b>	<b>650</b>	<b>28</b>	<b>2.05%</b>	<b>34</b>
Minnesota	1,119	5	3.22%	4
Mississippi	366	40	1.53%	39
Missouri	647	29	2.17%	29
Montana	653	26	2.51%	17
Nebraska	711	19	2.32%	25
Nevada	No Tax	N/A	No Tax	N/A
New Hampshire	42	42	0.12%	42
New Jersey	851	13	2.12%	30
New Mexico	529	36	2.07%	33
New York	1,282	2	3.50%	2
North Carolina	849	14	2.99%	6
North Dakota	337	41	1.12%	41
Ohio	760	17	2.48%	20
Oklahoma	658	25	2.41%	22
Oregon	1,188	4	4.07%	1
Pennsylvania	590	33	1.82%	36
Rhode Island	833	15	2.55%	15
South Carolina	581	35	2.20%	27
South Dakota	No Tax	N/A	No Tax	N/A
Tennessee	25	43	0.09%	43
Texas	No Tax	N/A	No Tax	N/A
Utah	708	20	2.75%	12
Vermont	692	22	2.18%	28
Virginia	995	7	2.90%	10
Washington	No Tax	N/A	No Tax	N/A
West Virginia	588	34	2.34%	23
Wisconsin	917	11	2.94%	9
Wyoming	No Tax	N/A	No Tax	N/A
U.S. Average	\$672		2.11%	
U.S. Average for States With a General Income Tax	\$837		2.59%	

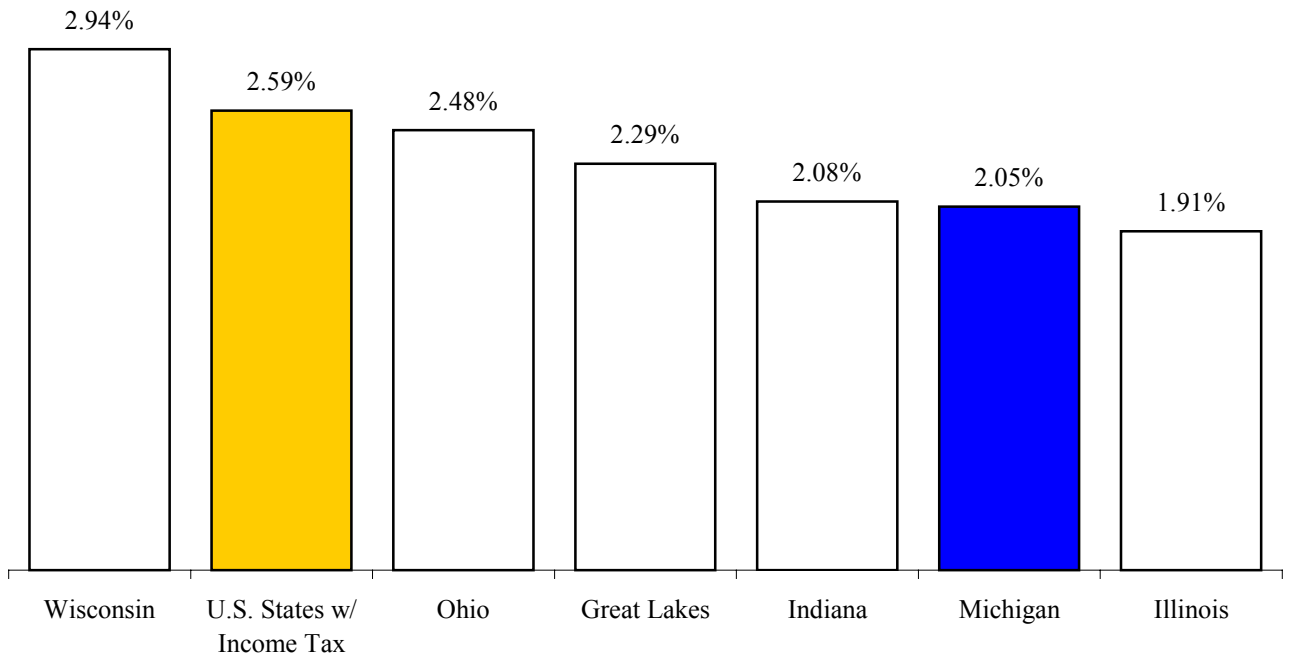
Sources: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

**Exhibit 19**  
**State Income Taxes Per Person**  
**Great Lakes Region - FY 2003**



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

**Exhibit 20**  
**State Income Taxes**  
**Percentage of Personal Income**  
**Great Lakes Region – FY 2003**



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

## VIII. GEOGRAPHIC PATTERN OF TAX AND CREDITS

Exhibit 32 (see pages 50 and 51) reports the distribution of income tax collections and property tax and home heating credits. Since farms receive special treatment for the homestead property tax credit and the separate farmland credit, rural counties benefit substantially from these programs.

Exhibit 33 (see pages 52 and 53) provides a ranking by county of average AGI, average income tax before and after credits, credits as a percentage of income tax before credits, ratio of property tax credits to returns filed, and average property tax credit. A summary of Exhibit 33 is provided below.

Exhibits 35 and 36 (see pages 55 and 56) compare the average AGI and property tax credit for each Michigan county.

County-level statistics are compiled using the zip code provided on each tax return. Adjustments were made to the zip code database in 1999 to more accurately identify the county of residence. While the change is relatively small in magnitude, the reader should exercise caution when comparing the information in this report to similar statistics contained in reports from prior years.

### Personal Income Tax County Data Summary

	<u>State Average</u>	<u>Highest County</u>	<u>Lowest County</u>
Average AGI	\$51,046	\$69,397 Oakland	\$27,247 Lake
Average Income Tax Before Credits	\$1,476	\$2,268 Oakland	\$621 Montmorency
Average Income Tax After Credits	\$1,198	\$2,021 Oakland	\$431 Huron
Income Tax Credits as a Percent of Tax Before Credits	18.8%	48.9% Huron	8.9% Livingston
Ratio of Property Tax Credits to 1040s Filed	32.4%	43.0% Wayne	14.0% Keweenaw
Average Property Tax Credit	\$528	\$1,088 Huron	\$235 Luce

Note: Property tax credits include farmland preservation credits.

## **IX. FEDERAL INCOME TAX INTERACTION**

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

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

Changes in AGI at the federal level can be offset or reinforced at the state level. Expansions in the tax base can be offset with tax cuts. In response to TRA-86, the personal exemption was increased from \$1,500 in 1986 to \$1,600 in 1987, \$1,800 in 1988, \$2,000 in 1989, and \$2,100 in 1990. In 2003, the personal exemption was \$3,100. The special exemptions for senior citizens, blind persons, and those taxpayers with 50 percent or more of their AGI attributable to unemployment compensation were also created. In 2003, the special exemptions were \$1,900.

### **Summary of Federal Tax Law Changes**

Significant federal tax law changes affecting Michigan's tax base are discussed below. The changes are grouped based on when they first became effective. For changes prior to 2002, see Appendix A on page 58.

#### **2002**

Starting in tax year 2003, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA-01) increased the maximum annual contribution limits for education IRAs, traditional and Roth IRAs, annual elective deferrals for qualified retirement plans, the AGI phase-out ranges for eligibility for the student loan interest deduction, and provided a deduction for qualified higher education expenses. To the extent that those changes increased, or made more taxpayers eligible for existing federal deductions, they generally decrease federal AGI, which is the base for the Michigan personal income tax.

Under the EGTRRA-01, the maximum annual contribution limits to IRAs (both traditional and Roth) increase from \$2,000 to \$3,000 in 2002 through 2004, \$4,000 in 2005 through 2007, up to \$5,000 in 2008, when the limit is adjusted for inflation for tax years thereafter. Individuals who are age 50 or older are also allowed to make additional "catch-up contributions" to an IRA. The dollar limit on annual elective deferrals under 401(k), 403(b) annuities and 408(k) salary

reduction simplified employee pension (SEP) plans increases to \$11,000 in 2002, with \$1,000 annual increments until the limits reach \$15,000 in 2006 (limit indexed for inflation in \$500 increments for tax years thereafter). Starting in tax year 2002, the AGI phase-out ranges for eligibility for the student loan interest deduction increased to \$50,000 through \$65,000 for single taxpayers and to \$100,000 through \$130,000 for married taxpayers filing joint returns. A deduction of up to \$3,000 for qualified higher education expenses became effective in tax year 2002. It increased to \$4,000 in 2005 and is repealed after tax year 2006. Also, the maximum annual contribution for education IRAs (a.k.a. Coverdell education savings account) increased from \$500 to \$2,000 per beneficiary in tax year 2002.

Certain provisions of the Job Creation and Worker Assistance Act of 2002 (JCWA-02) also became effective in tax year 2002, like the additional 30 percent first-year depreciation deduction for eligible property, the above-the-line deduction for qualified expenses incurred by educators for classroom materials, and the expansion on the limits for qualified medical savings accounts (Archer MSAs).

## **2003**

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA-03) accelerated many of the federal individual income tax reductions provided in the EGTRRA-01, increased temporarily the alternative minimum tax exemption amount, reduced temporarily tax rates on dividends and capital gains and increased temporarily incentives designed to speed up investment. From those changes, only the incentives designed to speed up investment should have an impact on the calculation of the AGI, and therefore, the Michigan personal income tax. Those incentives comprised an additional 50 percent first-year "bonus" depreciation for eligible property (in lieu of the 30 percent additional deduction provided under the JCWA-02), and increased expensing limits for small businesses. Prior to the JGTRRA-03, in lieu of depreciation, small businesses could elect to deduct up to \$25,000 of the cost of qualifying property placed in service during the taxable year, where the expense amount was reduced by the amount by which the taxpayer's cost of qualifying property exceeded \$200,000. The Act increased the maximum deduction amount to \$100,000 for tax years beginning in 2003, 2004, and 2005, and raises the phase-out threshold from \$200,000 to \$400,000. Both the deduction and phase-out threshold are indexed annually for inflation for 2004 and 2005.

## **2004**

The Pension Funding Equity Act of 2004 (PFEA-04) provides important temporary relief for many pension plans, by allowing employers to lower the amount of their required contributions immediately. The new law replaces, for 2004 and 2005, the 30-year Treasury bond rate used to calculate employers' contributions to pension plans with a long-term corporate bond rate, provides partial, temporary relief to airlines, steel companies and the Transportation Communications Union pension plans from deficit reduction contributions, and targets relief to qualified multiemployer plans. To the extent that those changes did not affect the federal AGI calculation, they should not have any impact on the Michigan personal income tax.

The Working Families Tax Relief Act of 2004 (WFTRA-04) instituted a new uniform definition of a child to be used throughout the Tax Code and expansion of the definition of earned income to include combat pay for purposes of the refundable child tax credit and earned income credit. The Act also provided for the extension of two sets of expiring provisions. The first set refers to four accelerated tax cuts from the EGTRRA-01 and the JGTRRA-03 scheduled to expire on 12/31/2004: the extension of the \$1,000 child tax credit, the full elimination of the marriage penalty in the standard deduction and the 15 percent tax bracket, and the full increase in the size of the 10 percent tax bracket (resulting in these provisions continuing seamlessly at their enhanced levels through 2010). The second set refers to a package of regularly expiring tax provisions that, for the most part, had expired on 12/31/2003, and were extended through 2005. The extended incentives include: the research and development tax credit, the welfare-to-work and work opportunity tax credits, the enhanced deduction for charitable contributions of qualified computers, the expensing of environmental remediation costs, the renewable-source energy credit, the suspension of the marginal-well-net-income limitation, the Indian employment tax credit, the accelerated depreciation for business property on Native American Reservations, the teacher's classroom expense deduction, the repeal of the phase-out for qualified electric vehicle credit and clean fuel vehicle deduction, the availability of Archer medical savings accounts, the tax incentives for investment in the District of Columbia, the authority to issue New York Liberty bonds, and the authority to issue New York Advance Refunding bonds. Of all extensions listed above, only the extension of the teacher's classroom expenses deduction is likely to have an impact on the Michigan personal income tax.

The American Jobs Creation Act of 2004 (AJCA-04) was prompted by the need to develop a new tax incentive for exports by US businesses. US exports were being sanctioned by the European Union (EU) after the World Trade Organization (WTO) had declared that the US Foreign Sales Corporation (FSC) and Extraterritorial Taxable Income (ETI) method<sup>8</sup> was an illegal trade subsidy. Thus, starting in 2005, the FSC/EIT will be phased-out and replaced with a new deduction for manufacturers, which will be completely phased-in by 2010. Under the new deduction, subject to certain limitations, up to 9 percent of net income attributable to domestic production activity may be deducted from taxable income by 2010. To the extent that this provision reduces federal AGI, it will impact negatively the Michigan personal income tax.

Other measures in the AJCA-04 dramatically changed the S corporation rules, provided one of the most significant international tax reforms since the TRA-86, sanctions against taxpayers and tax professionals entering into abusive tax shelter transactions, tax breaks for farmers, changes to the tax treatment of deferred compensation, energy and fuel tax incentives, as well as a host of tax cuts and revenue raising provisions. Among all the provisions in the AJCA, some that are likely to impact the calculation of the federal AGI, and consequently the Michigan personal income tax are: the extension of increased expensing for small business enacted under the JGTRRA-03 through 2007, reduced depreciation lives for leasehold and restaurant

---

<sup>8</sup> The regime allowed qualifying US exporters eligible for an exclusion from gross income for qualifying extraterritorial income. In March 2004, the EU imposed a tariff of 5 percent on all list of US exports with an aggregate value of approximately \$4 billion. The retaliatory tariff increases 1 percent per month. Under the WTO rules, the EU is not obligated to suspend retaliation until the US repeals the FSC/EIT regime.

improvements, limitation on the amount a taxpayer may deduct under section 179 expensing for qualified sport utility vehicles, limitation on the deduction of entertainment expenses for executive personnel, requirement for a consistent 15-year amortization period for start-up and organizational expenses, revision of the rules governing the expatriation of individuals for tax purposes, increased restriction on non-qualified deferred compensation plans where there is not a substantial risk of forfeiture, 85 percent dividend received deduction for one year (to stimulate the repatriation of deferred earnings for corporations), and an above-the-line deduction for attorney's fees and costs stemming from "unlawful discrimination" lawsuits.

## X. PUBLIC ACTS – INCOME TAX

For changes prior to 2003, see Appendix A on page 61.

### 2003

**Public Act 21** amended the Income Tax Act to include in the taxable income of nonresidents winnings at Michigan casinos and winnings from pari-mutuel wagering at licensed horse racing meetings.

**Public Acts 22 and 45 through 52** amend the Income Tax Act to close tax loopholes related to income earned or received in Michigan by nonresidents. Among other things, the Acts expand withholding requirements, clarify the application of the income tax to flow-through entities, permit flow-through entities to file composite tax returns covering a group of nonresident members of the flow-through entity, and clarify the definition of business income.

**Public Acts 28 and 29** amend the Income Tax Act to include certain special assessments levied throughout a township, except in a village located in the township, in total property taxes for the calculation of homestead property tax credits. Previously, only special assessments levied throughout the township, including the village, were allowed to be included in total property taxes.

**Public Act 211** amends the Income Tax Act to require taxpayers who are required to file federal tax form 1099-MISC to provide a copy of the form to the state. The Act also requires a copy of form 1099-MISC to be provided to a Michigan city if the taxpayer listed as the payee's address on the form 1099-MISC is within a city that levies an income tax under the City Income Tax Act.

**Public Act 239** amends the Income Tax Act to postpone until July 1, 2004 the reduction of the income tax rate from 4.0 percent to 3.9 percent that was previously scheduled to be effective on January 1, 2004.

**Public Act 295** amends the Income Tax Act to create a refundable credit equal to the amount allowed under the Single Business Tax (SBT) Early State Venture Capital Investment credit. The income tax credit would be effective for tax years beginning in 2009 and before 2020, and would be allowed only in a tax year in which the SBT credit was not allowed under a successor tax to the SBT Act.

### 2004

**Public Act 199** amended the Income Tax Act to allow active duty military service personnel serving in a combat zone an automatic extension to file and to pay any Michigan income tax



liability due if the taxpayer was eligible for an automatic extension to file a federal return due to service in a combat zone.

**Public Act 313** amended the Income Tax Act to create a nonrefundable credit equals to 50 percent of the fair market value of certain automobile donations to qualified charitable organizations. The credit amount is limited to a maximum of \$50 (single filers) or \$100 (married, filing jointly). The credit sunsets after tax year 2009.

**Public Act 335** amended the Income Tax Act to revise the refund requirement for certain energy bills eligible for the home heating credit. Any amount of home heating credit that exceeds the claimant's outstanding heating bills would be applied to future bills by the energy provider for claimants who meet the criteria outlined in the Act. Any balance remaining after nine months would be refunded to the claimant. The Act also allows for the Department of Treasury to begin a pilot program that would allow the Department to remit energy drafts directly to a claimant's energy provider. Also, up to \$9 million is allowed to be deducted from the total home energy assistance program (LIHEAP) block grant funds for weatherization purposes.

**Public Act 363 and 364** amended the Income Tax Act to create the Military Family Relief Fund, which will assist families of Michigan residents serving in the armed forces who meet certain criteria of need established in the Acts. Effective tax year 2004, contributions from a checkoff box on the Michigan income tax return will be directed to the fund.

**Public Act 387** amended the Michigan Education Savings Program (MESP) Act to allow trusts and estates to establish MESP accounts and to allow an account owner to transfer ownership of an MESP account under certain circumstances. The Act also removes certain documentation requirements for withdrawals.

**Public Act 394** amended the Income Tax Act to make technical changes in the tax treatment of withdrawals from MESP accounts. Among the changes, the Act replaces the provision that prevented an income tax deduction for contributions to an MESP account once a qualified withdrawal had been made from the account with a new provision limiting the income tax deduction in any tax year to the amount contributed less any qualified withdrawal from the account.

**XI. EXHIBITS 21 THROUGH 38**

**Exhibit 21**  
**Effective Rate of the Michigan Individual Income Tax, 2003**

<b>Adjusted Gross Income Group</b>	<b>Number of Returns Filed<sup>(1)</sup></b>	<b>Adjusted Gross Income</b>	<b>Effective Personal Exemptions<sup>(2)</sup></b>	<b>Claimed Exemptions</b>	<b>Subtractions Minus Additions</b>	<b>Total Credits<sup>(3)</sup></b>	<b>Effective Tax</b>	<b>Effective Tax as a % of Income</b>
Less than \$1 <sup>(4)</sup>	255,520	(\$2,442,385,845)		71,354	(\$1,259,955,207)	\$105,342,198	(\$102,797,109)	
\$ 1 - 2,000	166,870	171,566,820	22,797	119,736	41,270,971	39,359,526	(38,667,588)	-22.5%
2,001 - 4,000	186,632	559,101,329	67,593	139,715	84,666,218	32,696,760	(26,517,123)	-4.7%
4,001 - 6,000	177,862	887,391,406	86,596	166,605	185,070,659	36,174,239	(23,142,741)	-2.6%
6,001 - 8,000	170,228	1,191,391,903	120,650	198,176	254,349,750	41,854,694	(24,003,017)	-2.0%
8,001 - 10,000	157,055	1,412,829,184	133,078	210,745	350,730,351	41,375,394	(19,957,184)	-1.4%
10,001 - 12,000	155,213	1,705,471,630	162,063	237,510	429,534,421	42,438,097	(16,528,012)	-1.0%
12,001 - 14,000	145,722	1,893,785,825	164,052	231,764	487,128,135	38,246,769	-7,107,299	-0.4%
14,001 - 16,000	140,510	2,107,392,450	170,481	234,065	540,696,315	35,154,374	1,745,895	0.1%
16,001 - 18,000	133,509	2,268,677,191	173,645	229,988	545,238,310	31,685,110	11,298,449	0.5%
18,001 - 20,000	126,754	2,407,167,775	180,434	226,316	506,381,200	28,834,722	20,658,045	0.9%
20,001 - 22,000	120,103	2,521,184,689	182,257	220,132	477,651,159	26,109,372	29,211,999	1.2%
22,001 - 24,000	113,729	2,614,924,477	180,571	211,362	454,111,516	23,687,136	36,925,784	1.4%
24,001 - 26,000	108,461	2,710,625,117	153,303	204,036	534,319,316	21,718,102	43,607,757	1.6%
26,001 - 28,000	104,190	2,812,565,499	171,120	198,074	485,124,379	20,495,491	48,491,026	1.7%
28,001 - 30,000	100,964	2,927,630,783	168,666	193,796	516,514,954	19,248,062	53,543,190	1.8%
30,001 - 35,000	227,906	7,396,884,783	395,077	446,057	1,276,808,381	41,959,581	147,859,149	2.0%
35,001 - 40,000	200,658	7,515,961,958	375,366	413,033	1,204,304,473	35,674,127	164,940,138	2.2%
40,001 - 45,000	181,506	7,705,348,766	368,671	397,312	1,138,432,973	31,275,911	180,817,258	2.3%
45,001 - 50,000	162,907	7,734,076,302	352,535	377,388	1,114,584,280	27,017,754	189,551,615	2.5%
Over 50,000	1,439,536	166,969,302,847	4,263,945	4,044,215	33,706,518,144	160,242,142	4,590,563,623	2.7%
<b>Totals</b>	<b>4,575,835</b>	<b>\$223,070,894,889</b>	<b>7,892,899</b>	<b>8,771,379</b>	<b>\$43,073,480,698</b>	<b>\$880,589,561</b>	<b>\$5,260,493,855</b>	<b>2.4%</b>

<sup>(1)</sup>Includes 205,840 credit-only returns.

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

<sup>(3)</sup>Does not include Farmland Preservation Credits or Adoption Tax Credit.

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

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 22**  
**Breakdown of Upper Income Filers**  
**Individual Income Tax, 2003**

<u>Adjusted Gross Income Group</u>	<u>Number of Returns Filed</u>	<u>Adjusted Gross Income</u>	<u>Effective Personal Exemptions<sup>(1)</sup></u>	<u>Claimed Exemptions</u>	<u>Subtractions Minus Additions</u>	<u>Total Credits<sup>(2)</sup></u>	<u>Effective Tax</u>	<u>Effective Tax as a % of Income</u>
\$50,001 - 55,000	150,904	\$7,918,425,042	347,231	366,646	\$1,112,692,766	\$24,165,012	\$200,652,011	2.5%
55,001 - 60,000	141,495	8,133,248,513	339,761	356,929	1,083,858,475	21,957,051	213,752,813	2.6%
60,001 - 65,000	129,802	8,107,167,999	324,111	339,429	1,047,515,528	19,612,145	218,702,529	2.7%
65,001 - 70,000	119,121	8,036,732,134	306,361	320,223	1,014,657,160	17,503,990	221,742,724	2.8%
70,001 - 75,000	107,368	7,780,177,500	285,188	297,079	940,638,383	15,146,847	219,735,969	2.8%
75,001 - 80,000	95,465	7,394,244,652	260,445	270,174	862,891,946	9,908,399	216,034,647	2.9%
80,001 - 85,000	84,299	6,950,142,782	234,889	243,583	775,389,954	5,073,806	210,114,913	3.0%
85,001 - 90,000	74,580	6,521,876,972	210,254	218,924	692,583,833	3,751,139	201,011,154	3.1%
90,001 - 95,000	65,359	6,041,665,753	188,592	194,930	616,575,277	3,057,989	188,511,918	3.1%
95,001 - 100,000	55,322	5,389,544,479	160,306	165,521	536,995,863	3,047,989	169,428,012	3.1%
100,001 - 110,000	89,279	9,352,385,418	259,079	270,154	909,946,177	5,336,779	297,454,689	3.2%
110,001 - 120,000	66,292	7,606,350,187	194,941	201,132	752,537,334	4,253,015	243,653,200	3.2%
120,001 - 130,000	47,690	5,942,688,035	137,828	144,762	582,941,496	3,400,522	192,413,697	3.2%
130,001 - 140,000	36,658	4,940,265,194	108,565	112,401	468,333,483	2,764,758	161,493,995	3.3%
140,001 - 150,000	27,635	4,000,317,923	80,948	84,895	389,856,310	2,342,349	131,169,262	3.3%
150,001 - 160,000	21,011	3,252,179,091	61,636	64,804	334,828,482	1,760,291	106,606,870	3.3%
160,001 - 170,000	16,212	2,671,324,511	46,654	50,277	277,305,256	1,515,533	87,944,485	3.3%
170,001 - 180,000	12,937	2,261,406,735	37,036	40,104	250,796,369	1,334,544	74,081,039	3.3%
180,001 - 190,000	10,417	1,925,580,226	30,391	32,261	212,613,395	1,085,841	63,309,525	3.3%
190,001 - 200,000	8,518	1,660,104,041	24,486	26,293	190,901,274	869,117	54,573,998	3.3%
200,001 - 300,000	41,197	9,856,033,384	115,245	128,588	1,205,618,187	5,243,023	325,057,956	3.3%
300,001 - 400,000	14,191	4,867,645,964	35,623	44,137	669,634,799	2,482,077	160,556,880	3.3%
400,001 - 500,000	6,931	3,084,694,811	15,058	21,603	489,826,926	1,560,804	100,165,259	3.2%
500,001 - 750,000	7,323	4,406,417,602	13,614	22,207	865,801,868	2,008,710	137,741,351	3.1%
750,001 - 1,000,000	2,963	2,550,109,257	667	8,582	687,825,201	1,059,518	73,339,421	2.9%
Over \$1,000,000	6,567	26,318,574,642	445,034	18,577	16,733,952,402	892	321,315,306	1.2%
Totals for AGI over \$50,000	1,439,536	\$166,969,302,847	4,263,945	4,044,215	\$33,706,518,144	\$160,242,142	\$4,590,563,623	2.7%

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

<sup>(2)</sup>Does not include Farmland Preservation Credits.

**Exhibit 23**  
**Tax Base Deductions as a Percentage of AGI**  
**Individual Income Tax, 2003**

<b>Adjusted Gross Income Group</b>	<b>Total Effective Exemptions</b>	<b>Subtractions Minus Additions</b>	<b>Nonrefundable Credits<sup>(1)</sup></b>	<b>Property Tax Credits</b>	<b>Home Heating Credits</b>
Less than \$1					
\$ 1 - 2,000	65.9%	24.1%	0.0%	472.1%	101.4%
2,001 - 4,000	57.2%	15.1%	0.0%	121.2%	25.0%
4,001 - 6,000	42.4%	20.9%	0.2%	86.6%	15.0%
6,001 - 8,000	41.2%	21.3%	0.2%	76.7%	10.9%
8,001 - 10,000	37.3%	24.8%	0.8%	65.0%	7.4%
10,001 - 12,000	36.8%	25.2%	0.9%	55.8%	5.5%
12,001 - 14,000	33.2%	25.7%	1.0%	46.5%	3.0%
14,001 - 16,000	30.6%	25.7%	1.1%	38.8%	1.8%
16,001 - 18,000	28.6%	24.0%	1.1%	32.8%	1.0%
18,001 - 20,000	27.6%	21.0%	1.2%	28.1%	0.6%
20,001 - 22,000	26.2%	18.9%	1.3%	24.3%	0.4%
22,001 - 24,000	24.7%	17.4%	1.2%	21.2%	0.2%
24,001 - 26,000	20.0%	19.7%	1.2%	18.8%	0.1%
26,001 - 28,000	21.4%	17.2%	1.3%	16.9%	0.1%
28,001 - 30,000	20.2%	17.6%	1.2%	15.2%	0.0%
30,001 - 35,000	18.6%	17.3%	1.1%	13.0%	0.0%
35,001 - 40,000	17.2%	16.0%	1.2%	10.7%	0.0%
40,001 - 45,000	16.4%	14.8%	1.2%	8.9%	0.0%
45,001 - 50,000	15.6%	14.4%	1.2%	7.5%	0.0%
50,001 - 55,000	15.0%	14.1%	1.2%	6.5%	0.0%
55,001 - 60,000	14.2%	13.3%	1.2%	5.6%	0.0%
60,001 - 65,000	13.6%	12.9%	1.2%	4.8%	0.0%
65,001 - 70,000	13.0%	12.6%	1.2%	4.2%	0.0%
70,001 - 75,000	12.4%	12.1%	1.3%	3.6%	0.0%
75,001 - 80,000	11.9%	11.7%	1.3%	2.1%	0.0%

**Exhibit 23 (cont.)**

<b><u>Adjusted Gross Income Group</u></b>	<b><u>Total Effective Exemptions</u></b>	<b><u>Subtractions Minus Additions</u></b>	<b><u>Nonrefundable Credits<sup>(1)</sup></u></b>	<b><u>Property Tax Credits</u></b>	<b><u>Home Heating Credits</u></b>
80,001 - 85,000	11.4%	11.2%	1.3%	0.5%	0.0%
85,001 - 90,000	10.9%	10.6%	1.4%	0.1%	0.0%
90,001 - 95,000	10.5%	10.2%	1.2%	0.0%	0.0%
95,001 - 100,000	10.0%	10.0%	1.4%	0.0%	0.0%
100,001 - 110,000	9.3%	9.7%	1.4%	0.0%	0.0%
110,001 - 120,000	8.6%	9.9%	1.4%	0.0%	0.0%
120,001 - 130,000	7.8%	9.8%	1.4%	0.0%	0.0%
130,001 - 140,000	7.4%	9.5%	1.4%	0.0%	0.0%
140,001 - 150,000	6.8%	9.7%	1.5%	0.0%	0.0%
150,001 - 160,000	6.4%	10.3%	1.3%	0.0%	0.0%
160,001 - 170,000	5.9%	10.4%	1.4%	0.0%	0.0%
170,001 - 180,000	5.5%	11.1%	1.5%	0.0%	0.0%
180,001 - 190,000	5.4%	11.0%	1.4%	0.0%	0.0%
190,001 - 200,000	5.0%	11.5%	1.3%	0.0%	0.0%
200,001 - 300,000	4.0%	12.2%	1.3%	0.0%	0.0%
300,001 - 400,000	2.5%	13.8%	1.3%	0.0%	0.0%
400,001 - 500,000	1.7%	15.9%	1.3%	0.0%	0.0%
500,001 - 750,000	1.1%	19.6%	1.1%	0.0%	0.0%
750,001 - 1,000,000	0.1%	27.0%	1.0%	0.0%	0.0%
Over \$1,000,000	5.9%	63.6%	0.0%	0.0%	0.0%
Overall Percent	11.9%	19.3%	1.1%	8.1%	0.7%

<sup>(1)</sup>Nonrefundable credits, home heating credits, and property tax credits are divided by the tax rate (4.0%) to determine the equivalent income tax deduction. Nonrefundable credits for 2003 are: the city income tax credit, the public contribution credit, the homeless shelter/food bank contribution credit, the community foundation credit, the other state tax credit, the tuition tax credit, and the Michigan historic preservation credit.

**Exhibit 24**  
**Distribution of Personal Exemptions**  
**Claimed on 2003 Individual Income Tax Returns<sup>(1)</sup>**

<b>Adjusted Gross Income Group</b>	<b>Exemptions Claimed</b>						<b>Total</b>	<b>Total</b>	
	<b>Zero</b>	<b>One</b>	<b>Two</b>	<b>Three</b>	<b>Four</b>	<b>Five</b>	<b>Six or More</b>	<b>Returns</b>	<b>Exemptions<sup>(2)</sup></b>
Zero Income	7,310	25,610	10,850	2,313	1,955	954	645	49,637	71,354
\$ 1 - 2,000	80,473	64,329	14,927	4,384	1,724	590	365	166,792	119,736
2,001 - 4,000	91,983	65,653	18,293	7,051	2,299	787	456	186,522	139,715
4,001 - 6,000	67,701	74,273	22,262	8,873	3,091	1,023	530	177,753	166,605
6,001 - 8,000	43,592	81,203	28,305	11,179	3,804	1,370	680	170,133	198,176
8,001 - 10,000	28,256	78,830	29,363	13,190	4,756	1,708	865	156,968	210,745
10,001 - 12,000	18,793	77,788	32,258	16,272	6,252	2,483	1,281	155,127	237,510
12,001 - 14,000	12,177	74,570	34,944	14,331	6,069	2,319	1,206	145,616	231,764
14,001 - 16,000	7,589	71,898	36,814	14,162	6,217	2,473	1,260	140,413	234,065
16,001 - 18,000	4,928	67,355	37,121	13,934	6,338	2,496	1,251	133,423	229,988
18,001 - 20,000	3,249	62,801	35,858	13,999	6,675	2,708	1,366	126,656	226,316
20,001 - 22,000	2,144	58,475	34,405	13,890	6,962	2,808	1,327	120,011	220,132
22,001 - 24,000	1,476	55,976	31,564	13,329	7,088	2,800	1,417	113,650	211,362
24,001 - 26,000	1,059	53,486	29,788	12,471	7,197	2,954	1,429	108,384	204,036
26,001 - 28,000	740	51,144	28,686	11,952	7,153	3,009	1,435	104,119	198,074
28,001 - 30,000	554	49,026	28,390	11,289	7,072	3,081	1,490	100,902	193,796
30,001 - 35,000	865	108,608	64,911	24,497	17,511	7,770	3,606	227,768	446,057
35,001 - 40,000	464	88,212	59,728	22,532	17,816	7,939	3,830	200,521	413,033
40,001 - 45,000	283	71,409	55,603	22,211	19,384	8,549	3,969	181,408	397,312
45,001 - 50,000	245	56,758	50,822	21,457	20,858	8,771	3,904	162,815	377,388
50,001 - 55,000	170	45,889	48,885	21,246	21,519	9,323	3,794	150,826	366,646
55,001 - 60,000	161	37,237	47,724	21,259	22,117	9,252	3,677	141,427	356,929
60,001 - 65,000	117	29,259	44,881	20,617	22,510	8,921	3,416	129,721	339,429
65,001 - 70,000	84	23,094	42,735	19,354	21,856	8,672	3,259	119,054	320,223
70,001 - 75,000	83	17,883	38,801	18,124	20,989	8,407	3,033	107,320	297,079
75,001 - 80,000	55	13,682	34,866	16,639	19,662	7,782	2,755	95,441	270,174

**Exhibit 24 (cont.)**

<b>Adjusted Gross Income Group</b>	<b>Exemptions Claimed</b>							<b>Total Returns</b>	<b>Total Exemptions<sup>(2)</sup></b>
	<b><u>Zero</u></b>	<b><u>One</u></b>	<b><u>Two</u></b>	<b><u>Three</u></b>	<b><u>Four</u></b>	<b><u>Five</u></b>	<b><u>Six or More</u></b>		
80,001 - 85,000	59	10,473	30,741	15,009	18,265	7,239	2,478	84,264	243,583
85,001 - 90,000	44	8,176	27,011	13,721	16,852	6,572	2,185	74,561	218,924
90,001 - 95,000	46	6,347	23,476	12,246	15,315	5,893	2,024	65,347	194,930
95,001 - 100,000	49	5,067	20,089	10,344	12,939	5,133	1,689	55,310	165,521
100,001 - 110,000	71	7,157	32,551	16,659	21,628	8,476	2,718	89,260	270,154
110,001 - 120,000	47	4,885	24,591	12,429	15,969	6,295	2,061	66,277	201,132
120,001 - 130,000	33	3,340	18,008	8,792	11,498	4,530	1,484	47,685	144,762
130,001 - 140,000	32	2,436	13,513	6,947	8,917	3,613	1,195	36,653	112,401
140,001 - 150,000	27	1,783	10,104	5,255	6,855	2,758	847	27,629	84,895
150,001 - 160,000	13	1,423	7,656	3,882	5,220	2,081	734	21,009	64,804
160,001 - 170,000	7	1,050	5,860	2,963	4,078	1,729	523	16,210	50,277
170,001 - 180,000	19	859	4,688	2,303	3,264	1,355	447	12,935	40,104
180,001 - 190,000	8	786	3,772	1,741	2,578	1,164	368	10,417	32,261
190,001 - 200,000	13	629	3,118	1,441	2,110	892	315	8,518	26,293
200,001 - 300,000	56	3,263	14,804	6,362	10,271	4,763	1,676	41,195	128,588
300,001 - 400,000	16	1,311	5,123	2,012	3,348	1,754	626	14,190	44,137
400,001 - 500,000	11	597	2,578	960	1,603	858	324	6,931	21,603
500,001 - 750,000	14	742	2,886	920	1,568	845	348	7,323	22,207
750,001 - 1,000,000	9	336	1,246	376	570	318	108	2,963	8,582
Over \$1,000,000	<u>22</u>	<u>926</u>	<u>2,811</u>	<u>733</u>	<u>1,119</u>	<u>669</u>	<u>287</u>	<u>6,567</u>	<u>18,577</u>
Totals	375,147	1,566,034	1,197,410	515,650	452,841	185,886	74,683	4,367,651	8,771,379

<sup>(1)</sup>Values in this table are based on 4,367,651 MI-1040 tax returns on file.

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

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.



**Exhibit 25**  
**Distribution of Special Exemptions and Child Deductions**  
**Claimed on 2003 Individual Income Tax Returns<sup>(1)</sup>**

<u>Adjusted Gross Income Group</u>	<u>Age Exemptions</u>	<u>Deaf/ Blind/Disabled Exemptions</u>	<u>Unemployed Exemptions</u>	<u>Child 18 and Under Exemptions</u>	<u>Claimed as Dependent Exemptions</u>
Zero Income	18,337	5,008	1,018	12,725	6,497
\$ 1 - 2,000	35,949	9,964	868	20,355	80,824
2,001 - 4,000	30,260	5,322	1,590	31,619	92,450
4,001 - 6,000	35,198	5,483	2,664	39,323	68,015
6,001 - 8,000	41,527	5,806	3,335	49,674	43,792
8,001 - 10,000	46,049	5,326	3,730	55,552	28,460
10,001 - 12,000	51,340	5,464	3,923	67,527	18,987
12,001 - 14,000	50,804	4,948	3,955	61,725	12,361
14,001 - 16,000	49,654	4,714	3,793	61,139	7,791
16,001 - 18,000	46,092	4,269	3,552	60,690	5,061
18,001 - 20,000	39,257	3,905	3,447	61,616	3,404
20,001 - 22,000	33,322	3,641	2,583	61,426	2,254
22,001 - 24,000	27,416	3,276	1,906	59,990	1,617
24,001 - 26,000	24,111	2,910	1,318	58,037	1,170
26,001 - 28,000	22,238	2,827	845	55,323	861
28,001 - 30,000	20,999	2,564	557	53,090	667
30,001 - 35,000	44,178	5,382	667	120,175	1,136
35,001 - 40,000	35,957	4,619	274	112,099	748
40,001 - 45,000	29,161	4,136	116	111,449	533
45,001 - 50,000	24,988	3,335	79	109,475	461
50,001 - 55,000	22,856	3,257	42	107,919	359
55,001 - 60,000	20,461	3,025	36	105,751	312
60,001 - 65,000	18,545	2,783	34	101,168	236
65,001 - 70,000	17,448	2,530	23	95,005	218
70,001 - 75,000	15,413	2,135	25	88,671	184
75,001 - 80,000	13,758	1,789	17	80,722	143
80,001 - 85,000	11,700	1,664	9	72,941	123
85,001 - 90,000	9,919	1,308	22	65,527	114
90,001 - 95,000	8,388	1,049	5	58,079	91
95,001 - 100,000	7,207	913	11	49,244	85
Over \$100,000	64,053	5,051	50	374,769	660
Totals	916,585	118,403	40,494	2,462,805	379,614

<sup>(1)</sup>Values in this table are based on 4,367,651 MI-1040 tax returns on file.

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 26**  
**Four-Year Comparison of Individual Income Tax Credits**  
 (Number and Amount in Thousands)

	2000			2001			2002			2003		
	<u>Number</u>	<u>Amount</u>	<u>Average</u>	<u>Number</u>	<u>Amount</u>	<u>Average</u>	<u>Number</u>	<u>Amount</u>	<u>Average</u>	<u>Number</u>	<u>Amount</u>	<u>Average</u>
Property Tax Credits												
General	743.1	\$256,411.6	\$345.05	815.0	\$307,264.6	\$377.03	898.8	\$370,010.1	\$411.68	928.7	\$397,200.9	\$427.70
Senior Citizen <sup>(1)</sup>												
Total	364.2	220,132.0	604.37	381.8	245,680.5	643.45	409.9	283,828.7	692.40	413.1	290,546.3	703.25
Low Income Rent	10.6	3,739.8	352.81	10.3	3,584.2	347.98	10.7	3,673.9	341.94	10.8	3,593.4	332.29
Veteran	12.2	1,511.1	124.18	11.4	1,407.1	123.37	10.3	1,286.4	124.73	10.0	1,221.9	122.26
Blind	1.8	219.7	123.56	1.6	202.9	123.93	1.5	185.4	120.50	1.3	159.5	118.55
Disabled <sup>(2)</sup>	39.3	19,288.0	490.34	44.1	23,115.3	523.91	49.5	27,271.5	551.32	53.0	30,141.4	568.85
Farmland	7.4	19,051.1	2,587.42	9.5	30,264.3	3,170.69	9.2	31,572.0	3,416.89	8.6	28,227.2	3,273.09
Total Property Tax Credits	1,168.0	\$516,613.4	\$442.31	1,263.5	\$607,934.6	\$481.15	1,379.3	\$714,154.2	\$517.78	1,414.8	\$747,497.1	\$528.34
Home Heating Credit	317.5	\$59,157.2	\$186.34	315.2	\$61,606.6	\$195.44	335.9	\$68,865.5	\$205.03	356.8	\$62,360.7	\$174.80
Prescription Drug Credit	29.1	\$14,804.3	\$509.05	27.4	\$14,052.6	\$511.97	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Adoption Credit	n.a.	n.a.	n.a.	1.0	1,195.6	1,182.3	1.1	\$1,366.1	\$1,266.07	1.3	\$1,190.2	\$932.79
City Income Tax Credit	1,035.7	\$38,576.7	\$37.25	996.4	\$36,951.5	\$37.08	929.8	\$34,387.1	\$36.98	922.3	\$34,120.2	\$36.99
Public Contribution Credit	284.3	\$24,559.2	\$86.38	285.7	\$24,721.3	\$86.53	279.4	\$24,477.0	\$87.60	289.1	\$25,050.7	\$86.65
Credit for Income Tax Paid to												
Another State	43.8	\$31,779.2	\$725.57	42.2	\$31,309.2	\$742.47	40.5	\$30,782.1	\$760.54	43.3	\$32,850.1	\$757.98
Community Foundation Credit	27.0	\$2,542.1	\$94.20	26.9	\$2,546.8	\$94.58	27.7	\$2,646.4	\$95.69	38.8	\$2,935.1	\$75.67
Homeless/Food Bank Credit	180.4	\$13,746.9	\$76.22	192.8	\$14,815.1	\$76.84	198.3	\$15,422.0	\$77.78	214.0	\$16,089.2	\$75.18
College Tuition Credit	60.4	\$5,640.8	\$93.38	74.6	\$8,111.2	\$108.76	51.5	\$5,143.6	\$99.91	26.4	\$2,990.5	\$113.44
Historic Preservation Credit <sup>(3)</sup>	0.1	\$183.3	\$1,851.51	0.1	\$279.3	\$2,428.66	0.2	\$814.3	\$4,995.47	0.7	\$514.7	\$698.34

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

<sup>(2)</sup>This category includes credits for paraplegic, quadriplegic and totally disabled persons for years before 2000, and for blind/deaf, paraplegic, quadriplegic and totally disabled persons for years 2000 and after.

<sup>(3)</sup>Figures based on Tax Analysis Individual Income Tax simulation model and income tax samples for each tax year.

**Exhibit 27**  
**Distribution of Credits**  
**Individual Income Tax, 2003<sup>(1)</sup>**

Adjusted Gross Income Group	Number of MI-1040s Filed	% of Total MI-1040s Filed <sup>(2)</sup>	General Property Tax Credit <sup>(2)</sup>			City Income Tax Credit			College Contribution Credit		
			Number Claiming Credit	% of Property Tax Credits Filed	\$ Amount of Credit	Number Claiming Credit	AGI Group % of MI-1040s Filed	\$ Amount of Credit	Number Claiming Credit	AGI Group % of MI-1040s Filed	\$ Amount of Credit
Less than \$1	49,637	1.1%	14,630	1.6%	\$11,433,985	1,763	0.2%	\$42,359	962	0.3%	\$77,279
\$ 1 - 2,000	166,792	3.8%	17,694	1.9%	8,384,301	10,486	1.1%	55,513	1,218	0.4%	42,445
2,001 - 4,000	186,522	4.3%	23,483	2.6%	9,819,284	24,632	2.7%	193,932	2,171	0.8%	81,253
4,001 - 6,000	177,753	4.1%	30,110	3.3%	12,508,795	27,313	3.0%	303,563	2,673	0.9%	116,808
6,001 - 8,000	170,133	3.9%	37,861	4.2%	16,209,567	28,005	3.0%	382,574	2,889	1.0%	141,871
8,001 - 10,000	156,968	3.6%	38,751	4.3%	16,851,799	26,719	2.9%	435,016	2,917	1.0%	149,940
10,001 - 12,000	155,127	3.6%	42,937	4.7%	18,809,780	26,830	2.9%	491,681	3,345	1.2%	180,634
12,001 - 14,000	145,616	3.3%	40,984	4.5%	17,624,789	26,571	2.9%	553,745	3,387	1.2%	200,729
14,001 - 16,000	140,413	3.2%	40,993	4.5%	17,207,682	26,261	2.8%	590,047	3,643	1.3%	215,950
16,001 - 18,000	133,423	3.1%	40,095	4.4%	16,357,711	26,140	2.8%	645,609	3,803	1.3%	234,247
18,001 - 20,000	126,656	2.9%	40,189	4.4%	16,156,765	26,476	2.9%	722,693	3,811	1.3%	238,006
20,001 - 22,000	120,011	2.7%	38,986	4.3%	15,592,477	26,195	2.8%	744,870	3,893	1.3%	247,484
22,001 - 24,000	113,650	2.6%	37,774	4.1%	14,912,381	26,155	2.8%	791,601	3,947	1.4%	257,841
24,001 - 26,000	108,384	2.5%	35,643	3.9%	14,032,250	25,502	2.8%	825,235	3,998	1.4%	265,121
26,001 - 28,000	104,119	2.4%	33,982	3.7%	13,326,439	24,153	2.6%	804,203	4,197	1.5%	277,706
28,001 - 30,000	100,902	2.3%	31,767	3.5%	12,628,662	23,075	2.5%	785,396	4,278	1.5%	286,347
30,001 - 35,000	227,768	5.2%	69,406	7.6%	27,953,567	51,228	5.6%	1,821,040	11,103	3.8%	759,758
35,001 - 40,000	200,521	4.6%	57,388	6.3%	23,878,631	46,282	5.0%	1,726,377	11,131	3.9%	791,844
40,001 - 45,000	181,408	4.2%	48,499	5.3%	21,031,339	43,463	4.7%	1,717,126	11,616	4.0%	843,837
45,001 - 50,000	162,815	3.7%	39,783	4.4%	17,833,242	38,994	4.2%	1,591,797	11,566	4.0%	862,681
50,001 - 55,000	150,826	3.5%	33,727	3.7%	15,711,737	36,462	4.0%	1,515,319	11,801	4.1%	892,920
55,001 - 60,000	141,427	3.2%	29,190	3.2%	13,965,793	35,276	3.8%	1,532,257	11,853	4.1%	924,812
60,001 - 65,000	129,721	3.0%	24,749	2.7%	12,206,397	33,189	3.6%	1,477,662	11,575	4.0%	928,022
65,001 - 70,000	119,054	2.7%	21,249	2.3%	10,677,169	30,535	3.3%	1,380,259	11,558	4.0%	951,479
70,001 - 75,000	107,320	2.5%	17,954	2.0%	9,075,267	27,445	3.0%	1,265,444	11,146	3.9%	952,937
75,001 - 80,000	95,441	2.2%	14,686	1.6%	5,084,370	24,821	2.7%	1,147,987	10,643	3.7%	944,105
80,001 - 85,000	84,264	1.9%	7,737	0.8%	1,245,630	22,212	2.4%	1,057,811	10,186	3.5%	908,241
85,001 - 90,000	74,561	1.7%	382	0.0%	115,380	19,887	2.2%	965,483	9,573	3.3%	845,506
90,001 - 95,000	65,347	1.5%	117	0.0%	54,686	17,407	1.9%	861,272	8,876	3.1%	820,970
95,001 - 100,000	55,310	1.3%	75	0.0%	43,150	15,055	1.6%	756,656	7,979	2.8%	747,776
Over \$100,000	<u>415,762</u>	9.5%	<u>368</u>	0.0%	<u>228,372</u>	<u>103,714</u>	11.2%	<u>6,934,017</u>	<u>87,312</u>	30.2%	<u>9,857,680</u>
Totals	4,367,651	100.0%	911,189	100.0%	\$390,961,397	922,246	100.0%	\$34,118,543	289,050	100.0%	\$25,046,229

<sup>(1)</sup> Values in this table are based on 4,367,651 MI-1040 tax returns on file.

<sup>(2)</sup> 17,503 general property tax credits totaling \$6,239,484 were claimed on MI-1040CR returns that were filed without an MI-1040.

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 28**  
**Distribution of Property Tax Credits Claimed**  
**Individual Income Tax, 2003 <sup>(1)</sup>**

Adjusted Gross Income Group	General			Senior Citizens <sup>(2)</sup>			Veterans			Disabled <sup>(3)</sup>		
	Number of Credits	% of Total Credits	\$ Amount of Credit	Number of Credits	% of Total Credits	\$ Amount of Credit	Number of Credits	% of Total Credits	\$ Amount of Credit	Number of Credits	% of Total Credits	\$ Amount of Credit
	Allowed	Allowed	of Credit	Allowed	Allowed	of Credit	Allowed	Allowed	of Credit	Allowed	Allowed	of Credit
Zero Income <sup>(4)</sup>	26,483	2.9%	\$16,083,169	78,978	19.1%	\$51,995,281	1,296	13.0%	\$182,807	22,869	42.1%	\$ 12,213,007
\$ 1 - 2,000	17,913	1.9%	8,437,081	26,616	6.4%	20,299,829	245	2.5%	36,084	6,047	11.1%	3,629,103
2,001 - 4,000	23,728	2.6%	9,870,037	20,906	5.1%	15,849,464	166	1.7%	22,884	2,269	4.2%	1,359,737
4,001 - 6,000	30,375	3.3%	12,571,622	23,031	5.6%	16,917,241	218	2.2%	29,263	2,184	4.0%	1,236,589
6,001 - 8,000	38,135	4.1%	16,272,967	25,956	6.3%	18,905,369	226	2.3%	28,690	2,225	4.1%	1,324,778
8,001 - 10,000	39,016	4.2%	16,916,433	26,185	6.3%	18,593,580	246	2.5%	32,796	2,003	3.7%	1,165,414
10,001 - 12,000	43,192	4.7%	18,876,701	25,732	6.2%	18,063,750	320	3.2%	41,625	1,844	3.4%	1,098,117
12,001 - 14,000	41,248	4.4%	17,694,525	23,776	5.8%	16,540,334	337	3.4%	43,617	1,582	2.9%	935,001
14,001 - 16,000	41,230	4.4%	17,264,586	21,248	5.1%	14,594,830	360	3.6%	45,492	1,401	2.6%	810,430
16,001 - 18,000	40,353	4.3%	16,421,852	18,495	4.5%	12,711,525	329	3.3%	39,737	1,141	2.1%	607,987
18,001 - 20,000	40,429	4.4%	16,217,669	14,789	3.6%	10,214,345	309	3.1%	35,127	1,053	1.9%	578,037
20,001 - 22,000	39,236	4.2%	15,655,857	11,995	2.9%	8,270,843	265	2.7%	33,372	935	1.7%	511,376
22,001 - 24,000	38,010	4.1%	14,975,122	9,758	2.4%	6,715,820	250	2.5%	31,427	838	1.5%	452,642
24,001 - 26,000	35,846	3.9%	14,085,268	8,361	2.0%	5,840,841	252	2.5%	33,076	716	1.3%	375,401
26,001 - 28,000	34,175	3.7%	13,379,149	7,534	1.8%	5,227,902	238	2.4%	30,266	691	1.3%	372,097
28,001 - 30,000	31,925	3.4%	12,672,773	6,884	1.7%	4,796,570	237	2.4%	28,419	592	1.1%	317,250
30,001 - 35,000	69,744	7.5%	28,047,093	13,898	3.4%	9,815,313	546	5.5%	66,197	1,121	2.1%	622,352
35,001 - 40,000	57,671	6.2%	23,967,884	10,469	2.5%	7,512,815	534	5.3%	61,627	987	1.8%	538,657
40,001 - 45,000	48,719	5.2%	21,098,224	8,183	2.0%	5,960,368	559	5.6%	66,791	801	1.5%	454,673
45,001 - 50,000	39,991	4.3%	17,904,759	6,915	1.7%	5,038,968	513	5.1%	61,074	567	1.0%	322,052
50,001 - 55,000	33,901	3.7%	15,767,910	5,769	1.4%	4,320,658	519	5.2%	58,441	567	1.0%	330,829
55,001 - 60,000	29,358	3.2%	14,022,697	4,786	1.2%	3,679,164	508	5.1%	60,365	516	0.9%	300,814
60,001 - 65,000	24,899	2.7%	12,257,841	3,961	1.0%	3,061,861	429	4.3%	49,429	435	0.8%	257,640
65,001 - 70,000	21,384	2.3%	10,727,937	3,348	0.8%	2,555,918	378	3.8%	43,629	327	0.6%	201,974
70,001 - 75,000	18,050	1.9%	9,111,143	2,739	0.7%	1,853,969	343	3.4%	35,142	293	0.5%	161,734
75,001 - 80,000	14,751	1.6%	5,107,314	2,059	0.5%	888,033	255	2.6%	17,636	196	0.4%	73,489
80,001 - 85,000	7,798	0.8%	1,269,006	563	0.1%	174,240	88	0.9%	3,831	78	0.1%	18,180
85,001 - 90,000	421	0.0%	129,810	82	0.0%	44,898	5	0.1%	381	7	0.0%	3,289
90,001 - 95,000	142	0.0%	63,654	34	0.0%	22,107	6	0.1%	677	7	0.0%	5,228
95,001 - 100,000	92	0.0%	49,349	17	0.0%	12,620	3	0.0%	337	5	0.0%	2,473
Over 100,000	477	0.1%	281,449	81	0.0%	67,871	14	0.1%	1,616	35	0.1%	20,523
Totals	928,692	100.0%	\$397,200,881	413,148	100.0%	\$290,546,327	9,994	100.0%	\$1,221,855	54,332	100.0%	\$30,300,873

<sup>(1)</sup>Values in this table are based on a sample of the 4,575,835 MI-1040 and MI-1040CR returns.

<sup>(2)</sup>Includes Senior Citizen Low Income Rent Credits.

<sup>(3)</sup>Includes blind, blind/deaf, paraplegic, quadriplegic, and totally disabled.

<sup>(4)</sup>Represents those individuals who had no taxable income, but did receive a property tax credit.

**Exhibit 29**  
**Distribution of Senior Citizen Property Tax Credits by Household Income**  
**Individual Income Tax, 2003**

<u>Household Income</u>	<u>Number of Returns</u>	<u>Property Tax Paid</u>	<u>Property Tax Credit</u>	<u>Property Tax Paid After Credit</u>
\$1,000 and below	2,369	\$6,213,996	\$2,385,794	\$3,828,202
1,001 - 2,000	852	1,407,435	809,247	598,188
2,001 - 3,000	977	1,521,643	890,747	630,896
3,001 - 4,000	1,211	1,593,342	977,887	615,455
4,001 - 5,000	2,097	2,380,644	1,641,953	738,691
5,001 - 6,000	3,407	3,601,264	2,482,317	1,118,947
6,001 - 7,000	9,126	8,150,641	6,163,347	1,987,294
7,001 - 8,000	8,700	8,492,341	5,567,682	2,924,659
8,001 - 9,000	9,291	9,854,499	6,141,671	3,712,828
9,001 - 10,000	10,696	11,780,718	7,210,891	4,569,827
10,001 - 11,000	11,816	13,715,625	8,071,249	5,644,376
11,001 - 12,000	11,481	14,109,370	8,099,186	6,010,184
12,001 - 13,000	11,535	14,875,476	8,256,832	6,618,644
13,001 - 14,000	11,497	15,935,154	8,356,479	7,578,675
14,001 - 15,000	11,779	16,505,919	8,498,785	8,007,134
15,001 - 16,000	12,245	17,700,780	8,831,808	8,868,972
16,001 - 17,000	12,212	17,599,492	8,713,095	8,886,397
17,001 - 18,000	12,444	18,509,386	8,904,531	9,604,855
18,001 - 19,000	12,272	18,604,749	8,802,816	9,801,933
19,001 - 20,000	12,218	19,415,143	8,717,521	10,697,622
20,001 - 21,000	11,874	18,827,309	8,347,572	10,479,737
21,001 - 22,000	11,652	19,112,939	8,241,603	10,871,336
22,001 - 23,000	11,265	18,994,857	7,921,387	11,073,470
23,001 - 24,000	10,801	18,532,932	7,598,904	10,934,028
24,001 - 25,000	10,363	17,997,335	7,281,329	10,716,006
25,001 - 26,000	10,079	18,024,630	7,067,891	10,956,739
26,001 - 27,000	9,754	17,687,163	6,876,237	10,810,926
27,001 - 28,000	9,399	17,839,191	6,604,580	11,234,611
28,001 - 29,000	9,003	17,039,365	6,268,052	10,771,313
29,001 - 30,000	8,541	16,539,891	5,894,478	10,645,413
30,001 - 35,000	37,791	77,521,584	25,969,786	51,551,798
35,001 - 40,000	29,284	66,915,602	20,067,927	46,847,675
40,001 - 45,000	21,822	54,321,426	15,096,563	39,224,863
45,001 - 50,000	15,940	43,385,980	11,230,928	32,155,052
50,001 - 60,000	19,662	60,543,959	14,346,608	46,197,351
60,001 - 70,000	10,489	37,268,817	8,088,271	29,180,546
70,001 - 80,000	6,075	24,227,598	3,895,531	20,332,067
Over 80,000	<u>1,129</u>	<u>4,697,711</u>	<u>224,842</u>	<u>4,472,869</u>
Totals	413,148	\$771,445,905	\$290,546,327	\$480,899,578

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 30**  
**Distribution of General Property Tax Credits by Household Income**  
**Individual Income Tax, 2003**

<u>Household Income</u>	<u>Number of Returns</u>	<u>Property Tax Paid</u>	<u>Property Tax Credit</u>	<u>Property Tax Paid After Credit</u>
\$1,000 and below	19,234	\$33,406,705	\$13,183,076	\$20,223,629
1,001 - 2,000	5,270	6,163,826	2,895,868	3,267,958
2,001 - 3,000	6,922	7,436,155	3,351,110	4,085,045
3,001 - 4,000	9,016	8,815,550	4,018,474	4,797,076
4,001 - 5,000	11,490	11,224,480	4,922,169	6,302,311
5,001 - 6,000	13,975	14,106,836	5,769,393	8,337,443
6,001 - 7,000	19,578	18,905,323	7,907,775	10,997,548
7,001 - 8,000	20,080	20,675,715	8,481,663	12,194,052
8,001 - 9,000	19,735	21,116,089	8,395,184	12,720,905
9,001 - 10,000	20,938	23,262,052	9,040,932	14,221,120
10,001 - 11,000	22,703	26,146,606	9,904,477	16,242,129
11,001 - 12,000	22,134	26,056,629	9,558,851	16,497,778
12,001 - 13,000	22,046	26,562,415	9,424,372	17,138,043
13,001 - 14,000	22,325	27,420,641	9,508,612	17,912,029
14,001 - 15,000	22,055	27,994,195	9,328,363	18,665,832
15,001 - 16,000	22,049	28,236,667	9,212,077	19,024,590
16,001 - 17,000	21,610	27,971,692	8,823,143	19,148,549
17,001 - 18,000	21,564	29,149,265	8,840,444	20,308,821
18,001 - 19,000	21,781	29,597,315	8,860,612	20,736,703
19,001 - 20,000	21,272	29,834,880	8,558,498	21,276,382
20,001 - 21,000	20,966	29,840,207	8,445,193	21,395,014
21,001 - 22,000	20,801	30,349,203	8,310,948	22,038,255
22,001 - 23,000	20,400	30,290,120	8,050,608	22,239,512
23,001 - 24,000	19,647	29,927,586	7,703,981	22,223,605
24,001 - 25,000	19,244	29,946,379	7,543,479	22,402,900
25,001 - 26,000	18,604	29,662,448	7,335,737	22,326,711
26,001 - 27,000	18,207	29,595,679	7,146,800	22,448,879
27,001 - 28,000	17,646	29,584,960	6,999,599	22,585,361
28,001 - 29,000	16,947	29,160,163	6,771,404	22,388,759
29,001 - 30,000	16,608	28,766,842	6,538,231	22,228,611
30,001 - 35,000	73,349	137,717,047	29,489,675	108,227,372
35,001 - 40,000	60,278	126,616,267	25,131,180	101,485,087
40,001 - 45,000	50,166	115,727,580	21,723,448	94,004,132
45,001 - 50,000	40,919	104,218,132	18,366,105	85,852,027
50,001 - 60,000	64,132	182,134,663	30,291,021	151,843,642
60,001 - 70,000	46,135	151,629,709	23,176,007	128,453,702
70,001 - 80,000	32,534	121,152,788	13,507,316	107,645,472
Over 80,000	<u>6,332</u>	<u>25,908,670</u>	<u>685,056</u>	<u>25,223,614</u>
Totals	928,692	\$1,706,311,480	\$397,200,881	\$1,309,110,599

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 31**  
**Distribution of Home Heating Credits by Household Income**  
**Individual Income Tax, 2003**

<u>Household Income</u>	<u>Senior Citizens</u>		<u>General</u>		<u>Disabled<sup>(1)</sup></u>		<u>Veterans</u>	
	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>
\$ 1,000 and below	1,204	\$558,072	13,171	\$5,112,496	383	\$139,741	6	\$1,648
1,001 - 2,000	411	129,171	5,234	1,574,312	160	45,992	11	3,798
2,001 - 3,000	445	169,589	6,540	1,869,903	153	48,652	7	1,501
3,001 - 4,000	755	247,598	8,575	2,271,823	247	72,143	3	680
4,001 - 5,000	1,528	429,450	11,080	2,699,279	441	112,750	7	1,354
5,001 - 6,000	2,677	687,937	13,898	3,134,485	993	220,941	12	2,162
6,001 - 7,000	8,098	1,671,811	27,973	5,371,770	8,551	1,442,062	46	9,511
7,001 - 8,000	7,401	1,403,248	22,478	4,030,500	2,917	496,030	36	5,857
8,001 - 9,000	7,641	1,262,153	20,517	3,352,950	2,175	352,308	30	5,270
9,001 - 10,000	8,677	1,204,670	20,107	3,051,237	2,161	326,810	60	8,104
10,001 - 11,000	9,023	1,055,856	17,809	3,018,505	2,148	323,839	31	3,357
11,001 - 12,000	7,996	701,695	15,572	2,328,742	1,666	232,372	35	4,030
12,001 - 13,000	7,026	479,072	13,868	1,843,953	1,344	166,335	31	3,486
13,001 - 14,000	3,254	302,752	10,556	1,470,854	914	144,097	34	3,600
14,001 - 15,000	1,859	252,191	8,803	1,188,650	593	102,843	22	3,236
15,001 - 16,000	1,820	211,892	8,202	930,374	535	84,298	27	4,296
16,001 - 17,000	1,673	165,764	6,921	729,062	468	69,994	22	3,481
17,001 - 18,000	1,368	121,504	4,139	556,464	289	52,086	19	1,684
18,001 - 19,000	1,350	86,530	4,031	453,968	296	49,363	20	1,579
19,001 - 20,000	1,252	45,297	3,638	328,968	227	30,955	19	1,013
Over 20,000	983	93,012	9,249	1,059,890	791	117,465	20	2,573
Totals	76,441	\$11,279,264	252,361	\$46,378,185	27,452	\$4,631,076	498	\$72,220
Average Credit		\$147.56		\$183.78		\$168.70		\$145.02

<sup>(1)</sup>Includes blind, blind/deaf, paraplegic, quadriplegic, and totally disabled persons.

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 32**  
**2003 Income Tax Collections by County**

<u>County</u>	<u>Property Tax Credits</u>	<u>Home Heating Credits</u>	<u>Tax After Credits</u>	<u>Percent of Total Tax</u>
ALCONA	\$405,223	\$128,027	\$2,433,621	0.0%
ALGER	274,443	84,748	2,818,751	0.1%
ALLEGAN	5,673,992	524,042	44,556,946	0.9%
ALPENA	1,423,589	336,546	10,834,149	0.2%
ANTRIM	1,440,396	191,030	8,577,147	0.2%
ARENAC	974,686	220,334	3,912,158	0.1%
BARAGA	199,980	68,374	2,042,507	0.0%
BARRY	2,383,580	230,703	24,105,780	0.5%
BAY	7,492,817	805,615	45,582,233	0.9%
BENZIE	759,835	124,238	5,487,146	0.1%
BERRIEN	8,310,570	1,342,848	73,193,159	1.4%
BRANCH	2,554,200	317,144	14,963,321	0.3%
CALHOUN	9,035,082	1,040,891	55,345,457	1.1%
CASS	2,292,514	302,833	15,578,511	0.3%
CHARLEVOIX	1,619,499	204,445	13,226,313	0.3%
CHEBOYGAN	927,791	263,690	7,726,480	0.1%
CHIPPEWA	1,340,116	307,137	9,481,761	0.2%
CLARE	989,871	444,533	9,055,939	0.2%
CLINTON	3,850,957	219,431	29,694,963	0.6%
CRAWFORD	324,028	119,008	3,500,399	0.1%
DELTA	1,486,990	384,779	15,092,701	0.3%
DICKINSON	1,261,677	203,030	11,414,767	0.2%
EATON	8,253,108	427,142	58,037,008	1.1%
EMMET	2,027,020	229,146	17,936,497	0.3%
GENESEE	22,168,533	3,170,417	212,000,729	4.1%
GLADWIN	1,117,604	298,874	7,555,624	0.1%
GOGEBIC	426,172	189,249	4,669,907	0.1%
GRAND TRAVERSE	6,191,196	389,727	46,179,986	0.9%
GRATIOT	2,738,898	365,528	14,332,053	0.3%
HILLSDALE	2,435,993	433,491	17,247,723	0.3%
HOUGHTON	838,357	317,018	10,784,791	0.2%
HURON	7,062,524	441,528	7,180,021	0.1%
INGHAM	23,236,499	1,526,889	132,216,728	2.5%
IONIA	2,964,750	338,342	25,659,046	0.5%
IOSCO	1,013,163	316,292	7,044,466	0.1%
IRON	360,682	157,247	3,352,732	0.1%
ISABELLA	3,581,303	388,656	36,032,719	0.7%
JACKSON	7,345,234	948,127	70,702,794	1.4%
KALAMAZOO	15,211,384	1,177,704	125,916,875	2.4%
KALKASKA	563,963	166,657	5,421,799	0.1%
KENT	33,761,916	2,713,283	332,506,423	6.4%
KEWEENAW	45,789	24,199	714,077	0.0%
LAKE	353,232	196,234	1,710,555	0.0%
LAPEER	3,889,530	387,579	46,206,298	0.9%



**Exhibit 32 (cont.)**

<u>County</u>	<u>Property Tax Credits</u>	<u>Home Heating Credits</u>	<u>Tax After Credits</u>	<u>Percent of Total Tax</u>
LEELANAU	\$1,224,368	\$83,932	\$8,352,079	0.2%
LENAWEE	7,475,157	478,341	43,558,169	0.8%
LIVINGSTON	7,569,442	260,393	89,949,299	1.7%
LUCE	94,272	65,797	1,829,221	0.0%
MACKINAC	531,553	112,635	3,291,825	0.1%
MACOMB	83,475,073	3,090,675	450,543,006	8.6%
MANISTEE	1,165,230	219,750	8,174,355	0.2%
MARQUETTE	1,770,765	404,940	25,686,849	0.5%
MASON	1,632,889	279,987	9,733,301	0.2%
MECOSTA	1,478,110	325,395	12,136,045	0.2%
MENOMINEE	755,209	253,463	8,916,809	0.2%
MIDLAND	3,937,541	412,915	50,653,330	1.0%
MISSAUKEE	861,158	148,544	3,242,976	0.1%
MONROE	7,706,370	534,704	74,821,887	1.4%
MONTCALM	3,154,294	577,402	22,993,059	0.4%
MONTMORENCY	290,530	129,013	2,520,327	0.0%
MUSKEGON	9,005,248	1,363,833	62,803,093	1.2%
NEWAYGO	2,215,630	388,698	14,109,401	0.3%
OAKLAND	113,916,887	3,301,530	1,034,858,158	19.8%
OCEANA	1,417,189	279,920	8,175,849	0.2%
OGEMAW	914,790	292,833	5,987,907	0.1%
ONTONAGON	159,659	81,463	2,355,145	0.0%
OSCEOLA	999,657	314,916	7,840,233	0.1%
OSCODA	170,074	96,958	1,697,822	0.0%
OTSEGO	717,255	142,708	9,207,004	0.2%
OTTAWA	14,420,487	744,511	148,643,178	2.8%
PRESQUE ISLE	562,676	203,687	4,176,334	0.1%
ROSCOMMON	1,106,931	323,461	6,684,541	0.1%
SAGINAW	10,969,851	1,774,463	86,217,471	1.6%
ST. CLAIR	11,200,739	971,347	84,134,274	1.6%
ST. JOSEPH	2,945,859	378,026	23,083,450	0.4%
SANILAC	4,043,303	526,597	13,428,959	0.3%
SCHOOLCRAFT	182,522	118,148	2,675,234	0.1%
SHIAWASSEE	4,314,261	464,714	34,384,262	0.7%
TUSCOLA	5,658,776	490,767	20,145,607	0.4%
VAN BUREN	4,957,464	637,694	33,053,049	0.6%
WASHTENAW	30,220,083	943,670	226,812,122	4.3%
WAYNE (excludes Detroit)	107,318,843	4,140,390	529,632,509	10.1%
WEXFORD	1,658,686	318,379	11,527,147	0.2%
OUTSIDE OF MICHIGAN	14,944,349	1,230,263	192,355,008	3.7%
DETROIT	79,745,222	12,987,128	261,546,051	5.0%
	<b>\$747,497,088</b>	<b>\$62,360,745</b>	<b>\$5,233,969,405</b>	<b>100.0%</b>

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

## Exhibit 33 2003 Income Tax Data by County

County	2003	2003	Income Tax		Average		Average		Credits as a		Ratio of Property		Average	
	AGI	Average	Before	Rank	Income Tax	Rank	Income Tax	Rank	Before Credits	Rank	to 1040s Filed	Rank	Credit <sup>(1)</sup>	Rank
	(Millions)	AGI	Credits		Before Credits		After Credits		Before Credits					
ALCONA	\$144.0	\$30,762	\$3,000,207	76	\$641	82	\$520	81	18.9%	10	23.0%	63	\$376	59
ALGER	125.8	33,893	3,233,550	74	871	58	759	55	12.8%	53	21.8%	70	339	69
ALLEGAN	1,677.0	41,171	51,055,088	23	1,253	22	1,094	21	12.7%	54	27.5%	36	507	20
ALPENA	470.3	34,538	12,754,018	48	937	51	796	50	15.1%	36	28.7%	26	365	61
ANTRIM	406.7	39,631	10,352,094	53	1,009	42	836	45	17.1%	18	27.5%	34	510	17
ARENAC	201.9	31,102	5,147,929	68	793	72	603	76	24.0%	4	29.3%	23	512	16
BARAGA	93.1	32,197	2,330,078	79	806	70	706	66	12.3%	63	19.9%	77	347	66
BARRY	897.5	43,924	26,968,956	31	1,320	15	1,180	12	10.6%	74	24.5%	53	476	31
BAY	1,897.7	38,459	54,288,217	20	1,100	32	924	35	16.0%	28	31.8%	10	477	30
BENZIE	250.4	35,457	6,432,340	65	911	54	777	52	14.7%	37	25.0%	49	430	46
BERRIEN	2,855.7	40,619	84,103,639	14	1,196	26	1,041	24	13.0%	51	28.4%	29	417	49
BRANCH	632.2	35,389	17,973,518	38	1,006	43	838	44	16.7%	23	26.9%	40	532	15
CALHOUN	2,308.4	39,809	66,712,066	18	1,150	29	954	32	17.0%	19	33.2%	8	469	36
CASS	676.6	38,979	18,843,449	37	1,086	33	897	37	17.3%	17	23.3%	61	566	12
CHARLEVOIX	532.5	42,985	15,196,271	43	1,227	25	1,068	23	13.0%	52	28.5%	27	459	37
CHEBOYGAN	351.3	32,466	8,989,270	61	831	64	714	64	14.0%	46	23.5%	59	365	60
CHIPPEWA	488.4	33,005	11,603,780	51	784	73	641	70	18.3%	12	32.7%	9	277	81
CLARE	419.0	31,671	10,567,708	52	799	71	685	69	14.3%	42	22.2%	68	338	70
CLINTON	1,130.2	47,550	34,024,201	28	1,431	10	1,249	9	12.7%	56	28.3%	30	572	11
CRAWFORD	158.5	32,972	3,999,469	72	832	63	728	62	12.5%	61	21.8%	71	310	75
DELTA	619.2	36,109	17,075,784	41	996	45	880	40	11.6%	68	24.0%	57	361	62
DICKINSON	461.1	38,086	12,986,372	47	1,073	35	943	34	12.1%	65	25.9%	46	402	53
EATON	2,262.8	43,885	67,701,235	17	1,313	16	1,126	16	14.3%	43	31.5%	12	508	18
EMMET	703.3	45,395	20,551,273	35	1,327	14	1,158	14	12.7%	57	28.7%	25	456	39
GENESEE	8,274.0	43,475	240,884,884	6	1,266	21	1,114	18	12.0%	66	28.7%	24	406	51
GLADWIN	369.9	33,771	9,037,914	60	825	65	690	68	16.4%	26	26.3%	45	388	56
GOGEBIC	207.1	31,564	5,344,877	67	815	68	712	65	12.6%	58	22.5%	65	289	79
GRAND TRAVERSE	1,778.7	43,426	53,261,889	21	1,300	18	1,127	15	13.3%	50	31.4%	14	482	28
GRATIOT	611.3	35,428	17,271,463	40	1,001	44	831	46	17.0%	20	24.2%	55	655	4
HILLSDALE	706.9	35,532	20,439,438	36	1,027	40	867	41	15.6%	30	24.1%	56	508	19
HOUGHTON	451.8	32,457	12,129,229	49	871	57	775	53	11.1%	70	18.1%	80	334	71
HURON	539.6	32,425	14,050,566	45	844	61	431	83	48.9%	1	39.0%	2	1,088	1
INGHAM	5,337.5	44,234	160,460,285	8	1,330	13	1,096	20	17.6%	14	38.0%	4	506	21
IONIA	993.3	38,998	29,258,039	29	1,149	30	1,007	27	12.3%	64	23.5%	60	496	24
IOSCO	376.2	30,911	8,433,317	62	693	79	579	77	16.5%	24	24.5%	52	340	68
IRON	158.6	29,430	3,897,584	73	723	77	622	73	14.0%	47	22.0%	69	304	76
ISABELLA	1,408.4	47,182	40,418,103	25	1,354	12	1,207	11	10.9%	73	24.7%	51	485	26
JACKSON	2,690.7	41,357	80,214,164	15	1,233	24	1,087	22	11.9%	67	26.5%	44	427	47
KALAMAZOO	4,676.7	46,889	143,874,503	9	1,442	9	1,262	8	12.5%	60	34.0%	7	449	40
KALKASKA	234.6	32,075	6,191,032	66	846	60	741	57	12.4%	62	21.6%	73	357	64
KENT	11,945.3	47,512	376,084,529	4	1,496	6	1,323	6	11.6%	69	30.6%	16	439	44
KEWEENAW	30.7	35,531	793,205	83	917	53	826	47	10.0%	78	14.0%	83	378	58
LAKE	97.5	27,921	2,291,856	80	657	80	490	82	25.4%	2	30.6%	17	331	73
LAPEER	1,685.7	46,793	51,041,584	24	1,417	11	1,283	7	9.5%	80	22.8%	64	473	34

Exhibit 33 (cont.)

County	2003	2003	Income Tax		Average		Average		Credits as a		Ratio of Property		Average	
	AGI	AGI	Before	Rank	Income Tax	Rank	Income Tax	Rank	% of Tax	Rank	Tax Credits	Rank	Property Tax	Rank
	(Millions)		Credits		Before Credits		After Credits		Before Credits		to 1040s Filed		Credit <sup>(1)</sup>	
LEELANAU	\$362.2	\$47,749	\$9,780,716	57	\$1,289	19	\$1,101	19	14.6%	39	27.2%	38	\$594	8
LENAWEE	1,783.1	42,107	52,970,957	22	1,251	23	1,029	25	17.8%	13	29.7%	20	594	9
LIVINGSTON	3,074.5	60,596	98,684,232	11	1,945	2	1,773	2	8.9%	83	26.9%	41	556	13
LUCE	82.1	32,854	2,039,037	81	815.61	66	732	59	10.3%	77	16.1%	82	235	83
MACKINAC	172.1	32,442	4,099,475	71	773	74	621	74	19.7%	8	30.2%	19	331	72
MACOMB	17,621.4	47,580	542,898,283	3	1,466	7	1,217	10	17.0%	21	38.3%	3	588	10
MANISTEE	368.6	34,448	9,632,622	58	900	55	764	54	15.1%	32	26.9%	39	405	52
MARQUETTE	1,014.5	37,802	28,232,415	30	1,052	37	957	31	9.0%	82	21.0%	74	315	74
MASON	428.3	34,385	11,726,730	50	941	50	781	51	17.0%	22	29.4%	22	447	41
MECOSTA	534.3	36,199	14,213,714	44	963	47	822	48	14.6%	38	23.2%	62	432	45
MENOMINEE	361.5	34,671	10,012,953	55	960	48	855	42	10.9%	71	20.4%	75	355	65
MIDLAND	1,852.4	52,920	55,696,604	19	1,591	4	1,447	4	9.1%	81	25.3%	48	445	42
MISSAUKEE	161.3	30,678	4,237,795	70	806	69	617	75	23.5%	5	27.4%	37	598	7
MONROE	3,048.4	48,037	92,905,214	13	1,464	8	1,179	13	19.5%	9	24.4%	54	497	22
MONTCALM	924.7	35,436	26,850,545	33	1,029	39	881	39	14.4%	41	25.7%	47	471	35
MONTMORENCY	141.6	29,626	2,967,549	77	621	83	527	80	15.1%	35	20.4%	76	298	77
MUSKEGON	2,549.7	36,993	74,506,470	16	1,081	34	911	36	15.7%	29	31.7%	11	413	50
NEWAYGO	598.0	36,035	16,890,523	42	1,018	41	850	43	16.5%	25	28.1%	31	475	32
OAKLAND	35,537.5	69,397	1,161,615,630	1	2,268	1	2,021	1	10.9%	72	34.2%	6	651	5
OCEANA	370.0	33,058	9,915,455	56	886	56	730	61	17.5%	15	26.5%	42	477	29
OGEMAW	291.0	30,775	7,261,413	64	768	75	633	72	17.5%	16	24.9%	50	388	55
ONTONAGON	101.1	31,360	2,627,000	78	815	67	731	60	10.3%	76	16.8%	81	294	78
OSCEOLA	346.9	32,166	9,237,611	59	857	59	727	63	15.1%	34	22.2%	67	417	48
OSCODA	84.2	27,247	1,983,395	82	642	81	549	79	14.4%	40	19.2%	79	287	80
OTSEGO	381.3	39,522	10,173,843	54	1,055	36	954	33	9.5%	79	21.6%	72	344	67
OTTAWA	5,297.7	49,582	166,011,540	7	1,554	5	1,391	5	10.5%	75	27.7%	33	488	25
PRESQUE ISLE	203.7	30,914	4,988,017	69	757	76	634	71	16.3%	27	22.3%	66	383	57
ROSCOMMON	367.2	31,587	8,191,343	63	705	78	575	78	18.4%	11	26.5%	43	360	63
SAGINAW	3,526.0	40,213	100,537,387	10	1,147	31	983	30	14.2%	44	28.5%	28	439	43
ST. CLAIR	3,244.3	43,299	97,681,437	12	1,304	17	1,123	17	13.9%	48	31.0%	15	482	27
ST. JOSEPH	1,008.9	38,996	26,881,102	32	1,039	38	892	38	14.1%	45	24.0%	58	474	33
SANILAC	639.7	33,205	17,836,271	39	926	52	697	67	24.7%	3	31.4%	13	668	3
SCHOOLCRAFT	121.9	33,370	3,060,064	75	837	62	732	58	12.6%	59	19.9%	78	251	82
SHIAWASSEE	1,355.1	40,065	39,397,842	26	1,165	28	1,017	26	12.7%	55	27.9%	32	456	38
TUSCOLA	957.9	35,863	26,197,779	34	981	46	754	56	23.1%	6	27.5%	35	770	2
VAN BUREN	1,310.6	39,825	38,946,220	27	1,183	27	1,004	28	15.1%	33	30.3%	18	497	23
WASHTENAW	8,234.9	60,439	262,067,311	5	1,923	3	1,665	3	13.5%	49	35.8%	5	619	6
WAYNE (including Detroit)	34,272.3	43,035	1,020,341,694	2	1,281	20	993	29	22.5%	7	43.0%	1	546	14
WEXFORD	488.3	34,093	13,612,656	46	950	49	805	49	15.3%	31	29.5%	21	393	54
OUTSIDE OF MICHIGAN	27,513.6	147,359	212,903,597		1,140		1,030		9.7%		14.3%		559	
DETROIT	13,022.8	35,998	370,478,137		1,024		723		29.4%		46.6%		473	
<b>TOTALS</b>	<b>\$223,070.9</b>	<b>\$51,046</b>	<b>6,448,137,587</b>		<b>\$1,476</b>		<b>\$1,198</b>		<b>18.8%</b>		<b>32.4%</b>		<b>528</b>	

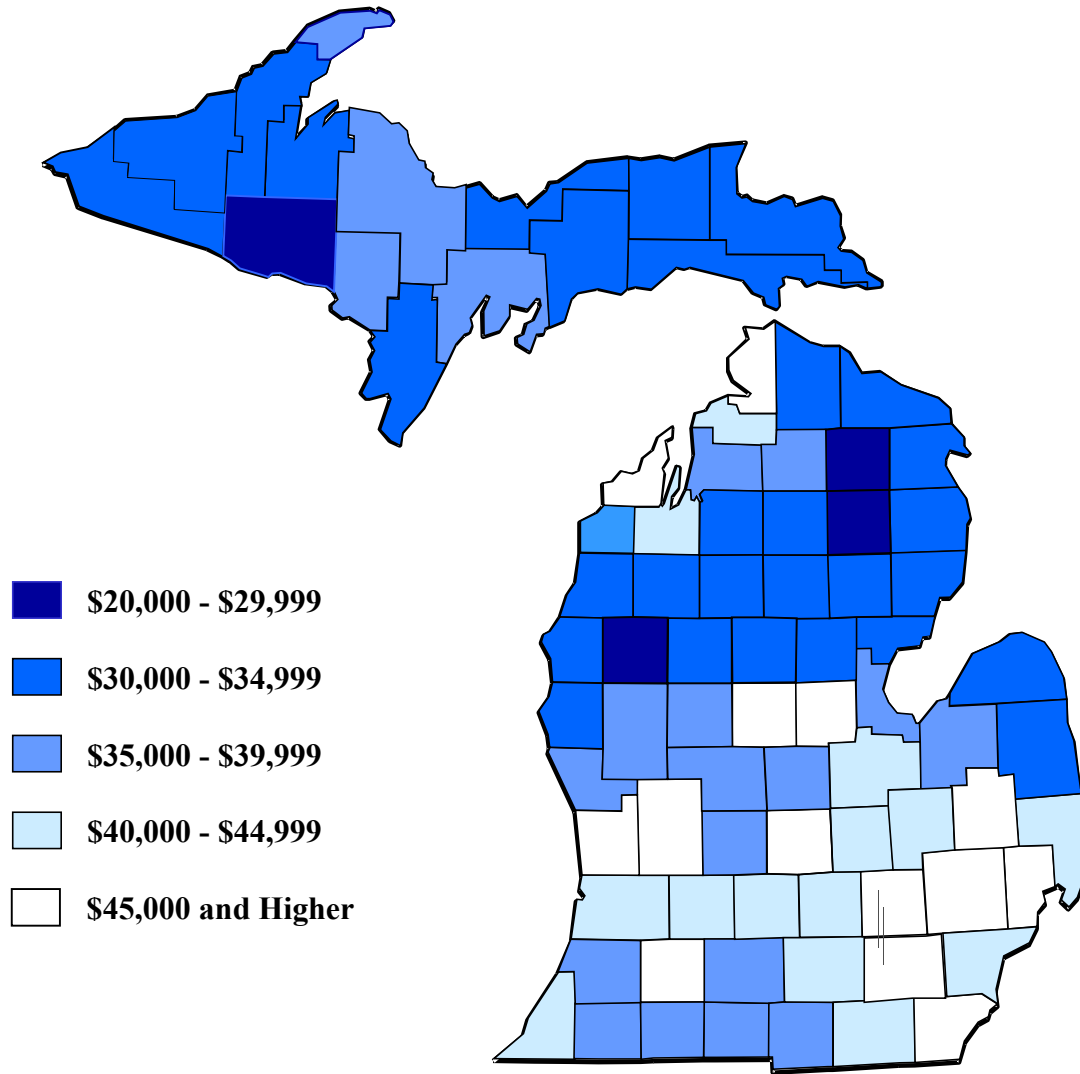
<sup>(1)</sup>Includes credits for blind/deaf, paraplegic, quadriplegic, and totally disabled persons.

**Exhibit 34**  
**Average Annual Individual Income Tax Rates**

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
1968	2.60%	1991	4.60%
1969	2.60%	1992	4.60%
1970	2.60%	1993	4.60%
1971	3.14%	1994	4.47%
1972	3.90%	1995	4.40%
1973	3.90%	1996	4.40%
1974	3.90%	1997	4.40%
1975	4.37%	1998	4.40%
1976	4.60%	1999	4.40%
1977	4.60%	2000	4.20%
1978	4.60%	2001	4.20%
1979	4.60%	2002	4.10%
1980	4.60%	2003	4.00%
1981	4.60%	2004	3.95%
1982	5.10%	2005	3.90%
1983	6.35%		
1984	5.85%		
1985	5.33%		
1986	4.60%		
1987	4.60%		
1988	4.60%		
1989	4.60%		
1990	4.60%		

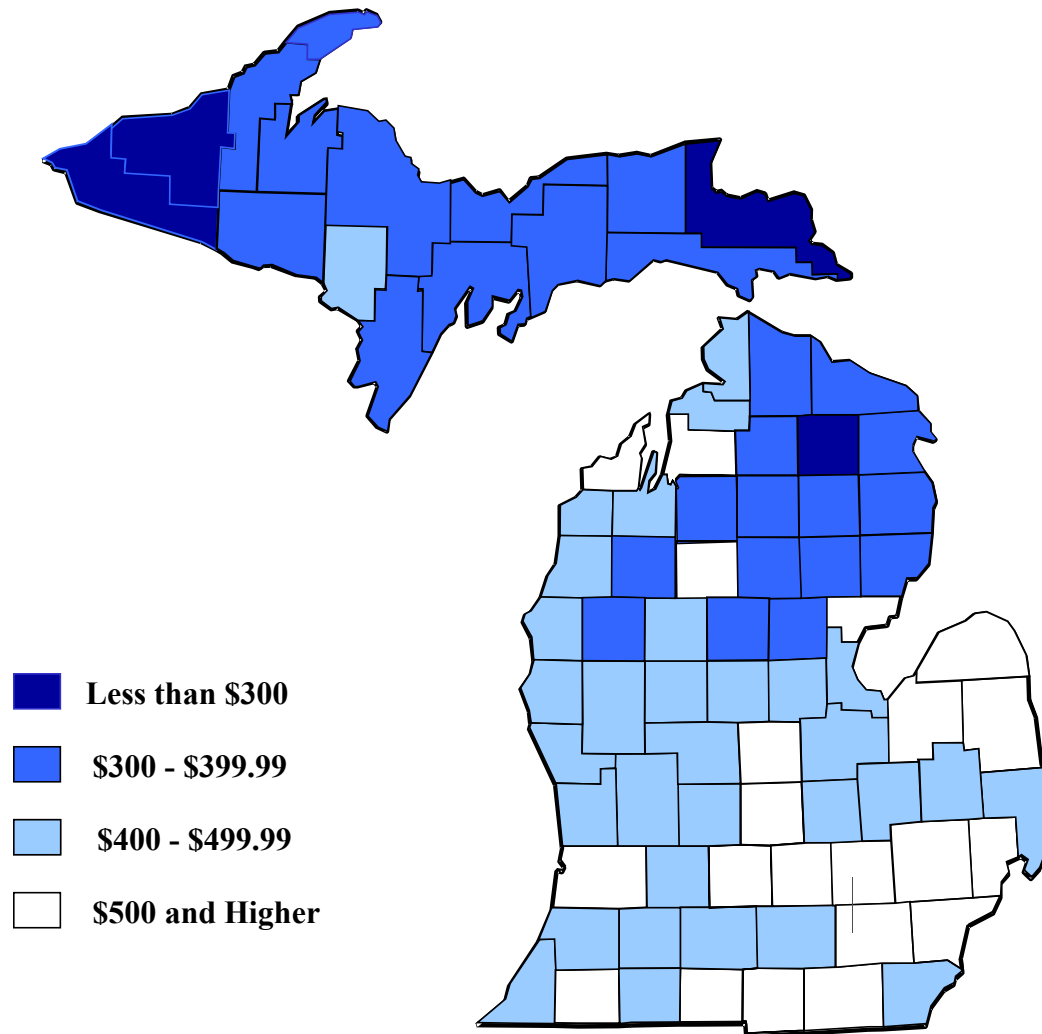
Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 35**  
**Average Adjusted Gross Income by County**  
**2003**



Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Exhibit 36**  
**Average Property Tax Credits by County**  
**2003**



Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

## **XII. APPENDIX A**

## **FEDERAL TAX LAW CHANGES**

### **1987**

The TRA-86 contained many provisions that expanded the definition of AGI. The dividend exclusion and 60 percent long-term capital gain deduction were eliminated. The deduction for married couples when both work was eliminated. Most employee and moving expenses were no longer removed from AGI but only subtracted as an itemized deduction. However, self-employed taxpayers were allowed to subtract 25 percent of their health insurance premiums as an adjustment to income.

New rules reduced the deductibility of contributions to individual retirement arrangements (IRAs) for taxpayers covered by employer-sponsored pension plans. Losses from passive activities, such as real estate partnerships, were generally no longer deductible from other income. New rules limited the deductibility of losses from rental property activities. New depreciation rules slowed the rate at which investment assets could be depreciated. Finally, all unemployment compensation was included in AGI.

TRA-86 made other changes to Michigan's tax base unrelated to AGI. Michigan taxpayers had been allowed to claim the same number of exemptions on their Michigan return as they claimed on that year's federal return. Before 1987, taxpayers were able to claim an extra full federal exemption if they were blind or a senior citizen. TRA-86 replaced these extra federal exemptions with an increased standard deduction. Also, individuals eligible to be claimed as dependents on someone else's tax return, such as a parent's return, were no longer able to claim their own personal exemption.

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

### **1994**

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



## **1995**

AGI could now be reduced by 30 percent of the amount paid for health insurance by the self-employed. Separate legislation later increased the deductible percentage to 40 percent for tax year 1997, 45 percent for 1998, and 60 percent for tax year 2002. For tax years after 2003, all health insurance premiums for the self-employed will be deductible.

## **1996**

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

## **1997**

A number of federal law changes became effective in 1997, resulting in changes to Michigan's tax base. Most gains on the sale of a primary residence were excluded from AGI if the taxpayer owned and lived in the house for two of the last five years preceding the sale. Single taxpayers have a \$250,000 exclusion, and married taxpayers filing a joint return may exclude \$500,000. Previously, gains on the sale of a primary residence were deferred only if the taxpayer purchased a new residence for a price greater than the taxpayer's cost basis in the former residence. Prior to the effective date of this new provision, taxpayers who were 55 or older were allowed under certain conditions to make a one-time exclusion of a gain on the sale of a primary residence of up to \$125,000.

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

## **1998**

Effective for 1998, taxpayers were able to establish new Education and Roth IRAs. Contributions to these accounts are not deductible, but both accounts allow investment earnings to accumulate tax-deferred and withdrawals may be tax-free. If a distribution from an Education IRA is used for qualified higher education expenses, the distribution is tax exempt. If a distribution from a Roth IRA is received five years after the taxpayer established the account and after the taxpayer reaches age 59½, the entire distribution is tax exempt.

Education IRAs' only impact on Michigan income tax revenues will be that the investment earnings on these particular savings arrangements may be tax exempt. Eventually the tax

exemption will reduce income tax revenues somewhat, but the short-term impact will be insignificant. While Roth IRAs also allow investment earnings to accumulate tax-exempt, they resulted in an immediate, short-term increase in Michigan income tax collections. Taxpayers eligible to contribute to a Roth IRA are also allowed to convert a traditional IRA into a Roth IRA. The amount converted is generally included in the taxpayer's AGI in the year of conversion. A provision in the initial legislation, however, allowed taxpayers to spread the conversion amount over four years, from 1998 through 2003. This provision was only available in 1998, and it resulted in a large number of conversions. The increase in AGI from these conversions resulted in a one-time, four-year increase in Michigan income tax revenues. However, for taxpayers meeting the distribution rules described above, withdrawals from Roth IRAs will be free from further income taxes.

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

A new adjustment to income allowed taxpayers to subtract a percentage of the interest they pay on student loans. For tax year 1998, the deduction was limited to \$1,000. The limit increased to \$1,500 in 1999 and will increase to \$2,500 in 2003.

## **2001**

Restitution payments received after 1999 by victims of Nazi persecution or their heirs became excludable from federal gross income.

## MICHIGAN PERSONAL INCOME TAX LEGISLATIVE HISTORY<sup>9</sup>

### 1967

**Public Act 281** instituted the Michigan Income Tax (both on personal and corporate income), and repealed the business activities and bank share taxes. As originally enacted, the Act provided for a distribution of 17 percent of net collections to local units on a per capita basis with one-half of the total amount being distributed to counties and one-half of the total amount being distributed to cities, villages, and townships, and the following provisions:

- For personal income tax:
  - Federal adjusted gross income (AGI), with several adjustments, as the base for the personal income tax;
  - Tax rate of 2.6 percent
  - Personal exemption of \$1,200
  - A sliding scale credit for city income taxes with a maximum credit of \$10,000
  - A credit for property taxes paid and a renter's credit that allowed renters to impute their property tax liability ;
  - Credit for income taxes paid to other states;
  
- For corporate income tax:
  - Tax rate of 5.6 percent
  - Tax rate of 7.0 on profits of financial institutions

The personal income tax became effective October 1, 1967. The income taxes on corporations and financial institutions became effective January 1, 1968.

### 1968

**Public Act 132** made technical changes regarding the distribution of income tax proceeds.

**Public Act 315** provided that if national banking associations are determined by judicial action to be exempt from the tax, then state banks would also be exempt.

### 1969

**Public Act 332** made technical, clarifying, and administrative changes.

---

<sup>9</sup> Source for Public Acts from 1967 through 1994 from Michigan House Fiscal Agency, *State of Michigan: The Income Tax*, April 1999, at [ww.house.mi.gov/hfa/PDFs/inco\\_tax.pdf](http://ww.house.mi.gov/hfa/PDFs/inco_tax.pdf). Source for Public Acts after 1994 from Michigan Department of Treasury, *Michigan's Individual Income Tax Report*, various years.

## **1970**

**Public Act 101** reduced the property tax and city income tax credits, provided that for calendar year 1970 and fiscal year 1971, the tax credit is 12 percent of city income taxes or property taxes paid but not more than \$15.

**Public Act 140** updated the reference to the United States Internal Revenue Code (IRC) to December 31, 1969; rewrote the definition of "taxable income" so that the language used is uniform as it applies to individuals, corporations, financial institutions, and resident estates or trusts; provided that income taxable both within and without the state, if purely personal services by an individual, is not allocated and apportioned as is such income from other business activity; and imposed a penalty payment of interest at the rate of 3/4 of 1 percent per month on deficiencies in quarterly estimated payments.

**Public Act 233** corrected a problem which arose from language in 1970 PA 101 which was not clear on the method which fiscal year taxpayers would use in calculating their property and city income tax credits.

## **1971**

**Public Act 16** amended the Income Tax Act to redefine compensation as that defined in the IRC. Updated the reference to the Internal Revenue Code to December 31, 1970.

**Public Act 25** accelerated the tax payment from July 31 to June 30 for all taxpayers other than individuals, estates, or trusts, and provided that 1/4 of the estimate must be paid at the time of filing a yearly estimate.

**Public Act 76** increased the tax rate from 2.6 to 3.9 percent for individuals, from 5.6 to 7.8 percent for corporations, and from 7.0 to 9.7 percent for financial institutions, changed the property tax credit and city income tax credit to a form similar to that in effect in 1968, and also changed the method of determining allocation to local governments. The Act set the expiration for the Income Tax Act as August 1, 1972, unless constitutional amendments on property tax reduction for schools and a graduated income tax proposal were submitted to the people.

**Public Act 150** created a deduction, not in excess of \$50 per year, for a contribution to a political party or candidate beginning 1972.

## **1972**

**Public Act 181** provided for continuation of the rate at 3.9 percent for personal income beyond August 1, 1972.

**Public Act 332** provided a definition of what constitutes a college contribution.

## 1973

**Public Act 20** increased the personal exemption from \$1,200 to \$1,500 beginning in 1974. The Act also granted all Michigan business firms a credit against their income tax equal to 25 percent of the property tax on the inventory portion of their personal property, and changed property tax relief provisions to relate the amount of taxes paid on a principal residence to total household income from all sources (homestead property tax credit).

## 1974

**Public Act 12** allowed each blind spouse in a household to claim a blind homestead tax exemption, and also provided additional property tax relief to paraplegic and quadriplegic persons.

**Public Act 33** provided a more restrictive definition of bank holding companies for income tax purposes and clarified the definition and tax status of such companies.

**Public Act 62** amended the Income Tax Act to make the employer trustee for the state with respect to income tax withholding.

**Public Act 116**, known as the Farmland and Open Space Preservation Act, provided a tax credit equal to the amount of property tax which exceed 7 percent of household income to farmers who pledge to keep their land in agricultural production for ten years and to owners of certain non-farm, open-space lands.

**Public Act 125** amended the Income Tax Act to set up a credit schedule for sales tax paid on food and prescription drugs by families with incomes less than \$15,000 a year. The inventory property tax credit was increased from 25 percent in tax year 1973 to 32 percent in 1974, 39 percent in 1975, and an additional 6 percent each year until the credit reached 75 percent in tax year 1981. The Act also allowed a credit equal to 20 percent of the corporate franchise fee for those businesses which have no inventories except materials and supplies valued at \$1,500 or less.

**Public Act 156** redefined "senior citizen" under the property tax relief act of 1973 to include the unmarried remaining spouse of a person who was at least 65 years old at the time of death.

**Public Act 211** allowed for advance payment of a property tax credit to low-income seniors, blind persons, and eligible servicemen, veterans, and widows.

**Public Act 217** permitted recipients of private pension plans and disability benefits to deduct up to \$7,500 on a single tax return and \$10,000 on a joint return.

**Public Act 290** allowed, for the years 1974 through 1980, a credit for a charitable contribution to a non-profit corporation, fund, foundation, or trust operated exclusively to benefit institutions of higher learning.

**Public Act 308** required the state to pay a daily interest rate of 9 percent per annum for each day an income tax refund is delayed beyond June 30.

## **1975**

**Public Act 19** increased the personal tax rate from 3.9 to 4.6 percent beginning May 1, 1975. The Tax Rate was set to drop to 4.4 percent after July 1, 1997.

**Public Act 94** increased the penalty for late payment of income taxes.

**Public Act 98** required that income taxes withheld by employers accrue to the state on the last day of the month in which they are withheld.

**Public Act 168** permitted paraplegics, quadriplegics, senior citizens, eligible servicemen or veterans, eligible widows, or blind persons with incomes less than \$10,000 to defer payment of Summer homestead taxes until the following February 15.

**Public Act 225** altered the distribution of state income taxes available to municipalities and counties under the State Revenue Sharing Act of 1971.

**Public Act 233** repealed the financial institutions and corporate income taxes in conjunction with the enactment of the single business tax (1975 PA 228). Created a tax credit for individuals subject to both the income and single business taxes.

**Public Act 298** made administrative changes related to the statement of compensation paid and taxes withheld required of employers.

**Public Act 320** increased the maximum allowable property tax credit from \$500 to \$1,200 beginning January 1, 1976.

## **1976**

**Public Act 388** created the Campaign Finance Act which allowed taxpayers to designate \$2 (\$4 in the case of a joint return) of their tax liability toward the State Campaign Fund.

**Public Act 78** amended the Farmland and Open Space Preservation Act to remove the requirement of an on-site appraisal by the state tax commission in order to qualify for the farmland development credit.

**Public Act 379** permitted a property tax credit on a tax return two years after the year the credit is claimed.

**Public Act 434** updated the reference to the federal Internal Revenue Code to November 15, 1976.

**Public Act 435** amended the additional income tax exemption to include hemiplegics.

## **1977**

**Public Act 1** required submission of income tax forms to the Taxation Committee for format approval. Altered the definition of household income that is used in computing the property tax credit.

**Public Act 44** maintained the tax rate at 4.6 percent, overriding the legislated July 1, 1977 decrease to 4.4 percent.

**Public Act 163** required tax forms to include a summary of the state's tax revenues and expenditures by major category.

**Public Act 291** eliminated the income tax credit based on single business taxes paid beginning with the 1978 tax year.

## **1978**

**Public Act 43** exempted state and federal energy assistance grants to low-income and senior citizen households.

**Public Act 321** provided a tax credit for an eligible serviceman, veteran, or widow in the case that the individual rents a homestead.

**Public Act 458** provided an income tax credit for the 1978 tax year to assist poor families with high home heating bills.

**Public Act 503** made it a felony to file a false income tax return with the intent to defraud the state. Imposed a penalty of up to two years in jail and a \$5,000 fine. Set a misdemeanor penalty for failing to file a return.

**Public Act 554** increased the maximum allowable deduction for political contributions from \$50 to \$100 for married couples filing a joint return.

**Public Act 589** permitted state residents who work in Canada to claim a credit for income taxes paid to a province and not claimed on the federal income tax form beginning in 1979.

**Public Act 605** provided credits for the purchase and installation of solar, wind, or water energy conservation devices in residences.

## **1979**

**Public Act 30** allowed a retroactive credit for Canadian taxes paid in 1978.

**Public Act 41** expanded the credit for the purchase and installation of energy conservation devices.

**Public Act 126** allowed a credit for heating fuel costs for low-income homesteads for 1979 and 1980. The credit was based on a formula related to income and the number of exemptions claimed.

**Public Act 132** provided for separate payment of the homestead property tax credit. Revised the computation of certain rental credits.

**Public Act 199** allowed a credit for contributions to certain public broadcast stations. Removed the cutoff date on certain other contributions.

## **1980**

**Public Act 169** provided for administration under the Revenue Act of 1941, as amended.

**Public Act 227** would have allowed an added credit for certain renters whose rent exceeds 40 percent of income but was tie-barred to SB 923 which was not enacted.

**Public Act 250** updated the reference to the Internal Revenue Code to November 14, 1979. Would have temporarily increased the tax rate to 4.7 percent for the purpose of constructing new prisons but was contingent upon 1980 Ballot Proposal E which was rejected by voters on November 4, 1980 (For: 1,288,999, Against: 2,202,042).

**Public Act 253** would have tied the personal exemption to inflation and provided a credit to low income senior citizens who are owners of homesteads but was contingent upon Ballot Proposal C (SJR X) which was rejected by voters on November 4, 1980 (For: 894,441; Against: 2,583,253).

**Public Act 352** reduced the homestead property tax credit by the proportion of income received from Aid to Families with Dependent Children (AFDC) or General Assistance (GA) payments in 1980 and 1981 only.

**Public Act 452** decreased payments to counties by \$7 million in fiscal year 1981 only.

**Public Act 475** allowed a credit for artwork contributions to certain public and nonprofit entities.

**Public Act 517** allowed for the deduction of public retirement system benefits from another state provided that the other state offers a reciprocal deduction.



## **1981**

**Public Act 43** would have ensured that senior citizens whose rent exceeds 40 percent of their income receive a tax credit equal to the difference but was contingent upon 1981 Ballot Proposal A (HJR G) which was rejected by voters on May 19, 1981 (For: 560,924; Against: 1,451,305).

**Public Act 135** allowed a deduction for certain unemployment compensation benefits repaid to an employer in 1980 only.

**Public Act 152** extended and enlarged the home heating credit through 1983. Narrowed the homestead definition.

## **1982**

**Public Act 155** increased the tax rate to 5.6 percent over the time period of April 1, 1982 through September 30, 1982.

**Public Act 169** made certain corporate officers personally liable for withholding payments due from a corporation. Required employers to furnish copies of exemption certificates for certain employees.

**Public Act 208** added a credit for farmers who allowed produce to be gleaned and donated as food for tax years 1982 through 1984.

**Public Act 211** allowed a taxpayer to designate up to \$2 of any refund (\$4 on a joint return) to the Children's Trust Fund.

**Public Act 240** included in taxable income the federal "marriage penalty" deduction.

**Public Act 269** reduced the property tax credit for households with income greater than \$65,000. Extended the reduction of the property tax credit for households with public assistance income. Provided an added credit for senior citizens with rent over 50 percent of income in 1982, 45 percent in 1983, and 40 percent thereafter.

**Public Act 387** updated the reference to the Internal Revenue Code to November 15, 1982.

**Public Act 480** omitted the disallowance of homestead property tax credit for claimants delinquent property taxes.

**Public Act 515** allowed certain farmers and commercial fisherman to file annual estimates. Required payments therewith under certain conditions.

## **1983**

**Public Act 15** increased the tax rate to 6.35 percent retroactive from January 1, 1983 and dedicated 0.25 percentage points of the increase to a special fund (created by 1983 PA 14) to permit the state treasurer to allow several funds to operate under generally accepted accounting principles. The Act also required the rate increase to decline to a maximum of 1.5 percentage points on January 1, 1984, to a maximum of 0.75 percentage point on January 1, 1985, and to a maximum of 0.5 percentage point on October 1, 1986. The rate was required to decrease further if unemployment decreased at a rate sufficient to effectuate a formula equating 0.5 percent of the unemployment rate with 0.1 percent of the income tax rate.

**Public Act 99** added language to the tax revenue sharing formula to take into account collections under the three income tax rates in effect successively during the last quarter of 1982 and the first quarter of 1983 in order to prevent local governments from losing \$10.7 million.

**Public Act 189** authorized a taxpayer receiving a refund to credit \$2 or more of the refund to the Nongame Fish and Wildlife Fund.

**Public Act 190** extended the credit for the purchase and installation of energy conservation devices. The act also increased the size of the credits.

## **1984**

**Public Act 36** restructured and extended the home heating tax credit through 1986.

**Public Act 221** decreased the tax rate to 5.35 percent (beginning September 1, 1984) and 4.6 percent (beginning October 1, 1987).

**Public Act 265** allowed for the transfer of up to \$46 million from the state accounting and fiscal responsibility account to the Counter-Cyclical Budget and Economic Stabilization Fund.

**Public Act 283** updated the reference to the Internal Revenue Code to November 15, 1984.

**Public Act 284** allowed taxpayers to deduct Social Security benefits from taxable income to the extent that the benefits are included in their federal adjusted gross income.

**Public Act 285** continued through 1985 the reduction in property tax credits claimed by recipients of public assistance. Specified that child support payments from noncustodial parents, which are sometimes passed through custodial parents in public assistance checks, are not to be considered public assistance and may not be used to reduce property tax credits. Continued through 1984 the reduction in property tax credits for those who earn more than \$65,000 a year.

**Public Act 415** allowed deaf persons to claim a \$1,500 exemption in addition to the \$1,500 standard personal exemption beginning in 1985.

**Public Act 417** extended the gleaning tax credit program for the period of December 31, 1984 through December 31, 1995.

**Public Act 419** specified that contributions to a public broadcast station may be claimed as a tax credit only if the station is located within Michigan. Provided that contributions made to a nonprofit organization, fund, foundation, trust, or association organized and operated exclusively for the benefit of the institutions of higher learning may be claimed as a tax credit only if the institution is located within the state.

## **1985**

**Public Act 145** allowed taxpayers to designate a portion of their income tax refunds through 1994 to the Nongame Fish and Wildlife Fund unless the fund's assets exceeded \$6 million beforehand. The nongame checkoff had been scheduled to end with the 1984 tax year.

**Public Act 156** allowed taxpayers to designate that \$2 or more of their income tax refund should go to the Children's Trust Fund. The checkoff program had been limited to \$2 per refund.

**Public Act 158** made credits for heating fuel costs in excess of certain percentages of household income comply with federal guidelines for minimum poverty standards.

**Public Act 187** extended through 1986 provisions that reduce property tax credits claimed by recipients of public assistance and by persons who earn more than \$73,650 a year (increased from \$65,000).

**Public Act 211** amended the Revenue Act to require the interception of a taxpayer's income tax refunds for application to the taxpayer's liabilities to the state, including support liabilities, and to provide for an allocation of the refund to a joint taxpayer's nonobligated spouse.

## **1986**

**Public Act 16** decreased the tax rate to 4.6 percent beginning April 1, 1986.

**Public Act 130** reenacted and enhanced the expired gleaning tax credit program through December 31, 1988. Under the act, farmers may receive tax credits equal to 20 percent of the wholesale value of crops they allow to be gathered by charitable organizations after normal harvesting is completed.

**Public Act 160** amended the Farmland and Open Space Preservation Act to require that a person applying for a credit under that act against the income tax or single business tax include with the application a copy of a receipt showing payment of property taxes for the year for which the credit is claimed or the prior year. If a copy of the receipt is not included, the tax credit check may be issued to the appropriate county treasurer to be credited toward the delinquent tax and fees.

**Public Act 286** repealed specific uses for refund credits to the Nongame Fish and Wildlife Trust Fund.

**Public Act 315** allowed taxpayers to deduct from taxable income the amount of a payment made for an advance tuition payment contract under the Michigan Education Trust Act (1986 PA 316).

## **1987**

**Public Act 88** altered formulas to increase the amount of income tax revenue dedicated for disbursement to local governments. Increased the amount of payments earmarked for cities, villages, and townships, but left unchanged the amount dedicated to counties.

**Public Act 254** increased the personal exemption to \$1,600 for the 1987 tax year; to \$1,800 for 1988; to \$2,000 for 1989; and to \$2,100 for 1990. Extended, through the 1987 tax year, provisions that allow for a home heating tax credit. Extended provisions which reduce property tax credits for persons who receive public assistance and persons with household income in excess of \$73,650. Made numerous other technical, clarifying, and administrative changes to the Income Tax Act.

## **1988**

**Public Act 1** provided that a person who has a federal adjusted gross income of \$1,500 or less and is not allowed to claim a personal exemption under the Internal Revenue Code (i.e., a dependent) is exempt from state income tax liability and does not have to file a return beginning in 1987.

**Public Act 70** allowed individuals classified under federal law as “seafarer” the option of paying their income taxes on an annual basis (rather than requiring quarterly payments) just as farmers and commercial fishers can.

**Public Act 153** allowed a taxpayer to claim a credit of up to \$100 (\$200 for a joint return) against the income tax for certain charitable contributions regardless of the credit's impact on tax liability. Eliminated the additional limitation based on the percentage of tax liability and added the state museum and the state archives to the list of contribution recipients eligible for the credit.

**Public Act 261** modified the definition of income used in calculating farmland preservation tax credits and homestead property tax credits so that beginning with the 1988 tax year, a deduction for a carryback or carryover of a net operating loss cannot exceed federal modified taxable income as defined in the Internal Revenue Code.

**Public Act 423** amended the Farmland and Open Space Preservation Act to specify the taxpayers who are able to claim the income tax credit for property taxes paid when the property in question is owned by a partnership, S-corporation, trust, or other multiple-owner arrangement.

**Public Act 486** would have expanded the property tax credits available to certain categories of low-income, elderly, and disabled taxpayers, and to renters. The bill, however, was tie-barred to a school financing proposal (SJR K) that would have amended the State Constitution to increase the sales tax and reduce property taxes. Senate Joint Resolution K was not approved, however, so the act did not take effect.

**Public Act 515** allowed a taxpayer to claim a credit against tax liability equal to 50 percent of the amount the taxpayer contributes during the tax year to a community foundation for 1989 through 1991. The total credit cannot exceed \$100 for a single return, \$200 for a joint return, or the lesser of 10 percent of a tax liability or \$5,000 for a resident estate or trust. The credit cannot apply in a tax year for which the aggregate amount of such credits claimed by all taxpayers for all prior tax years (together with the single business tax credit allowed under 1988 PA 514) exceeds \$3 million.

**Public Act 516** allowed low-income seniors to claim a credit of up to \$600 for the cost of prescription drugs. Granted a \$500 exemption to dependents who earned over \$1,500 in 1988. Extended through 1989 provisions that reduce property tax credits claimed by recipients of public assistance. Extended for two years, through 1991, a credit for the purchase and installation of alternative energy devices. Extended through 1988 the home heating tax credit for low-income taxpayers. Allowed a deduction for persons who have certain self-insured medical plans. Amended the Lottery Act to repeal the exemption for state lottery winnings.

## **1989**

**Public Act 75** extended through 1991 the home heating tax credit and increased the amount of the credit allowable under the alternative credit computation.

**Public Act 95** made technical and administrative changes to the provisions of the Campaign Finance Act which allow a taxpayer to designate \$2 (\$4 in the case of a joint return) toward the State Campaign Fund.

**Public Act 166** in the case of the passage of school finance revision Proposal B (HJR I), allowed a credit for low-income households for the sales tax on utilities and increased the homestead property tax credit for renters, senior-citizens, and handicappers. Proposal B was rejected by voters, however, on November 7, 1989 (For: 436,958; Against: 1,392,053), so the act did not take effect.

## 1990

**Public Act 136** allowed a taxpayer to claim a credit for a contribution made to a community foundation if the foundation was incorporated or established before September 1 of the year prior to the tax year. Previously, the deadline was January 1. The tax credit, created in 1988, was in place only through the 1991 tax year.

**Public Act 283** extended through 1991 provisions that limit the amount of property tax credit that can be claimed by those receiving public assistance and by those whose income exceeds \$73,650.

**Public Act 285** amended the Revenue Act to allow retired federal employees to claim a refund of income taxes paid on their pension or retirement benefits from 1984 on and spread those refunds out over four years. The act represented an exception to the usual requirement that a claim for a refund based on the validity of a tax law be filed within 90 days after the date set for filing a return.

**Public Act 344** provided that an income tax refund claim for the 1984 tax year or thereafter for taxes paid on retirement or pension benefits from a U.S. government public retirement system is not subject to Section 27a(6) of the Revenue Act (which provides that a refund claim, based upon the validity of a tax law based on the laws or Constitution of the U.S. or the State Constitution, cannot be paid unless the claim is filed within 90 days after the date set for filing a return or unless ordered pursuant to an appeal). Specified that claims for refunds for tax years 1988 and 1987 were payable on or after July 1, 1990; claims for tax year 1986 were payable on or after July 1, 1991; claims for tax year 1985 were payable on or after July 1, 1992; and claims for tax year 1984 were payable on or after July 1, 1993.

## 1991

**Public Act 82** provided that withholding taxes deposited under the Revenue Act by certain employers on the same schedule as federal withholding deposits (pursuant to 1991 PA 83) will accrue to the state on the last day of the filing period. Withholding taxes deposited by other employers continue to accrue to the state on the last day of the month.

**Public Act 171** expanded and extended through 1994 the tax credit available to contributors to community foundations but specified that the credit applies to contributions to an endowment fund of a community foundation. Allowed a taxpayer also to claim the credit for contributions to a shelter for homeless persons, food kitchen, food bank, or other entity that provides such services to the indigent if the contribution is deductible for the donor under the Internal Revenue Code. Raised to \$6 million (from \$3 million) the cap on the aggregate amount that may be claimed for the years this credit is in effect under both the Income Tax Act of 1967 and the Single Business Tax Act.

**Public Act 181** extended the home heating tax credit through 1994. Made recipients of public assistance eligible for the credit. Required the Department of Treasury to mail an application for the credit by December 1 of each year to those who are recipients of public assistance during the tax year and to provide a simplified procedure for claiming the credit to recipients of public assistance. Cut in half the amount of the credit available to claimants whose heating costs are included in rent payments.

## **1992**

**Public Act 67** provided for fiscal year 1992 the amount of revenue sharing payments that was available for distribution to cities, villages, and townships from state income tax collections in August 1992 could not be distributed. Instead, that amount lapsed to the General Fund at the close of the 1992 fiscal year. Discontinued, after June 1992, the \$27.4 million advance that previously was made in June on the August payment.

**Public Act 160** reduced revenue sharing payments by \$24.1 million for fiscal year 1993 only.

**Public Act 277** provided that state income taxes of persons employed by the federal government who work at a qualified facility must be deposited in the Federal Facility Development Fund (created by 1992 PA 275) to be appropriated and used solely for the purposes of the fund.

**Public Act 293** extended through 1994 restrictions on the amount of property tax credits that can be claimed by those receiving AFDC, State Family Assistance, or State Disability Assistance, and by those whose household income exceeds \$73,650.

**Executive Order 10** delayed \$111 million of state revenue sharing payments, including \$35.9 million of income tax revenues.

## **1993**

**Public Act 128** provided for a credit against the income tax equal to taxes paid by a taxpayer in a prior year on income received and repaid by the taxpayer if the taxpayer is eligible for the federal deduction allowed for the repayment of income under the Internal Revenue Code. The state credit is allowed only if the taxpayer has not deducted the repayment in calculating his or her federal adjusted gross income.

**Public Act 162** allowed taxpayers to designate refunds to the Nongame Fish and Wildlife Trust Fund until the fund's assets exceed \$6 million.

**Public Act 167** reduced revenue sharing payments by \$48.1 million for fiscal year 1994 only. Provided that a city, village, township, or county is not eligible for revenue sharing payments unless it requires sealed competitive bidding for any contract of \$20,000 or more, except for a contract for professional services or emergency repairs exempted pursuant to a written policy of that local unit.

**Public Act 262** amended the Campaign Finance Act to increase to \$3 (\$6 in the case of a joint return) the amount of a taxpayer's liability which he or she can designate toward the State Campaign Fund.

**Public Act 315** extended for 1992 to 1994 the credit for a donation to a homeless shelter or similar organization. Eliminated a provision which rendered the credit void after the aggregate total claimed for this credit by taxpayers for all prior years under the Income Tax Act and the Single Business Tax Act exceeded \$1.5 million.

**Public Act 328** decreased the tax rate, beginning May 1, 1994, to 4.4 percent as part of a package to implement Proposal A (SJR S) approved by voters March 15, 1994 (For: 1,684,541; Against: 750,952).

## **1994**

**Public Act 119** permitted the Michigan Department of Treasury to provide information about the purchase of an annual state park motor vehicle permit in the instruction book accompanying each state income tax return.

**Public Act 256** expanded and extended through 1997 the credit for a donation to a homeless shelter or similar organization. Eliminated the \$6 million aggregate cap on the credits that may be claimed by all taxpayers for contributions to community foundations.

**Public Act 268** exempted up to \$30,000 (\$60,000 in the case of a joint return) of retirement benefits from a private source.

**Public Act 269** exempted up to \$1,000 (\$2,000 in the case of a joint return) of interest and dividend income earned by a senior citizen.

**Public Act 290** allowed a taxpayer to claim a credit equal to 3.3 percent of the contributions made by or for the taxpayer to a medical savings account (minus the amount of certain withdrawals). A taxpayer may take the credit only if he or she does not have other health coverage and if a similar federal credit or deduction is unavailable.

**Public Act 298** reduced revenue sharing payments by \$50.6 million for fiscal year 1995 only.

## **1995**

**Public Act 2** increased the personal exemption to \$2,400 for tax years 1995 and 1996, and to \$2,500 for tax years beginning after 1996. Public Act 2 also provided for a further increase in the personal exemption of up to \$250 (which was not implemented) based on the results of the May 1995 revenue estimating conference.



**Public Act 3** indexed the personal exemption to inflation. For tax years after 1997, the personal exemption will be adjusted in \$100 increments based on the change from one year to the next in the U.S. consumer price index.

**Public Act 7** provided that for 1995 and thereafter a resident of Michigan with a household income of \$200,000 or less may claim a credit for 4 percent of tuition and fees paid to a qualified institution of higher learning. The credit cannot exceed \$250 for each student for each tax year. The credit is available only if the college or university promises by July 1 not to increase tuition in the ensuing academic year by more than the increase in the U.S. Consumer Price Index in the preceding calendar year.

**Public Act 194** increased the percentage of gross collections before refunds from the income tax that are earmarked to the state school aid fund from 14.4 percent to 23 percent, beginning with fiscal year 1996-97.

**Public Act 230** increased the maximum deduction senior citizens may take for interest, dividends, and capital gains, from \$1,000 to \$3,500 for a single return and from \$2,000 to \$7,000 for a joint return. The maximum deduction is reduced by the amount of pension income deducted.

**Public Act 233** amended the City Income Tax Act of 1964 to allow the governing body of a city to impose an income tax at a lower rate than 1 percent on corporations and residents. If the tax is imposed at a lower rate, the rate on nonresidents cannot exceed one-half the rate on corporations and residents.

**Public Act 244** provided that foster grandparent stipends received by a person 60 years old or older are excluded from household income when calculating the homestead property tax credit.

**Public Act 245** created the Headlee Amendment Refund. For the tax year 1995 only, a taxpayer may claim a credit against the income tax equal to 2.67 percent of the tax on income attributable to the period from January 1, 1995 through September 30, 1995. This credit was annualized as a 2 percent credit against 1995 income tax liability.

**Public Act 291** increased the maximum deduction senior citizens may take for interest, dividends, and capital gains income up to \$7,500 for a single return and \$15,000 for a joint return, beginning with the 1998 tax year (see Public Act 230).

## **1996**

**Public Act 264** required an employer to deduct and withhold state income taxes for employees who elect the no-file option for state income tax returns, and to provide the Department of Treasury with a copy of an employee's exemption certificate. The Act was tie-barred to Public Act 265.

**Public Act 265** allowed eligible taxpayers to elect to forego filing an annual state income tax return. For tax years beginning after December 31, 1996, taxes are to be calculated by multiplying compensation by 4.4 percent. The Act was tie-barred to Public Act 264.

**Public Act 442** amended the City Income Tax Act of 1964 to provide a city income tax deduction to individuals residing in a renaissance zone and businesses conducting business activity in a renaissance zone.

**Public Act 448** provided a Michigan income tax deduction to individuals residing in a renaissance zone.

**Public Act 478** amended the City Income Tax Act of 1964 to allow cities to enter into agreements with the Department of Treasury for the Department to administer, enforce, and collect the city income tax on behalf of the city.

**Public Act 479** amended the revenue act to authorize the Department of Treasury to administer, enforce, and collect taxes under the City Income Tax Act for cities that enter into an agreement with the Department for such services (see Public Act 478).

**Public Act 484** made numerous clarifying, technical, and administrative amendments.

**Public Act 568** allowed taxpayers to have their income tax refunds directly deposited into a United States financial institution of their choice.

## **1997**

**Public Act 81** created a special exemption for young children. For the 1998 tax year and following, a taxpayer may claim a \$600 exemption for each dependent child who is younger than 7 years of age or a \$300 exemption for each dependent child who is between 6 and 12 years of age.

**Public Act 82** increased the tuition tax credit to 8 percent of the tuition paid to an eligible college or university and increased the maximum credit to \$375 per year.

**Public Act 86** increased the personal exemption by \$200 beginning with the 1998 tax year.

## **1998**

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

**Public Act 500** amended the City Income Tax Act of 1964 to revise the population threshold necessary for Detroit to levy an income tax at 3 percent for residents and 1.5 percent for

nonresidents. The new threshold is 750,000, lower than the previous threshold of 1,000,000. The act will also lower the maximum Detroit income tax rates. The reduction is phased in over a 10-year period beginning on July 1, 1999. When fully implemented in July 2008, the maximum rates will be 2 percent for residents and 1 percent for nonresidents. The rate reduction is contingent upon employment and revenue stability within the city, as defined in the act.

**Public Act 535** created a 25% income tax credit for qualified expenditures to rehabilitate a historic resource approved by the Michigan Historical Center. The credit supplements a similar federal tax credit and is reduced if the resource is sold within 5 years of claiming a credit

## **1999**

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

**Public Acts 2 through 6** lowered the income tax rate by 0.1 percentage point each year beginning in the 2000 tax year and continuing through the 2004 tax year. For the 2004 tax year and following, the tax rate was set at 3.9 percent.

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

**Public Act 214** made technical changes in the historic preservation credit.

## **2000**

**Public Act 40** reduced the Michigan income tax rate for 2000 from 4.3 percent to 4.2 percent.

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

**Public Act 42** increased the child deduction to \$600 for children ages 7 through 12 years old and created a \$600 deduction for children ages 13 through 18. The deduction is available for tax years that begin after 1999.

**Public Act 43** provided a definition for "dependent" as an individual for whom the taxpayer may claim a dependency exemption on the taxpayer's Federal income tax return pursuant to the Internal Revenue code.

**Public Acts 161 and 163** amended the Income Tax Act to create a deduction for contributions to the Michigan Education Savings Program (MESP). Earnings on an account established under

MESP and withdrawals from an account that are used to pay higher education expenses would also be deductible to the extent included in AGI. Withdrawals from MESP accounts that are not used for higher education expenses would generally have to be added to AGI. A new deduction was also created for withdrawals from individual retirement accounts used to pay higher education expenses to the extent those withdrawals are included in AGI.

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

**Public Act 301** increased the special exemption amount to \$1,800 in tax year 2003. The Act also combined all disability exemptions so taxpayers can claim one special exemption if they or their spouse are blind, deaf, paraplegic, quadriplegic, hemiplegic, or totally and permanently disabled. The exemption amount will be increased in \$100 increments to reflect increases in the Consumer Price Index. The Act also created new special exemptions for dependents who are either senior citizens or have one of the disabilities described above. P.A. 301 also increased the exemption for taxpayers who are eligible to be claimed as a dependent on another taxpayer's return. For tax years beginning after 1999, this exemption will be \$1,500, a \$500 increase from the amount previously allowed.

**Public Acts 393 and 394** created a refundable credit for qualified adoption expenses. This new Michigan credit is only for those expenses exceeding the limits on the similar federal income tax credit.

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

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

## **2001**

**Public Act 169** extended indefinitely the home heating credit, which would have sunset after tax year 2002. The credit will be allowed only if there has been a federal appropriation of Low-Income Home Energy Assistance Program (LIHEAP) block grant funds for the federal fiscal year that began in the tax year. From tax years 1996 through 2000, the federal appropriation had to be at least \$20 million.

**Public Act 215** clarified, revised definitions, and provided other technical changes regarding penalty provision of tax deferred education savings account. Effective January 2002, the maximum account balance of all the accounts naming one individual as the designated beneficiary cannot exceed \$235,000. Prior to the bill, the total contributions to all accounts that name one individual as the designated beneficiary could not exceed \$125,000.

## **2002**

**Public Act 486** required the Department of Treasury to provide a clear and concise explanation of each credit and each deduction available under the act, both in the instruction booklet that accompanies the annual return and on the department's official web site.

**Public Act 581** repealed requirement to withhold issuance of certification of dissolution or withdrawal until the Department of Treasury has determined that the corporation does not owe any income tax. Instead, a corporation that submitted a certificate of dissolution or requested a certificate of withdrawal from the State will now have to request the Department of Treasury to certify that the corporation does not owe taxes.

**Public Act 614** allowed resident tribal members from certain Michigan federally recognized Indian tribes to deduct all non-business income earned or received in the tax year (to the extent included in AGI). Only resident tribal members from a Michigan federally recognized Indian tribes who signed agreements<sup>10</sup> with the Michigan Department of Treasury are allowed to take the deduction, and it only applies to income received during the period in which an agreement is effective.

---

<sup>10</sup> Public Act 616 of 2002 allowed the Michigan Department of Treasury to enter into agreements with federally recognized Indian tribes. The agreement would specify whether, and to what extent, Michigan's tax laws apply to each tribe, the tribe members, and other individuals and businesses conducting business with a tribe or its members. At the same time, tribes would promote the enforcement of Michigan tax laws on businesses conducted by them involving non-resident tribal members and non-tribal members. As of April 2003, 7 of the 12 Michigan federally recognized tribes have signed the agreement.