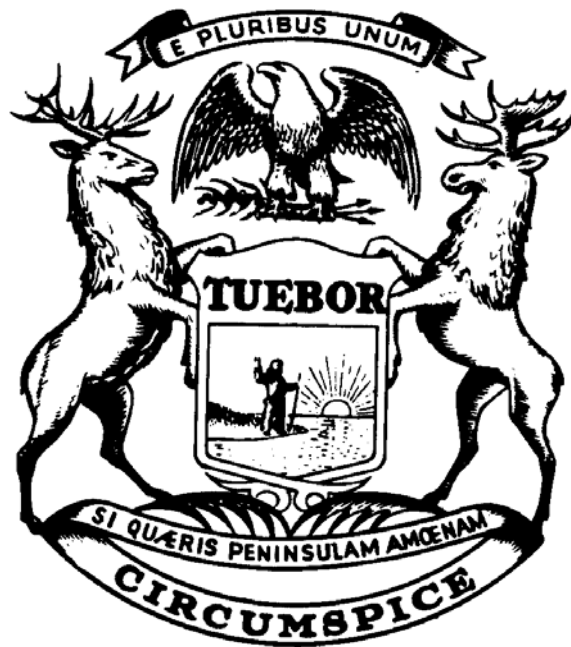


**Executive Budget
Appendix on Tax Credits,
Deductions, and
Exemptions
Fiscal Year 2005**



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

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Appendix on Tax Credits,
Deductions, and Exemptions
Fiscal Year 2005**



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

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

Jay B. Rising
State Treasurer
Department of Treasury

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TAX EXPENDITURE REPORT PUBLICATION HISTORY

| <u>Fiscal Year</u> | <u>Date of Release</u> | <u>Lead Department</u> |
|--------------------|------------------------|------------------------|
| 1979 - 1980 | January 1980 | Management and Budget |
| 1981 - 1982 | March 1981 | Management and Budget |
| 1982 - 1983 | April 1982 | Management and Budget |
| 1983 - 1984 | July 1983 | Management and Budget |
| 1984 - 1985 | July 1984 | Management and Budget |
| 1985 - 1986 | December 1985 | Management and Budget |
| 1986 - 1987 | October 1986 | Management and Budget |
| 1987 - 1988 | November 1988 | Management and Budget |
| 1988 - 1989 | | |
| 1989 - 1990 | February 1991 | Treasury |
| 1990 - 1991 | | |
| 1991 - 1992 | March 1993 | Treasury |
| 1992 - 1993 | | |
| 1993 - 1994 | June 1994 | Treasury |
| 1994 - 1995 | | |
| 1995 - 1996 | April 1995 | Treasury |
| 1996 - 1997 | March 1996 | Treasury |
| 1997 - 1998 | June 1997 | Treasury |
| 1998 - 1999 | May 1998 | Treasury |
| 1999 - 2000 | February 2000 | Treasury |
| 2000 - 2001 | April 2000 | Treasury |
| 2001 - 2002 | July 2001 | Treasury |
| 2002 - 2003 | April 2002 | Treasury |
| 2003 - 2004 | March 2003 | Treasury |
| 2004 - 2005 | August 2004 | Treasury |

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS
EXECUTIVE SUMMARY
FY 2005

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

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

Total tax expenditures are projected to increase 9.8 percent between Fiscal Year (FY) 2004 and FY 2005, from \$26.8 billion to \$29.4 billion. The tax expenditures are divided into five broad categories: business privilege, consumption, individual income, local property, and transportation.

Business privilege tax expenditures are predicted to increase 4.3 percent from \$1,300.0 million to \$1,356.4 million. The single business tax (SBT) rate has fallen from 2.3 percent in tax year 1998 to 1.9 percent in tax year 2002 as part of the SBT phase out contained in Public Act 115 of 1999. The decline in the SBT rate was paused beginning in tax year 2003 at 1.9 percent. The Brownfield credit was the fastest growing business tax expenditure.

Consumption tax expenditures are predicted to increase 15.8 percent between FY 2004 and FY 2005, from \$10,736.1 million to \$12,435.3 million. Growth in tax expenditures related to health care, construction, and professional, scientific, and technical services account for most of the increase. Comparisons between the estimates for consumption tax expenditures contained in this report and those in prior editions of the *Tax Expenditure Appendix* are not valid due to changes in the methodology and data sources used to calculate tax expenditures related to services.

Individual income tax expenditures are predicted to rise from \$5,517.5 million in FY 2004 to \$6,007.1 million in FY 2005, an 8.9 percent increase. Public Acts 1 through 6 of 1999 and Public Act 40 of 2000 implement reductions in the income tax rate. The tax rate fell to 4.0 percent in 2003, and will fall to 3.9 percent on July 1, 2004. The reduction in the income tax rate reduces the size of most income tax expenditures, especially exemptions and deductions.

Local tax expenditures are predicted to increase 4.1 percent between FY 2004 and FY 2005, rising from \$9,154.1 million to \$9,527.8 million, as property values rise and new construction adds to the property tax base.

Transportation tax expenditures are predicted to increase 3.4 percent between FY 2004 and FY 2005, from \$52.6 million to \$54.4 million.

CHAPTER 1

INTRODUCTION TO TAX EXPENDITURES

Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax credits, deductions, and exemptions along with the annual presentation of the *Executive Budget* to the Legislature:

The governor, with the annual budget message to the legislature, shall report, at a minimum, the tax credits, deductions, and exemptions enumerated in this act. The message shall include tax credits, deductions, and exemptions by budget and also shall contain a separate report on tax credits, deductions, and exemptions in total, which may be printed as an appendix to the budget. The department of treasury shall furnish these items to the governor for inclusion in the report as required by this act.

The *Appendix on Tax Credits, Deductions, and Exemptions* is a compilation of the revenue cost of the various tax credits, deductions, and exemptions contained within the Michigan state and local tax structure. These provisions are more commonly known as tax expenditures and will be referred to as tax expenditures in this report. When known, the number of taxpaying units taking advantage of a given tax expenditure is also included.

This *Appendix* is divided into eight chapters. Chapter 1 discusses the definition and measurement of tax expenditures. Chapter 2 presents a summary of tax expenditures by type of tax. Chapter 3 lists tax expenditures by budget category. Chapters 4 through 8 examine the five main tax expenditure categories in greater detail: business privilege, consumption, individual income, transportation, and local property. Chapters 4 through 8 discuss changes in tax laws and the reliability of tax expenditure estimates, in addition to providing a brief description of each tax expenditure.

Defining Tax Expenditures

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as credits, deductions, exemptions, deferrals, exclusions, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system. For economic purposes, it makes no difference whether a policy objective is pursued through direct spending or through the tax code. For example, a tax credit of 50 percent of the amount spent on health care by individuals is exactly the same as a spending program that pays 50 percent of health care expenses. Either way, the individual receives a 50 percent reduction in the effective cost of health care.

Classifying items as tax expenditures is a subjective process. Some argue that the tax expenditure definition should be as broad as possible, encompassing all deductions or credits that

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

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

Traditionally, tax expenditures have served two purposes. First, they redistribute the tax burden. Tax expenditures such as personal income tax exemptions, sales tax exemptions for food and prescription drug purchases, and SBT credits for small, low-profit firms all shift the relative tax burden. These tax expenditures are designed to reduce the tax burden on low-income individuals and businesses. Second, tax expenditures create an incentive for individuals or firms to change their behavior. The college contribution credit, intended to increase contributions to colleges and universities, is an example of a tax expenditure designed to influence taxpayer behavior.

Tax expenditures are so named because they can be viewed as alternatives to direct government appropriations or regulation. In fact, tax expenditures are very similar to direct appropriations in many respects. The main difference is that while appropriations achieve policy goals directly, tax expenditures achieve policy goals indirectly by changing relative prices or reducing costs. For example, the government may help the poor directly by providing food stamps. Alternatively, the government can exempt food from the sales tax, which lowers the cost of food purchases relative to other goods. This will aid poorer residents because they spend a greater percentage of their income on basic needs such as food, which is not taxed.

However, the allocation of government resources through the tax system suffers from some drawbacks. First, because tax expenditures accomplish their goals indirectly, they provide a less efficient means of targeting benefits than direct expenditures. Sometimes, the targeted group may not receive the benefits, or other groups who were not targeted originally may benefit. Second, policymakers tend to ignore tax expenditures during the budgeting process. Instead, they focus their attention almost strictly upon actual revenue and spending. They may spend less time considering potential new tax expenditures and revenue that might be collected by eliminating or reducing current tax expenditures. Finally, providing resources via tax expenditures may be more costly than through direct appropriation. Centralized purchasing of certain items such as prescription drugs or diabetic supplies by the state may result in a lower cost than if individuals purchase the items and then apply for a tax credit. On the other hand, the cost to governments of administering most tax expenditures is usually a fraction of the cost of administering direct spending programs.

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

Technical Issues

State Versus Federal Tax Expenditures

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

State Versus Local Tax Expenditures

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

Income Tax Personal Exemption

For tax year 2003, individual Michigan taxpayers could claim a \$3,100 personal exemption for themselves and each of their dependents. The personal exemption is classified as a tax expenditure in this report. Some contend that the exemption is essential for determining an appropriate income tax base and should not be considered a tax expenditure. Yet even using a

narrow definition of tax expenditures, the personal exemption would be considered a tax expenditure because it changes the distribution of the tax burden based on family size.

Industrial Processing Exemption From Sales Tax

The levy of a “pure” retail sales tax takes place only at the retail level, that is, sales to the final consumer. Goods or services used in the production of consumer goods are exempt from this pure retail sales tax. States differ as to the business purchases they exempt from the sales tax. In Michigan, sales of goods used in industrial processing are exempt, although sales of goods used in business, but not in the actual manufacturing process, are subject to taxation. In this sense, the exclusion of non-retail sales from a pure retail sales tax base is not a tax expenditure. However, Michigan’s sales tax is not a pure retail sales tax because many final consumer goods, such as services, are not subject to taxation. Hence, this report includes the business purchase exemption as a tax expenditure to the state sales tax.

Measuring Tax Expenditures

The estimates in this report for FY 2004 and FY 2005 are based on the most recent data available. Tax year 2002 income tax data (returns processed in the spring of 2003) are used, as are 2002 property and sales tax data, and tax year 1999-2000 SBT data. Unless otherwise noted, estimates of the cost (in terms of foregone revenue) of credits, deductions, exemptions, and other reductions are based on actual tax return data. However, many exemptions are not reported on tax returns. In these instances, tax expenditure estimates were derived from other sources.

The tax expenditure estimates *do not* necessarily reflect the amount of actual revenue that would be gained through the repeal of specific provisions. This is attributable to three economic assumptions (listed below) which have been made to ease the task of estimation. (These assumptions are consistent with those made at the federal level and used by other states.)

Assumption 1: The elimination of a tax expenditure does not alter economic behavior.

In many instances, tax expenditures are specifically designed to provide incentives for people and businesses to behave in a certain manner. Elimination of tax expenditures would most likely alter their behavior. For example, if the sales tax exemption for food were eliminated, the final price that consumers pay for food would increase and food purchases would decline. In this case, the elimination of the tax expenditure would be similar to a price increase. This drop in food purchases offsets some of the revenue gain from eliminating the exemption.

Assumption 2: Each tax expenditure is independent.

The repeal of certain tax expenditure provisions can increase or decrease the revenue losses associated with other provisions that are kept in place. For example, reducing or

removing one SBT deduction or credit may allow firms to take greater advantage of other deductions or credits, offsetting the original revenue impact.

Assumption 3: The elimination of tax expenditures does not affect overall macroeconomic conditions.

In principle, repeal or enactment of major tax expenditure provisions would have some impact on the economy. For example, imposing the sales tax on services or repealing the personal income tax exemption may significantly reduce income levels and affect taxpayers' spending which would affect the macro economy. However, marginal changes in particular provisions are unlikely to have a significant impact on overall income levels and rates of economic growth.

In essence, the reported estimate for each tax expenditure is an isolated estimate. That is, estimates assume implicitly that no other tax expenditures exist (i.e., there is no interaction) and that all other factors remain constant (i.e., taxpayers do not change their behavior and the repeal of the provision does not affect the economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would generally fall short of the estimates.

Cautionary Notes and the Reliability of Estimates

In many instances, this report aggregates individual tax expenditure estimates. However, due to the simplifying assumptions that have been made, aggregating various tax expenditure estimates in order to measure the cost of changing all of them simultaneously will not be accurate. The estimated revenue gain from simultaneously eliminating two tax expenditures will be less than the sum of the cost of the two measured separately. Therefore, the reader is cautioned regarding interactions between tax expenditures.

The reader is also cautioned about comparing tax expenditure estimates across years. Substantial federal, state, and local changes in tax laws occur each year that affect the number, type, and magnitude of tax expenditures. In addition, measurement techniques may also vary from year to year, depending on available data.

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

1. High reliability level.

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

2. Average reliability level.

Tax expenditure estimates in this category were also based on tax return data. However, specific economic assumptions were necessary to derive these estimates because less recent data or sample data were used. The personal exemption from city income taxes is an example of an estimate with average reliability. Estimates were based on a recent survey of city treasurers. Some city estimates were carried forward from last year, while other estimates were based on rounded figures. While this will affect the precision of the total estimate, the impact should be relatively small.

3. Low reliability level.

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

Why Report Tax Expenditures?

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

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

1. Tax Equity.

Reviewing tax expenditures helps to ensure both vertical and horizontal equity in the tax structure. Horizontal equity refers to taxpayers in similar income groups, while vertical equity refers to taxpayers in different income groups. If a voluntary tax system is to work, people must regard that system as equitable.

2. Fiscal Discipline.

Adopting regular tax expenditure reporting gives policymakers more information regarding available resources and how these resources are being used. All state programs, whether they are funded through direct or indirect spending, should work in unison so that particular policy objectives can be attained.

3. Political Accountability.

By mandating a periodic review of the tax code, state lawmakers would foster a public discussion about how the tax system should be designed. In addition, lawmakers would indicate publicly whether they support or oppose certain tax expenditures, much like the appropriations process.

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

Finally, the inclusion of any item as a tax expenditure should not be viewed as an expression of support for or objection to any particular tax policy. As noted above, tax expenditures represent spending done outside of the annual appropriation process. While a periodic review of tax expenditures is encouraged as a way to better conduct public policy, the inclusion of an item as a tax expenditure does not signify any conclusion regarding its merit as public policy.

CHAPTER 2

SUMMARY OF TAX EXPENDITURES

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

Total tax expenditures are projected to increase from \$26.760 billion in FY 2004 to \$29.381 billion in FY 2005, a 9.8 percent increase (see Exhibit 1). Most of the increase in total tax expenditures is due to growth in consumption tax expenditures, specifically the exemption of most service industries from the sales and use taxes.

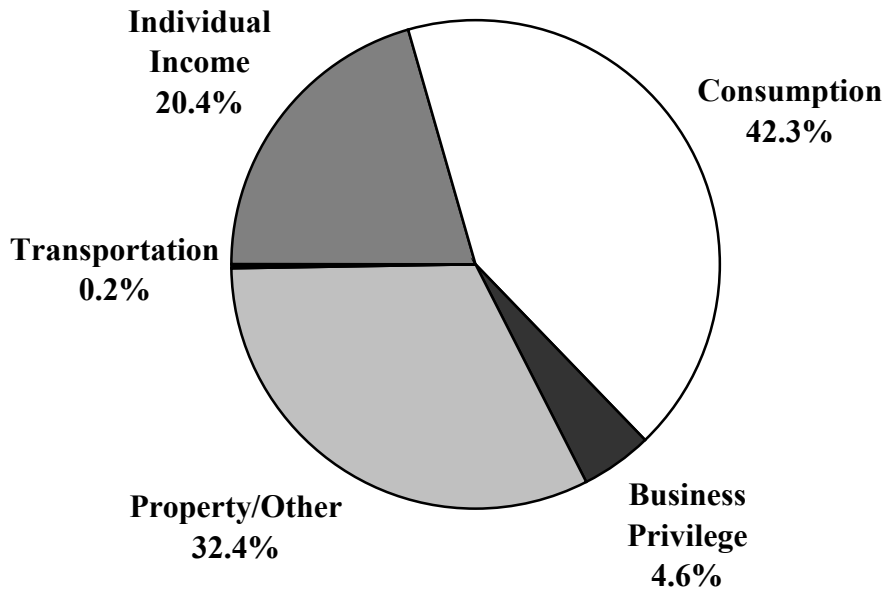
Exhibit 1
Total Tax Expenditures, FY 2004 and FY 2005

| <u>Tax Category</u> | <u>FY 2004</u> <u>(000)</u> | <u>FY 2005</u> <u>(000)</u> | <u>Change</u> |
|---------------------------|--------------------------------|--------------------------------|--------------------|
| Business Privilege | \$1,300,023 | \$1,356,440 | \$56,418 |
| Consumption | 10,736,097 | 12,435,295 | 1,699,198 |
| Individual Income | 5,517,518 | 6,007,103 | 489,585 |
| Property | 8,964,865 | 9,338,090 | 373,225 |
| Other Local (City Income) | 189,200 | 189,700 | 500 |
| Transportation | <u>52,607</u> | <u>54,406</u> | <u>1,799</u> |
| TOTAL | \$26,760,310 | \$29,381,034 | \$2,620,725 |

Totals may differ slightly due to rounding.

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2005, consumption tax expenditures comprised 42.3 percent of total tax expenditures, while income tax expenditures comprised 20.4 percent and property and other local taxes comprised 32.4 percent. Not surprisingly, taxes that generate significant revenue are also associated with large tax expenditures (see Exhibit 3). Most notable are consumption tax expenditures resulting from the exemptions for food, services, and industrial processing.

Exhibit 2
FY 2005 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2005 Tax Expenditures and Projected Revenue
(millions of dollars)

| <u>Tax Category</u> | <u>Tax Expenditure</u> | <u>Projected Revenues*</u> | <u>Percent of Revenues</u> |
|----------------------------|----------------------------|--------------------------------|--------------------------------|
| Business Privilege | | | |
| Oil and Gas Severance | \$5.0 | \$50.0 | 10.0% |
| Single Business | 1,350.7 | 1,917.5 | 70.4% |
| Consumption | | | |
| Total Alcohol | 0.1 | 158.5 | 0.1% |
| Cigarette and Tobacco | 20.7 | 864.1 | 2.4% |
| Sales and Use | 12,414.5 | 8,129.3 | 152.7% |
| Individual Income Tax | 3,611.9 | 6,020.8 | 60.0% |
| Transportation | | | |
| Aviation Fuel | 3.5 | 8.2 | 43.3% |
| Gasoline | 29.5 | 968.0 | 3.0% |
| Diesel Fuel | 5.2 | 162.6 | 3.2% |
| Motor Vehicle Registration | 15.5 | 882.2 | 1.8% |
| City Income Tax | 189.7 | 550.3 | 34.5% |
| TOTAL | \$17,646.3 | \$19,711.5 | 89.5% |

From Consensus Revenue Estimating Conference, May 2004.

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

**Exhibit 4
Business Privilege Tax Expenditures**

| <u>Tax or Tax Expenditure</u> | <u>FY 2004 (000)</u> | <u>FY 2005 (000)</u> |
|---|--------------------------|--------------------------|
| Insurance Company Retaliatory | | |
| Supplemental Workers' Compensation | \$783 | \$736 |
| Oil and Gas Severance Tax | | |
| Marginal Wells | 2,214 | 2,170 |
| Public Land | 2,902 | 2,844 |
| SUBTOTAL | <u>\$5,116</u> | <u>\$5,014</u> |
| Single Business Tax Expenditure | | |
| Agricultural Producers | \$12,074 | \$12,315 |
| Apprenticeship Tax Credit | 792 | 808 |
| Brownfield Zone Credit | 58,689 | 82,257 |
| Business Loss Deduction | 49,638 | 51,852 |
| Community Foundation Credit | 673 | 707 |
| Compensation Exemption | 142,591 | 146,868 |
| Corporate Farm Property Tax Credit | 1,324 | 1,364 |
| Enterprise Zone Credit | 829 | 845 |
| Excess Compensation Reduction | 211,352 | 220,780 |
| Floor Plan Interest Deduction | 1,500 | 1,500 |
| Government Utilities Exemption | 15,811 | 16,427 |
| Gross Receipts Reduction | 155,408 | 162,340 |
| Gross Receipts Threshold | 75,665 | 78,259 |
| Health Insurance Deduction* | 2,200 | 9,900 |
| Higher Education Contributions Credit | 1,921 | 1,959 |
| Historic Preservation Credits | 783 | 798 |
| Homeless/Food Bank Credit | 430 | 438 |
| Insurer's Exemption From Gross Receipts | 1,194 | 1,230 |
| Insurer's Facility Assessment Credit | 71,193 | 73,328 |
| Investment Tax Credit | 125,581 | 131,575 |
| Iron Ore Credit | 1,400 | 1,400 |
| Minority Venture Capital Credit | 0 | 0 |
| Michigan Economic Growth Authority | 37,100 | 9,774 |
| Multiple Employer Welfare Arrangement | 26 | 26 |
| Next Energy Credit | 3,813 | 8,645 |
| Nonprofit Organizations | 112,563 | 117,584 |
| Officer Compensation* | 3,123 | 3,263 |
| Pharmaceutical Research Credit | 7,675 | 8,373 |
| Renaissance Zones | 6,408 | 6,728 |
| Small Business Credit | 98,185 | 102,564 |
| Statutory Exemption | 8,886 | 9,282 |
| Supplemental Workers' Compensation | 4,811 | 4,522 |
| Tribal Tax Agreement | n.a. | n.a. |
| Unincorporated Business Credit | 76,557 | 78,854 |
| Utility Property Tax Credit | 3,929 | 4,126 |
| SUBTOTAL | <u>\$1,294,124</u> | <u>\$1,350,690</u> |
| TOTAL | <u>\$1,300,023</u> | <u>\$1,356,440</u> |

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

Exhibit 5
Consumption Tax Expenditures

| <u>Tax or Tax Expenditure</u> | <u>FY 2004</u> <u>(000)</u> | <u>FY 2005</u> <u>(000)</u> |
|---|--------------------------------|--------------------------------|
| Alcoholic Beverages Taxes | | |
| Beer Shipped Out-of-State | n.a. | n.a. |
| Homemade Wine | n.a. | n.a. |
| Small Brewer's Credit | \$91 | \$100 |
| SUBTOTAL | \$91 | \$100 |
| Cigarette Tax | | |
| Bad Debt Deduction | \$800 | \$800 |
| Licensee Expenses | 13,338 | 13,144 |
| Sales on Military Bases and Reservations | 6,876 | 6,738 |
| SUBTOTAL | \$21,014 | \$20,682 |
| Sales and Use Tax Expenditures | | |
| Air and Water Pollution | \$42,000 | \$44,000 |
| Aircraft Parts | 8,183 | 8,408 |
| Bad Debts | 58,988 | 61,415 |
| Cargo Aircraft | 30,000 | 30,000 |
| Church Construction | 3,200 | 3,200 |
| Church Cars | 4,045 | 4,211 |
| Collection Fee | 15,455 | 16,091 |
| Commercial Domestic Aircraft | 5,000 | 5,000 |
| Commercial Vessels | n.a. | n.a. |
| Communication and Telephone Exemption | 37,000 | 37,000 |
| Damaged Beer | n.a. | n.a. |
| Delayed Payment on Construction Materials | 2,870 | 2,988 |
| Donated Property | n.a. | n.a. |
| Driver Training | 602 | 614 |
| Employee Meals | 7,600 | 7,874 |
| Enterprise Zone Credit | n.a. | n.a. |
| Food | 843,135 | 877,821 |
| Food for Students | 55,889 | 56,629 |
| Government or Red Cross | 160,362 | 166,959 |
| Gratuity and Tips | 52,369 | 54,524 |
| Horticultural and Agricultural Products | 130,275 | 130,275 |
| Imported Property from Other States* | 1,700 | 3,600 |
| Industrial Processing | 891,848 | 928,538 |

Exhibit 5 (Continued)

| <u>Tax or Tax Expenditure</u> | <u>FY 2004 (000)</u> | <u>FY 2005 (000)</u> |
|--|--------------------------|--------------------------|
| Inmate Purchases | \$598 | \$618 |
| Interstate Communications | 34,570 | 35,992 |
| Interstate Trucks and Trailers | 37,630 | 39,178 |
| Investment Coins | 400 | 400 |
| Isolated Sales | n.a. | n.a. |
| Military PX Sales | 1,683 | 1,753 |
| Military Vehicles Sales | n.a. | n.a. |
| Military Vehicles Sales (Residents Out-of-State) | n.a. | n.a. |
| Newspapers, Periodicals, and Films | 89,895 | 93,593 |
| Nonprofit Ambulance and Fire Services | n.a. | n.a. |
| Nonprofit Hospital or Housing Construction | 10,170 | 10,589 |
| Nonprofit Organizations | 171,997 | 179,073 |
| Nonprofits Sales under \$5,000 | n.a. | n.a. |
| Nonresident Merchandise Transfer | n.a. | n.a. |
| Nonresident Property | n.a. | n.a. |
| Ophthalmic and Orthopedic Products | 42,374 | 42,629 |
| Prescription Drugs | 498,960 | 600,699 |
| Radio and TV | 4,400 | 4,400 |
| Rail Rolling Stock | 1,579 | 1,644 |
| Residential Utilities | 114,350 | 117,500 |
| Returned Vehicles | 1,100 | 1,100 |
| Sales of Business | n.a. | n.a. |
| Sale of Water | 62,415 | 62,415 |
| Services (Including Nonprofits) | 7,160,978 | 8,647,435 |
| Small Out-of-State Purchases | n.a. | n.a. |
| Telephone Services | 17,233 | 17,578 |
| Textbooks Sold by Schools | n.a. | n.a. |
| Tribal Tax Agreement | n.a. | n.a. |
| Vehicles and Aircraft Transfers | 90,740 | 94,473 |
| Vehicles Purchased for Use in Another State | n.a. | n.a. |
| Vending Machines and Mobile Facilities | 23,400 | 24,300 |
| SUBTOTAL | \$10,714,993 | \$12,414,516 |
| TOTAL | \$10,736,098 | \$12,435,298 |

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

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

**Exhibit 6
Individual Income Tax Expenditures**

| <u>Tax or Tax Expenditure</u> | <u>FY 2004 (000)</u> | <u>FY 2005 (000)</u> |
|--|--------------------------|--------------------------|
| State Income Tax | | |
| Adjustments to Income | \$1,563,479 | \$1,594,814 |
| Adoption Credit | 1,000 | 1,000 |
| Child Deduction | 52,111 | 51,968 |
| City Income Tax Credit | 33,817 | 33,724 |
| College Savings Accounts | 8,319 | 10,393 |
| Community Foundation Credit | 2,880 | 3,043 |
| Dependent Exemption | 20,692 | 20,635 |
| Farmland Credit | 33,151 | 34,808 |
| Higher Education/Public Contributions Credit | 26,665 | 27,998 |
| Historic Preservation Credit | 612 | 735 |
| Holocaust Survivor Subtraction | n.a. | n.a. |
| Home Heating Assistance Credit | 60 | 60 |
| Homeless/Food Bank Credit | 18,237 | 20,060 |
| Homestead Property Tax Credit | 750,840 | 789,004 |
| Income Tax Paid to Other State Credit | 32,405 | 33,596 |
| Military Pay and Pensions | 23,650 | 25,029 |
| Personal Exemption | 923,452 | 920,917 |
| Renaissance Zones | 300 | 300 |
| Special Exemption | 36,816 | 38,169 |
| Tribal Tax Agreements | n.a. | n.a. |
| Tuition Credit | 4,720 | 5,665 |
| TOTAL STATE | \$3,533,206 | \$3,611,918 |
| Federal Adjustments | | |
| Accelerated Depreciation* | \$36,765 | -\$14,206 |
| Employer Contributions to Insurance | 606,721 | 750,785 |
| Employer Pension Plans* | 652,694 | 786,987 |
| Federal Adjustments to Income | 16,710 | 20,798 |
| Fellowships and Scholarships | 6,597 | 8,724 |
| Gain on Sale of Primary Residence | 109,324 | 155,208 |
| Income Maintenance Benefits | 3,110 | 4,033 |

Exhibit 6 (Continued)

| <u>Tax or Tax Expenditure</u> | <u>FY 2004</u> <u>(000)</u> | <u>FY 2005</u> <u>(000)</u> |
|------------------------------------|--------------------------------|--------------------------------|
| Federal Adjustments (continued) | | |
| Individual Retirement Accounts* | \$138,853 | \$203,771 |
| Interest on Life Insurance Savings | 111,631 | 140,851 |
| Medical Savings Account | 655 | 3,036 |
| Railroad Retirement Benefits | 1,759 | 1,929 |
| Social Security Benefits | 208,175 | 223,488 |
| Student Loan Deduction | 3,511 | 5,078 |
| Veterans' Benefits | 34,692 | 40,495 |
| Workers' Compensation | 53,115 | 64,208 |
| TOTAL FEDERAL | \$1,984,312 | \$2,395,185 |
| TOTAL STATE AND FEDERAL | \$5,517,518 | \$6,007,103 |

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

Exhibit 7
Transportation Tax Expenditures

| <u>Tax or Tax Expenditure</u> | <u>FY 2004</u> <u>(000)</u> | <u>FY 2005</u> <u>(000)</u> |
|--|--------------------------------|--------------------------------|
| Aviation Gasoline and Marine Fuel | | |
| Federally Owned Aircraft | \$256 | \$261 |
| Interstate Flight Refund | 3,191 | 3,286 |
| Marine Vessel Exemption | 700 | 710 |
| SUBTOTAL | <u>\$4,147</u> | <u>\$4,257</u> |
| Motor Fuel Taxes | | |
| Diesel Fuel for Jobsites and Charter Firms | \$5,063 | \$5,164 |
| Diesel Fuel for Railroads | n.a. | n.a. |
| Evaporation and Loss Allowance | 14,470 | 14,800 |
| Fuel for Off-Road Use | 935 | 954 |
| Municipal Franchise Vehicles | 397 | 405 |
| Public Vehicles | 13,096 | 13,292 |
| Tribal Tax Agreements | n.a. | n.a. |
| SUBTOTAL | <u>\$33,961</u> | <u>\$34,615</u> |
| Motor Vehicles Registration Fee | | |
| Disabled Veterans' Vehicles | \$174 | \$220 |
| Handicapper Vans | n.a. | n.a. |
| Intercity Commercial Buses | n.a. | n.a. |
| Public and Nonprofit Vehicles | 14,311 | 15,300 |
| SUBTOTAL | <u>\$14,485</u> | <u>\$15,520</u> |
| Watercraft Registration Fee | | |
| Publicly-Owned Vehicle | \$14 | \$14 |
| TOTAL | <u>\$52,607</u> | <u>\$54,406</u> |

Exhibit 8
Local Property and Other Local Tax Expenditures

| <u>Tax or Tax Expenditure</u> | <u>FY 2004</u> <u>(000)</u> | <u>FY 2005</u> <u>(000)</u> |
|---|--------------------------------|--------------------------------|
| Property and Other Local Tax Expenditures | | |
| Agriculture Transfers | \$19,000 | \$27,900 |
| Air and Water Pollution Control | 140,000 | 140,000 |
| Church Transfers | n.a. | n.a. |
| Cultural Organizations | n.a. | n.a. |
| Energy Conservation Devices | 590 | 530 |
| Enterprise Zone Credit | 1,200 | 1,200 |
| Fairground Property | n.a. | n.a. |
| Homestead Exemption | 2,730,000 | 2,800,000 |
| Homestead Exemption for Farm Property | 130,000 | 130,000 |
| Industrial Facilities Development | 306,000 | 320,000 |
| Mobile Homes | 48,000 | 47,700 |
| Neighborhood Enterprise Zones | 5,000 | 5,700 |
| Next Energy Exemption | 400 | 800 |
| Obsolete Property Rehabilitation | 1,200 | 3,400 |
| Poverty Exemption | 2,300 | 2,400 |
| Railroad Right-of-Way/Broadband Credit | 31,300 | 37,000 |
| Renaissance Zones* | 52,800 | 63,360 |
| Specifically-Taxed Property | n.a. | n.a. |
| Tax-Exempt Property | 2,016,000 | 2,057,000 |
| Tax Increment Financing | 280,000 | 290,000 |
| Taxable Value Cap | 3,200,000 | 3,410,000 |
| Water Softeners | 1,075 | 1,100 |
| SUBTOTAL | <u>\$8,964,865</u> | <u>\$9,338,090</u> |
| City Income Tax | | |
| Federal Deductions | n.a. | n.a. |
| Net Profits of Financial Institutions | n.a. | n.a. |
| Nonresident Reduced Rate | \$165,900 | \$166,100 |
| Pensions, Annuities, and Retirement | n.a. | n.a. |
| Personal Exemption | 23,300 | 23,600 |
| Supplemental Unemployment Benefits | n.a. | n.a. |
| SUBTOTAL | <u>\$189,200</u> | <u>\$189,700</u> |
| TOTAL | <u>\$9,154,065</u> | <u>\$9,527,790</u> |

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

CHAPTER 3

TAX EXPENDITURE BUDGET

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

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

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

Exhibit 9
Tax Expenditure Budget, FY 2005

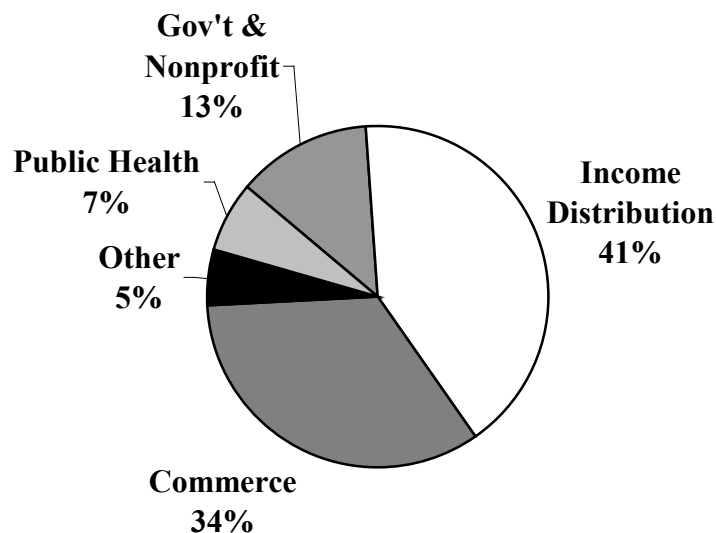


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2004

| <u>Spending Category</u> | <u>Tax Expenditure (000)</u> | <u>Direct Expenditure (000)</u> | <u>Total (000)</u> | <u>Percent Tax Expenditure</u> |
|---------------------------|--------------------------------------|---|------------------------|------------------------------------|
| Agriculture | \$176,824 | \$71,113 | \$247,937 | 71.3% |
| Commerce (CIS) | 7,207,885 | 318,814 | 7,526,699 | 95.8% |
| Higher Education | 80,329 | 1,785,355 | 1,865,683 | 4.3% |
| Income Distribution (FIA) | 6,540,614 | 1,203,836 | 7,744,450 | 84.5% |
| Military Affairs | 68,575 | 60,999 | 129,574 | 52.9% |
| Natural Resources | 42,000 | 215,135 | 257,135 | 16.3% |
| Public (Community) Health | 1,296,678 | 3,295,979 | 4,592,657 | 28.2% |
| Transportation | 46,037 | 2,163,477 | 2,209,514 | 2.1% |
| TOTAL | \$15,458,941 | \$9,114,707 | \$24,573,649 | 62.9% |

Note: FY 2004 expenditure figures from *FY 2003-2004 Appropriations Report*, Senate Fiscal Agency.

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

Exhibit 11
Fiscal Summary, Tax Expenditure Budget

| <u>Budget Category</u> | <u>FY 2004</u> <u>(000)</u> | <u>FY 2005</u> <u>(000)</u> |
|--|--------------------------------|--------------------------------|
| Agriculture | \$613,824 | \$643,562 |
| Commerce | 8,671,560 | 9,889,915 |
| Education | 622,329 | 632,955 |
| Government and Nonprofit Organizations | 3,841,804 | 3,759,427 |
| Income Distribution | 11,416,914 | 12,189,389 |
| Military Affairs | 68,575 | 75,735 |
| Natural Resources | 182,590 | 184,530 |
| Public Health | 1,296,678 | 1,958,048 |
| Transportation | 46,037 | 47,477 |
| TOTAL | \$26,760,311 | \$29,381,038 |

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

See Exhibit 12 for a detailed list of tax expenditures.

**Exhibit 12
Tax Expenditure Budget Detail**

| <u>Tax/Tax Expenditure</u> | <u>FY 2004 (000)</u> | <u>FY 2005 (000)</u> |
|--|--------------------------|--------------------------|
| Agriculture | | |
| General Property Tax | | |
| Agriculture Transfer | \$19,000 | \$27,900 |
| Homestead Exemption for Farm Property | 130,000 | 130,000 |
| Taxable Value Cap | 288,000 | 306,900 |
| Income Tax | | |
| Farmland Development Credit (PA 116) | 33,151 | 34,808 |
| Sales and Use Taxes | | |
| Horticultural or Agricultural Products | 130,275 | 130,275 |
| Single Business Tax | | |
| Agricultural Producers | 12,074 | 12,315 |
| Corporate Farm Property Tax Credit | 1,324 | 1,364 |
| TOTAL | \$613,824 | \$643,562 |
| Commerce | | |
| Alcoholic Beverage Taxes | | |
| Beer Shipped Out-of-State | n.a. | n.a. |
| Small Brewer's Credit | \$91 | \$100 |
| Cigarette Tax | | |
| Bad Debt Deduction | 800 | 800 |
| Licensee Expenses | 13,338 | 13,144 |
| Income Tax | | |
| Accelerated Depreciation | 36,765 | -14,206 |
| Renaissance Zone Credit | 300 | 300 |
| Insurance Company Retaliatory Tax | | |
| Supplemental Workers' Compensation Credits | 783 | 736 |
| Motor Vehicle Registration Tax | | |
| Intercity Commercial Buses | n.a. | n.a. |
| Oil and Gas Severance Tax | | |
| Marginal Wells | 2,214 | 2,170 |

| Tax/Tax Expenditure | FY 2004 (000) | FY 2005 (000) |
|--|--------------------------|--------------------------|
| Commerce (Continued) | | |
| Property Tax | | |
| Broadband Investment Credit | \$12,200 | \$17,100 |
| Enterprise Zone | 1,200 | 1,200 |
| Industrial Facilities Development | 306,000 | 320,000 |
| Mobile Homes | 48,000 | 47,700 |
| Neighborhood Enterprise Zones | 5,000 | 5,700 |
| Next Energy Exemption | 400 | 800 |
| Obsolete Property Rehabilitation | 1,200 | 3,400 |
| Renaissance Zones | 52,800 | 63,360 |
| Tax Increment Financing | 280,000 | 290,000 |
| Taxable Value Cap | 768,000 | 818,400 |
| Water Softeners | 1,075 | 1,100 |
| Sales and Use Taxes | | |
| Aircraft Parts | 8,183 | 8,408 |
| Bad Debts | 58,988 | 61,415 |
| Cargo Aircraft | 30,000 | 30,000 |
| Collection Fee | 15,455 | 16,091 |
| Commercial Domestic Aircraft | 5,000 | 5,000 |
| Commercial Vessels | n.a. | n.a. |
| Communication and Telephone Exemption | 37,000 | 37,000 |
| Delayed Payment on Construction Materials | 2,870 | 2,988 |
| Employee Meals | 7,600 | 7,874 |
| Enterprise Zone | n.a. | n.a. |
| Gratuities and Tips | 52,369 | 54,524 |
| Imported Property from Other States | 1,700 | 3,600 |
| Industrial Processing | 891,848 | 928,538 |
| Interstate Telecommunications | 34,570 | 35,992 |
| Interstate Trucks and Trailers | 37,630 | 39,178 |
| Investment Coins | 400 | 400 |
| Newspapers, Periodicals, and Films | 89,895 | 93,593 |
| Nonresident Merchandise Transfer | n.a. | n.a. |
| Radio and TV | 4,400 | 4,400 |
| Returned Vehicles | 1,100 | 1,100 |
| Sale of Business | n.a. | n.a. |
| Sale of Water | 62,415 | 62,415 |
| Services (except education, health, and nonprofits) | 4,520,846 | 5,590,954 |
| Small Out-of-State Purchases | n.a. | n.a. |

| Tax/Tax Expenditure | FY 2004 (000) | FY 2005 (000) |
|--|--------------------------|--------------------------|
| Commerce (Continued) | | |
| Telephone Services | \$17,233 | \$17,578 |
| Vehicle and Aircraft Transfers | 90,740 | 94,473 |
| Vehicles Purchased for Use in Another State | n.a. | n.a. |
| Vending Machines | 23,400 | 24,300 |
| Single Business Tax | | |
| Brownfield Zone Credit | 58,689 | 82,257 |
| Business Loss Deduction | 49,638 | 51,852 |
| Compensation Exemption | 142,591 | 146,868 |
| Enterprise Zone Credit | 829 | 845 |
| Excess Compensation Reduction | 211,352 | 220,780 |
| Floor Plan Internal Expense | 1,500 | 1,500 |
| Gross Receipts Reduction | 155,408 | 162,340 |
| Gross Receipts Threshold | 75,665 | 78,259 |
| Health Insurance Deduction | 2,200 | 9,900 |
| Insurer's Exemption From Gross Receipts | 1,194 | 1,230 |
| Insurer's Facility Assessment Credit | 71,193 | 73,328 |
| Investment Tax Credit | 125,581 | 131,575 |
| Iron Ore Credit | 1,400 | 1,400 |
| MEGA | 37,100 | 9,774 |
| Minority Venture Capital Credit | 0 | 0 |
| Multiple Employer Welfare Arrangement | 26 | 26 |
| Next Energy Credit | 3,813 | 8,645 |
| Officer Compensation | 3,123 | 3,263 |
| Pharmaceutical Research Credit | 7,675 | 8,373 |
| Renaissance Zone Credit | 6,408 | 6,728 |
| Small Business Low-Profit Credit | 98,185 | 102,564 |
| Statutory Exemption | 8,886 | 9,282 |
| Supplemental Workers' Compensation Credit | 4,811 | 4,522 |
| Unincorporated Business Credit | 76,557 | 78,854 |
| Utility Property Tax Credit | 3,929 | 4,126 |
| TOTAL | \$8,671,560 | \$9,889,915 |
| Education | | |
| Income Tax | | |
| College Savings Account | \$8,319 | \$10,393 |
| Fellowships and Scholarships | 6,597 | 8,724 |

| Tax/Tax Expenditure | FY 2004 (000) | FY 2005 (000) |
|---|--------------------------|--------------------------|
| Education (Continued) | | |
| Higher Education/Public Contribution Credit | \$26,665 | \$27,998 |
| Tuition Credit | 4,720 | 5,665 |
| Property Tax | | |
| Exempt Public Education Property | 542,000 | 553,000 |
| Sales Tax | | |
| Services | 31,315 | 24,408 |
| Textbooks Sold by Schools | n.a. | n.a. |
| Single Business Tax | | |
| Apprenticeship Tax Credit | \$792 | \$808 |
| Higher Education and Library Credit | 1,921 | 1,959 |
| TOTAL | \$622,329 | \$632,955 |
| Government and Nonprofit Organizations | | |
| Aviation Gasoline Tax | | |
| Federally Owned Aircraft | \$256 | \$261 |
| Income Tax | | |
| Community Foundation | 2,880 | 3,043 |
| Historic Preservation Credit | 612 | 735 |
| Motor Fuel Taxes | | |
| Public Vehicles | 13,096 | 13,292 |
| Motor Vehicle Weight Tax | | |
| Handicapper Vans | n.a. | n.a. |
| Public and Nonprofit Vehicles | 14,311 | 15,300 |
| Oil and Gas Severance Tax | | |
| Public Land | 2,902 | 2,844 |
| Property Tax | | |
| Church Transfers | n.a. | n.a. |
| Tax Exempt Property | 1,474,000 | 1,504,000 |
| Sales and Use Taxes | | |
| Church Cars | 4,045 | 4,211 |
| Church Construction | 3,200 | 3,200 |
| Donated Property | n.a. | n.a. |
| Government or Red Cross | 160,362 | 166,959 |
| Nonprofit Organizations | 171,997 | 179,073 |
| Nonprofit Sales | n.a. | n.a. |
| Services | 1,864,299 | 1,730,979 |

| Tax/Tax Expenditure | FY 2004 (000) | FY 2005 (000) |
|---|--------------------------|--------------------------|
| Government and Nonprofit Organizations (Continued) | | |
| Single Business Tax | | |
| Community Foundation Credit | \$673 | \$707 |
| Government Utilities | 15,811 | 16,427 |
| Historic Preservation Credit | 783 | 798 |
| Nonprofit Organizations | 112,563 | 117,584 |
| Watercraft Registration Fee | | |
| Publicly Owned Watercraft | 14 | 14 |
| TOTAL | \$3,841,804 | \$3,759,427 |
| Income Distribution | | |
| City Income Tax | | |
| Nonresident Reduced Rate | \$165,900 | \$166,100 |
| Personal Exemption | 23,300 | 23,600 |
| General Property Tax | | |
| Homestead Exemption | 2,730,000 | 2,800,000 |
| Poverty Exemption | 2,300 | 2,400 |
| Taxable Value Cap | 2,144,000 | 2,284,700 |
| Income Tax | | |
| Adjustments to Income (except military) | 1,563,479 | 1,594,814 |
| Adjustments to Income (federal) | 16,710 | 20,798 |
| Adoption Credit | 1,000 | 1,000 |
| Child Deduction | 52,111 | 51,968 |
| City Income Tax Credit | 33,817 | 33,724 |
| Dependent Exemption | 20,692 | 20,635 |
| Employer Contributions to Health and Life Insurance | 606,721 | 750,785 |
| Employer Pension Plans | 652,694 | 786,987 |
| Gain on Sale of Primary Residence | 109,324 | 155,208 |
| Holocaust Survivor | n.a. | n.a. |
| Home Heating Assistance Credit | 60 | 60 |
| Homeless Credit | 18,237 | 20,060 |
| Homestead Property Tax Credit (excluding veterans) | 749,340 | 787,504 |
| Income Maintenance Benefits | 3,110 | 4,033 |
| Individual Retirement Account | 138,853 | 203,771 |
| Interest on Life Insurance Savings | 111,631 | 140,851 |
| Other State Tax Credit | 32,405 | 33,596 |
| Personal Exemption | 923,452 | 920,917 |

| Tax/Tax Expenditure | FY 2004 (000) | FY 2005 (000) |
|---|--------------------------|--------------------------|
| Income Distribution (Continued) | | |
| Railroad Retirement Benefits | \$1,759 | \$1,929 |
| Social Security Benefits | 208,175 | 223,488 |
| Special Exemption | 36,816 | 38,169 |
| Student Loan Deduction | 3,511 | 5,078 |
| Workers' Compensation | 53,115 | 64,208 |
| Sales and Use Taxes | | |
| Food | 843,135 | 877,821 |
| Food for Students | 55,889 | 56,629 |
| Inmate Purchases | 598 | 618 |
| Residential Utilities | 114,350 | 117,500 |
| Single Business Tax | | |
| Homeless Shelter Food Bank Credit | 430 | 438 |
| TOTAL | \$11,416,914 | \$12,189,389 |
| Military Affairs | | |
| Cigarette Tax | | |
| Sales on Military Bases and Reservations | \$6,876 | \$6,738 |
| Income Tax | | |
| Military Pay and Pension | 23,650 | 25,029 |
| Veterans' Benefits | 34,692 | 40,495 |
| Veterans' Property Tax Credit | 1,500 | 1,500 |
| Motor Vehicle Weight Tax | | |
| Disabled Veteran Vehicles | 174 | 220 |
| Sales and Use Taxes | | |
| Military Post-Exchange Sales | 1,683 | 1,753 |
| Military Vehicle Sales (nonresident) | n.a. | n.a. |
| Military Vehicle Sales (resident out-of-state) | n.a. | n.a. |
| TOTAL | \$68,575 | \$75,735 |
| Natural Resources | | |
| Property Tax | | |
| Air and Water Pollution | \$140,000 | \$140,000 |
| Energy Conservation Devices | 590 | 530 |
| Sales and Use Taxes | | |
| Air and Water Pollution | 42,000 | 44,000 |
| TOTAL | \$182,590 | \$184,530 |

| Tax/Tax Expenditure | FY 2004 (000) | FY 2005 (000) |
|---------------------------------------|--------------------------|--------------------------|
| Public Health | | |
| Income Tax | | |
| Medical Care Savings - Federal | \$655 | \$3,036 |
| Sales and Use Taxes | | |
| Medical Services | 744,519 | 1,301,095 |
| Nonprofit Ambulance and Fire Services | n.a. | n.a. |
| Nonprofit Hospital Construction | 10,170 | 10,589 |
| Ophthalmic and Orthopedic Products | 42,374 | 42,629 |
| Prescription Drugs | 498,960 | 600,699 |
| TOTAL | \$1,296,678 | \$1,958,048 |
| Transportation | | |
| Aviation Gasoline Tax | | |
| Interstate Flight Refund | \$3,191 | \$3,286 |
| Motor Fuel Taxes | | |
| Diesel Fuel for Jobsites | 5,063 | 5,164 |
| Diesel Fuel for Railroads | n.a. | n.a. |
| Evaporation and Loss Allowance | 14,470 | 14,800 |
| Fuel for Off-Road Use | 935 | 954 |
| Marine Vessel Fuel | 700 | 710 |
| Municipal Franchise Vehicles | 397 | 405 |
| Sales and Use Taxes | | |
| Driver Training | 602 | 614 |
| Rail Rolling Stock | 1,579 | 1,644 |
| Utility Property Tax | | |
| Railroad Right-of-Way | 19,100 | 19,900 |
| TOTAL | \$46,037 | \$47,477 |

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and SBT expenditures. Business privilege tax expenditures are projected to increase 4.3 percent from \$1,300.0 million in FY 2004 to \$1,356.4 million in FY 2005. As discussed above, the SBT phase out was paused for 2003 since the budget stabilization fund dropped below \$250 million. Data from FY 2000 were used to derive SBT tax expenditure estimates. Other tax expenditure estimates from business privilege taxes were based on 2001 data.

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

Most of the tax expenditure estimates for business privilege taxes are fairly accurate. SBT expenditure estimates were based on the entire population of 1999-2000 SBT returns. These returns represent the most recent 12-month period where at least 99 percent of returns have been cleared. Because the SBT base is relatively stable, it is possible to adjust these data in a reliable fashion in order to derive estimates for FY 2004 and FY 2005. Additionally, many SBT expenditures are credits or deductions that filers must claim, as opposed to unreported exemptions, which are much more difficult to estimate. Insurance company retaliatory and oil and gas severance tax expenditure estimates are also reliable because they were based on recent data collected by the state.

Business Privilege Tax Expenditure Changes

Public Act 93 of 2003 amends the Michigan Renaissance Zone Act to expand the number of agricultural renaissance zones from 10 to 20 and removes the time deadline for designating these zones.

Public Acts 240 and 241 of 2003 amend the Single Business Tax Act to remove from the tax base a percentage of payments made by a taxpayer for health benefit plans that provide benefits to Michigan residents. For tax years beginning in 2004, 5 percent of payments for health benefits are exempt. The exempt percentage will rise to 20 percent for tax years beginning in 2005, 40 percent for tax years beginning in 2006, and 50 percent for tax years beginning after 2006.

Public Act 248 of 2003 amends the Michigan Economic Growth Authority (MEGA) Act to expand the definition of eligible businesses that may be offered tax credits under the Act. The Act also amends the organizational structure of MEGA.

Public Acts 249 through 251 of 2003 amend the Single Business Tax Act to extend the authority of MEGA to award eligible businesses credits against the single business tax until December 31, 2009.

Public Act 266 of 2003 amends the Michigan Renaissance Zone Act to allow for the creation of up to 20 tool and die renaissance recovery zones within the state. Newly designated zones must consist of parcels of property used for tool and die business operations and may retain the designation of renaissance recovery zone for up to 15 years.

Public Act 273 of 2003 amends the Single Business Tax Act to increase the credit for apprentice training for firms in the tool and die industry. The Act is effective for tax years beginning after December 31, 2003.

Public Act 296 of 2003 creates the Michigan Early Stage Venture Capital Investment Act. The Act requires the creation of the Michigan Early Stage Venture Capital Investment Corporation, with a goal of increasing the supply of venture capital and new investment within Michigan. The mechanism of attracting new capital is the Early Stage Venture Capital Investment Fund. If the new fund could not pay investors a negotiated rate of return, investors in the fund would be entitled to the tax credits created under Public Acts 295 and 297 of 2003.

Public Act 297 of 2003 creates a refundable credit against the single business tax equal to the difference between the negotiated rate of return on an original investment in the Michigan Early Stage Venture Capital Investment Fund and the actual repayment. The first tax credits could be claimed in tax years beginning after December 31, 2008.

Insurance Company Retaliatory Tax

Effective August 3, 1987, the Michigan tax on insurance premiums was replaced with a tax on gross receipts. The tax is levied on all insurers under the SBT and the rate is 1.0735 percent for tax year 2002. Foreign companies are also subject to a retaliatory tax, which requires them to pay the same tax that a Michigan-based insurer would have to pay in the firm's home state. Foreign insurers pay the SBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$261.0 million for FY 2005; revenue goes to the State General Fund.

FY 2005 Estimate

Supplemental Workers Compensation Credit \$736,000

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

Oil and Gas Severance Tax

Enacted in 1929, the oil and gas severance tax is levied on the privilege of producing oil and gas. The base is the gross cash market value of oil and gas that is severed from the ground. The tax rate is 6.6 percent for normal oil production, 5.0 percent for natural gas production, and 4.0 percent for stripper wells and marginal properties. The estimated yield is \$50.0 million for FY 2005; revenue goes to the State General Fund.

FY 2005 Estimate

Marginal Wells \$2,170,000

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

Public Land \$2,844,000

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

SBT Expenditures

Enacted in 1976, the SBT was enacted as a consumption-type, value-added tax that has numerous adjustments to provide tax relief to businesses. A value-added tax is a levy on the value firms add to goods and services purchased from other firms. The SBT base is equal to the sum of business income, labor compensation, net interest, and depreciation. Deductions and credits are then applied to determine final tax liability. Public Act 531 of 2002 repealed the SBT for tax years beginning after 2009. The estimated yield for FY 2005 is \$1,917.5 million; revenue goes to the State General Fund.

SBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the gross receipts reduction and the excess compensation reduction. Because most estimates were derived assuming no interaction between tax expenditures, most estimates should not be interpreted as the tax revenue that would be realized if a particular exemption were eliminated. Exhibit 13 presents a breakdown for certain SBT tax expenditures based on calendar year returns for 2000 and returns for fiscal years ending in December 1999 through November 2000.

| | <u>FY 2005 Estimate</u> |
|--|--------------------------------|
| Agricultural Producers Exempts agricultural production from the SBT. | \$12,315,000 |
| Apprenticeship Tax Credit Provides an SBT credit equal to 50 percent of the salary, wage and fringe benefits, plus 100 percent of classroom and related expenses for apprentices employed by businesses. The credit may not exceed \$4,000 per apprentice per year for apprentices in the tool and die industry or \$2,000 per apprentice per year for other industries. | \$808,000 |
| Brownfield Zone Credit Permits firms to claim an SBT credit equal to 10 percent of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in brownfield development zones. | \$82,257,000 |
| Business Loss Deduction Permits a business that had a negative adjusted tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted tax bases may be carried forward for up to 10 years. | \$51,852,000 |
| Community Foundation Credit Provides a 50 percent credit for contributions made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to 5 percent of tax liability before credits or \$5,000, whichever is less. | \$707,000 |
| Compensation Exemption Removes unemployment insurance, workers' compensation, and social security payments from the SBT tax base. | \$146,868,000 |
| Corporate Farm Property Tax Credit Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Part 361 of Public Act 451 of 1994. | \$1,364,000 |
| Enterprise Zone Credit Provides a credit for tax liability attributable to qualified business activity in an enterprise zone established before 1994. The city of Benton Harbor is the only enterprise zone under the Enterprise Zone Act (Public Act 224 of 1985) established before 1994. The Benton Harbor Enterprise Zone program ceased to enlist new businesses after December 31, 1996. | \$845,000 |

| | <u>FY 2005 Estimate</u> |
|--|--------------------------------|
| Excess Compensation Reduction | \$220,780,000 |
| <p>Reduces the adjusted tax base by the percentage that labor compensation exceeds 63 percent of the total tax base, providing relief for labor-intensive businesses. This estimate accounts for interaction with the gross receipts deduction. In FY 1999, 44,627 firms used this provision. (See Exhibit 13.)</p> | |
| Floor Plan Interest Deduction | \$1,500,000 |
| <p>Provides a deduction for interest payments on credits made by a motor vehicle manufacturer to a retailer to defray the retailer's expense of maintaining inventory of cars.</p> | |
| Government Utilities Exemption | \$16,427,000 |
| <p>Exempts the value added of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.</p> | |
| Gross Receipts Reduction | \$162,340,000 |
| <p>Reduces the adjusted tax base by the amount the tax base exceeds 50 percent of adjusted (apportioned) gross receipts. This estimate accounts for interaction with the excess compensation deduction. In FY 1999, 16,797 taxpayers used this filing method. (See Exhibit 13.)</p> | |
| Gross Receipts Threshold | \$78,259,000 |
| <p>Exempts from the SBT firms with adjusted (apportioned) gross receipts less than \$250,000, and \$350,000 for tax years beginning after 2002.</p> | |
| Health Insurance Deduction | \$9,900,000 |
| <p>Provides a deduction for payments made to health benefit plans that provide benefits to Michigan residents. For tax years beginning in 2004, 5 percent of payments are deductible. The deductible percentage increases to 20 percent for 2005, 40 percent for 2006, and 50 percent for tax years beginning after 2006.</p> | |
| Higher Education Contribution Credit | \$1,959,000 |
| <p>Provides a 50 percent credit for contributions made to Michigan colleges, libraries, public broadcasting stations, and other educational institutions. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less. In FY 1999, 1,818 taxpayers used this credit. (See Exhibit 13.)</p> | |

Exhibit 13
Single Business Tax Expenditures by Liability Class, 1999-2000*

| Tax Liability Class | Capital Acquisition Deduction | | Excess Compensation Reduction | | Gross Receipts Reduction | |
|-----------------------|-------------------------------|----------------------|-------------------------------|----------------------|--------------------------|----------------------|
| | Quantity | Amount | Quantity | Amount | Quantity | Amount |
| \$0 - \$99 | 20,814 | \$274,605,364 | 5,481 | \$9,154,330 | 343 | \$2,612,188 |
| \$100 - \$499 | 4,891 | 2,956,005 | 3,720 | 1,682,119 | 167 | 415,165 |
| \$500 - \$999 | 5,567 | 2,759,261 | 2,819 | 2,000,315 | 222 | 461,626 |
| \$1,000 - \$4,999 | 22,387 | 12,793,318 | 12,176 | 17,739,211 | 7,339 | 21,503,404 |
| \$5,000 - \$9,999 | 9,511 | 7,154,766 | 7,450 | 21,040,155 | 4,075 | 18,479,442 |
| \$10,000 - \$49,999 | 14,303 | 25,276,044 | 11,438 | 83,596,819 | 4,276 | 59,477,934 |
| \$50,000 - \$99,999 | 2,806 | 15,798,214 | 2,049 | 42,482,245 | 640 | 29,533,949 |
| \$100,000 - \$499,999 | 2,215 | 24,551,478 | 1,456 | 76,353,658 | 531 | 61,477,073 |
| \$500,000 - \$999,999 | 218 | 5,790,467 | 123 | 20,693,711 | 58 | 23,227,163 |
| Over \$1,000,000 | 163 | 63,117,218 | 87 | 45,630,042 | 36 | 34,094,889 |
| TOTAL | 82,875 | \$434,802,136 | 46,799 | \$320,372,604 | 17,687 | \$251,282,833 |

| Tax Liability Class | Small Business Credit | | Unincorporated Business Credit | | Higher Education Contribution Credit | |
|-----------------------|-----------------------|---------------------|--------------------------------|---------------------|--------------------------------------|--------------------|
| | Quantity | Amount | Quantity | Amount | Quantity | Amount |
| \$0 - \$99 | 9,420 | \$18,945,808 | 2,308 | \$244,061 | 8 | \$3,395 |
| \$100 - \$499 | 6,035 | 8,339,751 | 6,543 | 399,678 | 27 | 476 |
| \$500 - \$999 | 6,877 | 10,520,553 | 6,788 | 916,846 | 27 | 1,174 |
| \$1,000 - \$4,999 | 17,048 | 26,364,468 | 22,649 | 7,593,222 | 266 | 29,946 |
| \$5,000 - \$9,999 | 332 | 4,562,885 | 6,570 | 5,992,050 | 189 | 47,934 |
| \$10,000 - \$49,999 | 15 | 17,257,193 | 7,138 | 19,611,255 | 581 | 419,896 |
| \$50,000 - \$99,999 | 3 | 1,131,812 | 1,218 | 10,771,582 | 265 | 487,857 |
| \$100,000 - \$499,999 | 0 | 0 | 770 | 17,855,901 | 247 | 685,023 |
| \$500,000 - \$999,999 | 0 | 0 | 44 | 3,702,473 | 44 | 146,555 |
| Over \$1,000,000 | 0 | 0 | 22 | 5,621,738 | 51 | 201,849 |
| TOTAL | 39,730 | \$87,122,470 | 54,050 | \$72,708,806 | 1,705 | \$2,024,105 |

*Data are from returns for firms with tax year ending in December 1999 through November 2000.

Capital Acquisition Deduction (CAD) includes recapture. Number of firms claiming CAD includes firms claiming both a CAD and a recapture, only a CAD or only a recapture.

| | <u>FY 2005 Estimate</u> |
|---|--------------------------------|
| <p>Historic Preservation Credit</p> <p>Public Act 534 of 1998 provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. Tax year 1999 was the first year the credit was available.</p> | \$798,000 |
| <p>Homeless Shelter/Food Bank Credit</p> <p>Provides a 50 percent credit for contributions made to a qualified homeless shelter, food bank, or food kitchen. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less.</p> | \$438,000 |
| <p>Insurers' Exemption From Gross Receipts</p> <p>Provides that the SBT base and adjusted tax base of an insurance company is equal to one quarter of the company's apportioned adjusted receipts. Formerly, the base was equal to one quarter of apportioned gross receipts, excluding receipts on the sale of annuities and on reinsurance transactions. The calculation of adjusted receipts also excludes interest, dividends, proceeds from the sale of assets, and certain other receipts from affiliated insurers, nonprofit corporations, or agents or employees of a company. The provision is retroactive to January 1, 1991.</p> | \$1,230,000 |
| <p>Insurers' Facility Assessment Credit</p> <p>Provides a credit for payments made to the Michigan workers' compensation placement facility, the Michigan basic property insurance association, the Michigan automobile insurance placement facility, the property and casualty guaranty association, and the life and health guaranty association.</p> | \$73,328,000 |
| <p>Investment Tax Credit</p> <p>For tax years beginning after 1999, Public Act 115 of 1999 replaces the capital acquisition deduction (CAD) with an investment tax credit (ITC). Public Act 44 of 2000 increased the ITC rate for smaller firms: 1.0 percent for firms with adjusted gross receipts (AGR) between \$2.5 and \$5 million, 1.5 percent for firms with AGR between \$1 and \$2.5 million, and 2.3 percent for firms with AGR of \$1 million or less. The ITC rate is reduced proportionally to the SBT rate cut. Under the ITC, taxpayers receive a credit for investment in tangible real and personal property located in Michigan and apportioned investment in mobile property wherever it is located. The switch from the CAD in effect for 1997-1999 with a 0.85 percent ITC was expected to be revenue neutral. This estimate takes account of interactions with other SBT provisions. In FY 2000, 82,875 firms claimed the CAD. (See Exhibit 13.)</p> | \$131,575,000 |

| | <u>FY 2005 Estimate</u> |
|--|--------------------------------|
| Iron Ore Credit Provides a credit for taxpayers that consume qualified low-grade hematite in an industrial or manufacturing process. | \$1,400,000 |
| Michigan Economic Growth Authority (MEGA) Provides a credit for new or expanding firms based on additional payroll costs or additional business activity costs associated with an expansion or new location. | \$9,774,000 |
| Minority Venture Capital Credit Provides a 50 percent credit for investments in a minority venture capital company or federally-licensed small business investment company, if the company is certified as eligible by the Michigan Strategic Fund. | \$0 |
| Multiple Employer Welfare Arrangement For tax years beginning after 2000, the portion of the SBT tax base attributable to a Multiple Employer Welfare Arrangement (MEWA) that provides only dental benefits and that is registered at the Michigan Office of Financial and Insurance Services is exempt from the SBT. | \$26,000 |
| Next Energy Credit Allows an eligible taxpayer certified under the Michigan Next Energy Authority Act to claim both a nonrefundable and a refundable SBT credit for tax years beginning after December 31, 2002. The nonrefundable credit is based on the increase in qualified business activity realized since tax year 2001. The refundable credit is based on the taxpayer's qualified payroll amount. | \$8,645,000 |
| Pharmaceutical Research Credit Taxpayers engaged in pharmaceutical research in Michigan may claim a credit equal to 6.5 percent of the taxpayer's increase in qualified expenses from pharmaceutical research activity in Michigan compared with their average qualified expenses from the same activity in the three preceding tax years. | \$8,373,000 |
| Nonprofit Organizations Exempts the value added of most firms exempt from the federal corporate income tax. | \$117,584,000 |

| | <u>FY 2005 Estimate</u> |
|--|--------------------------------|
| Officer Compensation Officer compensation paid by professional employer organizations (PEOs) is considered compensation of the PEO rather than compensation of the firm hiring the PEO. | \$3,263,000 |
| Renaissance Zones Provides a credit for the portion of tax attributable to business activity in a renaissance zone. | \$6,728,000 |
| Small Business-Low Profit Credit (Alternate Tax Rate) For qualifying firms, provides an SBT reduction when adjusted business income is less than 45 percent of the adjusted tax base. In FY 1999, 7,037 SBT filers claimed a small business-low profit credit. An additional 33,048 firms used the alternate tax rate method, paying tax on 2 percent of adjusted business income. (See Exhibit 13.) | \$102,564,000 |
| Statutory Exemption Provides an exemption of up to \$45,000. Partnerships receive an additional exemption of \$12,000 per partner up to a limit of \$48,000. This exemption is reduced by \$2 for every \$1 that modified business income exceeds these amounts. | \$9,282,000 |
| Supplemental Workers Compensation Credit Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Previously, firms were reimbursed through the appropriations process for these payments. | \$4,522,000 |
| Tribal Tax Agreements Agreements between the State of Michigan and seven American Indian tribes clarify how the SBT will be applied to tribes, and resident tribal members within the specific areas of the state that are covered by the agreements. | n.a. |

FY 2005 Estimate

Unincorporated Business Credit

\$78,854,000

Provides a credit with a ceiling of 20 percent of the SBT liability for business income up to \$20,000 and a floor of 10 percent for business income over \$40,000. This credit exists to provide a more equal treatment of business income.

In a corporation, business income may be divided into salaries, dividends, and retained earnings. While retained earnings are subject to the SBT, they are not subject to the individual income tax. However, the business income of an unincorporated business is subject to both single business and individual income taxes. This provision was used by 51,006 taxpayers in FY 1999. (See Exhibit 13.)

Utility Property Tax Credit

\$4,126,000

Provides a tax credit equal to 5 percent of the state utility property tax for telegraph and telephone companies.

CHAPTER 5

CONSUMPTION TAX EXPENDITURES

Consumption tax expenditures include tax expenditures associated with alcohol, cigarette, and sales and use taxes. Total consumption tax expenditures are projected to increase to \$12,435.3 million in FY 2005, a 15.8 percent increase over the FY 2004 level of \$10,736.1 million. The growth in sales and use tax expenditures associated with health care, construction, and professional, scientific, and technical services account for most of the growth between FY 2004 and FY 2005. Readers are cautioned that changes in the estimation methodology makes comparisons between this version and previous versions of this report difficult. Sales and use tax expenditure estimates are based on FY 1999 through FY 2003 data. Alcohol and cigarette tax expenditure estimates were based on FY 2003 data.

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

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

Cigarette tax expenditure estimates were based on recent wholesaler tax return data. These estimates are reliable.

Consumption Tax Expenditure Changes

Public Acts 23 through 25 of 2003 amend the Revenue, General Sales Tax, and Use Tax Acts to extend to limited liability companies, limited liability partnerships, partnerships, and limited partnerships the filing requirements and penalty provisions for failure to file and pay the taxes due contained within the Revenue Act.

Public Act 27 of 2003 amends the Use Tax Act to create a presumption that personal, non-business property (except aircraft) purchased outside of Michigan and brought into the state is exempt from the use tax if the property is purchased (1) by a nonresident and is brought into Michigan more than 90 days after purchase; or (2) by a resident and is brought into Michigan more than 360 days after purchase. The Act also specifies that the tax base for an aircraft that would otherwise qualify for the exemption described above is the retail value of the aircraft when it is brought into Michigan.

Public Act 139 of 2003 amends the General Sales Tax Act to revise the distribution of sales tax revenue collected on motor-vehicle related sales. Under previous law, 27.9 percent of the tax

collected at 4 percent on motor fuel, motor vehicles, and other motor-vehicle related sales was earmarked to the Comprehensive Transportation Fund. The Act changes the earmark to 24.0 percent for fiscal years 2004 and 2005 only. After 2005, the earmark will return to 27.9 percent.

Public Act 285 of 2003 amends the Tobacco Products Tax Act to require a cigarette manufacturer that is not participating in the Master Settlement Agreement (MSA) to prepay an equity assessment equal to 35 cents per pack of 20 cigarettes. The Act prevents a stamping agent from affixing a tobacco tax stamp to a package of cigarettes produced by a non-participating manufacturer unless the Department of Treasury certifies that the manufacturer is in compliance with this Act.

Public Act 286 of 2003 amends Michigan's law implementing the MSA to revise the process of granting refunds of escrow payments made by non-participating manufacturers.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2005 (millions of dollars).

| Alcohol Beverage Taxes (millions) | | |
|---|--------------------------------------|--------------------------------|
| <u>Tax</u> | <u>Location of Deposit</u> | <u>FY 2005 Revenue</u> |
| Beer and Wine Excise | General Fund | \$52.0 |
| 4.0 Percent Liquor Excise | School Aid Fund | \$31.6 |
| 4.0 Percent Liquor Specific | General Fund | \$31.6 |
| 1.85 Percent Liquor Specific | Liquor Purchase Revolving Fund | \$11.7 |
| 4.0 Percent Liquor Tourism | Convention Facility Development Fund | \$31.6 |
| | | <u>FY 2005 Estimate</u> |
| Beer Shipped Out-of-State | | n.a. |
| Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state. | | |
| Homemade Wine | | n.a. |
| Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use. | | |

FY 2005 Estimate**Small Brewer's Credit**

\$100,000

Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced.

Cigarette Tax

In 1947, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers. The tax rate is currently \$1.25 per pack of 20 cigarettes. Cigarette tax revenues are distributed to the School Aid Fund, the Health and Safety Fund, the Healthy Michigan Fund, and the General Fund-General Purpose account. In FY 2005, the cigarette tax will yield an estimated \$843.0 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$21.1 million.

FY 2005 Estimate**Bad Debt Deduction**

\$800,000

Allows cigarette wholesalers to deduct any losses from bad debts.

Licensee Expenses

\$13,144,000

Exempts 1.5 percent of the total tax due from licensees to cover their expenses in administering the tax.

Sales on Military Bases and Reservations

\$6,738,000

Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.

Tribal Tax Agreements

n.a.

Establishes the number of cigarettes that each tribe may obtain tax-free for the tribe's resident members, while requiring retailers in each tribal agreement area to limit tax-free sales to resident members.

State Convention Facility Development Tax

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

FY 2005 Estimate

Small Hotel Exemption

n.a.

Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.

Sales and Use Tax Expenditures

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield \$6,800.7 million in FY 2005. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. A state law earmarks to the Comprehensive Transportation Fund 4.65 percent of the sales tax on transportation-related items. For fiscal years 2004 and 2005 only, the Comprehensive Transportation Fund will receive only 4.0 percent of the sales tax collected on transportation-related items. The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total \$1,328.6 million in FY 2005. Due to their complementary nature, sales and use tax expenditures are reported together.

FY 2005 Estimate

Air and Water Pollution

\$44,000,000

Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.

Aircraft Parts

\$8,408,000

Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.

Bad Debts

\$61,415,000

Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible.

Cargo Aircraft

\$30,000,000

Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.

| | <u>FY 2005 Estimate</u> |
|---|--------------------------------|
| Church Construction | \$3,200,000 |
| Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998. | |
| Church Cars | \$4,211,000 |
| Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship. | |
| Collection Fee | \$16,091,000 |
| Sales and use tax returns are due by the 15th of the month for sales made the previous month. A seller may retain 0.75 percent of the tax (not to exceed \$20,000) if proceeds are remitted by the 7th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 8th through the 15th of the month. | |
| Commercial Domestic Aircraft | \$5,000,000 |
| Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation. | |
| Commercial Vessels | n.a. |
| Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce. | |
| Communication and Telephone Exemption | \$37,000,000 |
| Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds. | |
| Damaged Beer | n.a. |
| Exempts beer from the sales tax when consumed on the manufacturer's property or not offered for sale. | |
| Delayed Payment | \$2,988,000 |
| Allows a delayed payment of the sales tax on certain construction materials that are purchased on credit. The cost of this exemption is an interest cost to the state resulting from the delayed receipt of the revenue. This exemption was created by Public Act 453 of 1998. | |
| Donated Property | n.a. |
| Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations. | |

| | <u>FY 2005 Estimate</u> |
|--|--------------------------------|
| Driver Training Exempts property used for demonstration or driver training programs. | \$614,000 |
| Employee Meals Exempts meals provided by employers to their employees starting in 2002. | \$7,874,000 |
| Enterprise Zone Credit Upon certification by the Enterprise Zone Authority, exempts qualified businesses from sales and use tax on property used in a qualified business activity in an enterprise zone. | n.a. |
| Food Exempts food for human consumption, except prepared food intended for immediate consumption. | \$877,821,000 |
| Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students. | \$56,629,000 |
| Government or Red Cross Exempts sales to the United States or agencies or instrumentalities wholly owned by the U.S.; the American Red Cross; and the State of Michigan, its departments, institutions, and political subdivisions. | \$166,959,000 |
| Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds. | \$54,524,000 |
| Horticultural and Agricultural Products Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business. | \$130,275,000 |
| Imported Property Exempts property that is not an aircraft purchased by a nonresident and brought into Michigan more than 90 days after purchase from the use tax. Property purchased by a resident and brought into the state more than 360 days after purchase receives a similar exemption. | \$3,600,000 |

| | <u>FY 2005 Estimate</u> |
|---|--------------------------------|
| Industrial Processing | \$928,538,000 |
| Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate only includes exemptions for durable and non-durable manufacturing equipment and utility expenses. | |
| International Telecommunications | \$35,992,000 |
| Exempts international and WATTS calls from the use tax. | |
| Interstate Trucks and Trailers | \$39,178,000 |
| Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax. | |
| Investment Coins | \$400,000 |
| Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins. | |
| Isolated Sales | n.a. |
| Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license. | |
| Military PX Sales | \$1,753,000 |
| Exempts military post-exchange sales. | |
| Military Vehicle Sales | n.a. |
| Exempts vehicle sales to nonresidents serving in the U.S. armed forces. | |
| Military Vehicle Sales (Resident-Out-of-State) | n.a. |
| Exempts an automobile purchased in another state by a Michigan resident in the military service who pays a sales tax in the state where the automobile is purchased. | |
| Newspapers, Periodicals, and Films | \$93,593,000 |
| Exempts sales of copyrighted motion picture films, newspapers, and periodicals. | |

FY 2005 Estimate

| | |
|--|---------------|
| Nonprofit Ambulance and Fire Service | n.a. |
| Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services. | |
| Nonprofit Hospital or Housing Construction | \$10,589,000 |
| Exempts tangible personal property used by contractors where the property is affixed to and made a structural part of the real estate of a nonprofit hospital or nonprofit housing. | |
| Nonprofit Organizations | \$179,073,000 |
| Exempts sales to nonprofit schools, hospitals, homes for the care of children or aged persons, and other benevolent institutions operated by an entity of government, a regularly-organized church, a religious or fraternal organization, a veteran's organization, a nonprofit corporation, or a parent-cooperative preschool. | |
| Nonprofit Sales Under \$5,000 | n.a. |
| Exempts aggregate calendar year sales under \$5,000 for qualified nonprofit organizations. | |
| Nonresident Merchandise Transfer | n.a. |
| Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state. | |
| Nonresident Property | n.a. |
| Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state. | |
| Ophthalmic and Orthopedic Products | \$42,629,000 |
| Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances. | |
| Prescription Drugs | \$600,699,000 |
| Exempts prescription drugs for human consumption. | |
| Radio and TV | \$4,400,000 |
| Exempts sales to persons licensed to operate commercial radio or television stations when the property is used as a component of a film, tape, or recording produced for resale or transmission. | |
| Rail Rolling Stock | \$1,644,000 |
| Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes. | |

| | <u>FY 2005 Estimate</u> |
|---|--------------------------------|
| Residential Utilities | \$117,500,000 |
| Exempts the residential use of electricity, natural gas, and home heating fuels from the two percent increase (May 1994) in the sales and use tax rate. | |
| Returned Vehicles | \$1,100,000 |
| Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law. | |
| Sale of Business | n.a. |
| Excludes from the use tax non-inventoried property purchased as part of a business. | |
| Sale of Water | \$62,415,000 |
| Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons. | |
| Services | \$8,647,435,000 |
| Exempts services for items listed in the following table: | |

Service Tax Expenditures, FY 2005
(millions)

| <u>Category</u> | <u>For Profit</u> | <u>Nonprofit</u> | <u>Total</u> |
|---|-------------------|------------------|--------------|
| Accommodations and Food Service | \$4.9 | \$0.0 | \$4.9 |
| Admin., Support, and Waste Mgmt. | 883.3 | 9.0 | 892.3 |
| Arts, Entertainment, and Recreation | 175.2 | 36.9 | 212.1 |
| Construction | 1,933.7 | 0.0 | 1,933.7 |
| Educational Services | 28.5 | 215.2 | 243.7 |
| Health Care and Social Assistance | 952.5 | 1,639.1 | 2,591.6 |
| Information | 447.9 | 0.0 | 447.9 |
| Other Services (except Public Admin.) | 277.5 | 81.2 | 358.7 |
| Professional, Scientific, and Technical | 1,448.2 | 18.2 | 1,466.4 |
| Real Estate and Rental and Leasing | 379.0 | 0.0 | 379.0 |
| Transportation and Warehousing | 38.3 | 8.0 | 46.3 |
| Utilities | <u>0.3</u> | <u>70.6</u> | <u>70.9</u> |
| TOTAL | \$6,569.3 | \$2,078.2 | \$8,647.5 |

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

FY 2005 Estimate

| | |
|---|--------------|
| Small Out-of-State Purchases | n.a. |
| Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month. | |
| Telephone Services | \$17,578,000 |
| Exempts tangible personal property located on the premises of the subscriber and central office equipment or wireless equipment directly used in transmitting, receiving, or switching, or in the monitoring or switching or a two-way interactive device. | |
| Textbooks Sold by Schools | n.a. |
| Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program. | |
| Tribal Tax Agreements | n.a. |
| Exempts certain sales of tangible personal property to tribes and tribal members for use within a designated agreement area, while providing for increased collections on sales to non-members. | |
| Vehicle and Aircraft Transfers | \$94,473,000 |
| Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft. | |
| Vehicles Purchased for Use in Another State | n.a. |
| Provides for an adjusted tax on the vehicles purchased in Michigan for use in another state. The sales tax is equal to what would have been paid if the vehicle had been purchased in the other state. | |
| Vending Machines and Mobile Facilities | \$24,300,000 |
| Exempts the portion of gross proceeds representing commissions paid to an entity otherwise exempt from the sales tax where the gross proceeds are from certain non-electric vending machines where consideration is 10 cents or less. Also exempts sales of nonalcoholic beverages, and items sold near room temperature from a mobile facility or vending machine. | |

CHAPTER 6

INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 2.2 percent from \$3,533.2 million in FY 2004 to \$3,611.9 million in FY 2005. Federal income tax expenditures are projected to increase 20.7 percent from \$1,984.3 million in FY 2004 to \$2,395.2 million in FY 2005. Individual income tax expenditure estimates were based on tax year 2002 data.

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

State income tax expenditure estimates are reliable because they are based on actual individual tax returns for tax year 2002. In addition, most state income tax expenditures are credits that are relatively stable from year to year.

In contrast, federal income tax expenditure estimates are less reliable. Federal income tax expenditures are estimated by apportioning total (national) federal tax expenditure estimates to Michigan using a three-step formula (outlined later). Thus, Michigan federal income tax expenditure estimates will only be as reliable as federal government (national) estimates and the assumptions used to apportion those estimates to Michigan.

Individual Income Tax Expenditure Changes

Public Act 21 of 2003 amends the Income Tax Act to include in the taxable income of nonresidents any winnings at Michigan casinos and winnings from pari-mutuel wagering at licensed horse racing meetings.

Public Acts 22 and 45 through 52 of 2003 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 of 2003 amend the Income Tax Act to include certain public safety 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 201 of 2003 amends the Revenue Act to extend the filing deadline by one week for tax returns due on August 15, 2003. The extension was due to a widespread power outage that affected numerous states, including Michigan, in mid-August 2003.

Public Act 211 of 2003 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 of 2003 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 of 2003 creates a refundable income tax credit equal to the difference between the negotiated rate of return on an original investment in the Michigan Early Stage Venture Capital Investment Fund and the actual repayment, less any amount claimed as a credit against the single business tax. The credit would be effective for tax years beginning after 2009 and before 2020.

State Income Tax Expenditures

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. The tax rate was 4.1 percent for tax year 2002. The tax rate fell to 4.0 percent on January 1, 2003, and will fall to 3.9 percent on July 1, 2004, completing the enacted rate reductions. For FY 2005, the State of Michigan will collect an estimated \$6,020.8 million in net income tax revenue. Income tax revenue goes to the School Aid Fund and General Fund.

State income tax expenditures include the state personal exemption, subtractions from income, and various state tax credits. In tax year 2002, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.2 percent to an average effective rate of 2.5 percent. (See Exhibits 14 through 18.)

FY 2005 Estimate

Adjustments to Income

\$1,594,814,000

Subtractions from income include interest on U.S. Government bonds and obligations, military pay and retirement benefits, income attributable to another state, most retirement and pension benefits, the portion of Social Security benefits included in AGI, income eligible for the federal elderly and disabled credit, and a portion of interest and dividend income of senior citizens not claiming a pension subtraction. Additions to income include interest on bonds or obligations issued by states other than Michigan and their political subdivisions. The net amount of additions and subtractions reduced taxable income by \$37.4 billion in calendar year 2002. This reduced 2002 income taxes by \$1,533.7 million.

FY 2005 Estimate

| | |
|--|--------------|
| Adoption Credit | \$1,000,000 |
| Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. Beginning in tax year 2002, the federal credit is a 100 percent credit for the first \$10,000 dollars of adoption expenses. The Michigan adoption credit provides a 100 percent credit for up to an additional \$1,200 in expenses over the \$10,000 federal credit. | |
| Child Deduction | \$51,968,000 |
| The child deduction, which was expanded by Public Act 42 of 2000, provides a deduction from AGI of \$600 for each dependent child 18 years or younger. | |
| City Income Tax Credit | \$33,724,000 |
| Provides a credit to individuals for income taxes paid to cities. In the 2002 tax year, city income tax credits totaled \$34.4 million (see Exhibit 14). | |
| College Savings Account | \$10,393,000 |
| Provides a deduction of up to \$10,000 for contributions to a Michigan Education Savings Program account. Earnings on an account and withdrawals made to pay qualified educational expenses are also exempt from taxation. | |
| Community Foundation Credit | \$3,043,000 |
| Provides a credit for 50 percent of the contribution made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to \$100 for a single return or \$200 for a joint return. | |
| Dependent Exemption | \$20,635,000 |
| Taxpayers claimed as a dependent on another taxpayer's return may not claim the full personal exemption for themselves when filing their own tax return. However, they may claim a dependent exemption equal to \$1,500. Public Act 301 of 2000 increased the dependent exemption from \$1,000 to \$1,500 starting in tax year 2000. | |
| Farmland Development Credit | \$34,808,000 |
| Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses (see Exhibit 18 on page 61). This credit was expanded by Public Act 421 of 2000. | |

FY 2005 Estimate

Higher Education/Public Contributions Tax Credit

\$27,998,000

Provides a credit against income tax liability for contributions to Michigan colleges and universities, public libraries, public broadcasting stations, the State Art in Public Places Fund, municipal art institutes, and the State of Michigan Museum. The credit is equal to 50 percent of these contributions, not to exceed \$100 for a single return or \$200 on a joint return. Credit for resident estates or trusts cannot exceed 10 percent of tax liability or \$5,000, whichever is less. For tax year 2002, the higher education/public contributions tax credit totaled \$24.5 million. (See Exhibit 14.)

Historic Preservation Credit

\$735,000

Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.

Holocaust Survivor Asset Recovery Deduction

n.a.

Public Act 181 of 1999 allows Holocaust survivors to subtract any income received as a result of a settlement of claims against any entity or individual for any recovered asset pursuant to the German act regulating unresolved property claims.

Home Heating Assistance Credit

\$60,000

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

Exhibit 14
Selected Individual Income Tax Expenditures, CY 2002

| Adjusted Gross Income | MI - 1040s | | City Income Tax Credit | | Education Tax Credit | |
|----------------------------------|-------------------|----------------|-------------------------------|---------------------|-----------------------------|---------------------|
| | Number | Percent | Number | Amount | Number | Amount |
| Less Than \$2,000* | 468,986 | 10.1% | 13,037 | \$109,013 | 1,506 | \$104,324 |
| 2,001 - 4,000 | 190,443 | 4.1% | 26,117 | 204,301 | 1,202 | 57,242 |
| 4,001 - 6,000 | 181,969 | 3.9% | 28,693 | 317,727 | 1,773 | 94,310 |
| 6,001 - 8,000 | 172,043 | 3.7% | 29,118 | 400,975 | 2,145 | 119,997 |
| 8,001 - 10,000 | 160,984 | 3.5% | 27,774 | 454,592 | 2,398 | 139,856 |
| 10,001 - 12,000 | 157,722 | 3.4% | 27,823 | 516,145 | 2,721 | 160,276 |
| 12,001 - 14,000 | 147,941 | 3.2% | 26,920 | 557,946 | 3,005 | 185,802 |
| 14,001 - 16,000 | 142,999 | 3.1% | 27,222 | 620,438 | 3,404 | 210,542 |
| 16,001 - 18,000 | 136,302 | 2.9% | 27,103 | 676,156 | 3,472 | 220,766 |
| 18,001 - 20,000 | 129,455 | 2.8% | 27,202 | 759,565 | 3,572 | 239,567 |
| 20,001 - 25,000 | 296,705 | 6.4% | 66,960 | 2,024,744 | 9,418 | 637,720 |
| 25,001 - 30,000 | 264,703 | 5.7% | 60,393 | 2,051,350 | 10,126 | 703,904 |
| 30,001 - 35,000 | 233,857 | 5.0% | 53,108 | 1,915,606 | 10,713 | 748,748 |
| 35,001 - 40,000 | 205,400 | 4.4% | 47,601 | 1,803,005 | 10,891 | 783,430 |
| 40,001 - 45,000 | 184,901 | 4.0% | 43,733 | 1,748,403 | 11,308 | 830,509 |
| 45,001 - 50,000 | 167,574 | 3.6% | 40,005 | 1,647,109 | 11,745 | 884,651 |
| 50,001 - 55,000 | 156,021 | 3.3% | 37,869 | 1,604,558 | 11,838 | 899,308 |
| 55,001 - 60,000 | 146,350 | 3.1% | 36,931 | 1,634,905 | 11,802 | 926,714 |
| 60,001 - 70,000 | 253,656 | 5.4% | 64,207 | 2,894,381 | 23,393 | 1,900,116 |
| 70,001 - 80,000 | 203,170 | 4.4% | 51,848 | 2,409,869 | 22,160 | 1,896,137 |
| 80,001 - 90,000 | 156,462 | 3.4% | 41,090 | 2,001,640 | 19,615 | 1,733,257 |
| 90,001 - 100,000 | 116,989 | 2.5% | 31,250 | 1,598,926 | 16,749 | 1,551,898 |
| Over 100,000 | 388,758 | 8.3% | 93,783 | 6,435,776 | 84,446 | 9,447,918 |
| TOTAL | 4,663,390 | 100.0% | 929,787 | \$34,387,129 | 279,402 | \$24,476,992 |

*Includes 169,078 credit-only returns (zero income).

FY 2005 Estimate

Homestead Property Tax Credit

\$789,004,000

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

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2002, homestead credits, excluding the farmland credit itemized separately, totaled \$681.3 million (Exhibit 18). Of the homestead credits, 54.3 percent went to general taxpayers, 41.7 percent went to senior citizens, and the remaining 4.0 percent went to veterans and blind and disabled persons.

Homeless/Food Bank Credit

\$20,060,000

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

Other State Tax Credit

\$33,596,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2002, taxpayers claimed \$30.8 million in credits.

Personal Exemption

\$920,917,000

Exempts \$3,100 (tax year 2003) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption increases in \$100 increments based on the rate of inflation. For tax year 2004, the personal exemption will be \$3,100. The personal exemption reduced tax year 2002 revenue by approximately \$955.7 million.

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

Renaissance Zones

\$300,000

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

FY 2005 Estimate

Special Exemption

\$38,169,000

Allows a taxpayer and his or her spouse to each claim a \$2,000 exemption for tax year 2004 if they are seniors or disabled. Taxpayers who are both a senior and a disabled person may claim two exemptions. Taxpayers may also claim an exemption for disabled or senior dependents. These exemptions are adjusted periodically for inflation.

Tribal Tax Agreements

n.a.

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

Tuition Credit

\$5,665,000

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

Exhibit 15
Selected Individual Income Tax Expenditures by Income Class, CY 2002

| Adjusted Gross Income | MI-1040s | | Gen. Prop Tax Credit | | Effective Exemptions ⁽¹⁾ | |
|----------------------------|------------------|---------------|----------------------|----------------------|-------------------------------------|----------------------|
| | Number | Percent | Number | Amount | Number | Amount |
| Zero Income ⁽²⁾ | 307,935 | 6.6% | 27,092 | \$16,122,269 | 0 | \$0 |
| \$0 - 2,000 | 161,051 | 3.5% | 14,803 | 6,690,099 | 24,969 | 3,071,195 |
| 2,001 - 4,000 | 190,443 | 4.1% | 22,721 | 8,959,208 | 70,838 | 8,713,049 |
| 4,001 - 6,000 | 181,969 | 3.9% | 30,209 | 12,061,095 | 79,553 | 9,784,979 |
| 6,001 - 8,000 | 172,043 | 3.7% | 37,462 | 15,380,759 | 122,952 | 15,123,143 |
| 8,001 - 10,000 | 160,984 | 3.5% | 39,221 | 16,358,862 | 141,253 | 17,374,106 |
| 10,001 - 12,000 | 157,722 | 3.4% | 42,323 | 17,915,988 | 164,051 | 20,178,244 |
| 12,001 - 14,000 | 147,941 | 3.2% | 40,665 | 16,701,242 | 168,293 | 20,700,062 |
| 14,001 - 16,000 | 142,999 | 3.1% | 40,522 | 16,260,843 | 173,126 | 21,294,501 |
| 16,001 - 18,000 | 136,302 | 2.9% | 39,716 | 15,474,374 | 178,275 | 21,927,866 |
| 18,001 - 20,000 | 129,455 | 2.8% | 39,212 | 15,027,427 | 183,637 | 22,587,343 |
| 20,001 - 25,000 | 296,705 | 6.4% | 92,834 | 34,895,404 | 463,485 | 57,008,707 |
| 25,001 - 30,000 | 264,703 | 5.7% | 80,946 | 30,525,171 | 440,207 | 54,145,444 |
| 30,001 - 35,000 | 233,857 | 5.0% | 67,632 | 26,175,076 | 407,399 | 50,110,043 |
| 35,001 - 40,000 | 205,400 | 4.4% | 55,757 | 22,242,857 | 380,467 | 46,797,413 |
| 40,001 - 45,000 | 184,901 | 4.0% | 46,618 | 19,381,487 | 379,736 | 46,707,481 |
| 45,001 - 50,000 | 167,574 | 3.6% | 38,486 | 16,676,487 | 369,626 | 45,463,953 |
| 50,001 - 55,000 | 156,021 | 3.3% | 32,418 | 14,565,635 | 362,053 | 44,532,497 |
| 55,001 - 60,000 | 146,350 | 3.1% | 28,010 | 12,990,711 | 356,317 | 43,826,979 |
| 60,001 - 70,000 | 253,656 | 5.4% | 43,722 | 21,083,208 | 652,785 | 80,292,505 |
| 70,001 - 80,000 | 203,170 | 4.4% | 30,754 | 13,075,698 | 554,666 | 68,223,937 |
| 80,001 - 90,000 | 156,462 | 3.4% | 7,161 | 1,169,111 | 443,673 | 54,571,777 |
| 90,001 - 100,000 | 116,989 | 2.5% | 164 | 87,365 | 339,358 | 41,740,999 |
| Over 100,000 | <u>388,758</u> | <u>8.3%</u> | <u>326</u> | <u>189,752</u> | <u>1,313,536</u> | <u>161,564,982</u> |
| TOTAL | 4,663,390 | 100.0% | 898,774 | \$370,010,128 | 7,770,254 | \$955,741,205 |

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

⁽²⁾ Includes 169,078 credit-only returns.

Exhibit 16
Effective Income Tax Rates by Income Class, CY 2002⁽¹⁾

| <u>Adjusted Gross Income</u> | <u>Total Adjusted Gross Income</u> | <u>Total Income Tax Paid</u> | <u>Effective Tax Rate</u> |
|---|--|----------------------------------|-------------------------------|
| Zero Income ⁽²⁾ | (\$2,515,700,485) | (\$117,326,667) | |
| \$0 - 2,000 | 174,930,173 | (26,179,933) | -14.97% |
| 2,001 - 4,000 | 571,074,019 | (22,389,333) | -3.92% |
| 4,001 - 6,000 | 907,624,947 | (20,319,715) | -2.24% |
| 6,001 - 8,000 | 1,203,567,606 | (20,712,147) | -1.72% |
| 8,001 - 10,000 | 1,448,264,899 | (17,567,795) | -1.21% |
| 10,001 - 12,000 | 1,732,743,912 | (13,232,854) | -0.76% |
| 12,001 - 14,000 | 1,922,452,692 | (3,917,245) | -0.20% |
| 14,001 - 16,000 | 2,144,337,935 | 5,396,996 | 0.25% |
| 16,001 - 18,000 | 2,316,161,221 | 15,494,172 | 0.67% |
| 18,001 - 20,000 | 2,458,977,275 | 25,294,954 | 1.03% |
| 20,001 - 25,000 | 6,662,304,609 | 102,079,349 | 1.53% |
| 25,001 - 30,000 | 7,270,001,431 | 140,208,017 | 1.93% |
| 30,001 - 35,000 | 7,586,463,836 | 163,343,552 | 2.15% |
| 35,001 - 40,000 | 7,692,005,860 | 180,628,266 | 2.35% |
| 40,001 - 45,000 | 7,848,905,102 | 196,518,985 | 2.50% |
| 45,001 - 50,000 | 7,955,382,889 | 208,893,264 | 2.63% |
| 50,001 - 55,000 | 8,186,941,561 | 219,218,423 | 2.68% |
| 55,001 - 60,000 | 8,410,949,465 | 232,454,093 | 2.76% |
| 60,001 - 70,000 | 16,446,631,289 | 471,633,526 | 2.87% |
| 70,001 - 80,000 | 15,191,460,104 | 454,188,545 | 2.99% |
| 80,001 - 90,000 | 13,264,299,198 | 419,149,489 | 3.16% |
| 90,001 - 100,000 | 11,084,411,606 | 358,255,850 | 3.23% |
| Over 100,000 | <u>83,490,963,795</u> | <u>2,390,202,208</u> | <u>2.86%</u> |
| TOTAL | \$213,455,154,939 | \$5,341,314,000 | 2.50% |
| Effective rate excluding zero income AGI and Taxes Paid | | | 2.53% |
| Effective rate excluding zero income AGI | | | 2.47% |

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

(2) Includes 169,078 credit-only returns (zero income).

Exhibit 17
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2002

| Adjusted Gross Income | Effective Exemptions⁽¹⁾ | Adjustments to Income | Nonrefundable Credits⁽²⁾ | Prop. Tax Credits |
|----------------------------------|---|----------------------------------|--|------------------------------|
| Less Than \$2,000 | 288.0% | 19.7% | -26.5% | 310.1% |
| 2,001 - 4,000 | 111.0% | 13.1% | -0.6% | 96.6% |
| 4,001 - 6,000 | 77.4% | 23.9% | 0.6% | 74.4% |
| 6,001 - 8,000 | 64.9% | 20.0% | 0.9% | 66.9% |
| 8,001 - 10,000 | 57.0% | 23.1% | 0.8% | 58.4% |
| 10,001 - 12,000 | 51.7% | 24.7% | 1.1% | 50.2% |
| 12,001 - 14,000 | 45.1% | 25.1% | 1.0% | 41.9% |
| 14,001 - 16,000 | 40.4% | 25.1% | 1.1% | 35.1% |
| 16,001 - 18,000 | 36.4% | 23.4% | 1.1% | 29.4% |
| 18,001 - 20,000 | 33.2% | 20.7% | 1.2% | 25.1% |
| 20,001 - 25,000 | 28.3% | 17.3% | 1.1% | 19.3% |
| 25,001 - 30,000 | 23.4% | 16.4% | 1.1% | 14.4% |
| 30,001 - 35,000 | 20.2% | 16.5% | 1.1% | 11.4% |
| 35,001 - 40,000 | 18.5% | 15.5% | 1.1% | 9.3% |
| 40,001 - 45,000 | 17.2% | 14.2% | 0.7% | 7.8% |
| 45,001 - 50,000 | 16.3% | 13.6% | 0.3% | 6.5% |
| 50,001 - 55,000 | 15.4% | 13.2% | 1.1% | 5.5% |
| 55,001 - 60,000 | 14.6% | 12.6% | 1.1% | 4.7% |
| 60,001 - 70,000 | 13.7% | 12.1% | 0.8% | 3.9% |
| 70,001 - 80,000 | 12.5% | 11.4% | 1.1% | 2.5% |
| 80,001 - 90,000 | 11.4% | 10.5% | 1.1% | 0.2% |
| 90,001 - 100,000 | 10.3% | 9.9% | 1.2% | 0.0% |
| Over 100,000 | 4.7% | 23.9% | 1.0% | 0.0% |

- (1) The effective exemption number includes special exemptions (e.g., disabled exemption).
- (2) Income tax credits were divided by the tax rate (4.1%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, and the homeless food bank credit.

Exhibit 18
Property Tax Credits by County, CY 2002

| County | General | | Seniors | | Veterans | |
|----------------|---------|------------|---------|------------|----------|--------|
| | Number | Amount | Number | Amount | Number | Amount |
| ALCONA | 500 | \$153,100 | 400 | \$196,500 | < 50 | \$0 |
| ALGER | 400 | 111,100 | 300 | 124,900 | < 50 | 0 |
| ALLEGAN | 6,800 | 2,474,300 | 3,200 | 2,009,100 | < 50 | 0 |
| ALPENA | 1,900 | 506,500 | 1,700 | 801,600 | < 50 | 0 |
| ANTRIM | 1,600 | 581,800 | 1,100 | 720,600 | < 50 | 0 |
| ARENAC | 1,000 | 316,700 | 700 | 370,300 | < 50 | 0 |
| BARAGA | 300 | 65,100 | 200 | 110,500 | < 50 | 0 |
| BARRY | 2,900 | 1,004,200 | 1,600 | 936,900 | < 50 | 0 |
| BAY | 8,300 | 2,574,600 | 5,900 | 3,375,000 | < 50 | 0 |
| BENZIE | 1,000 | 297,700 | 600 | 348,700 | < 50 | 0 |
| BERRIEN | 11,800 | 3,649,800 | 6,800 | 3,710,600 | < 50 | 0 |
| BRANCH | 2,700 | 937,300 | 1,500 | 872,200 | < 50 | 0 |
| CALHOUN | 11,500 | 3,944,800 | 6,000 | 3,643,500 | < 50 | 0 |
| CASS | 2,200 | 753,800 | 1,500 | 837,400 | < 50 | 0 |
| CHARLEVOIX | 2,000 | 722,800 | 1,200 | 746,800 | < 50 | 0 |
| CHEBOYGAN | 1,500 | 421,100 | 800 | 407,100 | < 50 | 0 |
| CHIPPEWA | 1,800 | 485,800 | 1,000 | 449,700 | < 50 | 0 |
| CLARE | 1,600 | 430,800 | 900 | 388,000 | < 50 | 0 |
| CLINTON | 4,000 | 1,664,400 | 2,200 | 1,440,200 | < 50 | 0 |
| CRAWFORD | 700 | 169,000 | 400 | 150,000 | < 50 | 0 |
| DELTA | 2,100 | 601,800 | 1,400 | 652,900 | < 50 | 0 |
| DICKINSON | 1,500 | 425,400 | 1,400 | 716,200 | < 50 | 0 |
| EATON | 10,200 | 3,875,600 | 5,000 | 3,393,800 | < 50 | 0 |
| EMMET | 2,500 | 943,000 | 1,400 | 906,100 | < 50 | 0 |
| GENESEE | 35,900 | 11,458,400 | 14,000 | 7,638,700 | < 50 | 0 |
| GLADWIN | 1,500 | 439,000 | 1,100 | 526,100 | < 50 | 0 |
| GOGEBIC | 600 | 140,700 | 700 | 233,100 | < 50 | 0 |
| GRAND TRAVERSE | 7,800 | 2,978,000 | 3,900 | 2,647,100 | < 50 | 0 |
| GRATIOT | 2,000 | 703,100 | 1,400 | 738,000 | < 50 | 0 |
| HILLSDALE | 2,800 | 976,200 | 1,500 | 815,500 | < 50 | 0 |
| HOUGHTON | 1,200 | 335,600 | 900 | 390,500 | < 50 | 0 |
| HURON | 2,600 | 1,230,200 | 2,600 | 1,740,500 | < 50 | 0 |
| INGHAM | 32,400 | 12,779,100 | 10,100 | 7,163,800 | < 50 | 0 |
| IONIA | 3,300 | 1,117,600 | 1,700 | 933,900 | < 50 | 0 |
| IOSCO | 1,400 | 395,300 | 1,100 | 510,600 | < 50 | 0 |
| IRON | 500 | 124,500 | 500 | 176,200 | < 50 | 0 |
| ISABELLA | 4,800 | 1,708,700 | 1,900 | 1,145,800 | < 50 | 0 |
| JACKSON | 10,200 | 3,344,500 | 5,100 | 2,707,300 | < 50 | 0 |
| KALAMAZOO | 23,000 | 7,823,900 | 8,900 | 5,711,000 | < 50 | 0 |
| KALKASKA | 1,000 | 291,200 | 500 | 240,900 | < 50 | 0 |
| KENT | 51,700 | 17,936,900 | 20,300 | 12,476,100 | < 50 | 0 |
| KEWEENAW | 100 | 21,300 | 0 | 16,300 | < 50 | 0 |

Exhibit 18 (Continued)

| County | General | | Seniors | | Veterans | |
|---------------------|----------------|----------------------|----------------|----------------------|----------|------------|
| | Number | Amount | Number | Amount | Number | Amount |
| LAKE | 600 | \$161,800 | 300 | \$150,600 | < 50 | \$0 |
| LAPEER | 5,200 | 2,010,000 | 2,200 | 1,220,800 | < 50 | 0 |
| LEELANAU | 1,000 | 476,700 | 900 | 633,300 | < 50 | 0 |
| LENAWEE | 7,100 | 2,638,800 | 4,100 | 2,672,900 | < 50 | 0 |
| LIVINGSTON | 600 | 161,800 | 300 | 150,600 | < 50 | 0 |
| LUCE | 200 | 38,800 | 100 | 20,200 | < 50 | 0 |
| MACKINAC | 600 | 192,900 | 400 | 192,400 | < 50 | 0 |
| MACOMB | 87,200 | 40,309,500 | 48,900 | 37,822,400 | < 50 | 0 |
| MANISTEE | 1,400 | 442,200 | 1,200 | 590,100 | < 50 | 0 |
| MARQUETTE | 3,200 | 781,700 | 1,800 | 779,700 | < 50 | 0 |
| MASON | 1,900 | 576,000 | 1,300 | 734,800 | < 50 | 0 |
| MECOSTA | 1,900 | 606,700 | 1,200 | 565,700 | < 50 | 0 |
| MENOMINEE | 1,000 | 292,400 | 800 | 343,900 | < 50 | 0 |
| MIDLAND | 5,300 | 1,736,100 | 2,700 | 1,590,100 | < 50 | 0 |
| MISSAUKEE | 800 | 273,900 | 500 | 259,000 | < 50 | 0 |
| MONROE | 8,900 | 3,313,200 | 5,400 | 3,282,800 | < 50 | 0 |
| MONTCALM | 3,700 | 1,196,700 | 2,300 | 1,223,900 | < 50 | 0 |
| MONTMORENCY | 500 | 131,300 | 400 | 133,100 | < 50 | 0 |
| MUSKEGON | 13,000 | 3,929,200 | 6,900 | 3,792,100 | < 50 | 0 |
| NEWAYGO | 2,700 | 949,600 | 1,600 | 880,800 | < 50 | 0 |
| OAKLAND | 118,300 | 64,640,600 | 51,600 | 44,006,300 | < 50 | 0 |
| OCEANA | 1,600 | 531,300 | 1,000 | 557,900 | < 50 | 0 |
| OGEMAW | 1,300 | 362,000 | 900 | 400,900 | < 50 | 0 |
| ONTONAGON | 200 | 56,300 | 200 | 71,100 | < 50 | 0 |
| OSCEOLA | 1,300 | 388,700 | 800 | 405,400 | < 50 | 0 |
| OSCODA | 300 | 74,900 | 200 | 61,700 | < 50 | 0 |
| OTSEGO | 1,300 | 362,100 | 700 | 319,300 | < 50 | 0 |
| OTTAWA | 18,200 | 6,581,700 | 9,500 | 6,126,700 | < 50 | 0 |
| PRESQUE ISLE | 700 | 196,800 | 700 | 305,900 | < 50 | 0 |
| ROSCOMMON | 1,600 | 471,700 | 1,200 | 523,300 | < 50 | 0 |
| SAGINAW | 14,700 | 4,252,800 | 7,700 | 4,186,700 | < 50 | 0 |
| ST. CLAIR | 14,200 | 5,250,600 | 7,400 | 4,805,500 | < 50 | 0 |
| ST. JOSEPH | 3,600 | 1,167,200 | 2,000 | 1,033,300 | < 50 | 0 |
| SANILAC | 3,100 | 1,272,700 | 2,200 | 1,311,800 | < 50 | 0 |
| SCHOOLCRAFT | 300 | 70,800 | 200 | 68,100 | < 50 | 0 |
| SHIAWASSEE | 5,500 | 1,742,000 | 3,000 | 1,668,200 | < 50 | 0 |
| TUSCOLA | 3,600 | 1,265,500 | 2,400 | 1,490,700 | < 50 | 0 |
| VAN BUREN | 5,900 | 2,101,200 | 3,200 | 1,961,400 | < 50 | 0 |
| WASHTENAW | 36,800 | 18,888,400 | 10,200 | 8,875,800 | < 50 | 0 |
| WAYNE LESS DETROIT | 108,300 | 51,581,700 | 56,200 | 46,473,700 | < 50 | 0 |
| WEXFORD | 2,400 | 764,800 | 1,200 | 629,900 | < 50 | 0 |
| OUTSIDE OF MICHIGAN | 11,200 | 5,030,600 | 5,100 | 4,016,200 | < 50 | 0 |
| DETROIT | 125,700 | 48,076,000 | 32,400 | 21,891,200 | < 50 | 0 |
| TOTAL | 898,800 | \$370,010,100 | 409,900 | \$283,828,700 | 0 | \$0 |

Exhibit 18 (Continued)

| County | Blind and Disabled | | Farmland | | Total Credits | |
|----------------|--------------------|-----------|----------|-----------|---------------|------------|
| | Number | Amount | Number | Amount | Number | Amount |
| ALCONA | 100 | \$25,400 | < 50 | \$11,200 | 1,100 | \$386,300 |
| ALGER | 100 | 14,700 | < 50 | 2,100 | 800 | 252,700 |
| ALLEGAN | 500 | 172,300 | 200 | 679,300 | 10,700 | 5,335,100 |
| ALPENA | 400 | 115,600 | < 50 | 10,800 | 4,000 | 1,434,500 |
| ANTRIM | 100 | 47,200 | < 50 | 69,300 | 2,800 | 1,418,900 |
| ARENAC | 200 | 53,500 | 100 | 231,600 | 1,900 | 972,100 |
| BARAGA | 100 | 16,400 | < 50 | 0 | 600 | 192,000 |
| BARRY | 200 | 64,600 | 100 | 166,500 | 4,700 | 2,172,200 |
| BAY | 1,000 | 369,800 | 300 | 1,088,500 | 15,600 | 7,407,900 |
| BENZIE | 100 | 36,500 | < 50 | 2,300 | 1,700 | 685,200 |
| BERRIEN | 1,100 | 457,300 | 100 | 298,400 | 19,800 | 8,116,100 |
| BRANCH | 200 | 80,500 | 200 | 680,600 | 4,700 | 2,570,500 |
| CALHOUN | 1,200 | 505,900 | 200 | 580,300 | 18,800 | 8,674,500 |
| CASS | 200 | 81,900 | 100 | 738,400 | 4,100 | 2,411,500 |
| CHARLEVOIX | 100 | 42,800 | < 50 | 25,100 | 3,400 | 1,537,500 |
| CHEBOYGAN | 200 | 54,200 | < 50 | 8,800 | 2,500 | 891,200 |
| CHIPPEWA | 300 | 67,300 | < 50 | 24,200 | 3,100 | 1,027,000 |
| CLARE | 300 | 69,900 | < 50 | 61,700 | 2,900 | 950,300 |
| CLINTON | 200 | 73,900 | 200 | 620,600 | 6,500 | 3,799,000 |
| CRAWFORD | 100 | 24,500 | < 50 | 0 | 1,100 | 343,600 |
| DELTA | 400 | 107,000 | < 50 | 60,200 | 4,000 | 1,421,900 |
| DICKINSON | 200 | 62,600 | < 50 | 13,200 | 3,100 | 1,217,300 |
| EATON | 500 | 200,700 | 200 | 517,700 | 15,800 | 7,987,900 |
| EMMET | 200 | 69,000 | < 50 | 8,200 | 4,100 | 1,926,300 |
| GENESEE | 3,200 | 1,385,800 | 100 | 205,900 | 53,200 | 20,688,800 |
| GLADWIN | 300 | 81,000 | < 50 | 48,200 | 2,900 | 1,094,400 |
| GOGEBIC | 200 | 46,400 | < 50 | 0 | 1,500 | 420,100 |
| GRAND TRAVERSE | 400 | 169,200 | < 50 | 59,800 | 12,200 | 5,854,100 |
| GRATIOT | 300 | 76,700 | 500 | 1,217,600 | 4,200 | 2,735,500 |
| HILLSDALE | 300 | 104,700 | 200 | 570,300 | 4,800 | 2,466,700 |
| HOUGHTON | 300 | 69,300 | < 50 | 0 | 2,500 | 795,400 |
| HURON | 300 | 93,500 | 1,100 | 4,444,900 | 6,600 | 7,509,100 |
| INGHAM | 1,800 | 832,300 | 200 | 993,100 | 44,500 | 21,768,300 |
| IONIA | 200 | 78,100 | 200 | 522,500 | 5,400 | 2,652,200 |
| IOSCO | 400 | 76,000 | < 50 | 34,900 | 3,000 | 1,016,700 |
| IRON | 200 | 32,100 | < 50 | 2,600 | 1,100 | 335,500 |
| ISABELLA | 300 | 117,100 | 100 | 383,300 | 7,100 | 3,354,900 |
| JACKSON | 900 | 345,800 | 100 | 270,700 | 16,300 | 6,668,200 |
| KALAMAZOO | 1,300 | 588,600 | 100 | 502,800 | 33,300 | 14,626,300 |
| KALKASKA | 100 | 22,100 | < 50 | 5,800 | 1,600 | 559,900 |
| KENT | 2,500 | 1,146,300 | 100 | 474,000 | 74,600 | 32,033,300 |
| KEWEENAW | < 50 | 5,000 | < 50 | 0 | 100 | 42,600 |

Exhibit 18 (Continued)

| County | Blind and Disabled | | Farmland | | Total Credits | |
|---------------------|--------------------|---------------------|--------------|---------------------|------------------|----------------------|
| | Number | Amount | Number | Amount | Number | Amount |
| LAKE | 100 | \$38,900 | < 50 | \$4,500 | 1,100 | \$355,700 |
| LAPEER | 300 | 106,100 | 100 | 200,300 | 7,800 | 3,537,300 |
| LEELANAU | 100 | 23,200 | < 50 | 42,600 | 2,000 | 1,175,900 |
| LENAWEE | 500 | 238,000 | 500 | 1,942,800 | 12,300 | 7,492,500 |
| LIVINGSTON | 400 | 198,300 | < 50 | 4,500 | 13,100 | 6,890,800 |
| LUCE | 100 | 9,000 | < 50 | 0 | 300 | 68,000 |
| MACKINAC | 100 | 22,100 | < 50 | 3,100 | 1,100 | 410,500 |
| MACOMB | 3,800 | 2,259,600 | < 50 | 44,300 | 139,900 | 80,435,900 |
| MANISTEE | 200 | 62,100 | < 50 | 6,700 | 2,800 | 1,101,100 |
| MARQUETTE | 600 | 140,100 | < 50 | 7,300 | 5,600 | 1,708,800 |
| MASON | 200 | 64,700 | 100 | 155,400 | 3,500 | 1,531,000 |
| MECOSTA | 200 | 70,500 | < 50 | 123,000 | 3,300 | 1,365,900 |
| MENOMINEE | 200 | 39,000 | < 50 | 73,800 | 2,100 | 749,100 |
| MIDLAND | 500 | 146,200 | 100 | 168,200 | 8,500 | 3,640,700 |
| MISSAUKEE | 100 | 25,900 | 100 | 290,100 | 1,400 | 849,000 |
| MONROE | 700 | 318,500 | 200 | 600,500 | 15,200 | 7,515,000 |
| MONTCALM | 400 | 135,800 | 200 | 604,700 | 6,600 | 3,161,000 |
| MONTMORENCY | 100 | 26,800 | < 50 | 4,800 | 1,000 | 296,100 |
| MUSKEGON | 1,600 | 637,900 | 100 | 252,000 | 21,500 | 8,611,300 |
| NEWAYGO | 300 | 110,300 | 100 | 222,900 | 4,600 | 2,163,700 |
| OAKLAND | 3,900 | 2,491,600 | < 50 | 106,200 | 173,800 | 111,244,800 |
| OCEANA | 200 | 63,600 | 100 | 228,100 | 2,900 | 1,380,900 |
| OGEMAW | 200 | 67,000 | < 50 | 89,500 | 2,400 | 919,500 |
| ONTONAGON | 100 | 16,700 | < 50 | 1,300 | 500 | 145,400 |
| OSCEOLA | 200 | 47,700 | 100 | 171,500 | 2,400 | 1,013,300 |
| OSCODA | 100 | 20,700 | < 50 | 2,100 | 600 | 159,300 |
| OTSEGO | 100 | 35,000 | < 50 | 1,900 | 2,100 | 718,300 |
| OTTAWA | 800 | 331,400 | 200 | 1,052,500 | 28,700 | 14,092,300 |
| PRESQUE ISLE | 200 | 37,800 | < 50 | 29,300 | 1,500 | 569,800 |
| ROSCOMMON | 300 | 72,400 | < 50 | 13,900 | 3,100 | 1,081,400 |
| SAGINAW | 1,900 | 711,100 | 600 | 1,797,100 | 24,900 | 10,947,800 |
| ST. CLAIR | 1,100 | 455,500 | 100 | 167,000 | 22,700 | 10,678,500 |
| ST. JOSEPH | 400 | 114,900 | 200 | 614,800 | 6,200 | 2,930,200 |
| SANILAC | 300 | 99,200 | 500 | 1,583,800 | 6,100 | 4,267,600 |
| SCHOOLCRAFT | 100 | 14,000 | < 50 | 4,400 | 600 | 157,300 |
| SHIAWASSEE | 500 | 180,600 | 300 | 641,900 | 9,200 | 4,232,800 |
| TUSCOLA | 400 | 151,700 | 700 | 2,984,200 | 7,200 | 5,892,100 |
| VAN BUREN | 500 | 215,600 | 100 | 477,700 | 9,700 | 4,755,800 |
| WASHTENAW | 1,000 | 638,200 | 200 | 723,100 | 48,100 | 29,125,600 |
| WAYNE LESS DETROIT | 5,400 | 3,468,600 | < 50 | 86,800 | 170,000 | 101,610,800 |
| WEXFORD | 300 | 95,700 | < 50 | 34,400 | 4,000 | 1,524,900 |
| OUTSIDE OF MICHIGAN | 500 | 252,500 | 100 | 178,700 | 16,800 | 9,478,100 |
| DETROIT | 9,200 | 5,082,200 | < 50 | 42,300 | 167,400 | 75,091,700 |
| TOTAL | 59,000 | \$27,420,000 | 9,200 | \$31,572,000 | 1,377,000 | \$712,830,900 |

Federal Income Tax Expenditures

Michigan's income tax uses the federal definition of AGI as the starting point in calculating taxable income. Therefore, income sources excluded from AGI at the federal level are excluded automatically from state income taxation unless the state explicitly adds these items back. This section lists income sources that are not included in the federal definition of AGI and are not added back to Michigan taxable income.

Federal income tax expenditure estimates were derived using a three-step formula:

1. Federal (national) government tax expenditure estimate times Michigan's apportionment factor equals Michigan's share of federal government revenue loss.
2. Michigan's share of federal revenue loss divided by the average marginal tax rate for federal taxpayers equals Michigan income excluded from federal taxation.
3. Michigan income excluded from federal taxation times the state income tax rate equals Michigan's tax expenditure due to federal deductions or exemptions.

Federal government estimates are from the *Budget of the United States Government Fiscal Year 2005*. Previous editions of the *Tax Expenditure Report* have used tax expenditure estimates generated by the Joint Committee on Taxation. Generally, the estimates in the *Budget of the United States Government* are slightly larger than the estimates produced by the Joint Committee.

The apportionment factors for the various expenditures are based on relevant statistics from the Bureau of Economic Analysis, the U.S. Census Bureau, and other sources. Federal marginal tax rates are from the U.S. Department of Treasury.

The reader is again cautioned regarding the reliability of federal income tax expenditure estimates. The accuracy of these estimates is dependent upon the accuracy of federal estimates, apportionment factor estimates, and marginal tax rate estimates.

FY 2005 Estimate

Accelerated Depreciation

-\$14,206,000

When a person buys property to be used in a business or to earn rent and the property has a useful life of more than one year, the cost of the property is typically depreciated over its expected life. For tax purposes, a person may deduct depreciation at an accelerated rate. Changes in federal tax law further increased deductions for depreciation into 2003 and 2004. Higher deductions in earlier years result in smaller future deductions, hence the negative estimate here.

Employer Contributions to Health and Life Insurance

\$750,785,000

Exempts employer payments for employee medical insurance from taxation. Also exempts employer payments for life insurance premiums on the first \$50,000 of life insurance.

| | <u>FY 2005 Estimate</u> |
|---|--------------------------------|
| Employer Pension Plans Exempts employer payments into qualified employee pension plans from taxation. | \$786,987,000 |
| Federal Adjustments to Income Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI. | \$20,798,000 |
| Fellowships and Scholarships Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI. | \$8,724,000 |
| Gain on Sale of Primary Residence Excludes from AGI a gain from the sale of a primary residence. To qualify for the full exemption, the taxpayer must have owned and lived in the home for at least two of the past five years and not claimed a similar exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return. | \$155,208,000 |
| Income Maintenance Benefits Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation. | \$4,033,000 |
| Individual Retirement Accounts Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. In 1987, this deduction was reduced or eliminated for some taxpayers. Federal tax legislation enacted in 2001 increased the maximum contribution limit to \$3,000 for 2002. Only persons with an AGI below \$54,000 on a joint return (\$34,000 on a single return) or not covered by an employer retirement plan can take the full \$3,000 deduction. A partial deduction, phased out according to income, is available between \$54,000-\$64,000 for joint filers and \$34,000-\$44,000 for single filers. | \$203,771,000 |
| Interest on Life Insurance Savings Exempts interest earned from life insurance from tax if used to buy additional life insurance. | \$140,851,000 |
| Medical Care Savings Account Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account. | \$3,036,000 |

FY 2005 Estimate

Railroad Retirement Benefits

\$1,929,000

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

Social Security Benefits

\$223,488,000

Exempts most social security benefits. Federal social security benefits are not taxable under federal law unless half of these benefits plus modified AGI exceed \$32,000 on a joint return or \$25,000 on an individual return. If benefits exceed this amount, a portion (generally no more than 50 percent but potentially up to 85 percent of social security benefits) is taxable under federal law.

Student Loan Deduction

\$5,078,000

Allows a deduction for interest paid on qualified education loans. The Federal Taxpayer Relief Act of 1997 provides a maximum deduction of \$2,500 for tax year 2001 and following.

Veterans' Benefits

\$40,495,000

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

Workers' Compensation

\$64,208,000

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

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 3.4 percent from \$52.6 million in FY 2004 to \$54.4 million in FY 2005. Transportation tax expenditure estimates were based on FY 2002 and FY 2003 data.

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

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

Transportation Tax Expenditure Changes

No changes were effective in 2003.

Aircraft Registration and Transfer Fee

In lieu of general or local property taxes on aircraft, the state levies an aircraft registration fee. The tax base is either the maximum gross weight or maximum take-off weight, whichever is greater. The registration fee is assessed at one cent per pound. The transfer fee is \$1. These fees will yield an estimated \$285,000 to the state's Aeronautics Fund in FY 2005.

Aviation Fuel Tax Expenditures

Enacted in 1929, the aviation fuel tax is a tax on fuel sold for propelling aircraft. It is levied on the privilege of using aviation facilities, and the rate is three cents per gallon. In FY 2005, the aviation fuel tax is projected to yield \$8.2 million, which is deposited into the state's Aeronautics Fund.

FY 2005 Estimate

Federally-Owned Aircraft \$261,000

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

Interstate Flight Refund \$3,286,000

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

Marine Vessel Fuel Tax Expenditures

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

FY 2005 Estimate

Marine Vessel Exemption \$710,000

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

Motor Carrier Privilege Fee

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

Motor Fuel Taxes

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum gas taxes. The tax rate on gasoline is 19 cents per gallon. The diesel fuel tax rate at the pump is 15 cents per gallon, beginning April 1, 2003. Revenue is earmarked to the Michigan Transportation Fund, and distributed to the state, counties, and cities to maintain roads, and to the Comprehensive Transportation Fund to help finance public transportation. In FY 2005, motor fuel taxes will yield an estimated \$1,130.6 million.

| | <u>FY 2005 Estimate</u> |
|--|--------------------------------|
| <p>Diesel Fuel for Railroads Exempts diesel fuel used by railroad locomotives from motor fuel taxes.</p> | n.a. |
| <p>Evaporation and Loss Allowance The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.</p> | \$14,800,000 |
| <p>Fuel for Job Sites and Charter Firms Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.</p> | \$5,164,000 |
| <p>Fuel for Off-Road Use Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.</p> | \$954,000 |
| <p>Municipal Franchise Vehicles Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.</p> | \$405,000 |
| <p>Public Vehicles Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.</p> | \$13,292,000 |
| <p>Tribal Tax Agreements Provides for tribes to obtain tax-free motor fuel for use by the tribe, tribal entities, and resident tribal members. Sales to other parties made by tribal retailers will be fully taxed.</p> | n.a. |

Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, passenger vehicles became taxable on their value instead of their weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2005, the motor vehicle registration fee is projected to yield \$882.2 million.

FY 2005 Estimate

| | |
|--|--------------|
| Disabled Veterans' Vehicles | \$220,000 |
| Provides totally disabled veterans free vehicle license plates. | |
| Handicapper Vans | n.a. |
| Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair. | |
| Intercity Commercial Buses | n.a. |
| Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight. | |
| Public and Nonprofit Vehicles | \$15,300,000 |
| Motor vehicles owned and operated by the state, a state institution, a municipality, a nonprofit college or university, or other nonprofit organization pay a lower rate of \$5 for license plates with a five-year registration period. | |

Watercraft Registration Fee

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

FY 2005 Estimate

| | |
|---|----------|
| Publicly-Owned Watercraft | \$14,000 |
| Levies a special fee of \$1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes. | |

CHAPTER 8

PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 4.2 percent from \$8,964.9 million in FY 2004 to \$9,338.1 million in FY 2005. Estimates were based on FY 2002 and FY 2003 data.

| | |
|-----------------------------|---|
| Estimate Reliability | (1) Railroad Right-of-Way |
| | (3) Tax-Exempt Property |
| | (1-2) Homestead Exemption for Farm and Homestead Property |
| | Other Local Taxes |
| | Technology Parks |

Tax expenditure estimates attributable to tax-exempt property are not reliable due to the inherent difficulty of estimating values of tax-exempt properties within each of Michigan's 83 counties. County equalization directors provide these estimates based on their own estimates or surveys of local units. Estimates are somewhat arbitrary because equalization directors use different methods to derive estimates. In many cases, equalization directors did not provide estimates, and estimates from previous years were used. These latter cases are noted in the exhibits.

Other local tax expenditures include accommodations, city income, and city utility users' tax. For most of these categories, data were not available to estimate the statewide value of tax expenditures associated with these taxes. The two exceptions are the Nonresident Reduced Rate and Personal Exemption tax expenditures associated with the city income tax. These estimates were based on a survey of city treasurers and are relatively stable from year to year.

Property and Other Local Tax Expenditure Changes

Public Act 5 of 2003 amends the Plant Rehabilitation and Industrial Development Act to allow property tax abatements for firms that create or synthesize biodiesel fuel. The Act also expands the definition of business activities eligible for an abatement to certain electric generating facilities that use biomass.

Public Act 93 of 2003 amends the Michigan Renaissance Zone Act to expand the number of agricultural renaissance zones from 10 to 20 and removes the time deadline for designating these zones.

Public Act 105 of 2003 amends the General Property Tax Act to increase audits of personal residence (homestead) exemptions. Exemptions that are found to be invalid may be revoked for current year and up to three previous years. The bill also changed the deadline for filing an exemption from May 1 to the prior December 31 (see PA 247).

Public Act 114 of 2003 amends the Revenue Act to allow the disclosure of tax information to the extent the disclosure is necessary to ensure proper administration of the General Property Tax Act.

Public Act 247 of 2003 amends the General Property Tax Act to change the deadline for filing a personal residence exemption from December 31 to May 1 each year. The Act also provides for the denial of an exemption under certain circumstances. The Act also imposes interest on taxes on property that is incorrectly reported or omitted by the taxpayer, under MCL 211.154.

Public Acts 259 through 263 amend several acts and create the Tax Reverted Clean Title Act. These laws contain provisions designed to allow a land bank fast track authority to more quickly obtain title to tax delinquent property through foreclosure proceedings, renovate and rehabilitate property, and place property back into productive use.

Public Act 266 of 2003 amends the Michigan Renaissance Zone Act to allow for the creation of up to 20 tool and die renaissance recovery zones within the state. Newly designated zones must consist of parcels of property used for tool and die business operations and may retain the designation of renaissance recovery zone for up to 15 years.

Public Act 274 of 2003 amends the General Property Tax Act to redefine the term “special tool” for the purpose of the special tool exemption.

Public Act 283 of 2003 amends the Brownfield Redevelopment Financing Act to allow a municipality with a local brownfield redevelopment authority to use captured school operating taxes for environmental response activities associated with a landfill for tax levied after 2004.

Utility Property Tax Expenditures

The State of Michigan levies a utility property tax on certain public utilities doing business in Michigan. The tax base is equal to 50 percent of the true cash value of all property owned by railroad, railroad car, and telephone and telegraph companies. Enacted in 1905, the utility property tax rate equals the average statewide general property tax rate in the preceding year on commercial and industrial property. Revenue is deposited into the General Fund, and FY 2005 collections are projected to total \$127.0 million.

FY 2005 Estimate

| | |
|--|--------------|
| Broadband Investment Credit | \$17,100,000 |
| Public Act 50 of 2002 provides a credit for the state utility property tax for a company that installs telecommunications equipment with information carrying capability exceeding 200 kilobits per second in both directions. This credit was intended to accelerate the introduction of broadband Internet access to Michigan. | |
| Railroad Right-of-Way | \$19,900,000 |
| Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan. | |

General Property Tax

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

Average Statewide Millage Rates

| <u>Calendar Year</u> | <u>Homestead Property</u> | <u>Nonhomestead Property</u> | <u>All Property</u> |
|---------------------------------|--------------------------------------|---|----------------------------|
| 1990 | n.a. | n.a. | 57.17 |
| 1991 | n.a. | n.a. | 57.34 |
| 1992 | n.a. | n.a. | 58.09 |
| 1993 | n.a. | n.a. | 56.64 |
| 1994 | 30.22 | 48.17 | 38.19 |
| 1995 | 31.00 | 48.79 | 38.88 |
| 1996 | 31.36 | 49.54 | 39.32 |
| 1997 | 31.36 | 49.63 | 39.25 |
| 1998 | 31.43 | 49.68 | 39.27 |
| 1999 | 31.40 | 49.76 | 39.16 |
| 2000 | 31.54 | 50.10 | 39.32 |
| 2001 | 32.12 | 50.72 | 39.78 |
| 2002 | 32.60 | 51.00 | 40.17 |

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

FY 2005 Estimate

Agricultural Transfers

\$27,900,000

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

Air and Water Pollution Control

\$140,000,000

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

Cultural Organizations

n.a.

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

Energy Conservation Devices

\$530,000

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

Enterprise Zone

\$1,200,000

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

Fairground Property

n.a.

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

| | <u>FY 2005 Estimate</u> |
|---|--------------------------------|
| Homestead Exemption Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills. For most school districts 18 mills are assessed locally for school operations. | \$2,800,000,000 |
| Homestead Exemption for Farm Property Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses. | \$130,000,000 |
| Industrial Facilities Development Allows local governments to grant property tax exemptions for up to 12 years to encourage the establishment of new industrial facilities and the creation, restoration, or replacement of obsolete facilities. In lieu of property tax, an industrial facilities tax is levied on industrial property (building, machinery, and equipment, but not land). For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility, except that the full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 20 displays a partial estimate of the revenue foregone by local units due to industrial facilities development. | \$320,000,000 |
| Neighborhood Enterprise Zones Allows local units of government that participate in this program to grant property tax abatements. For new housing, the property tax rate is equal to one-half the statewide average millage rate. For rehabilitated housing, assessments are frozen so that the value of improvements is not taxed. Currently, eight cities participate in this program. | \$5,700,000 |
| Next Energy Exemption Provides an exemption for alternative energy personal property certified by the Michigan Next Energy Authority from personal property taxes. The exemption is intended to help promote the research, development, and manufacturing of alternative energy technologies in Michigan. | \$800,000 |

FY 2005 Estimate

Obsolete Property Rehabilitation Exemption \$3,400,000

Under the Obsolete Property Rehabilitation Act (OPRA), commercial buildings in qualified local governmental units may be granted an OPRA abatement certificate, which results in reduced property taxes on the increased value of renovated and redeveloped facilities. Estimate assumes that most proposed investments for certificates issued before 2004, takes place by the end of 2004.

Poverty Exemption \$2,400,000

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

Renaissance Zones \$63,360,000

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

Tax Exempt Property \$2,057,000,000

Exhibit 20 (see page 79) reports the results from the 2002 County Survey of Tax-Exempt Property. The survey includes seven categories of tax-exempt property reported by county. These estimates of the taxable value of exempt property were provided by county equalization departments, as required by Public Act 155 of 1925. Exhibit 19 contains a map of Michigan's counties.

The total estimated taxable value of exempt property (not including tax-exempt property for industrial facility development) reported was \$39.0 billion. If taxed at the 2002 average nonhomestead statewide rate of 51.00 mills, tax-exempt property would have yielded \$2.0 billion in property tax revenue.

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

Tax Exempt Acreage n.a.

Exhibit 21 (see page 83) shows exempt nonprofit religious or educational property by county. Properties are exempt under Article IX, Sec. 4, of the State Constitution. Tax-exempt acreage totaled 359,346 acres in 2002.

| | <u>FY 2005 Estimate</u> |
|--|--------------------------------|
| Tax Exempt County and Municipal Property Exempts real property owned by counties, townships, cities, villages, and school districts. | \$303,000,000 |
| Tax Exempt Federal Property Exempts real property belonging to the United States government. | \$270,000,000 |
| Tax Exempt Other Real Tax Exempt Property Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities. | \$172,000,000 |
| Tax Exempt Personal Property Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment. Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, insurance companies, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations. | \$567,000,000 |
| Tax Exempt Public Education Property Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes. | \$553,000,000 |
| Tax Exempt Specifically-Taxed Property Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure. | n.a. |
| Tax Exempt State Property Exempts real property owned by the State of Michigan. | \$192,000,000 |

FY 2005 Estimate

Tax Increment Financing

\$290,000,000

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

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

Taxable Value Cap

\$3,410,000,000

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

Veterans' Organizations

n.a.

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

Water Softeners and Water Coolers

\$1,100,000

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

Iron Ore Specific Tax

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$3.5 million in FY 2003, \$1.2 million of which was remitted to the state. The state's share of the iron ore specific tax is deposited into the School Aid Fund. Public Act 443 of 2002 reduced the tax rate for five years to 0.75 percent.

Exhibit 19 Counties of Michigan



Exhibit 20
Estimated Taxable Value of Exempt Real and Personal Property by County, 2003
(Taxable Value in Thousands)

| County | Industrial Facilities Tax | Federal | State | County and Municipal | Public Education |
|------------------|---------------------------------|-----------|----------|----------------------------|---------------------|
| ALCONA | \$0 | \$85,226 | \$13,284 | \$20,787 | \$13,518 |
| ALGER* | 113 | 22,328 | 1,757 | 2,230 | 7,253 |
| ALLEGAN* | 205,645 | 0 | 0 | 0 | 0 |
| ALPENA* | 14,222 | 7,331 | 55,745 | 83,570 | 55,174 |
| ANTRIM* | 0 | 0 | 0 | 0 | 0 |
| ARENAC | 1,770 | 515 | 32,400 | 2,400 | 740 |
| BARAGA | 0 | 16,695 | 33,390 | 17,808 | 20,034 |
| BARRY * | 7,707 | 0 | 6,389 | 20,684 | 48,976 |
| BAY* | 144,357 | 15,669 | 13,958 | 19,377 | 212,856 |
| BENZIE * | 0 | 34,926 | 90,670 | 21,800 | 13,164 |
| BERRIEN * | 97,488 | 48,949 | 89,856 | 478,734 | 533,490 |
| BRANCH * | 55,737 | 0 | 854 | 10,450 | 4,500 |
| CALHOUN * | 330,553 | 35,000 | 4,200 | 68,500 | 100,000 |
| CASS * | 23,121 | 0 | 46,075 | 116,775 | 116,813 |
| CHARLEVOIX | 101,829 | 979 | 22,066 | 24,426 | 44,643 |
| CHEBOYGAN | 0 | 2,189 | 5,390 | 36,960 | 21,340 |
| CHIPPEWA * | 1,869 | 1,243,228 | 50,000 | 3,000 | 54,000 |
| CLARE* | 4,890 | 796 | 21,489 | 2,958 | 31,880 |
| CLINTON* | 18,343 | 15 | 3,200 | 15,000 | 25,000 |
| CRAWFORD * | 2,775 | 28,545 | 230,000 | 6,233 | 21,150 |
| DELTA | 21,888 | 49,403 | 11,962 | 10,628 | 23,860 |
| DICKINSON* | 68,287 | 7,800 | 9,100 | 8,400 | 27,400 |
| EATON | 83,242 | 478 | 174,981 | 133,486 | 131,642 |
| EMMET | 4,367 | 0 | 8,837 | 260 | 16 |
| GENESEE | 129,115 | 14,484 | 48,429 | 414,430 | 483,275 |
| GLADWIN * | 1,072 | 50,000 | 21,000 | 11,000 | 30,000 |
| GOGEBIC * | 906 | 29,214 | 105 | 12,521 | 2,287 |
| GRAND TRAVERSE * | 7,909 | 2,750 | 15,000 | 85,000 | 66,800 |
| GRATIOT * | 28,137 | 1,650 | 9,250 | 8,700 | 185,000 |
| HILLSDALE | 56,224 | 272 | 650 | 20,505 | 71,500 |
| HOUGHTON | 5,075 | 12,720 | 80,160 | 7,925 | 94,700 |
| HURON | 56,841 | 39,400 | 10,542 | 85,700 | 0 |
| INGHAM* | 236,831 | n.a. | n.a. | n.a. | n.a. |
| IONIA | 34,945 | 0 | 154,735 | 14,942 | 18,875 |
| IOSCO | 841 | 10,122 | 6,301 | 5,742 | 12,290 |
| IRON* | 222 | 21,000 | 13,000 | 6,300 | 510 |
| ISABELLA | 11,982 | 0 | 0 | 0 | 0 |
| JACKSON* | 166,939 | 2,000 | 201,000 | 38,000 | 98,000 |
| KALAMAZOO | 136,895 | 30,642 | 311,516 | 657,977 | 1,277,216 |
| KALKASKA * | 2,996 | 1,000 | 100,000 | 100,000 | 95,000 |
| KENT * | 614,658 | 24,450 | 23,766 | 174,895 | 484,900 |
| KEWEENAW | 0 | 60,566 | 5,980 | 9,024 | 1,010 |

Exhibit 20 (Continued)

| County | Industrial | County | | | Public |
|----------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | Facilities | Federal | State | and | Education |
| | Tax | | | Municipal | |
| LAKE | \$237 | \$75,519 | \$38,409 | \$6,710 | \$10,419 |
| LAPEER* | 57,151 | 3,272 | 16,794 | 140,854 | 98,456 |
| LEELANAU | 0 | 898 | 15 | 435 | 36 |
| LENAWEE * | 100,337 | 1,500 | 34,800 | 76,300 | 228,800 |
| LIVINGSTON ** | 60,420 | 48 | 7,349 | 40,749 | 47,125 |
| LUCE * | 11,500 | 50 | 8,000 | 2,571 | 4,301 |
| MACKINAC * | n.a. | 22,794 | 73,314 | 10,193 | 15,013 |
| MACOMB | 1,154,067 | 1,160,046 | 88,602 | 742,077 | 1,213,719 |
| MANISTEE | 12,388 | 16,530 | 32,060 | 28,442 | 29,731 |
| MARQUETTE * | 14,988 | 59,000 | 40,100 | 18,750 | 185,000 |
| MASON | 59,394 | 119,248 | 26,507 | 80,318 | 153,484 |
| MECOSTA * | 26,678 | 884,000 | 74,100 | 58,500 | 520,800 |
| MENOMINEE* | 324 | | 71,633 | 896 | 673 |
| MIDLAND * | 132,212 | 335 | 9,130 | 75,210 | 90,150 |
| MISSAUKEE | 5,534 | 80 | 1,971 | 3,969 | 18,480 |
| MONROE | 252,509 | 126 | 9,749 | 73,512 | 161,918 |
| MONTCALM | 43,313 | n.a. | n.a. | n.a. | n.a. |
| MONTMORENCY * | 414 | 60 | 30,000 | 10,000 | 11,000 |
| MUSKEGON | 193,924 | 16,350 | 81,588 | 137,313 | 248,347 |
| NEWAYGO* | 19,589 | n.a. | n.a. | n.a. | n.a. |
| OAKLAND * | 828,118 | 216,940 | 66,562 | 781,432 | 944,339 |
| OCEANA * | 7,218 | 16,500 | 6,100 | 2,200 | 15,000 |
| OGEMAW * | 533 | 6,230 | 12,830 | 8,171 | 6,256 |
| ONTONAGON | 2,460 | 156,911 | 19,879 | 3,181 | 9,952 |
| OSCEOLA | 49,040 | 0 | 3,618 | 4,306 | 17,979 |
| OSCODA* | 96 | 115,691 | 114,968 | 2,525 | 5,694 |
| OTSEGO * | 2,041 | 2,016 | 22,300 | 6,285 | 80,000 |
| OTTAWA* | 621,644 | 13,920 | 28,829 | 119,095 | 809,331 |
| PRESQUE ISLE* | 42,273 | 0 | 0 | 0 | 0 |
| ROSCOMMON | 1,765 | 92 | 184,005 | 4,582 | 25,725 |
| SAGINAW | 216,837 | 21,750 | 129,500 | 181,500 | 574,000 |
| SAINT CLAIR | 71,092 | 12,699 | 66,192 | 217,989 | 246,092 |
| SAINT JOSEPH * | 126,315 | 0 | 7,759 | 14,389 | 38,754 |
| SANILAC * | 8,922 | 109 | 4,610 | 6,064 | 48,510 |
| SCHOOLCRAFT | 3,214 | 273,463 | 355,043 | 29,300 | 30,093 |
| SHIAWASSEE | 17,578 | 695 | 18,700 | 68,700 | 95,000 |
| TUSCOLA* | 13,292 | 0 | 0 | 0 | 0 |
| VAN BUREN | 64,506 | 0 | 0 | 0 | 0 |
| WASHTENAW * | 280,902 | 0 | 230 | 474 | 10,259 |
| WEXFORD* | <u>36,940</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL | \$6,982,724 | \$5,097,214 | \$3,612,282 | \$5,714,119 | \$10,423,247 |

Note: Wayne and Ingham Counties are not in totals. 2003 taxable value for Wayne County was \$43.3 billion.

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

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

Exhibit 20 (Continued)

| <u>County</u> | <u>Personal Property</u> | <u>Other</u> | <u>Exempt Total</u> | <u>Total Taxable Value Real and Personal Property</u> | <u>Exempt as a Percent of Taxable</u> |
|------------------|------------------------------|--------------|-------------------------|---|---|
| ALCONA | \$0 | \$746 | \$133,560 | \$587,890 | 18.5 % |
| ALGER* | 55,000 | 0 | 88,568 | 235,887 | 27.3 % |
| ALLEGAN* | 0 | 0 | 0 | 3,183,713 | 0.0 % |
| ALPENA* | 141,282 | 0 | 343,102 | 751,927 | 31.3 % |
| ANTRIM* | 0 | 0 | 0 | 1,293,933 | 0.0 % |
| ARENAC | 0 | 610 | 36,665 | 437,822 | 7.7 % |
| BARAGA | 44,520 | 111,300 | 243,747 | 167,436 | 59.3 % |
| BARRY * | 63,780 | 34,396 | 174,225 | 1,417,473 | 10.9 % |
| BAY* | 255,154 | 2,593 | 519,607 | 2,538,026 | 17.0 % |
| BENZIE * | 0 | 17,001 | 177,561 | 743,113 | 19.3 % |
| BERRIEN * | 325,747 | 0 | 1,476,776 | 4,846,544 | 23.4 % |
| BRANCH * | 0 | 6,500 | 22,304 | 1,018,392 | 2.1 % |
| CALHOUN * | 725,000 | 28,000 | 960,700 | 3,111,551 | 23.6 % |
| CASS * | 253,589 | 0 | 533,252 | 1,290,694 | 29.2 % |
| CHARLEVOIX | 3,526 | 13 | 95,653 | 1,482,801 | 6.1 % |
| CHEBOYGAN | 0 | 0 | 65,879 | 1,006,618 | 6.1 % |
| CHIPPEWA * | 21,200 | 3,500 | 1,374,928 | 759,489 | 64.4 % |
| CLARE* | 29,480 | 0 | 86,603 | 768,199 | 10.1 % |
| CLINTON* | 0 | 0 | 43,215 | 1,756,360 | 2.4 % |
| CRAWFORD * | 89,130 | 20,000 | 395,058 | 459,558 | 46.2 % |
| DELTA | 5,660 | 0 | 101,513 | 883,567 | 10.3 % |
| DICKINSON* | 2,100 | 8,300 | 63,100 | 695,520 | 8.3 % |
| EATON | 186,807 | 291,392 | 918,786 | 2,724,099 | 25.2 % |
| EMMET | 0 | 0 | 9,112 | 2,117,533 | 0.4 % |
| GENESEE | 397,236 | 0 | 1,357,854 | 9,605,388 | 12.4 % |
| GLADWIN * | 0 | 0 | 112,000 | 709,074 | 13.6 % |
| GOGEBIC * | 330 | 302 | 44,759 | 347,477 | 11.4 % |
| GRAND TRAVERSE * | 118,200 | 51,400 | 339,150 | 3,071,914 | 9.9 % |
| GRATIOT * | 135,000 | 10,000 | 349,600 | 715,374 | 32.8 % |
| HILLSDALE | 59,300 | 45,500 | 197,727 | 1,076,404 | 15.5 % |
| HOUGHTON | 2,180 | 9,460 | 207,145 | 505,460 | 29.1 % |
| HURON | 0 | 0 | 135,642 | 1,284,096 | 9.6 % |
| INGHAM* | n.a. | n.a. | n.a. | 6,489,197 | n.a. |
| IONIA | 3,821 | 57 | 192,430 | 1,128,645 | 14.6 % |
| IOSCO | 5,909 | 2,298 | 42,662 | 892,206 | 4.6 % |
| IRON* | 0 | 0 | 40,810 | 321,150 | 11.3 % |
| ISABELLA | 0 | 0 | 0 | 1,145,973 | 0.0 % |
| JACKSON* | 200,000 | 5,000 | 544,000 | 3,595,879 | 13.1 % |
| KALAMAZOO | 10,911 | 89,162 | 2,377,424 | 6,398,021 | 27.1 % |
| KALKASKA * | 100,000 | 55,000 | 451,000 | 577,476 | 43.9 % |
| KENT * | 1,840,872 | 158,010 | 2,706,893 | 17,175,074 | 13.6 % |
| KEWEENAW | 1,079 | 32,054 | 109,713 | 85,595 | 56.2 % |

Exhibit 20 (Continued)

| County | Personal Property | Other | Exempt Total | Total Taxable Value Real and Personal Property | Exempt as a Percent of Taxable |
|----------------|----------------------|-------------|-----------------|--|--------------------------------------|
| LAKE | \$6,900 | \$4,444 | \$142,401 | \$368,172 | 27.9 % |
| LAPEER* | 184,151 | 0 | 443,527 | 2,483,939 | 15.2 % |
| LEELANAU | 0 | 272 | 1,656 | 1,581,369 | 0.1 % |
| LENAWEE * | 0 | 21,000 | 362,400 | 2,631,638 | 12.1 % |
| LIVINGSTON ** | 1,200 | 5,839 | 102,310 | 6,600,561 | 1.5 % |
| LUCE * | 650 | 1,749 | 17,321 | 135,831 | 11.3 % |
| MACKINAC * | 7,817 | 2,164 | 131,295 | 681,371 | 16.2 % |
| MACOMB | 345,746 | 448,339 | 3,998,529 | 25,573,225 | 13.5 % |
| MANISTEE | 38,800 | 25,654 | 171,217 | 790,550 | 17.8 % |
| MARQUETTE * | 0 | 230,000 | 532,850 | 1,327,383 | 28.6 % |
| MASON | 25,927 | 45,581 | 451,065 | 1,117,779 | 28.8 % |
| MECOSTA * | 15,400 | 13,440 | 1,566,240 | 938,776 | 62.5 % |
| MENOMINEE* | 0 | 4,234 | 77,437 | 455,519 | 14.5 % |
| MIDLAND * | 154,540 | 110,240 | 439,605 | 3,331,727 | 11.7 % |
| MISSAUKEE | 67,832 | 22,176 | 114,508 | 394,911 | 22.5 % |
| MONROE | 0 | 7,917 | 253,222 | 5,100,912 | 4.7 % |
| MONTCALM | 0 | 0 | 0 | 1,363,278 | 0.0 % |
| MONTMORENCY * | 5,000 | 150 | 56,210 | 380,284 | 12.9 % |
| MUSKEGON | 538,103 | 0 | 1,021,701 | 3,613,149 | 22.0 % |
| NEWAYGO* | 0 | 0 | 0 | 1,036,717 | 0.0 % |
| OAKLAND * | 113,876 | 11,835 | 2,134,984 | 53,179,886 | 3.9 % |
| OCEANA * | 4,100 | 0 | 43,900 | 756,922 | 5.5 % |
| OGEMAW * | 0 | 2,844 | 36,331 | 620,687 | 5.5 % |
| ONTONAGON | 26,903 | 110,668 | 327,494 | 181,062 | 64.4 % |
| OSCEOLA | 145,152 | 5,117 | 176,172 | 543,030 | 24.5 % |
| OSCODA* | 1,689 | 5,771 | 246,338 | 284,987 | 46.4 % |
| OTSEGO * | 45,800 | 3,665 | 160,066 | 1,031,565 | 13.4 % |
| OTTAWA* | 2,624,723 | 736,559 | 4,332,457 | 7,564,368 | 36.4 % |
| PRESQUE ISLE* | 0 | 0 | 0 | 479,020 | 0.0 % |
| ROSCOMMON | 6,077 | 7,627 | 228,108 | 1,020,805 | 18.3 % |
| SAGINAW | 1,014,563 | 217,700 | 2,139,013 | 4,455,117 | 32.4 % |
| SAINT CLAIR | 129,346 | 178,053 | 850,371 | 5,305,446 | 13.8 % |
| SAINT JOSEPH * | 4,185 | 4,695 | 69,782 | 1,418,498 | 4.7 % |
| SANILAC * | 66,701 | 7,277 | 133,271 | 1,132,668 | 10.5 % |
| SCHOOLCRAFT | 18,500 | 18,000 | 724,399 | 246,623 | 74.6 % |
| SHIAWASSEE | 12,100 | 0 | 195,195 | 1,441,648 | 11.9 % |
| TUSCOLA* | 0 | 0 | 0 | 1,154,259 | 0.0 % |
| VAN BUREN | 0 | 0 | 0 | 2,055,411 | 0.0 % |
| WASHTENAW * | 774 | 647 | 12,384 | 11,987,709 | 0.1 % |
| WEXFORD* | <u>0</u> | <u>0</u> | <u>0</u> | <u>750,972</u> | 0.0 % |
| TOTAL | \$10,683,368 | \$3,236,251 | \$38,766,481 | \$238,431,126 | 14.0 % |

Note: Wayne and Ingham Counties are not in totals. 2003 taxable value for Wayne County was \$43.3 billion.

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

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

**Exhibit 21
General Property Tax – Estimated Exempt Acreage by County, 2003**

| <u>County</u> | <u>Estimated Acreage</u> | <u>County</u> | <u>Estimated Acreage</u> |
|------------------|------------------------------|----------------|------------------------------|
| ALCONA | 306 | LAKE | 989 |
| ALGER* | 14,000 | LAPEER* | 4,600 |
| ALLEGAN * | 1,000 | LEELANAU | 2,117 |
| ALPENA* | 5,800 | LENAWEE * | 9,200 |
| ANTRIM * | 1,000 | LIVINGSTON ** | 1,001 |
| ARENAC | 1,100 | LUCE * | 2,300 |
| BARAGA | 7,600 | MACKINAC * | 240 |
| BARRY * | 7,000 | MACOMB | 6,552 |
| BAY* | 3,650 | MANISTEE | 2,000 |
| BENZIE * | 1,547 | MARQUETTE * | 390 |
| BERRIEN * | 6,678 | MASON | 600 |
| BRANCH * | 425 | MECOSTA * | 2,500 |
| CALHOUN * | 5,670 | MENOMINEE* | 141 |
| CASS | 60 | MIDLAND * | 2,000 |
| CHARLEVOIX | 350 | MISSAUKEE | 1,514 |
| CHEBOYGAN | 7,800 | MONROE | 3,200 |
| CHIPPEWA * | 1,500 | MONTCALM | n.a. |
| CLARE* | 146 | MONTMORENCY * | 200 |
| CLINTON * | 100 | MUSKEGON | 2,100 |
| CRAWFORD * | 1,619 | NEWAYGO * | 6,800 |
| DELTA | 700 | OAKLAND * | 12,871 |
| DICKINSON* | 400 | OCEANA * | 500 |
| EATON | 800 | OGEMAW * | 693 |
| EMMET | 1,100 | ONTONAGON | 200 |
| GENESEE | 11,990 | OSCEOLA | 1,285 |
| GLADWIN | 1,000 | OSCODA* | 529 |
| GOGEBIC * | 2,300 | OTSEGO * | 735 |
| GRAND TRAVERSE * | 10,500 | OTTAWA* | 2,278 |
| GRATIOT * | 300 | PRESQUE ISLE * | 85,136 |
| HILLSDALE | 1,975 | ROSCOMMON | 1,398 |
| HOUGHTON | 2,215 | SAGINAW | 4,030 |
| HURON | 341 | SAINT CLAIR | 11,972 |
| INGHAM * | 1,200 | SAINT JOSEPH * | 2,600 |
| IONIA | 544 | SANILAC * | 28,500 |
| IOSCO | 344 | SCHOOLCRAFT | 370 |
| IRON * | 580 | SHIAWASSEE | 300 |
| ISABELLA * | 2,882 | TUSCOLA * | 475 |
| JACKSON * | 3,020 | VAN BUREN | 630 |
| KALAMAZOO | 40,000 | WASHTENAW * | 200 |
| KALKASKA * | 340 | WEXFORD * | 500 |
| KENT * | 3,200 | | |
| KEWEENAW | 3,574 | TOTAL | 360,302 |

* Based on a previous year's survey.

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

Notes: Many estimates are rounded to the nearest hundred. Wayne County is not included. Total may differ due to rounding.

Mobile Home Tax

Enacted in 1959, the mobile home tax is levied on mobile homes in lieu of property tax. The tax rate is \$3 per month per occupied mobile home located in licensed mobile home parks. Township or city treasurers administer the mobile home tax. Counties and municipalities keep 50 cents each, while the remaining \$2 is remitted to the state and deposited into the School Aid Fund. The 2003 state share of this tax totaled \$3.3 million indicating \$4.9 million in total state and local collections. Exhibit 22, only shows the county share of the tax.

FY 2005 Estimate

Mobile Home Tax Expenditure

\$47,700,000

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

Out-of-State Coaches

n.a.

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

Real Estate Property Transfer Tax

Enacted in 1966, the county real estate property transfer tax is a tax on the transfer of an interest in real property. The tax is levied at a rate of 55 cents per \$500 (0.11 percent), or fraction thereof, on the fair market value of the property being transferred. The treasurer of the county in which the transfer takes place collects the tax, and the revenue goes to the county general fund. The estimated statewide revenue yield was approximately \$41.6 million in 2002. (See Exhibit 22.)

The School Finance Reform Package of 1994 created a state real estate property transfer tax in addition to the county tax. The rate is \$3.75 per \$500 (0.75 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the county treasurer and forwarded to the state. Revenue is deposited into the School Aid Fund. The state real estate transfer tax is projected to yield \$293 million in FY 2005.

Although several exemptions from the state and county transfer tax are permitted, they are designed to define which real estate transfers are subject to the tax. The act does not define real estate transfers explicitly, but by exclusion. Exempt transfers include transfers involving federal, state and local units of governments, certain conveyances between spouses, instruments used to straighten boundary lines when no money is paid, and land contracts in which the title passes to the grantee only when the contract has been paid. Public Act 203 of 2000 added churches and

church property to the list of exempt transfers. Transfers of less than \$100 are also exempt. There are no estimates regarding these tax expenditures due to an absence of data.

Accommodations Tax

Under Public Act 263 of 1974, owners of businesses providing rooms to transient guests are subject to the accommodations tax which is collected by the county treasurer. Housing and nursing homes are excluded from the tax. Only counties with a population of less than 600,000 that have a city with a population of at least 40,000 may levy the tax. Counties currently imposing the tax include: Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, and Washtenaw. The tax is levied on the amount transient guests pay for lodging. The maximum rate is 5 percent and is determined by the county. Revenues (less administrative costs) are dedicated to convention facilities and the promotion of conventions and tourism. The tax yielded approximately \$11.7 million in 2002 (see Exhibit 22).

City Income Tax

A city income tax is levied by adoption of a city ordinance subject to referendum upon petition by the voters. Income earned and received by city residents, income earned in the city by nonresidents, and corporate income earned in the city are subject to city income taxes. In CY 2002, city income taxes totaled \$503.6 million. (See Exhibit 24.) Currently, 22 cities levy a city income tax. While rates vary, most cities levy a 1.0 percent tax on residents and corporations and a 0.5 percent tax on nonresidents. Revenue collections go to the general fund of the taxing city, and most revenue comes from city residents.

FY 2005 Estimate

Federal Deductions

n.a.

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

Net Profits of Financial Institutions

n.a.

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

Exhibit 22
Miscellaneous Local Taxes Kept by Local Units, 2002

| County | Accommodations | Mobile Home (County Share) | Real Estate Prop. Trans. |
|----------------|-----------------------|---------------------------------------|-------------------------------------|
| ALCONA | \$0 | \$84 | \$59,175 |
| ALGER | 0 | 788 | 46,106 |
| ALLEGAN* | 0 | 28,297 | 431,745 |
| ALPENA | 0 | 985 | 84,256 |
| ANTRIM | 0 | 676 | 175,310 |
| ARENAC | 0 | 335 | 45,772 |
| BARAGA | 0 | 113 | 30,678 |
| BARRY | 0 | 7,202 | 198,433 |
| BAY | 0 | 14,468 | 268,827 |
| BENZIE | 0 | 473 | 110,537 |
| BERRIEN | 0 | 20,644 | 642,432 |
| BRANCH | 0 | 4,287 | 117,703 |
| CALHOUN | 51,479 | 15,803 | 509,330 |
| CASS | 0 | 4,981 | 135,959 |
| CHARLEVOIX | 0 | 3,791 | 207,569 |
| CHEBOYGAN | 0 | 1,129 | 132,853 |
| CHIPPEWA | 0 | 2,810 | 92,824 |
| CLARE | 0 | 920 | 95,951 |
| CLINTON | 0 | 12,604 | 251,787 |
| CRAWFORD | 0 | 111 | 60,771 |
| DELTA | 0 | 3,670 | 78,577 |
| DICKINSON | 0 | 2,431 | 61,125 |
| EATON | 0 | 10,514 | 381,483 |
| EMMET* | 0 | 2,436 | 324,860 |
| GENESEE | 1,258,880 | 73,303 | 1,427,967 |
| GLADWIN | 0 | 1,337 | 91,944 |
| GOGEBIC* | 0 | 188 | 0 |
| GRAND TRAVERSE | 0 | 10,590 | 578,482 |
| GRATIOT | 0 | 3,832 | 89,168 |
| HILLSDALE* | 0 | 1,816 | 126,541 |
| HOUGHTON | n.a. | n.a. | n.a. |
| HURON* | 0 | 3,004 | 103,987 |
| INGHAM | 1,910,164 | 21,815 | 942,153 |
| IONIA | 0 | 6,089 | 134,844 |
| IOSCO | 0 | 682 | 111,769 |
| IRON | 0 | 188 | 34,669 |
| ISABELLA | 0 | 5,974 | 152,018 |
| JACKSON* | 0 | 19,205 | 430,870 |
| KALAMAZOO | 1,386,408 | 28,150 | 926,025 |
| KALKASKA | 0 | 256 | 66,384 |
| KENT | 4,114,094 | 58,451 | 2,797,210 |
| KEWEENAW | 0 | 0 | 36,008 |

Exhibit 22 (Continued)

| <u>County</u> | <u>Accommodations</u> | <u>Mobile Home (County Share)</u> | <u>Real Estate Prop. Trans.</u> |
|---------------|-----------------------|---------------------------------------|-------------------------------------|
| LAKE | \$0 | \$0 | \$47,645 |
| LAPEER | 0 | 11,090 | 321,894 |
| LEELANAU | 0 | 1,088 | 239,341 |
| LENAWEE | 0 | 12,364 | 355,362 |
| LIVINGSTON | 0 | 18,517 | 1,181,194 |
| LUCE | 0 | 84 | 17,698 |
| MACKINAC* | 0 | 124 | 66,245 |
| MACOMB | 0 | 86,930 | 4,220,544 |
| MANISTEE | 0 | 792 | 107,251 |
| MARQUETTE | 0 | 2,756 | 155,323 |
| MASON | 0 | 2,481 | 101,536 |
| MECOSTA | 0 | 3,759 | 128,868 |
| MENOMINEE | 0 | 900 | 46,939 |
| MIDLAND | 0 | 5,566 | 276,331 |
| MISSAUKEE | 0 | 39 | 40,158 |
| MONROE | 0 | 37,960 | 467,128 |
| MONTCALM | 0 | 2,600 | 166,236 |
| MONTMORENCY* | 0 | 86 | 41,779 |
| MUSKEGON | 771,818 | 19,376 | 526,279 |
| NEWAYGO | n.a. | n.a. | n.a. |
| OAKLAND | 0 | 104,217 | 8,098,555 |
| OCEANA | 0 | 2,151 | 90,681 |
| OGEMAW | 0 | 414 | 62,662 |
| ONTONAGON | 0 | 30 | 21,336 |
| OSCEOLA | 0 | 95 | 58,286 |
| OSCODA | 0 | 25 | 33,430 |
| OTSEGO | 0 | 1,294 | 122,448 |
| OTTAWA | 0 | 42,075 | 1,142,297 |
| PRESQUE ISLE* | 0 | 313 | 45,772 |
| ROSCOMMON | 0 | 708 | 140,219 |
| SAGINAW | 976,942 | 18,544 | 463,003 |
| SAINT CLAIR | 0 | 27,032 | 620,635 |
| SAINT JOSEPH | 0 | 5,666 | 163,691 |
| SANILAC | 0 | 6,439 | 139,479 |
| SCHOOLCRAFT | 0 | 77 | 27,454 |
| SHIAWASSEE | 0 | 12,500 | 190,380 |
| TUSCOLA | 0 | 5,747 | 137,223 |
| VAN BUREN | 0 | 9,979 | 277,244 |
| WASHTENAW | 1,259,747 | 39,180 | 2,112,567 |
| WAYNE | 0 | 77,511 | 6,494,946 |
| WEXFORD | 0 | 2,589 | 96,242 |
| TOTAL | \$11,729,532 | \$937,517 | \$41,640,403 |

* Figures carried forward from a previous year.

FY 2005 Estimate

Nonresident Reduced Rate

\$167,700,000

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

Pensions, Annuities, and Retirement Plans

n.a.

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

Personal Exemption

\$23,600,000

Exempts a certain amount of income for each person claimed on the federal form. The exemption amounts for the various cities are listed in Exhibit 24. While most cities record the number of personal exemptions provided, some do not. In these cases, personal exemptions are estimated based on the number of tax returns multiplied by a weighted average number of exemptions.

Supplemental Unemployment Benefits

n.a.

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

City Utility Users' Tax

The uniform city utility users' tax is based on the privilege of consuming public telephone, electric, steam, or gas services in a city of one million or more. Currently, Detroit is the only Michigan city eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled \$55.3 million in FY 2003.

Exhibit 23
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2002

| <u>City</u> | <u>Resident</u> | | <u>Nonresident and Partial-Year Resident</u> | |
|------------------|------------------|---------------------|--|--------------------|
| | <u>Quantity</u> | <u>Amount</u> | <u>Quantity</u> | <u>Amount</u> |
| Albion | 4,999 | \$29,994 | 4,449 | \$13,347 |
| Battle Creek | 37,405 | 561,075 | 42,819 | 321,143 |
| Big Rapids | 3,687 | 22,122 | 17,502 | 52,506 |
| Detroit | 511,758 | 10,171,190 | 370,583 | 3,682,669 |
| Flint | 58,244 | 349,464 | 95,907 | 287,721 |
| Grand Rapids* | 166,411 | 2,163,343 | 176,040 | 1,144,260 |
| Grayling | 1,998 | 29,970 | 4,601 | 34,508 |
| Hamtramck* | 13,890 | 83,340 | 6,945 | 20,835 |
| Highland Park* | 12,000 | 144,000 | 18,000 | 108,000 |
| Hudson | 1,800 | 18,000 | 2,400 | 12,000 |
| Ionia | 4,120 | 28,840 | 20,090 | 70,315 |
| Jackson | 23,208 | 139,248 | 35,272 | 105,816 |
| Lansing | 75,328 | 451,968 | 112,658 | 337,974 |
| Lapeer | 6,967 | 41,802 | 18,722 | 56,166 |
| Muskegon | 18,516 | 111,096 | 37,908 | 113,724 |
| Muskegon Heights | 2,755 | 16,530 | 7,712 | 23,136 |
| Pontiac | 26,500 | 159,000 | 83,000 | 249,000 |
| Port Huron | 22,105 | 265,260 | 27,989 | 167,934 |
| Portland | 3,224 | 32,240 | 2,327 | 11,635 |
| Saginaw* | 32,488 | 487,320 | 52,162 | 391,215 |
| Springfield | 3,664 | 54,960 | 4,701 | 35,258 |
| Walker | 17,571 | 131,783 | 39,109 | 146,659 |
| TOTAL | 1,048,638 | \$15,492,545 | 1,180,896 | \$7,385,819 |

* Based on a previous year's survey.

**Exhibit 24
City Tax Rates and Exemption Allowances, 2002**

| <u>City</u> | <u>City Income Tax Rate</u> | | | <u>Personal Exemption</u> | <u>Collections (000s)</u> |
|------------------|-----------------------------|---------------------|--------------------|---------------------------|---------------------------|
| | <u>Resident</u> | <u>Non-Resident</u> | <u>Corporation</u> | | |
| Albion | 1.00 % | 0.50 % | 1.00 % | \$600 | \$1,312 |
| Battle Creek | 1.00 % | 0.50 % | 1.00 % | 1,500 | 11,269 |
| Big Rapids | 1.00 % | 0.50 % | 1.00 % | 600 | 1,842 |
| Detroit | 2.65 % | 1.325 % | 1.40 % | 750 | 320,845 |
| Flint | 1.00 % | 0.50 % | 1.00 % | 600 | 22,781 |
| Grand Rapids | 1.30 % | 0.65 % | 1.30 % | 1,000 | 51,336 |
| Grayling | 1.00 % | 0.50 % | 1.00 % | 1,500 | 364 |
| Hamtramck | 1.00 % | 0.50 % | 1.00 % | 600 | 2,826 |
| Highland Park | 2.00 % | 1.00 % | 2.00 % | 600 | 2,407 |
| Hudson | 1.00 % | 0.50 % | 1.00 % | 1,000 | 369 |
| Ionia | 1.00 % | 0.50 % | 1.00 % | 700 | 1,387 |
| Jackson | 1.00 % | 0.50 % | 1.00 % | 600 | 6,223 |
| Lansing | 1.00 % | 0.50 % | 1.00 % | 600 | 27,794 |
| Lapeer | 1.00 % | 0.50 % | 1.00 % | 600 | 2,038 |
| Muskegon | 1.00 % | 0.50 % | 1.00 % | 600 | 6,930 |
| Muskegon Heights | 1.00 % | 0.50 % | 1.00 % | 600 | 1,030 |
| Pontiac | 1.00 % | 0.50 % | 1.00 % | 600 | 14,274 |
| Port Huron | 1.00 % | 0.50 % | 1.00 % | 1,200 | 5,922 |
| Portland | 1.00 % | 0.50 % | 1.00 % | 1,000 | 572 |
| Saginaw | 1.50 % | 0.75 % | 1.50 % | 1,000 | 14,741 |
| Springfield | 1.00 % | 0.50 % | 1.00 % | 1,500 | 662 |
| Walker | 1.00 % | 0.50 % | 1.00 % | 750 | 6,638 |
| TOTAL | | | | | \$503,562 |