

# **An Overview of Michigan's Tax Structure and Tax Expenditures**

**Presented to  
Senate Finance Committee**



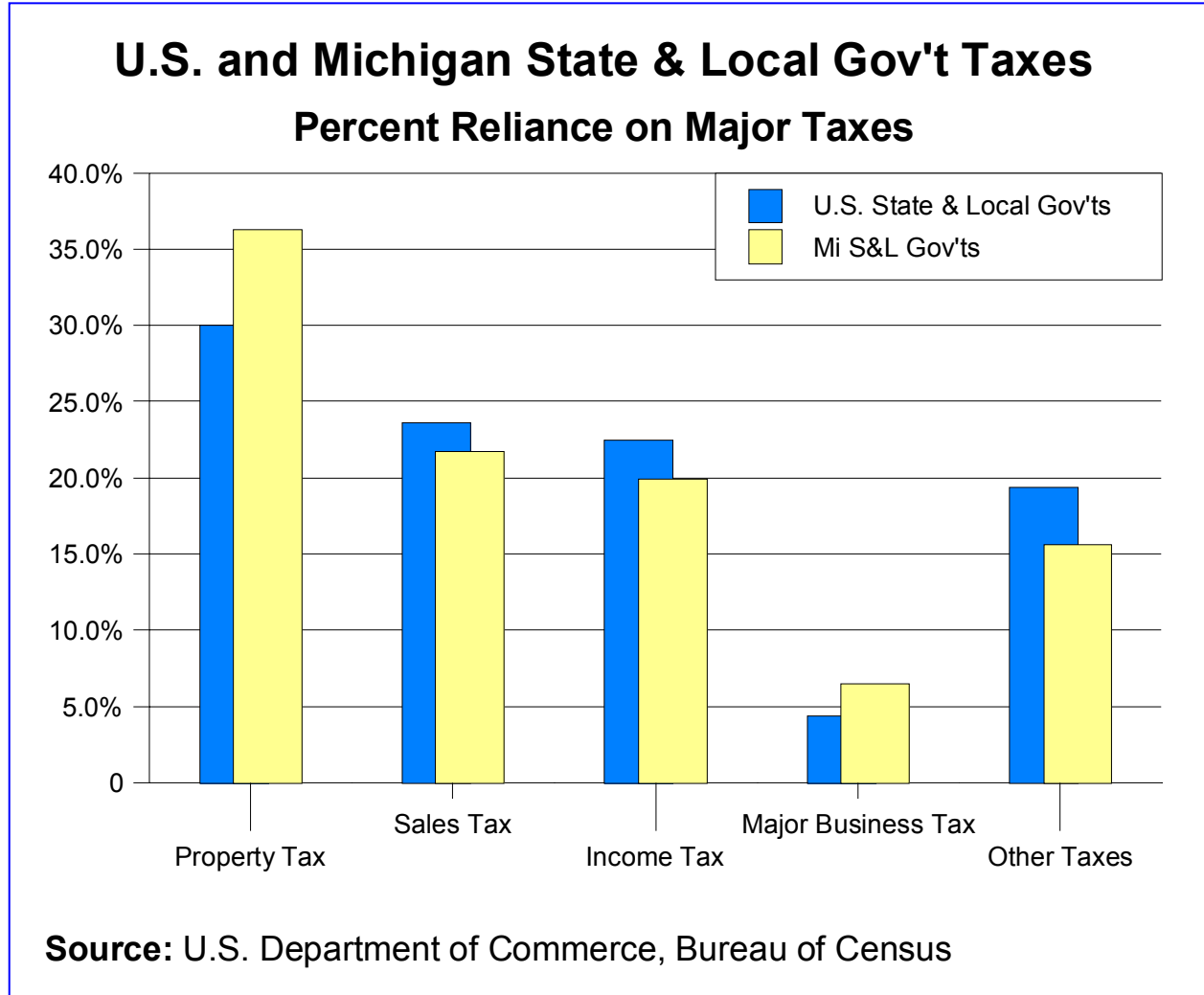
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**<http://www.senate.michigan.gov/sfa/>**

# Michigan's Major State and Local Taxes

Figure 1



**Table 1: State & Local Total Tax Burden For FY 2005-06 Per Capita and as a % of Personal Income  
(dollars in thousands)**

States	State & Local Tax Revenue	2006 Population	State & Local Taxes Per Capita	Rank	Personal Income	State & Local Taxes as % of Personal Inc.	Rank
Alabama	\$12,768,354	4,587,564	\$2,783	50	\$141,629,771	9.02%	47
Alaska	3,664,728	676,301	5,419	5	25,932,242	14.13%	2
Arizona	19,940,354	6,178,251	3,228	39	199,465,150	10.00%	39
Arkansas	8,747,018	2,804,199	3,119	44	79,845,017	10.95%	23
California	163,749,003	36,121,296	4,533	9	1,445,580,645	11.33%	16
Colorado	17,223,540	4,751,474	3,625	28	188,213,696	9.15%	46
Connecticut	19,871,967	3,487,896	5,697	3	179,974,214	11.04%	19
Delaware	3,618,436	850,366	4,255	14	32,947,056	10.98%	21
Florida	66,695,224	18,019,093	3,701	26	668,483,640	9.98%	40
Georgia	31,025,457	9,318,715	3,329	35	300,981,657	10.31%	32
Hawaii	6,199,404	1,275,264	4,861	6	47,334,472	13.10%	5
Idaho	4,502,606	1,461,183	3,081	45	44,382,663	10.14%	36
Illinois	52,144,334	12,759,673	4,087	15	490,683,173	10.63%	27
Indiana	22,950,381	6,294,124	3,646	27	201,451,933	11.39%	15
Iowa	10,256,456	2,967,270	3,457	31	97,151,747	10.56%	28
Kansas	10,451,865	2,756,267	3,792	22	95,159,936	10.98%	20
Kentucky	13,558,452	4,199,440	3,229	38	124,058,316	10.93%	24
Louisiana	15,723,965	4,243,634	3,705	25	139,328,520	11.29%	17
Maine	5,805,560	1,313,355	4,420	11	42,403,742	13.69%	4
Maryland	25,788,809	5,602,258	4,603	8	245,878,837	10.49%	30
Massachusetts	30,635,651	6,443,424	4,755	7	298,363,148	10.27%	34
<b>Michigan</b>	<b>36,016,894</b>	<b>10,083,878</b>	<b>3,572</b>	<b>30</b>	<b>332,617,185</b>	<b>10.83%</b>	<b>25</b>
Minnesota	22,490,583	5,143,134	4,373	13	200,295,512	11.23%	18
Mississippi	8,180,449	2,896,713	2,824	49	78,419,024	10.43%	31
Missouri	18,311,736	5,832,977	3,139	43	189,653,363	9.66%	42
Montana	3,019,675	945,428	3,194	41	29,365,659	10.28%	33
Nebraska	6,874,574	1,759,779	3,906	21	59,926,612	11.47%	13
Nevada	9,763,849	2,484,196	3,930	20	96,511,975	10.12%	37
New Hampshire	4,517,017	1,308,824	3,451	32	51,964,396	8.69%	50
New Jersey	47,307,677	8,640,218	5,475	4	404,473,847	11.70%	9
New Mexico	6,974,456	1,937,916	3,599	29	56,870,351	12.26%	7
New York	123,660,934	19,367,028	6,385	1	846,795,464	14.60%	1
North Carolina	30,012,764	8,845,343	3,393	33	285,444,855	10.51%	29
North Dakota	2,367,651	636,453	3,720	24	20,514,819	11.54%	12
Ohio	43,246,872	11,458,390	3,774	23	378,124,181	11.44%	14
Oklahoma	11,257,270	3,568,132	3,155	42	116,875,810	9.63%	43
Oregon	12,402,985	3,680,968	3,369	34	123,857,159	10.01%	38
Pennsylvania	49,062,635	12,388,055	3,960	17	455,884,034	10.76%	26
Rhode Island	4,679,980	1,058,991	4,419	12	39,891,119	11.73%	8
South Carolina	12,444,152	4,324,799	2,877	46	129,919,600	9.58%	44
South Dakota	2,240,776	787,380	2,846	47	25,426,909	8.81%	49
Tennessee	17,240,319	6,068,306	2,841	48	195,196,538	8.83%	48
Texas	75,732,050	23,367,534	3,241	37	821,641,742	9.22%	45
Utah	8,283,153	2,585,155	3,204	40	75,598,342	10.96%	22
Vermont	2,752,997	620,196	4,439	10	21,809,536	12.62%	6
Virginia	30,058,820	7,628,347	3,940	19	306,918,105	9.79%	41
Washington	25,168,807	6,360,529	3,957	18	245,764,517	10.24%	35
West Virginia	5,882,442	1,806,760	3,256	36	50,472,339	11.65%	10
Wisconsin	22,299,546	5,568,505	4,005	16	191,894,505	11.62%	11
Wyoming	3,136,120	512,573	6,118	2	22,235,760	14.10%	3
<b>U.S.</b>	<b>\$1,190,708,747</b>	<b>297,777,554</b>	<b>\$3,999</b>		<b>\$10,943,612,833</b>	<b>10.88%</b>	

Source: U.S. Department of Commerce, Census Bureau and Bureau of Economic Analysis. Compiled by the Senate Fiscal Agency.

## Michigan's State and Local Tax Burden

- Based on data for FY 2005-06, Michigan's tax burden ranked 30<sup>th</sup> among the states based on taxes per capita and 25<sup>th</sup> based on taxes as a percent of personal income.
- These rankings undoubtedly understate Michigan's current tax burden relative to other states because of tax changes that have been made since FY 2005-06, including:
  - Income tax rate increase from 3.9% to 4.35%.
  - Earned income tax credit.
  - Surcharge on the MBT.
  - MBT film credit.
- Adjusting the FY 2005-06 data for these tax changes raises Michigan's tax burden ranking to 27<sup>th</sup> based on taxes per capita and 19<sup>th</sup> based on taxes as a percent of personal income.
- However, these adjusted rankings likely overstate Michigan's relative tax burden because they do not reflect tax changes enacted by other states since FY 2005-06.
- As a result, Michigan's current tax burden ranking probably falls somewhere between these two sets of rankings.

## **Sales and Use Taxes**

- Generated \$8.15 billion in FY 2007-08.
- Current rate is 6.0% (constitutional).
- Michigan sales and use taxes generate about \$1.2 billion per 1 percentage point.
- Compared with other states, Michigan's sales tax base tends to be relatively narrow.
- Approximately 30.0% of tax paid by business.
- Michigan's sales tax burden as a percent of personal income ranks 30th among states.
- Michigan has no local sales taxes, but 36 other states have local sales taxes.

**Table 2: State & Local Sales Tax Burden For FY 2005-06 Per Capita and as a % of Personal Income  
(dollars in thousands)**

States	State & Local General Sales Tax Revenue	2006 Population	State & Local Sales Taxes Per Capita	Rank	Personal Income	State & Local Sales Tax as % of Pers. Inc.	Rank
Alabama	\$3,843,747	4,587,564	\$838	26	\$141,629,771	2.71%	20
Alaska	171,375	676,301	253	46	25,932,242	0.66%	46
Arizona	7,463,355	6,178,251	1,208	10	199,465,150	3.74%	8
Arkansas	3,598,486	2,804,199	1,283	7	79,845,017	4.51%	4
California	40,347,535	36,121,296	1,117	13	1,445,580,645	2.79%	16
Colorado	4,800,719	4,751,474	1,010	17	188,213,696	2.55%	24
Connecticut	3,040,683	3,487,896	872	23	179,974,214	1.69%	41
Delaware	0	850,366	0	47	32,947,056	0.00%	47
Florida	21,975,794	18,019,093	1,220	9	668,483,640	3.29%	12
Georgia	9,491,915	9,318,715	1,019	16	300,981,657	3.15%	14
Hawaii	2,355,316	1,275,264	1,847	2	47,334,472	4.98%	1
Idaho	1,078,543	1,461,183	738	37	44,382,663	2.43%	29
Illinois	9,064,370	12,759,673	710	38	490,683,173	1.85%	39
Indiana	5,334,275	6,294,124	848	24	201,451,933	2.65%	21
Iowa	2,272,316	2,967,270	766	35	97,151,747	2.34%	32
Kansas	2,828,945	2,756,267	1,026	15	95,159,936	2.97%	15
Kentucky	2,758,327	4,199,440	657	40	124,058,316	2.22%	36
Louisiana	6,597,552	4,243,634	1,555	4	139,328,520	4.74%	3
Maine	1,041,216	1,313,355	793	32	42,403,742	2.46%	27
Maryland	3,381,694	5,602,258	604	43	245,878,837	1.38%	44
Massachusetts	4,009,371	6,443,424	622	42	298,363,148	1.34%	45
<b>Michigan</b>	<b>8,080,905</b>	<b>10,083,878</b>	<b>801</b>	<b>30</b>	<b>332,617,185</b>	<b>2.43%</b>	<b>30</b>
Minnesota	4,505,892	5,143,134	876	22	200,295,512	2.25%	34
Mississippi	3,048,798	2,896,713	1,053	14	78,419,024	3.89%	7
Missouri	4,932,673	5,832,977	846	25	189,653,363	2.60%	22
Montana	0	945,428	0	47	29,365,659	0.00%	47
Nebraska	1,648,042	1,759,779	937	19	59,926,612	2.75%	17
Nevada	3,320,670	2,484,196	1,337	6	96,511,975	3.44%	11
New Hampshire	0	1,308,824	0	47	51,964,396	0.00%	47
New Jersey	6,853,418	8,640,218	793	31	404,473,847	1.69%	40
New Mexico	2,469,425	1,937,916	1,274	8	56,870,351	4.34%	5
New York	21,801,869	19,367,028	1,126	12	846,795,464	2.57%	23
North Carolina	6,785,052	8,845,343	767	34	285,444,855	2.38%	31
North Dakota	510,326	636,453	802	29	20,514,819	2.49%	26
Ohio	9,201,348	11,458,390	803	28	378,124,181	2.43%	28
Oklahoma	3,186,220	3,568,132	893	21	116,875,810	2.73%	19
Oregon	0	3,680,968	0	47	123,857,159	0.00%	47
Pennsylvania	8,605,237	12,388,055	695	39	455,884,034	1.89%	38
Rhode Island	854,257	1,058,991	807	27	39,891,119	2.14%	37
South Carolina	3,282,214	4,324,799	759	36	129,919,600	2.53%	25
South Dakota	913,848	787,380	1,161	11	25,426,909	3.59%	10
Tennessee	8,205,677	6,068,306	1,352	5	195,196,538	4.20%	6
Texas	22,529,042	23,367,534	964	18	821,641,742	2.74%	18
Utah	2,420,532	2,585,155	936	20	75,598,342	3.20%	13
Vermont	330,024	620,196	532	45	21,809,536	1.51%	42
Virginia	4,283,698	7,628,347	562	44	306,918,105	1.40%	43
Washington	11,813,005	6,360,529	1,857	1	245,764,517	4.81%	2
West Virginia	1,125,766	1,806,760	623	41	50,472,339	2.23%	35
Wisconsin	4,394,934	5,568,505	789	33	191,894,505	2.29%	33
Wyoming	803,259	512,573	1,567	3	22,235,760	3.61%	9
<b>U.S.</b>	<b>\$281,361,665</b>	<b>297,777,554</b>	<b>\$945</b>		<b>\$10,943,612,833</b>	<b>2.57%</b>	

Source: U.S. Department of Commerce, Census Bureau and Bureau of Economic Analysis. Compiled by the Senate Fiscal Agency.

**Table 3: State & Local Sales Tax Rates (Percent) - 2008**

<b>States</b>	<b>State Sales Tax Rate</b>	<b>Maximum Local Sales Tax Rate</b>	<b>Maximum S&amp;L Sales Tax Rate</b>	<b>Rank</b>
Alabama	4.00%	7.00%	11.00%	1
Alaska	No Tax	7.00	7.00	27
Arizona	5.60	5.40	11.00	1
Arkansas	6.00	5.00	11.00	1
California	6.25	2.50	8.75	13
Colorado	2.90	7.00	9.90	7
Connecticut	6.00	No Tax	6.00	35
Delaware	No Tax	No Tax	0.00	47
Florida	6.00	1.50	7.50	22
Georgia	4.00	4.00	8.00	18
Hawaii	4.00	0.50	4.50	46
Idaho	6.00	3.00	9.00	10
Illinois	6.25	4.00	10.25	6
Indiana	7.00	No Tax	7.00	27
Iowa	6.00	1.00	7.00	27
Kansas	5.30	3.625	8.925	12
Kentucky	6.00	No Tax	6.00	35
Louisiana	4.00	7.00	11.00	1
Maine	5.00	No Tax	5.00	43
Maryland	6.00	No Tax	6.00	35
Massachusetts	5.00	No Tax	5.00	43
<b>Michigan</b>	<b>6.00</b>	<b>No Tax</b>	<b>6.00</b>	<b>35</b>
Minnesota	6.50	1.00	7.50	22
Mississippi	7.00	0.25	7.25	25
Missouri	4.225	5.375	9.600	9
Montana	No Tax	No Tax	0.00	47
Nebraska	5.50	1.50	7.00	27
Nevada	6.50	1.25	7.75	20
New Hampshire	No Tax	No Tax	0.00	47
New Jersey	7.00	No Tax	7.00	27
New Mexico	5.00	3.438	8.438	15
New York	4.00	4.75	8.75	13
North Carolina	4.25	3.00	7.25	25
North Dakota	5.00	2.50	7.50	22
Ohio	5.50	2.25	7.75	20
Oklahoma	4.50	6.50	11.00	1
Oregon	No Tax	No Tax	0.00	47
Pennsylvania	6.00	1.00	7.00	27
Rhode Island	7.00	No Tax	7.00	27
South Carolina	6.00	2.00	8.00	18
South Dakota	4.00	2.00	6.00	35
Tennessee	7.00	2.75	9.75	8
Texas	6.25	2.00	8.25	17
Utah	4.65	3.65	8.30	16
Vermont	6.00	1.00	7.00	27
Virginia	4.00	1.00	5.00	43
Washington	6.50	2.50	9.00	10
West Virginia	6.00	No Tax	6.00	35
Wisconsin	5.00	0.60	5.60	42
Wyoming	4.00	2.00	6.00	35
<b>U.S. Average <sup>1)</sup></b>	<b>5.35</b>	<b>2.88</b>	<b>7.73</b>	

1) Average for states with sales tax.

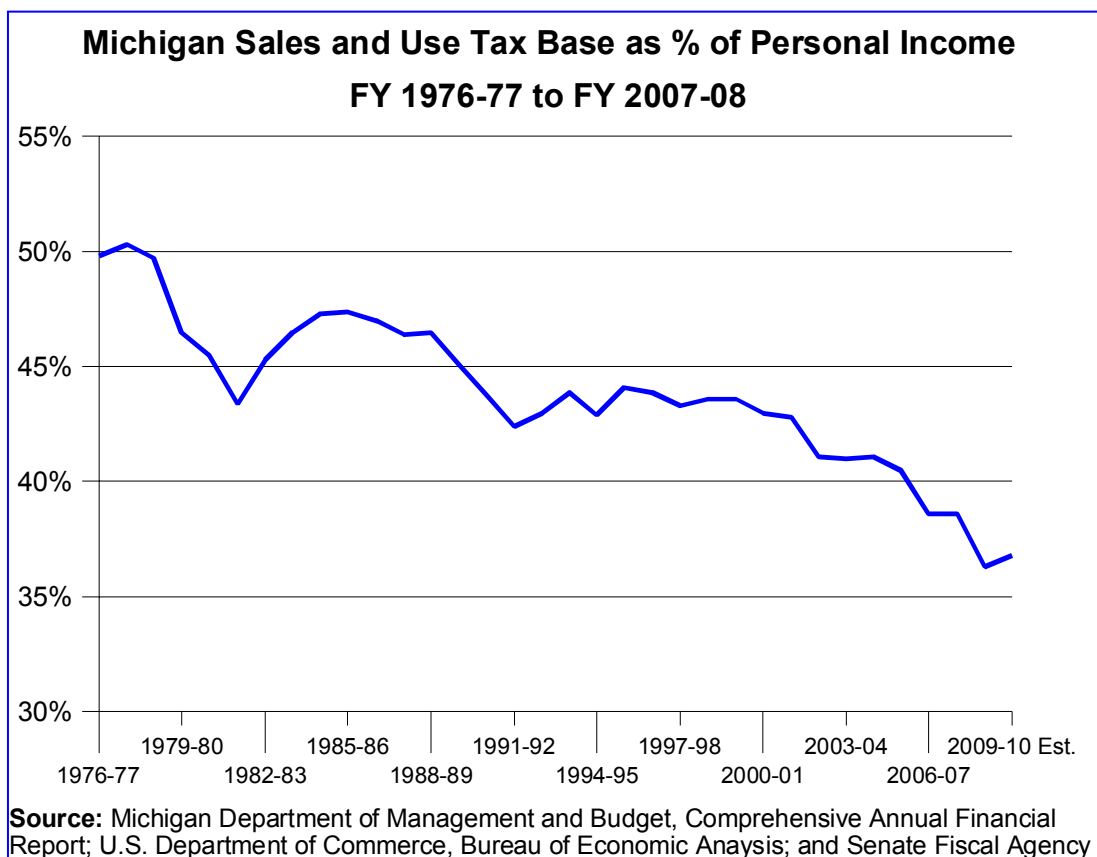
**Source:** State Tax Guide, Commerce Clearing House and state tax Internet sites. Rates as of July 1, 2008.  
 Compiled by Office of Revenue and Tax Analysis, MI Department of Treasury.

## Major Sales/Use Tax Exemptions

- Food and prescription drugs;
- Industrial Processing;
- Government, nonprofit purchases;
- Services.

## Sales Tax Base Not Growing With Economy.

Figure 2



## Individual Income Tax

- State income tax generated \$7.2 billion in FY 2007-08 (\$8.1 billion excluding the property tax credit).
- Current rate is 4.35%.
- Tax rate is scheduled to be reduced as follows:
  - 4.25% - Oct 1, 2011
  - 4.15% - Oct 1, 2012
  - 4.05% - Oct 1, 2013
  - 3.95% - Oct 1, 2014
  - 3.9% - Oct 1, 2015
- Constitution prohibits a graduated income tax rate or base.

## **Individual Income Tax Exemptions**

- Personal exemption is indexed and equals \$3,600 in 2009.
- Special exemption for seniors and disabled persons is indexed & equals \$2,300 in 2009.
- Child exemption equals a constant \$600 per child under 18 years old.
- Various other exemptions for pensions; senior interest, dividend, or gain income; education savings account contributions, and others.

## **Income Tax Credits**

- Homestead property tax credit;
- Farmland property tax credit;
- Earned income tax credit;
- City income tax credit
- Public contribution credits (colleges, universities, public radio/T.V., libraries, museums);
- Home Heating credit and other credits.

**Nominal tax rate is flat, but the effective rate is slightly progressive due to the exemptions.**

**Table 4**

<b>Michigan's Effective Income Tax Rate</b>		
<b>Adjusted Gross Income (AGI)</b>	<b>FY 2009-10 Estimated Revenue</b>	<b>Effective Tax Rate</b>
\$0 - \$5,000	\$ (7.5)	N/A
\$5,000 - \$10,000	41.6	1.3%
\$10,000 - \$15,000	71.2	1.5
\$15,000 - \$20,000	103.1	1.8
\$20,000 - \$25,000	137.1	2.1
\$25,000 - \$30,000	166.0	2.3
\$30,000 - \$35,000	168.8	2.3
\$35,000 - \$40,000	176.9	2.3
\$40,000 - \$45,000	181.2	2.4
\$45,000 - \$50,000	201.2	2.6
\$50,000 - \$60,000	405.4	2.5
\$60,000 - \$70,000	429.9	2.7
\$70,000 - \$80,000	431.7	2.8
\$80,000 - \$90,000	385.2	2.7
\$90,000 - \$100,000	363.5	2.8
\$100,000 - \$200,000	1,697.9	3.2
Over \$200,000	1,659.0	3.5
<b>Total</b>	<b>\$6,612.3</b>	<b>2.8%</b>

Estimates by Senate Fiscal Agency using the Tax Simulation Model (Treasury Department). Data excludes property tax credit and earned income credit.

## **Local Income Taxes and Michigan Income Tax Burden**

- 22 cities levy an income tax.
- Most levy a tax rate of 1.0% on resident individuals and corporations, and 0.5% on nonresidents working in the city.
- Four cities (Detroit, Grand Rapids, Highland Park, Saginaw) levy higher rates ranging from 1.5% to 2.5% on residents and corporations.
- City income tax generated \$472.0 million in FY 2006-07.
- Michigan's State & Local income tax burden as a percent of personal income ranks 33rd among states.
- 41 states have a broad income tax, seven have a flat rate and 34 have graduated rates.

**Table 5: State & Local Individual Income Tax Burden For FY 2005-06 Per Capita and as a % of Personal Income  
(Adjusted for Michigan Income Tax Rate Increase from 3.9% to 4.35% and earned income credit)  
(dollars in thousands)**

States	S&L Individual Income Tax Revenue	2006 Population	S&L Individual Income Tax Per Capita	Rank	Personal Income	S&L Individual Income Tax as % of Pers. Inc.	Rank
Alabama	\$2,876,442	4,587,564	\$627	36	\$141,629,771	2.03%	35
Alaska	0	676,301	0	44	25,932,242	0.00%	44
Arizona	3,253,279	6,178,251	527	39	199,465,150	1.63%	39
Arkansas	2,012,835	2,804,199	718	33	79,845,017	2.52%	28
California	51,219,823	36,121,296	1,418	6	1,445,580,645	3.54%	5
Colorado	4,258,944	4,751,474	896	19	188,213,696	2.26%	32
Connecticut	5,777,636	3,487,896	1,656	3	179,974,214	3.21%	12
Delaware	1,076,552	850,366	1,266	8	32,947,056	3.27%	10
Florida	0	18,019,093	0	44	668,483,640	0.00%	44
Georgia	8,040,366	9,318,715	863	24	300,981,657	2.67%	19
Hawaii	1,550,757	1,275,264	1,216	9	47,334,472	3.28%	9
Idaho	1,222,569	1,461,183	837	26	44,382,663	2.75%	17
Illinois	8,635,104	12,759,673	677	34	490,683,173	1.76%	38
Indiana	4,994,800	6,294,124	794	29	201,451,933	2.48%	30
Iowa	2,482,891	2,967,270	837	25	97,151,747	2.56%	24
Kansas	2,402,083	2,756,267	871	23	95,159,936	2.52%	27
Kentucky	3,921,908	4,199,440	934	18	124,058,316	3.16%	13
Louisiana	2,501,120	4,243,634	589	37	139,328,520	1.80%	37
Maine	1,368,927	1,313,355	1,042	15	42,403,742	3.23%	11
Maryland	9,847,319	5,602,258	1,758	2	245,878,837	4.00%	3
Massachusetts	10,483,437	6,443,424	1,627	4	298,363,148	3.51%	6
<b>Michigan</b>	<b>7,139,913</b>	<b>10,083,878</b>	<b>708</b>	<b>33</b>	<b>332,617,185</b>	<b>2.15%</b>	<b>33</b>
Minnesota	6,862,953	5,143,134	1,334	7	200,295,512	3.43%	7
Mississippi	1,254,733	2,896,713	433	40	78,419,024	1.60%	40
Missouri	4,821,082	5,832,977	827	27	189,653,363	2.54%	26
Montana	768,911	945,428	813	28	29,365,659	2.62%	20
Nebraska	1,545,024	1,759,779	878	21	59,926,612	2.58%	22
Nevada	0	2,484,196	0	44	96,511,975	0.00%	44
New Hampshire	80,931	1,308,824	62	42	51,964,396	0.16%	42
New Jersey	10,506,565	8,640,218	1,216	10	404,473,847	2.60%	21
New Mexico	1,123,954	1,937,916	580	38	56,870,351	1.98%	36
New York	38,611,920	19,367,028	1,994	1	846,795,464	4.56%	1
North Carolina	9,467,278	8,845,343	1,070	13	285,444,855	3.32%	8
North Dakota	275,630	636,453	433	41	20,514,819	1.34%	41
Ohio	13,766,469	11,458,390	1,201	11	378,124,181	3.64%	4
Oklahoma	2,755,776	3,568,132	772	30	116,875,810	2.36%	31
Oregon	5,537,385	3,680,968	1,504	5	123,857,159	4.47%	2
Pennsylvania	12,326,373	12,388,055	995	16	455,884,034	2.70%	18
Rhode Island	1,019,482	1,058,991	963	17	39,891,119	2.56%	25
South Carolina	2,727,251	4,324,799	631	35	129,919,600	2.10%	34
South Dakota	0	787,380	0	44	25,426,909	0.00%	44
Tennessee	192,764	6,068,306	32	43	195,196,538	0.10%	43
Texas	0	23,367,534	0	44	821,641,742	0.00%	44
Utah	2,277,478	2,585,155	881	20	75,598,342	3.01%	15
Vermont	542,012	620,196	874	22	21,809,536	2.49%	29
Virginia	9,073,077	7,628,347	1,189	12	306,918,105	2.96%	16
Washington	0	6,360,529	0	44	245,764,517	0.00%	44
West Virginia	1,297,720	1,806,760	718	32	50,472,339	2.57%	23
Wisconsin	5,906,515	5,568,505	1,061	14	191,894,505	3.08%	14
Wyoming	0	512,573	0	44	22,235,760	0.00%	44
<b>U.S.</b>	<b>\$267,807,988</b>	<b>297,777,554</b>	<b>\$899</b>		<b>\$10,943,612,833</b>	<b>2.45%</b>	

Source: U.S. Department of Commerce, Census Bureau and Bureau of Economic Analysis. Compiled by the Senate Fiscal Agency.

## Property Tax

- Michigan State and local property taxes generated \$14.1 billion in FY 2008.
- Property tax equals a property's taxable value times the millage rate.
- The statewide average millage rate was 38.94 mills (homesteads 34 mills, nonhomesteads 52 mills).
- Residential property accounted for 69.0% of total taxable value in 2008, while business (commercial, industrial, utilities) and agricultural property accounted for 31.0%.

## Property Tax (continued)

- S&L property taxes include:
  - Local school tax – 18 mills
  - Local school debt millage – 5 mills
  - Local government property taxes – 23 mills
  - State Education Tax – 6 mills
- Property taxes are assessed on residential and business real property and business personal property.
- Real property generated about \$12.8 billion in 2008.
- Personal property generated about \$1.3 billion in 2008.

## **Property Tax Major Exemptions**

- Homestead and Ag exemption from local 18-mill school tax.
- Personal property exemptions from 18-mill & SET.
- Tax-exempt property: Federal, State, local government; local schools, higher education.
- Taxable value cap.
- Industrial facilities exemption/reduced tax.
- Renaissance zones, neighborhood enterprise zones.
- Personal property exemptions.

## Cap on Taxable Value Growth

- Taxable value growth for each parcel of property is capped annually at inflation or 5.0%, whichever is less.
- Cap remains in effect until property changes ownership, at which time the taxable value reverts back to 50.0% of the market value (State equalized value – SEV).
- The cap on annual taxable value growth has kept property taxes lower than they otherwise would have been, however . . .
- The cap has also created a horizontal inequity in the property tax burden among similar taxpayers.

**Table 6**

<b>Assessment Cap Horizontal Inequity</b>		
	<b>House A</b>	<b>House B</b>
Market Value 1994	\$100,000	\$100,000
Annual Value Increase	5.0%	5.0%
Market Value 2008	\$197,993	\$197,993
Year Purchased	1994	2008
Years Owned by Current Owner	14	1
Inflation/Year	2.5%	2.5%
State Equalized Value (SEV)	\$98,997	\$98,997
Taxable Value (TV)	\$70,649	\$98,997
Property Tax 2008 (34 mills)	\$2,402	\$3,366

**Table 7: State & Local Property Tax Burden For FY 2005-06 Per Capita and as a % of Personal Income  
(dollars in thousands)**

States	State & Local Property Tax Revenue	2006 Population	State & Local Property Taxes Per Capita	Rank	Personal Income	State & Local Property Tax as % of Pers. Income	Rank
Alabama	\$1,926,854	4,587,564	\$420	50	\$141,629,771	1.36%	50
Alaska	969,186	676,301	1,433	12	25,932,242	3.74%	14
Arizona	5,524,045	6,178,251	894	35	199,465,150	2.77%	32
Arkansas	1,320,137	2,804,199	471	49	79,845,017	1.65%	47
California	37,225,196	36,121,296	1,031	28	1,445,580,645	2.58%	37
Colorado	5,269,089	4,751,474	1,109	23	188,213,696	2.80%	30
Connecticut	7,566,269	3,487,896	2,169	2	179,974,214	4.20%	8
Delaware	530,764	850,366	624	43	32,947,056	1.61%	48
Florida	23,044,982	18,019,093	1,279	16	668,483,640	3.45%	19
Georgia	8,946,070	9,318,715	960	33	300,981,657	2.97%	28
Hawaii	982,653	1,275,264	771	39	47,334,472	2.08%	43
Idaho	1,238,724	1,461,183	848	37	44,382,663	2.79%	31
Illinois	19,555,118	12,759,673	1,533	10	490,683,173	3.99%	12
Indiana	8,407,529	6,294,124	1,336	15	201,451,933	4.17%	10
Iowa	3,391,938	2,967,270	1,143	21	97,151,747	3.49%	18
Kansas	3,273,931	2,756,267	1,188	19	95,159,936	3.44%	20
Kentucky	2,420,696	4,199,440	576	46	124,058,316	1.95%	44
Louisiana	2,469,740	4,243,634	582	45	139,328,520	1.77%	45
Maine	2,210,504	1,313,355	1,683	8	42,403,742	5.21%	3
Maryland	5,961,742	5,602,258	1,064	26	245,878,837	2.42%	40
Massachusetts	10,828,955	6,443,424	1,681	9	298,363,148	3.63%	16
<b>Michigan</b>	<b>13,525,071</b>	<b>10,083,878</b>	<b>1,341</b>	<b>14</b>	<b>332,617,185</b>	<b>4.07%</b>	<b>11</b>
Minnesota	5,340,562	5,143,134	1,038	27	200,295,512	2.67%	33
Mississippi	2,076,028	2,896,713	717	41	78,419,024	2.65%	34
Missouri	4,984,531	5,832,977	855	36	189,653,363	2.63%	35
Montana	1,058,805	945,428	1,120	22	29,365,659	3.61%	17
Nebraska	2,234,031	1,759,779	1,269	17	59,926,612	3.73%	15
Nevada	2,509,147	2,484,196	1,010	29	96,511,975	2.60%	36
New Hampshire	2,780,460	1,308,824	2,124	3	51,964,396	5.35%	1
New Jersey	20,549,427	8,640,218	2,378	1	404,473,847	5.08%	4
New Mexico	954,082	1,937,916	492	48	56,870,351	1.68%	46
New York	36,438,151	19,367,028	1,881	5	846,795,464	4.30%	7
North Carolina	6,985,360	8,845,343	790	38	285,444,855	2.45%	39
North Dakota	634,373	636,453	997	31	20,514,819	3.09%	23
Ohio	12,596,479	11,458,390	1,099	24	378,124,181	3.33%	21
Oklahoma	1,802,461	3,568,132	505	47	116,875,810	1.54%	49
Oregon	3,684,953	3,680,968	1,001	30	123,857,159	2.98%	27
Pennsylvania	14,214,051	12,388,055	1,147	20	455,884,034	3.12%	22
Rhode Island	1,887,857	1,058,991	1,783	7	39,891,119	4.73%	5
South Carolina	3,960,046	4,324,799	916	34	129,919,600	3.05%	24
South Dakota	767,181	787,380	974	32	25,426,909	3.02%	25
Tennessee	4,125,714	6,068,306	680	42	195,196,538	2.11%	41
Texas	32,486,125	23,367,534	1,390	13	821,641,742	3.95%	13
Utah	1,876,730	2,585,155	726	40	75,598,342	2.48%	38
Vermont	1,148,328	620,196	1,852	6	21,809,536	5.27%	2
Virginia	9,233,053	7,628,347	1,210	18	306,918,105	3.01%	26
Washington	6,910,760	6,360,529	1,087	25	245,764,517	2.81%	29
West Virginia	1,059,060	1,806,760	586	44	50,472,339	2.10%	42
Wisconsin	8,023,556	5,568,505	1,441	11	191,894,505	4.18%	9
Wyoming	984,990	512,573	1,922	4	22,235,760	4.43%	6
<b>U.S.</b>	<b>\$357,895,494</b>	<b>297,777,554</b>	<b>\$1,202</b>		<b>\$10,943,612,833</b>	<b>3.27%</b>	

Source: U.S. Department of Commerce, Census Bureau and Bureau of Economic Analysis. Compiled by the Senate Fiscal Agency.

## **Michigan Business Tax**

- Replaced the Single Business Tax on January 1, 2008.
- Generated \$1.9 billion in FY 2007-08.
- Will generate an estimated \$2.3 billion in FY 2008-09.
- Enactment of MBT included certain personal property tax exemptions for industrial and commercial property.
- The MBT includes four taxes, numerous tax credits, and a surcharge.

## Outline of MBT Structure

- Four Major Taxes:
  - Business Income Tax – Base is Federal taxable income subject to various adjustments and apportionment. Rate is 4.95%.
  - Modified Gross Receipts Tax – Base is business gross receipts less certain purchases from other firms (inventory & capital expenditures). Rate is 0.8%.
  - Insurance Company Tax – Base is gross direct premiums on property in Michigan. Rate is 1.25%. Insurance companies not subject to Business Income or Modified Gross Receipts taxes.
  - Financial Institution Tax – Franchise tax on the value of their net capital stock. Rate is 0.235%. Tax is in lieu of Business Income and Modified Gross Receipts taxes.
- Businesses except insurance companies and financial institutions must calculate both the Business Income and Modified Gross Receipts taxes to determine their total liability before apportionment and credits.

## **Outline of MBT Structure (continued)**

- Apportionment – Both the Business Income and Modified Gross Receipts taxes are apportioned to Michigan based on sales: factor equals sales in Michigan/total sales everywhere.
- Surcharge – A surcharge is assessed on a business' MBT liability before credits equal to 21.99%. Insurance companies are exempt from the surcharge, as are financial institutions that only exercise trust powers. All other financial institutions must pay a surcharge of 27.7% for the 2008 tax year and 23.4% for 2009 and after. The maximum surcharge is \$6.0 million per taxpayer.
- Unitary Filing – Unitary businesses are required to file a combined return.

## Outline of MBT Structure (continued)

- Tax Credits – the MBT provides taxpayers with over 25 tax credits to help reduce or eliminate their tax liability or receive a refund.
  
- Major New Credits:
  - Compensation and Investment Credits;
  - Research and Development Credits;
  - Credit to Phase-Out the Filing Threshold;
  - Personal Property Tax Credit;
  - Michigan Entrepreneurial Credit;
  - Film Credit;
  - Culture Credit;
  - Special Sector Credits to MIS, Palace of Auburn Hills, Motor Vehicle dealers, Meijer, and Spartan Stores.
  
- Credits retained from SBT include: small business, public contribution, food bank, MEGA, renaissance zones, historic preservation, brownfield, and others.

**Table 8**

<b>State and Local Business Tax Burden by State FY 2008 Estimated by Ernst and Young</b>					
<b>States</b>	<b>Business Taxes Paid as % of Private GSP*</b>	<b>State Ranking</b>	<b>States</b>	<b>Business Taxes Paid as % of Private GSP*</b>	<b>State Ranking</b>
Alabama	4.5%	35	Nebraska	5.1%	21
Alaska	22.3%	1	Nevada	4.6%	30
Arizona	4.7%	27	New Hampshire	5.4%	14
Arkansas	4.5%	35	New Jersey	5.0%	22
California	4.6%	30	New Mexico	6.0%	7
Colorado	4.2%	40	New York	5.8%	10
Connecticut	3.7%	48	North Carolina	3.6%	50
Delaware	3.8%	47	North Dakota	8.9%	3
Florida	5.2%	18	Ohio	4.6%	30
Georgia	4.0%	44	Oklahoma	5.3%	16
Hawaii	5.4%	14	Oregon	3.7%	48
Idaho	4.7%	27	Pennsylvania	4.9%	25
Illinois	4.9%	25	Rhode Island	5.7%	11
Indiana	5.0%	22	South Carolina	4.7%	27
Iowa	4.6%	30	South Dakota	5.2%	18
Kansas	5.7%	11	Tennessee	4.5%	35
Kentucky	4.5%	35	Texas	5.3%	16
Louisiana	5.2%	18	Utah	3.9%	45
Maine	7.3%	4	Vermont	6.0%	7
Maryland	4.1%	42	Virginia	3.9%	45
Massachusetts	4.2%	40	Washington	5.5%	13
<b>Michigan</b>	<b>5.0%</b>	<b>22</b>	West Virginia	7.1%	5
Minnesota	4.3%	39	Wisconsin	4.6%	30
Mississippi	6.0%	7	Wyoming	9.2%	2
Missouri	4.1%	42			
Montana	6.4%	6	<b>U.S.</b>	<b>4.9%</b>	

GSP=Gross State Product (value of goods and services produced in each state). The GSP used was for private sector only.

**Source:** Ernst & Young, in conjunction with the Council on State Taxation, "Total State and Local Business Taxes", January 2009.

# Estimated Distribution of MBT Tax Burden Compared with SBT

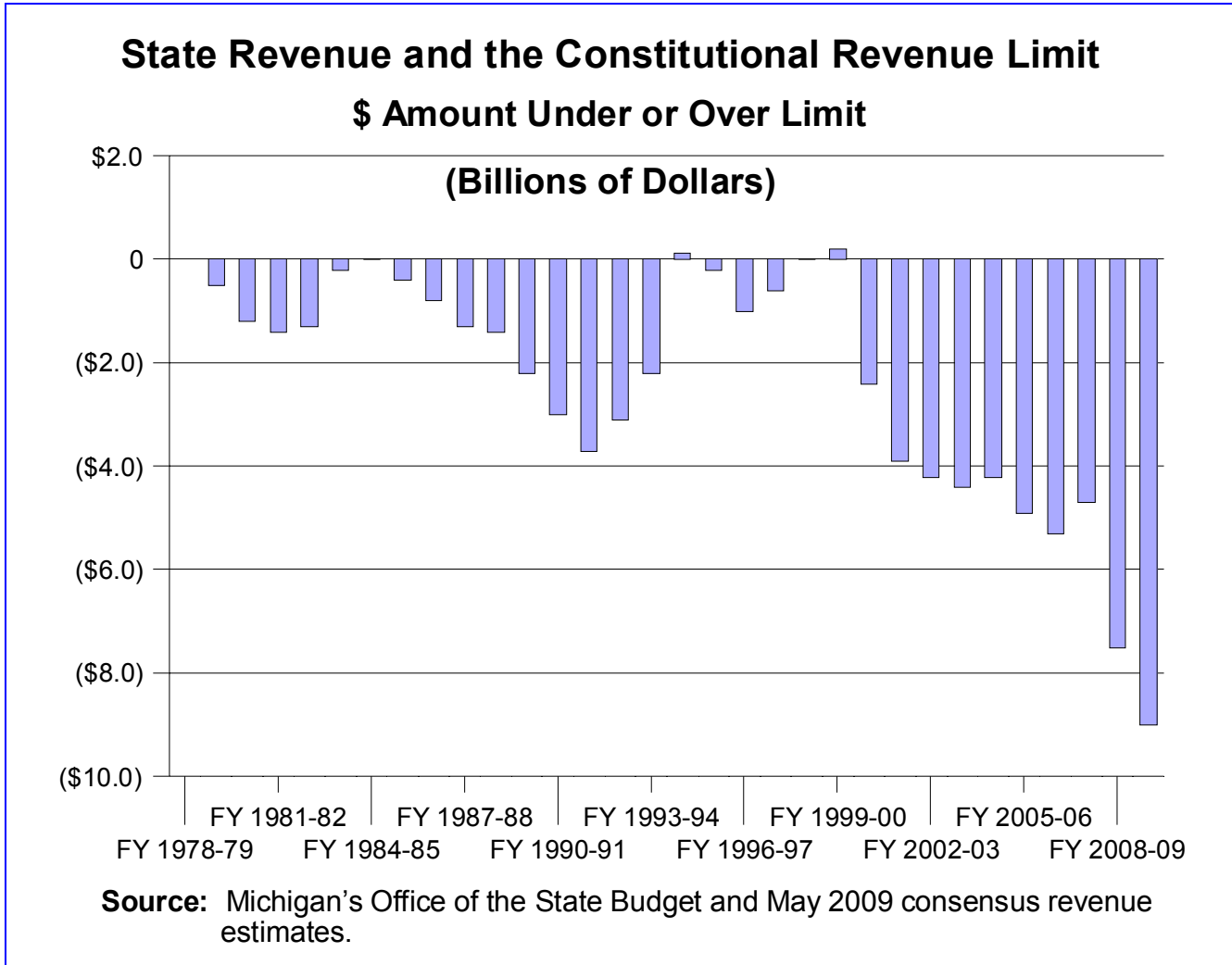
**Table 9**

<b>Tax Change Under MBT by Industry (dollars in thousands)</b>				
<b>Business Sector</b>	<b>Number of Firms</b>	<b>SBT Liability</b>	<b>MBT Liability</b>	<b>Percent Chg</b>
Agriculture, Forestry, and Fishing	2,344	\$9,469	\$11,111	17.3%
Mining	557	5,568	19,096	243.0%
Construction	15,902	83,645	59,493	-28.9%
Manufacturing	14,580	360,857	110,993	-69.2%
Other Durable Mfg.	5,826	101,656	67,643	-33.5%
Nondurable Mfg.	3,374	111,798	87,356	-21.9%
Primary Metals	536	18,119	16,542	-8.7%
Fabricated Metals	2,130	37,851	9,520	-74.8%
Machinery--Except Electrical	2,006	34,781	11,048	-68.2%
Transportation Equipment Mfg.	708	56,652	(81,117)	-243.2%
Transportation	4,036	40,351	60,394	49.7%
Communications & Utilities	1,519	83,700	108,778	30.0%
Wholesale Trade	5,523	87,623	132,761	51.5%
Retail Trade	33,443	263,957	335,896	27.3%
Finance, Insurance & Real Estate	19,907	149,397	555,124	271.6%
Services	50,129	468,265	734,139	56.8%
Not Elsewhere Classified/Misc.	10,078	78,011	198,333	154.2%
<b>All Businesses</b>	<b>158,018</b>	<b>\$1,630,844</b>	<b>\$2,326,117</b>	<b>42.6%</b>
Manufacturing	14,580	\$360,857	\$110,993	-69.2%
Nonmanufacturing	143,438	\$1,269,987	\$2,215,124	74.4%

SBT liability refers to liability under 2006 law parameters using 2003 returns. MBT liability based on law as initially enacted including surcharge and net of property tax credits and exemptions, using 2003 returns.

# Michigan taxes and other revenue are not keeping pace with economic growth.

Figure 3



## Tax Expenditures

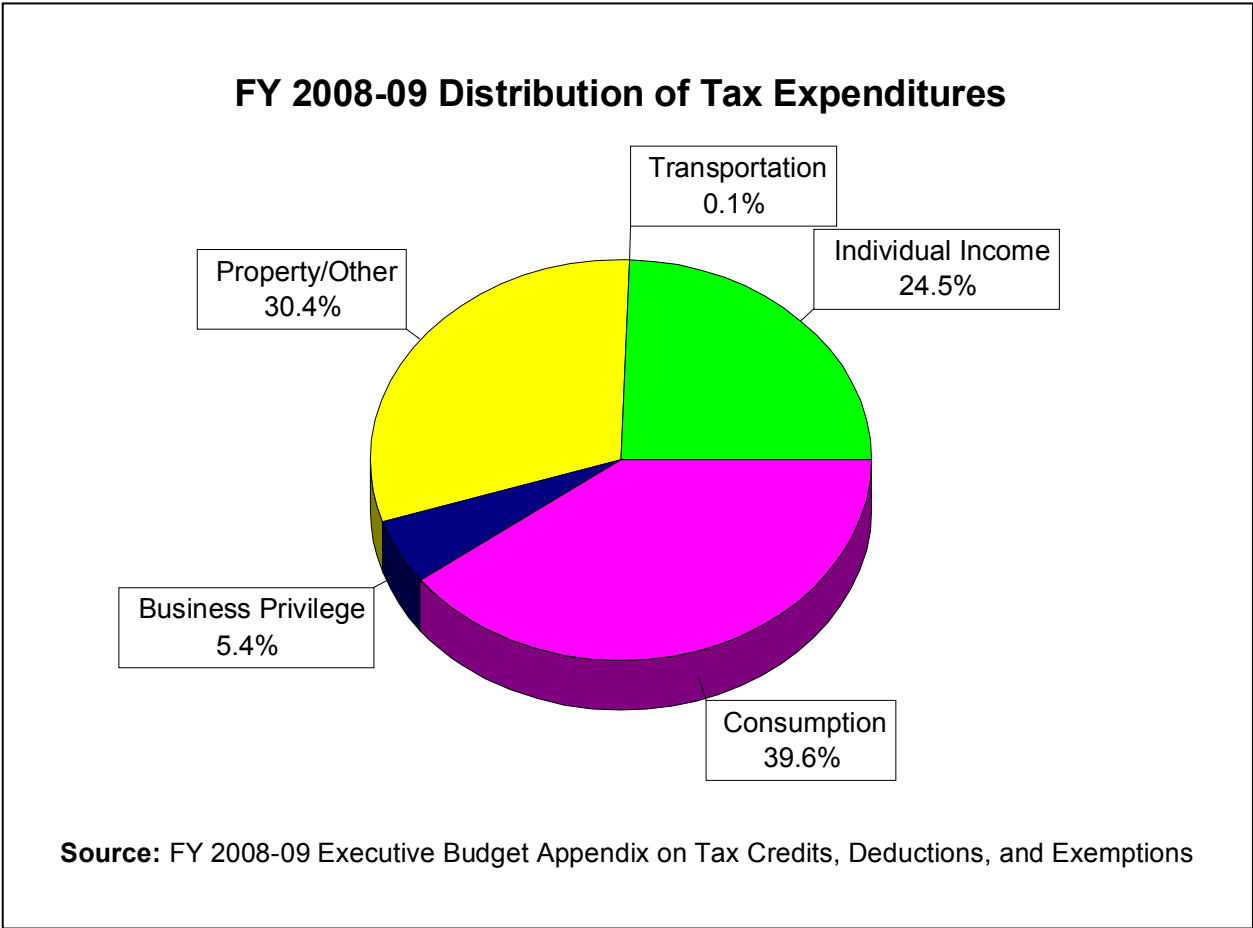
- Tax Expenditures measure the revenue foregone due to:
  - Tax Credits;
  - Tax Deductions;
  - Tax Exemptions;
  - Tax Deferrals;
  - Preferential Tax Rates.
- Tax Expenditures help shape a state's tax structure.
- Tax Expenditures tend to have two general purposes:
  1. Redistribute the tax burden in some way: Income tax personal exemption and sales tax exemption on food are attempts to help reduce the tax burden on low-income individuals.
  2. Attempt to change taxpayer behavior: The MBT investment tax credit is attempting to encourage businesses to invest in Michigan and the income tax public contribution credit is an attempt to encourage people to contribute to colleges, libraries, and public radio and T.V. stations.

**Table 10**

<b>Total Tax Expenditures: FY 2007-08 and FY 2008-09</b>			
<b>Tax Category</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>Change</b>
Business Privilege <sup>1)</sup>	\$1,170,695	\$1,943,330	\$772,635
Consumption	13,693,293	14,184,812	491,519
Individual Income	8,167,493	8,768,567	601,074
Property	10,345,150	10,718,000	372,850
Other Local (City Income)	174,200	175,100	900
Transportation	48,606	48,943	337
<b>Total</b>	<b>\$33,599,437</b>	<b>\$35,838,752</b>	<b>\$2,239,315</b>
1) FY 2007-08 includes a partial-year estimate for tax expenditures associated with the Michigan Business Tax.			

**Source:** FY 2008-09 Executive Budget Appendix on Tax Credits, Deductions, and Exemptions

Figure 4



## **Major Tax Expenditures FY 2008-09 (Dollars in Millions)**

### Sales and Use Taxes:

- Food & Prescription Drugs - \$1,120.8
- Industrial Processing - \$842.2
- Services - \$10,334.8

### Income Tax:

- Property Tax Credits - \$969.1
- Personal/Special Exemptions - \$1,246.0
- Earned Income Credit - \$140.0

### Michigan Business Tax:

- Small Business Credit (Alternative Tax) - \$366.9
- Compensation Credit - \$220.3
- Personal Property Credits - \$155.6

### Property Tax:

- Taxable Value Cap - \$3,520.0
- Homestead Exemption - \$3,680.0
- Tax-Exempt Property - \$3,993.0

## Refundable Tax Credits

- Refundable Tax Credits: A credit not limited by the amount of an individual or business' tax liability. If the credit is worth more than a taxpayer's tax liability, the taxpayer receives a refund payment equal to the difference.
- Major refundable credits are income tax and Michigan Business Tax credits.
- Refundable credits primarily impact the General Fund/General Purpose budget.

**Table 11**

<b>Major Refundable Tax Credits (Dollars in Millions)</b>		
<b>Tax</b>	<b>Refundable Credit</b>	<b>FY 2008-09 Est. Cost</b>
Income Tax	Homestead Property Tax Credit .....	\$933.0
	Farmland Development Credit.....	35.2
	Earned Income Tax Credit.....	140.0
	Home Heating Assistance Credit.....	0.3
	<b>Total</b> .....	<b>\$1,108.5</b>
Michigan Business Tax	Personal Property Tax Credit .....	\$155.6
	Film Production Credit.....	100.0
	Motorsports Public Safety Credit .....	1.9
	Next Energy Payroll Credit .....	20.1
	MEGA Credits .....	94.6
	Brownfield Credits <sup>1)</sup> .....	N/A
	Automaker R&D Joint Venture Credit.....	1.9
	Workers' Disability Credit .....	2.9
	Anchor Company Credits .....	0.0
	Farmland Preservation Credit.....	1.2
	Advanced Battery Credits.....	0.0
	<b>Total</b> .....	<b>\$378.2</b>

<sup>1)</sup> Brownfield credits were not refundable until April 8, 2008.

**Source:** FY 2009 Executive Budget Appendix on Tax Credits, Deductions, and Exemptions, Compiled by SFA