



Michigan Department of
TREASURY

Engagement. Service. Improvement

Michigan's Tax Structure

House Tax Committee

May 05, 2021

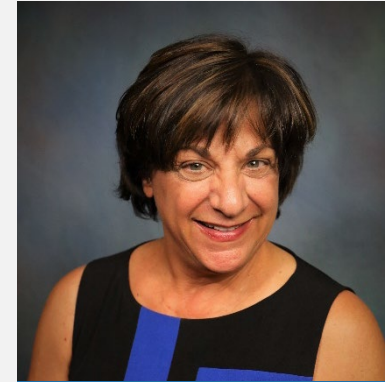
OUR SENIOR STAFF



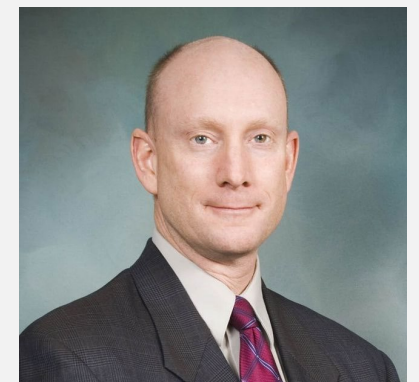
Rachael Eubanks
Treasurer



Jeff Guilfoyle
Chief Deputy Treasurer



Sally Durfee
Chief of Staff



Jon Braeutigam
Chief Investment Officer



Ann Good
Deputy Treasurer
Financial & Admin. Services



Joyce Parker
Deputy Treasurer
State/Local Finance



Glenn White
Deputy Treasurer
Revenue Services

Treasury has broad responsibilities

- **Administration and collection of \$24 billion in taxes and fees**
- **Processing approximately 8 million tax returns per year**
- **State and local tax policy**
- Economic and revenue forecasting
- Oversees a broadly diversified portfolio of state of Michigan investments that total nearly \$118 billion.
- Local government and school financial health
- Higher education student financial assistance and savings plans
- Managing the State's balance sheet
- Managing the State's relationship with Wall Street and the rating agencies

OUR MISSION, VISION and VALUES

MISSION

Providing fair and efficient financial services on behalf of taxpayers, governments, students and all Michiganders, for the long-term fiscal health and stability of our state.

VISION

We are the innovative and inclusive resource provider of exceptional financial services for a better Michigan.

VALUES

Integrity ~ Inclusion & Diversity ~ Innovation ~ Public Service

OUR FOUNDATION

EMPLOYEE ENGAGEMENT

Commitment to an inclusive environment that values diverse perspectives and cultivates employee recruitment, retention, development, and leadership.

CULTURE OF SERVICE

Provide complete, accurate, and timely services to all internal and external customers in a professional manner.

CONTINUOUS IMPROVEMENT

Commitment to proactive and innovative employee-driven solutions in our daily operations and in strategic financial leadership.

CONTINUOUS IMPROVEMENT and EMPLOYEE ENGAGEMENT

Some 2020 Accomplishments

- Implement SUW EZ Annual Return Form
- Modernize IIT Contact Center Program
- Improve accuracy and timeliness of audit processing for Hearings
- Process Offer in Compromise (OIC) applications within 9 months
- Transitioned more than 98% of Treasury's workforce to telework

Our 2021 Projects

- Implement Trusted Partnership Model with local governments
- Implement Revenue Sharing/Personal Property Tax IT System
- Continue initiative to become paperless to better serve taxpayers
- Continue our focus on employee engagement efforts to become more attractive as an employer, develop leaders, and provide expectations and support for our employees.

TAX ADMINISTRATION

Treasury annually receives 9.2 million returns from 5.5 million taxpayers

- Most returns systematically audited and finalized with a smaller % needing manual review

Typical year for the individual income tax

- 5.5 million returns received
- 198,000 phone calls answered with an average speed of answer 2 minutes
- 75,000 pieces of correspondence responded to and 90% resolved within 60 days or less
- 275,000 returns require manual review and all completed within same year received
- Average time to issue refund for an error free return is 7-10 business days

Typical year for sales, use, and withholding

- 3.1 million returns received
- 115,000 phone calls answered with average speed to answer 4 minutes (more complex and time-consuming inquiries than individual income tax)
- 45,000 pieces of correspondence responded to and 90% resolved within 60 days or less
- 55,000 returns requiring manual review all completed within same year received



Our PROGRESS ^{is} 2020

Engagement. Service. Improvement.

TAX ADMINISTRATION SERVICES

Individual Income Tax (IIT) Returns Backlog 0 <i>Down from 350 in 2019</i>	IIT Correspondence (within 60 days) 98%	IIT Call Center Wait Times (minutes) 2:22 <i>Up from 2:17 minutes in 2019.</i>	Sales, Use and Withholding (SUW) Returns Backlog 0 <i>Down from 110,000 in 2018.</i>	SUW Correspondence (within 60 days) 91%	SUW Call Center Wait Times (minutes) 4:18 <i>Down from 5:53 minutes in 2019.</i>
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TAX COMPLIANCE

Response Time Reduced 9.2% <i>For Informal Conference Requests since 2019.</i>	Audit in Process (days) 200 <i>Up from 192 days in 2019.</i>	Paperless Process (Correspondence) 100% <i>Discovery Division for receiving correspondence.</i>
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COLLECTIONS

OIC Processing Wait Times (in months) 9 <i>Down from 24+ months in 2018.</i>	Electronic Payments Collected (in millions) \$8.7 <i>Up from \$6.4 million in 2019.</i>	UNCLAIMED PROPERTY—Paying Rightful Owners (in millions) \$133.5 <i>\$30 million more than previous record.</i>
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TAX POLICY/HEARINGS

Informal Tax Hearings (average months per hearing) 5.5 <i>Down from 6 months in 2019.</i>	Revenue Administrative Bulletins (RABs) (total per year) 10 <i>In the past, RABs were rarely issued.</i>
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INVESTMENTS

Total Assets Under Management (in billions) \$117.9 <i>Up from \$102.6 billion in November 2019.</i>
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POSTSECONDARY FINANCIAL SERVICES

Students, borrowers, & families served 383,400	Aversion Assistance provided (borrowers) 57,905 <i>resulting in \$15 million in student loans moved to good standing.</i>
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LOCAL GOVERNMENT

Attendance at Outreach Events for Local Governments and Schools 11,699 <i>More than 120 events and trainings were held. Attendees completed satisfaction surveys and 95% were highly satisfied.</i>

CONTINUOUS IMPROVEMENT

Treasury's commitment to proactive and innovative employee-driven solutions in our daily operations and in strategic financial leadership have led to improved services for Michigan's **5+ MILLION TAXPAYERS**.

99% Of the current year's submitted Individual Income Tax (IIT) Returns have been processed in the year submitted!

This is the fourth consecutive year Treasury's tax processing team has achieved this completion rate. Prior to 2016, this had not previously been accomplished.

CULTURE OF SERVICE

We strive to provide complete, accurate and timely services to all internal and external customers in a professional manner. One way we are improving our service is by being more accessible. We have interacted with more than 31,000 taxpayers at more than 550 various conferences, outreach events and workshops. Nearly 27,000 individuals also regularly receive Treasury news and information via our media releases and online newsletters.

31k

EMPLOYEE ENGAGEMENT

Treasury is committed to an inclusive environment that values diverse perspectives and cultivates employee recruitment, retention, development and leadership. Employee Resource Groups (ERGs) are one avenue employees have to become engaged in causes that are important to them.

5 ERGs

CONTINUOUS IMPROVEMENT
OUR SUCCESSES

@MiTreasury
CONNECTED social media impressions

1,050,500
Treasury, MI Student Aid, MET and Local Government

22,031,651
MET/MESP/Fostering Futures and MI Student Aid (includes paid advertising)

65,440

TAX ADMINISTRATION SERVICES

**Individual Income
Tax (IIT) Returns
Backlog**

0

Down from 350
in 2019

**IIT
Correspondence
(within 60 days)**

98%

**IIT
Call Center Wait
Times (minutes)**

2:22

Up from 2:17
minutes in 2019.

**Sales, Use and
Withholding (SUW)
Returns Backlog**

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Down from 110,000
in 2018.

**SUW
Correspondence
(within 60 days)**

91%

**SUW
Call Center Wait
Times (minutes)**

4:18

Down from 5:53
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TAX COMPLIANCE

**Response Time
Reduced**

9.2%

For Informal Conference
Requests since 2019.

**Audit in Process
(days)**

200

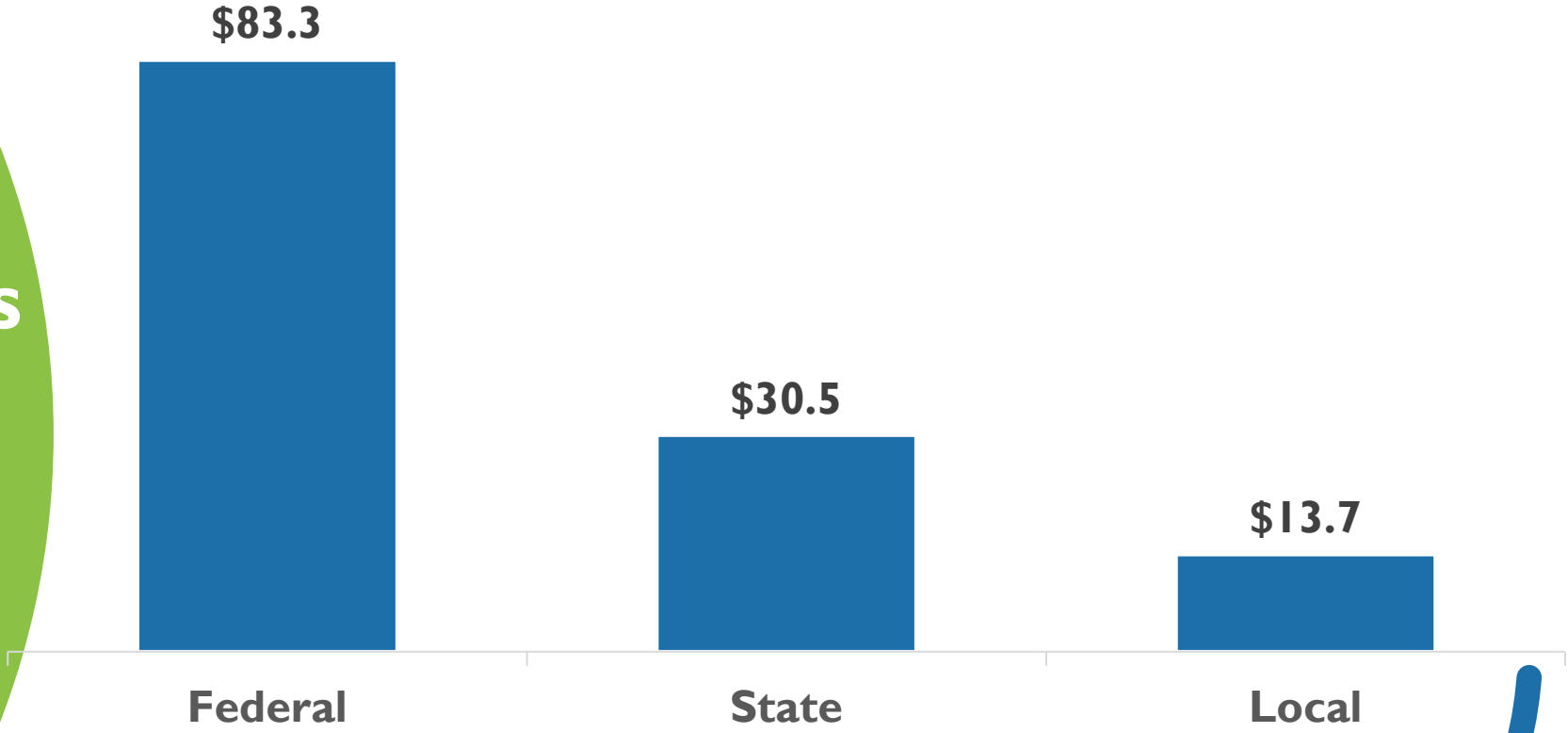
Up from 192 days
in 2019.

**Paperless Process
(Correspondence)**

100%

Discovery Division for
receiving correspondence

Taxes Paid by Michigan Residents (in billions)

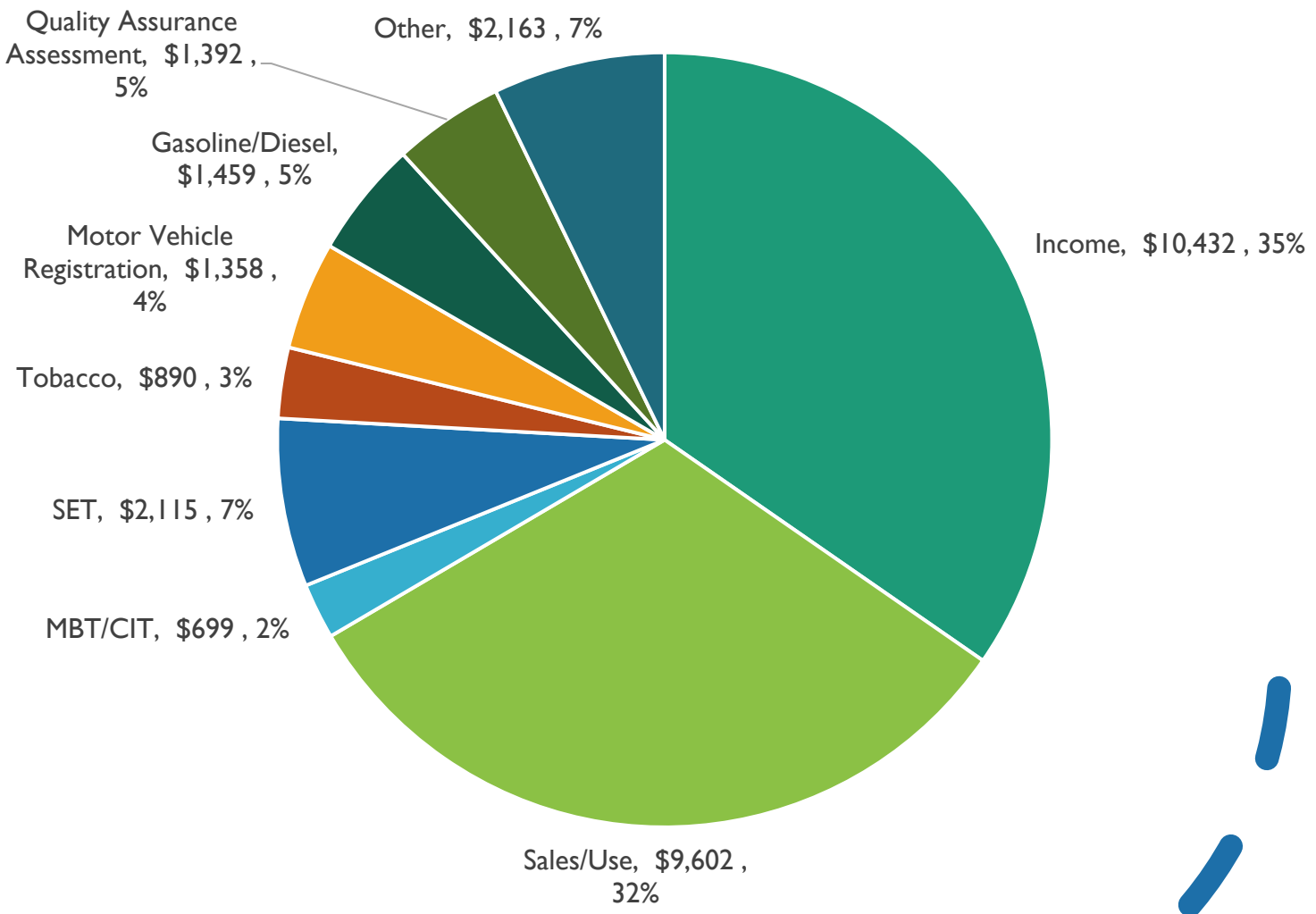


Source: U.S. Census and IRS
Data are for 2018

State and Local Taxes Generate \$45 billion in FY 20 ~ Big Three Account for 80%

The Big Three	FY 2020 Est. Amount	Tax Rate	Fund
Income Tax	\$10.5 billion	4.25%	General Fund (72%) School Aid Fund (28%)
Sales/Use Tax	\$10.1 billion	6.0%	General Fund (21%) School Aid Fund (69%) Revenue Sharing (9%)
Property Tax (State and Local)	\$15.3 billion	varies	Local Units (86%) School Aid Fund (14%)
Other			
Corporate Income Tax (CIT)	\$1,100 million	6.0%	General Fund
Michigan Business Tax (MBT)	(\$554 million)	Mostly credits	General Fund
Transportation (Gas, Diesel, MV Registration)	\$2.7 billion	26.3 cents per gallon value of vehicle	Michigan Transportation Fund
Tobacco Tax	\$904 million	Cigarettes \$2/pack; other 32% wholesale price	General Fund School Aid Fund Medicaid Trust Fund Other Funds
Other/Miscellaneous	\$1.9 billion	varies	General Fund School Aid Fund

Taxes Paid to State Government (in millions)



Source: State of Michigan Comprehensive Annual Financial Report for 2019

Michigan's Major Taxes

State Income Tax

- Estimated to raise \$10.2B for FY 21
 - GF: \$6.5B
 - SAF: \$3.0B
 - Transportation: \$0.6B
- Tax base starts with federal AGI
- Rate is 4.25% -- historically, has ranged from 6.35% to 3.9%
- Major credits: property tax, home heating, and earned income tax credit
- Constitution prohibits graduating of rate or base

City Income Tax Act

- Cities are authorized to levy an income tax
- 24 cities currently levy the tax
- Nonresidents tax rate is half the rate of residents

Michigan's Major Taxes

Sales Tax

- Estimated to raise \$8.4B for FY 21
 - SAF: \$6.1B
 - Constitutional revenue sharing: \$0.9B
 - GF-GP: \$1.3B
 - CTF: \$0.1B
- Rate is 6% -- constitutional maximum; increased 2% by Proposal A of 1994
- Tax base is sales prices of tangible personal property
- Constitution exempts food and prescription drugs
- Constitution earmarks approx. 73% to School Aid Fund and 10% to cities, villages, and townships

Use Tax

- Estimated to raise \$2.0B for FY 21
 - GF-GP: \$0.8B
 - SAF: \$0.7B
 - PPT reimbursement: \$0.5B
- Complements the sales tax
- Most services are exempt from sales/use taxation

Streamline Sales Tax Agreement

- Michigan is a member of the Streamlined Sales and Use Tax Agreement along with 23 other states
- Goal is to make it easier for businesses to comply with the sales tax and easier for states to administer by creating uniform definitions, simplified and uniform returns and remittance procedures, uniform sourcing rules, etc.
- Agreement doesn't dictate what we tax, but does require that we use definitions consistent with the agreement
- Agreement was cited in *South Dakota V. Wayfair*, a U.S. Supreme Court decision that allows states to require that out of state sellers collect and remit the sales tax
- Estimated sales/use collections from remote sales
 - FY 2018 \$167M
 - FY 2019 \$183M
 - FY 2020 \$598M (total increased in part by marketplace facilitator law change)

Michigan's Major Taxes

Property Tax

- Estimated to raise \$15.9B for FY 21
 - SAF: \$2.2B
 - Local School operating: \$2.4B
 - Local governments: \$6.7B
 - Other (ISD, community college, libraries, authorities, etc.): \$4.6B
- Primary source of funding for cities, villages, townships, and counties
- Constitutional provisions:
 - Limits on number of mills that can be levied
 - Property assessed at 50% of true cash value, assessment increases capped at rate of inflation until property is sold
 - Owner occupied houses and agricultural property exempt from 18 mill school operating tax
 - Increases in local property taxes require a popular vote
 - If a local unit's property taxes grow faster than inflation, excluding new construction, mills are automatically rolled back
- Property tax on eligible manufacturing personal property being phased out

Personal Property Tax Legislation

- In 2012, legislation was passed providing personal property exemptions for small taxpayers (starting in 2014) and Eligible Manufacturing Personal Property (phase-in starting in 2016). Laws revised in 2013-2016
- August 2014 voter approval of Proposal I allowed laws to take effect
- Reimbursement is provided through a share of the 6% Use Tax levied by the Local Community Stabilization Authority (LCSA).
- In FY 2021, \$491.5 million is allocated to the LCSA and increases to \$521.3 million in FY 2022 and to \$548.0 million in FY 2023.
- Phase out occurring – by 2023 all eligible manufacturing property will be exempt

Michigan's Major Taxes

Corporate Income Tax

- CIT estimated to raise \$1.1B in FY 21, but legacy MBT is -0.6B in FY 21
- 6% tax on C-Corps; partnerships, LLCs, etc. exempt
- CIT replaced the MBT in 2012; the MBT replaced the SBT in 2008
- MBT still on books for companies receiving certificated credits

Gasoline Tax

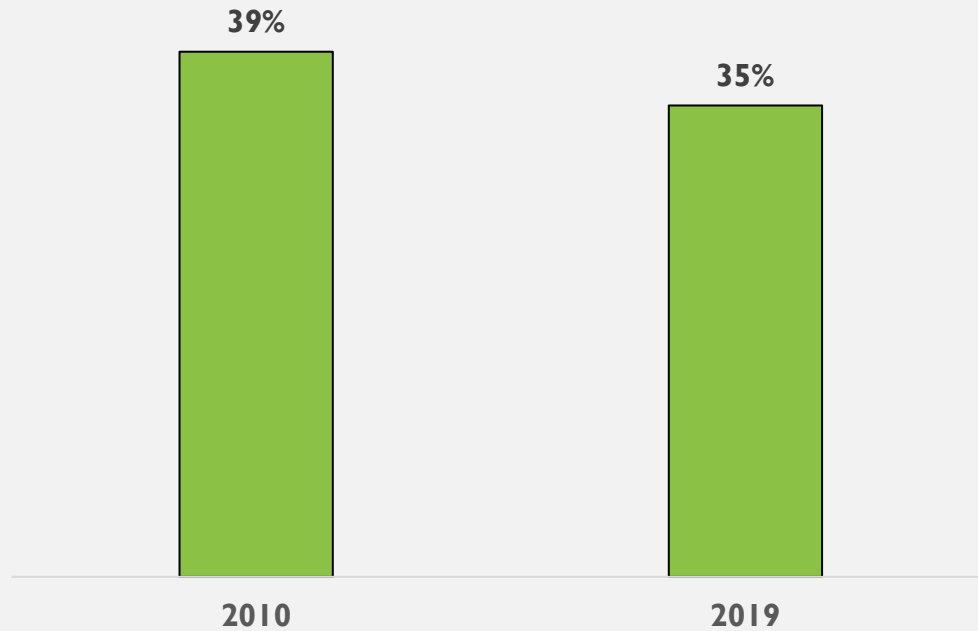
- Estimated to raise \$1.2B for FY 21
- Rate was \$0.19 per gallon from 1997 until 2016
- Currently \$0.26 per gallon – indexed to inflation starting in 2022

Marihuana Tax

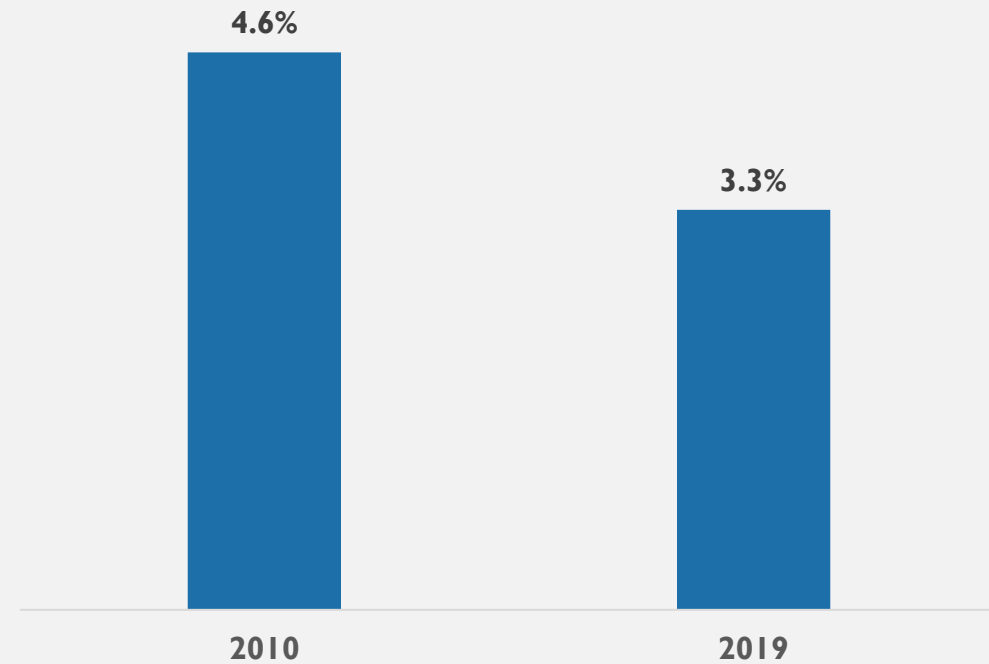
- Adult use regulation and taxation established in Initiated Law I of 2018
- Expected to raise \$75M in FY 21, \$150M by FY 23
- Tax rate is 10% of sales prices
- Disposition: money for research and 15% to municipalities, 15% to counties; 35% to the School Aid Fund, and 35% to the Michigan Transportation Fund
- Marihuana sales are also subject to state's 6% sales tax

Tax Burden on Michigan Businesses Has Declined

**Business Taxes as a Share of Total
State and Local taxes**



**Business taxes as a Share of State
Private Gross Domestic Product**



Source: Council on State Taxation, 2010 and 2020

Michigan Tax Burden Compared to Other States has Fallen Over Time

Per Capita S&L Tax (2018\$)

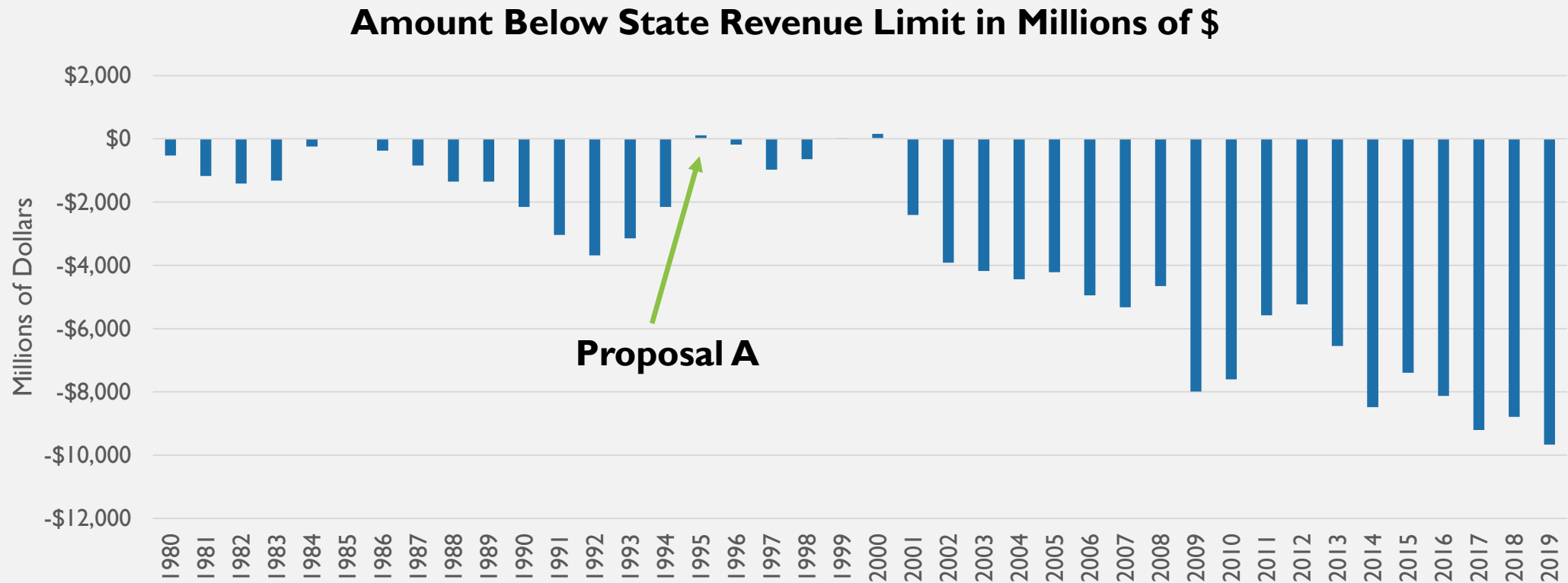
Year	Michigan	U.S.	MI % of U.S.	MI Rank
1977	\$3,526	\$3,238	109%	13
1987	\$3,828	\$3,605	106%	15
1997	\$4,144	\$4,080	102%	17
2007	\$4,385	\$5,036	87%	31
2017	\$4,186	\$5,083	82%	31

S&L Tax as Pct Personal Income

Year	Michigan	U.S.	MI % of U.S.	MI Rank
1977	11.0%	10.7%	103%	12
1987	11.0%	10.3%	107%	9
1997	10.4%	10.3%	101%	20
2007	10.7%	10.7%	100%	19
2017	9.0%	9.8%	92%	32

Source: State and Local Finance Initiative, Urban-Brookings Tax Policy Center, and Department of Treasury Calculations

Michigan is Close to \$10 Billion Below Constitutional Revenue Limit



Headlee and Proposal A Constitutional Revenue Limits

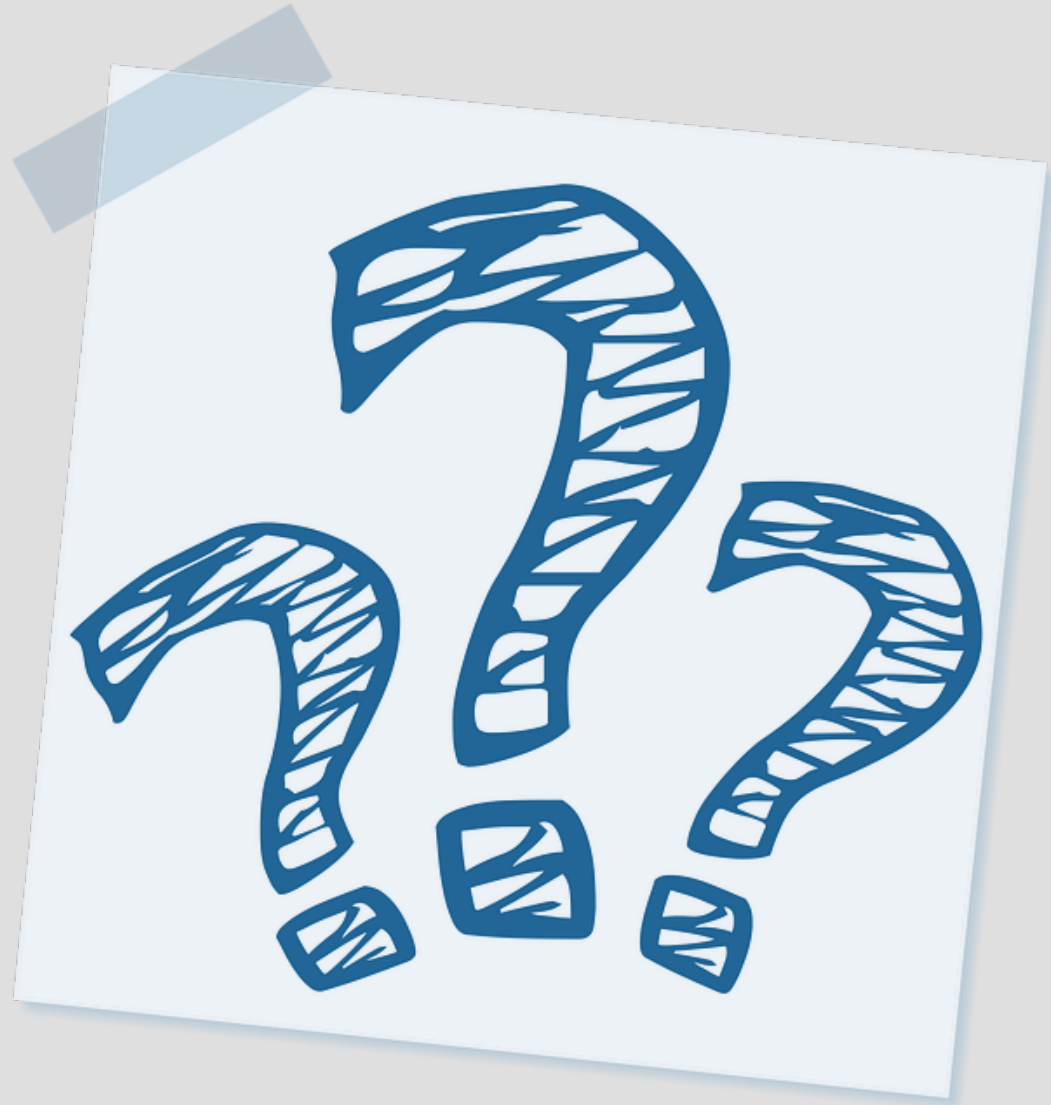
Headlee

- If state revenues exceed limit by more than 1%, excess is returned to taxpayers; if exceed by less than 1% option to deposit in Budget Stabilization Fund (Article IX Section 26)
- New requirements of local governments must be supported by state appropriations (Article IX Section 29)
- Proportion of all state spending paid to local governments in total must not be less than level from FY 1979 (Article IX Section 30)
- Voter approval required to raise local taxes (Article IX Section 31)
- Local millage roll backs if assessed values excluding new construction rises by more than rate of inflation (Article IX Section 31)
- Total state revenues limited fixed share of personal income, established as FY 1979 revenues divided by FY 1977 personal income (Article IX Section 26)

Proposal A

- Increasing statutory maximum for school operating property taxes requires a $\frac{3}{4}$ vote of legislature (Article IX Section 3)
- Taxable value growth on individual properties limited to rate of inflation or 5%, whichever is less until ownership is transferred at which point it goes back to 50% of SEV (Article IX Section 3)

Questions



Thank You!