



## **Background Briefing**

# **MICHIGAN REVENUE**

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**March 2012**

**Fiscal information in this briefing is based on January 2012 Consensus Revenue Estimates.**

# Revenue Sources

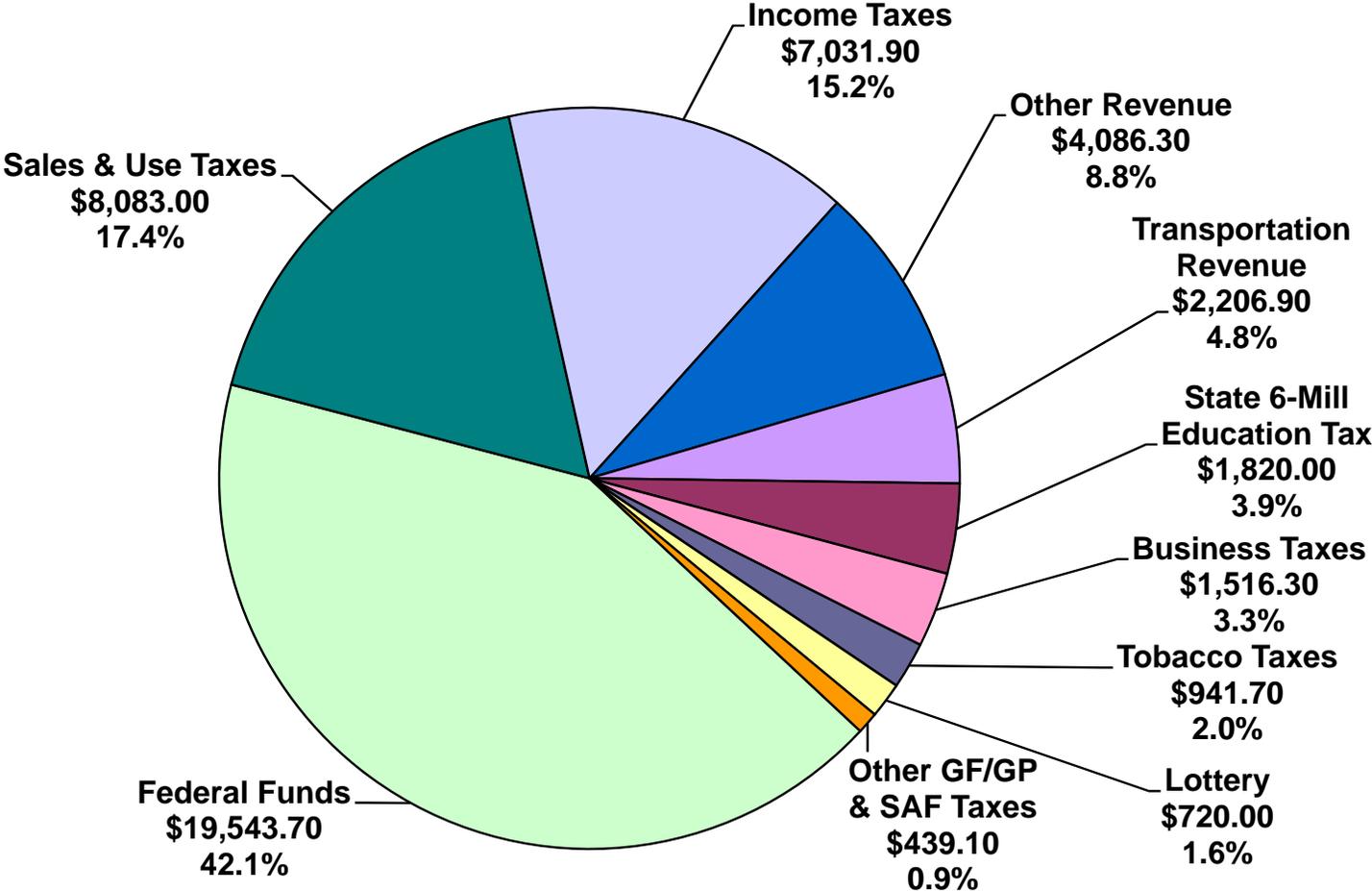
- **Total FY 2011-12 Michigan revenue is estimated at \$46,388.9 million**
  
- **Three largest sources of revenue are:**
  - **Federal funds**
  
  - **Sales and use taxes**
  
  - **Income taxes**

# Earmarked Revenue and Major State Funds

- **Earmarking: dedication or restriction of an amount or percentage of revenue from a source to a specific fund or purpose**
- **Revenue not earmarked is GF/GP revenue**
- **Major state funds**
  - **School Aid Fund (SAF) for K-12 Education**
  - **GF/GP appropriated for any/all budget areas**
  - **Transportation Fund for transportation services**

# State of Michigan Revenue

FY 2011-12 Total = \$46,388.9 million



# **MAJOR STATE TAXES**

# Major State Taxes

- **Sales and use taxes**
- **Income tax**
- **Business taxes**
  - **Corporate Income Tax (CIT)**
  - **Insurance tax**
  - **Casino Wagering Tax**
- **State property taxes**
  - **State education tax (SET)**
  - **Real estate transfer tax (RET)**

# Sales and Use Taxes

- **Sales Tax**
  - 6% levied on retail sale of tangible personal property for use or consumption
  - Exemptions: food, prescription drugs
  - Disposition
    - 73.3% to SAF
    - 15.4% to GF/GP
    - 10.0% to local units (revenue sharing)
    - 1.3% transportation fund
  
- **Use Tax**
  - 6% levied on some services, telephone/utility services, motor vehicle leases and private sales, hotels/motels
  - Complements sales tax
  - Disposition
    - 67% to GF/GP
    - 33% to SAF

# Income Tax

- **Base starts with federal adjusted gross income**
- **CY 2012 = 4.35%; rate will be decreased to 4.25% effective January 1, 2013**
- **\$3,700 personal exemption**
- **Property tax credit: refundable credit for homeowners and renters**
- **Disposition in FY 2009-10**
  - **Approximately 66% to GF/GP**
  - **Approximately 33% to SAF**

# Business Taxes

- **Corporate Income Tax (CIT)**
  - In general, effective January 1, 2012; replaced MBT; MBT will be repealed after all certificated credits have been claimed
  - Taxes business income at 6%
  - CIT only applies to C corporations
  - Credits awarded (certificated credits) under the MBT will be retained for the duration of the agreements
  - No credits, except for the small business credit
- **Disposition of CIT:**
  - 100% to GF/GP

# Business Taxes

- **Insurance Tax**
  - **Levied on gross premiums of out-of-state insurance companies**
  - **Effective tax rate 1.25%**
  - **Disposition of Insurance Tax: GF/GP**

# State Property Taxes

- **State Education Tax (SET):**  
6-mill tax on taxable value of homestead property
- **Real Estate Transfer Tax (RET):**  
0.75% of fair market value of real property
- **Disposition of SET and RET: SAF**

# **RECENTLY ENACTED TAX CHANGES**

# Business Tax Changes

- **Cut business taxes \$1.66 billion [83% net cut in FY 2012-13]**
- **Repeal the Michigan Business Tax**
- **Institute a 6% tax on business income for C corps only**
- **Honor existing firm-specific credits including MEGA, film, next energy, battery credits, etc.**
- **Any additional credits or business benefits will be subject to appropriation**

# Personal Income Tax Changes

- **Increase personal income tax \$1.35 billion [23% net increase in FY 2012-13]**
- **Suspend rate reduction from 4.35% to 4.25% until January 1, 2013 (a 15-month delay) [increases FY 2012-13 revenue \$225.0 million]**
- **Modify public/private pension exemption [increases FY 2012-13 revenue \$343.4 million]**
- **Reduces state earned income tax credit, EITC, from 20% of federal to 6% [increases FY 2012-13 revenue \$261.6 million]**
- **Reduce homestead property tax credits [increases FY 2012-13 revenue \$257.0 million] – primarily through lower income eligibility limits**

# Personal Income Tax Changes

- **Eliminate special exemptions for seniors and UI and child deductions [increases FY 2012-13 revenue \$98.1 million]**
- **Eliminate all other major refundable and non-refundable credits except for the homestead property tax credit and the home heating credit [increases FY 2012-13 revenue \$104.5 million]**
- **The personal exemption will be set to \$3,700 and indexed to inflation beginning in 2013 [increases FY 2012-13 revenue \$32.1 million]**

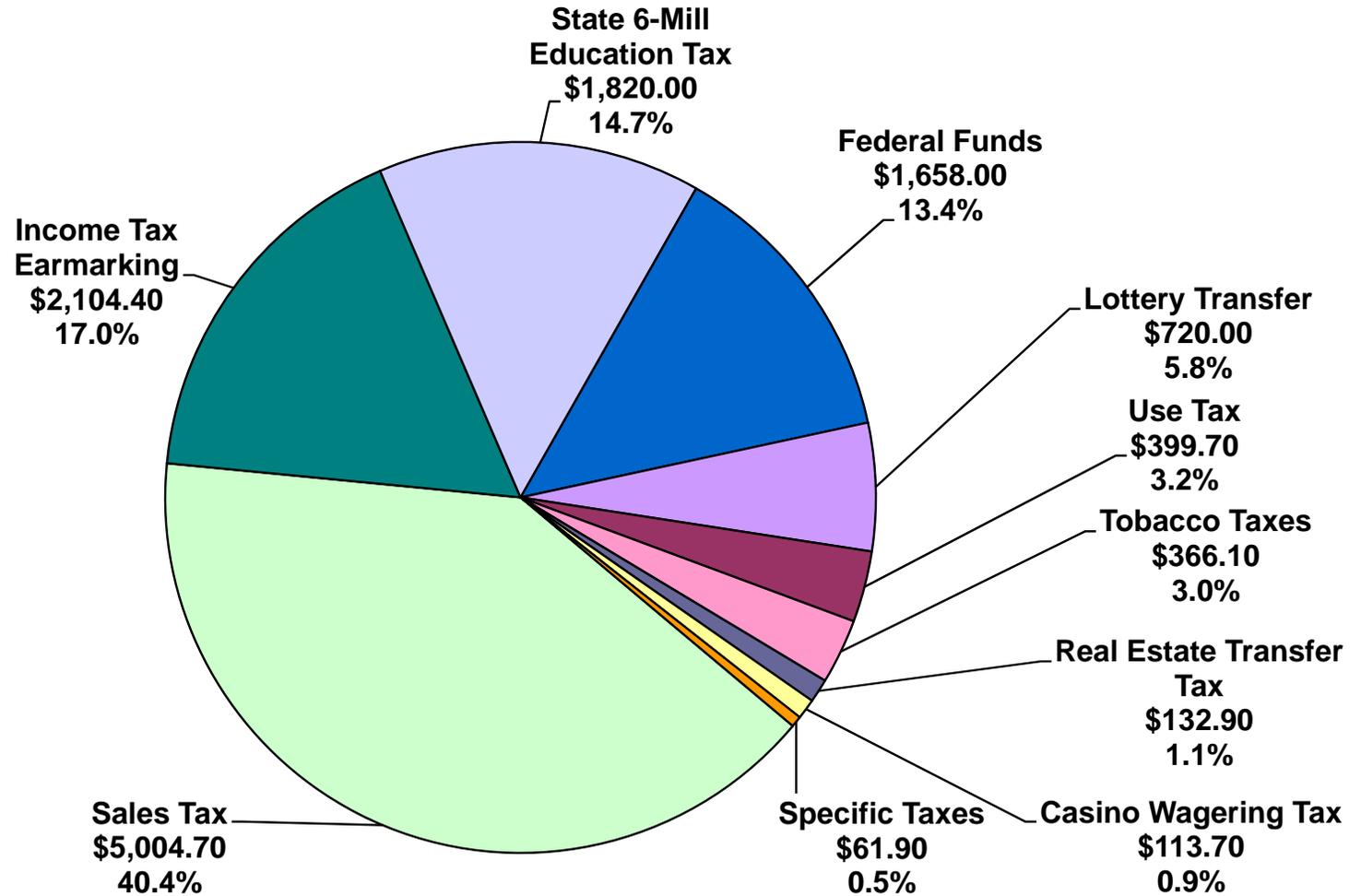
# **MAJOR STATE FUNDS**

# Major State Funds

- **School Aid Fund (SAF)**
  - Used for K-12 education
  - Major sources include sales and use tax, income tax, and state 6-mill education tax
  
- **General Fund/General Purpose (GF/GP)**
  - Appropriated for any/all budget area(s)
  - Major sources include income tax and CIT/MBT
  
- **Transportation Fund**
  - Used for transportation services
  - Major sources include federal funds, licenses and permits, and gasoline tax

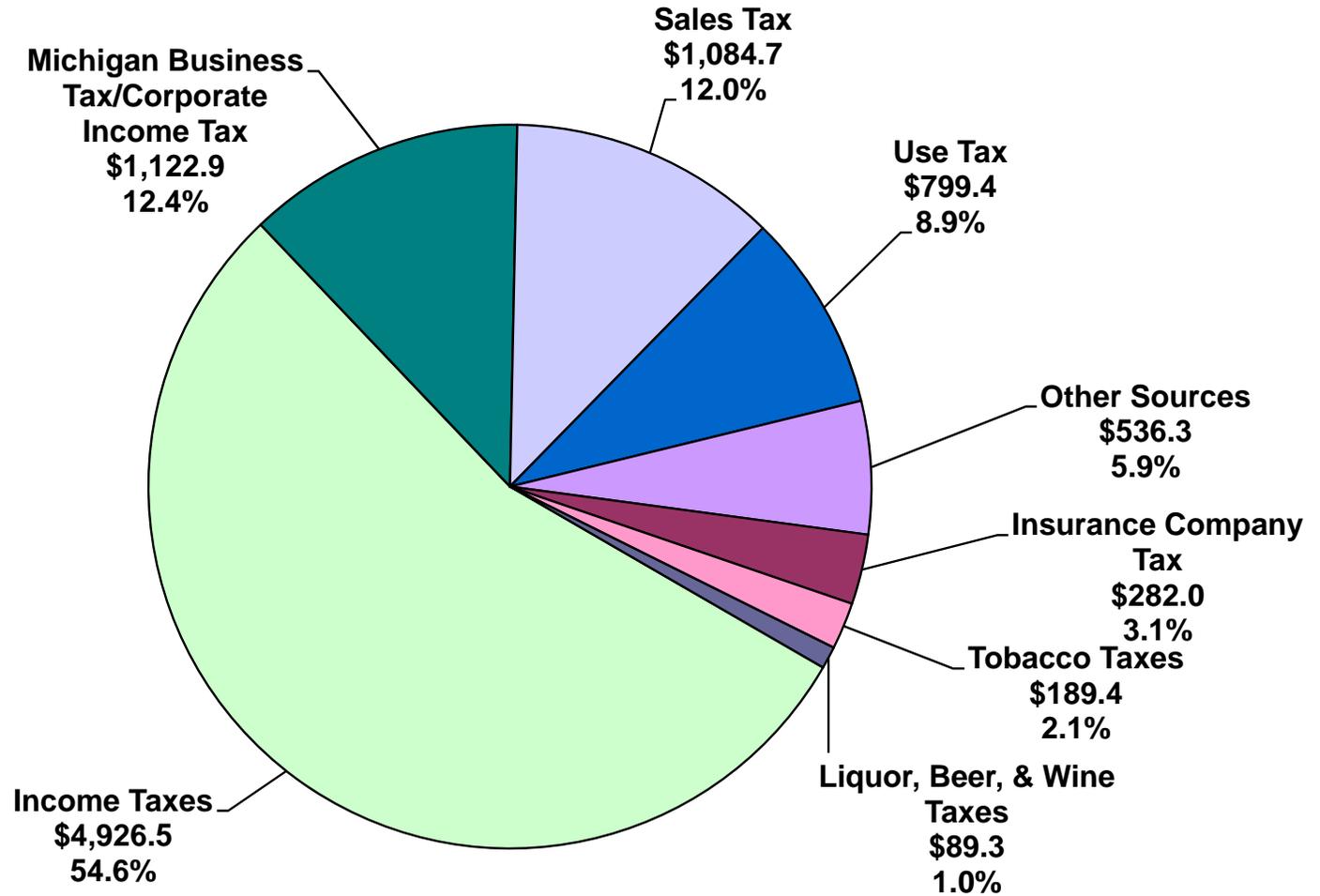
# School Aid Fund Revenue

FY 2011-12 Total = \$12,421.7 million



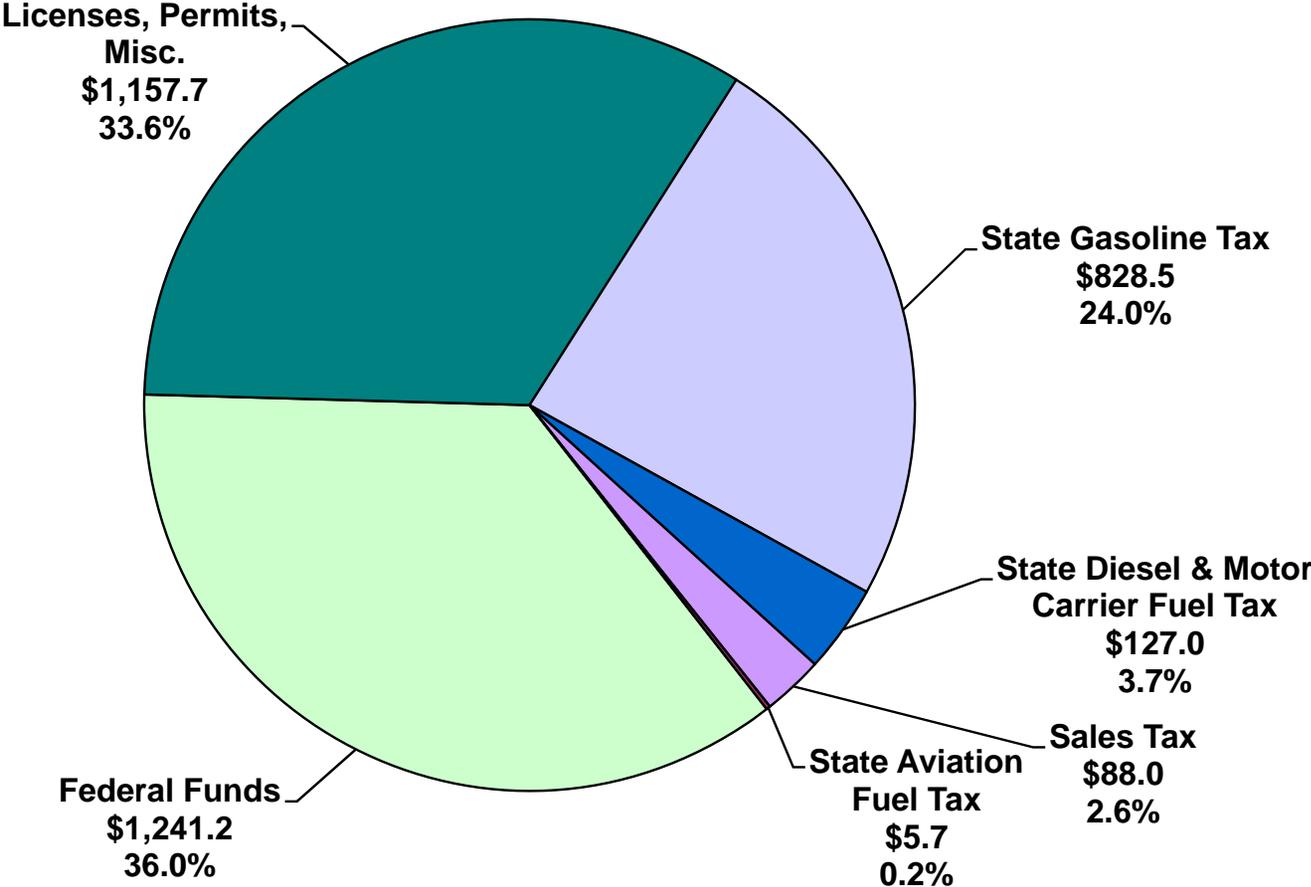
# GF/GP Revenue

FY 2011-12 Total = \$9,030.5 million



# Transportation Revenue

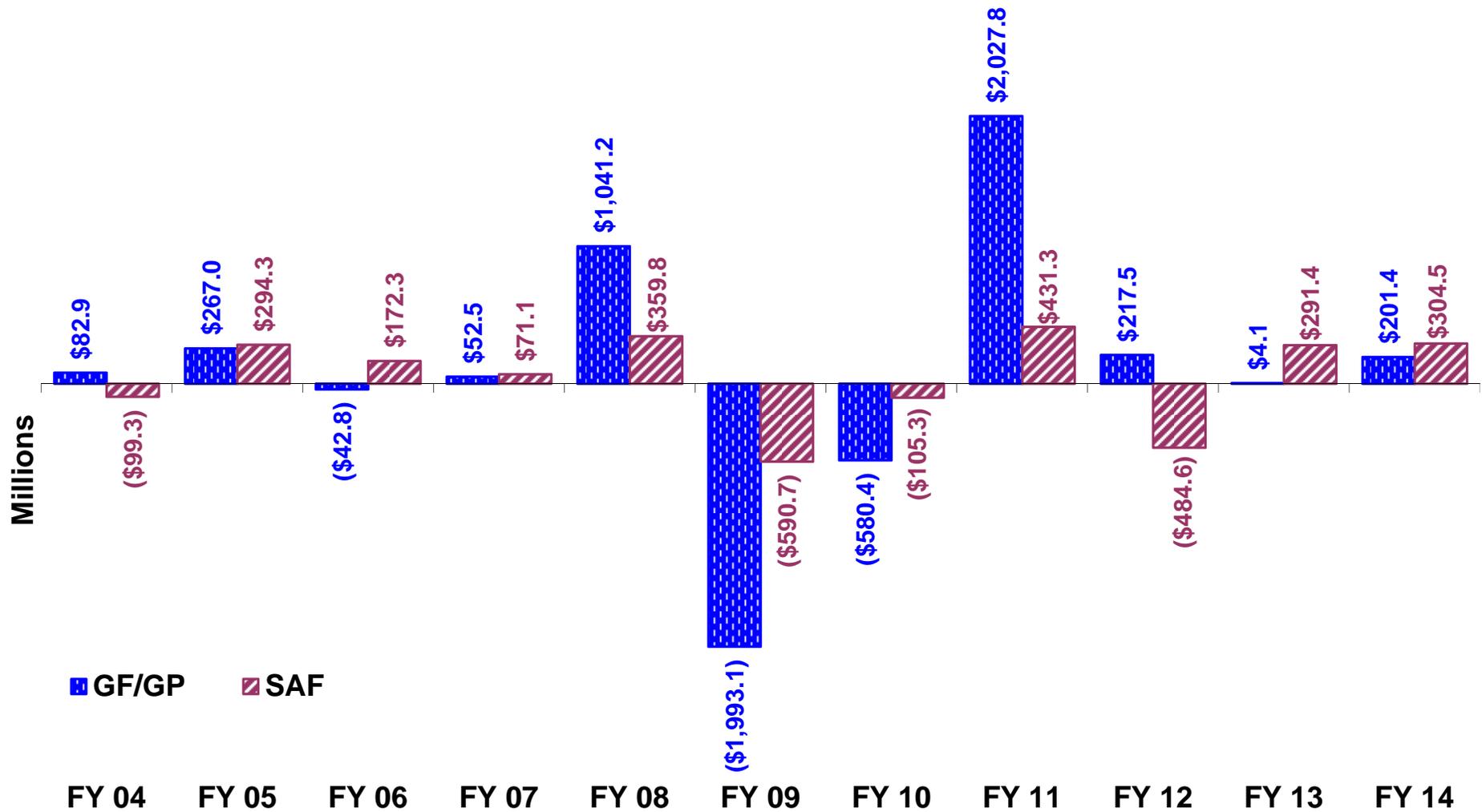
FY 2011-12 Total = \$3,448.1 million



# Trends in GF/GP and SAF Revenue

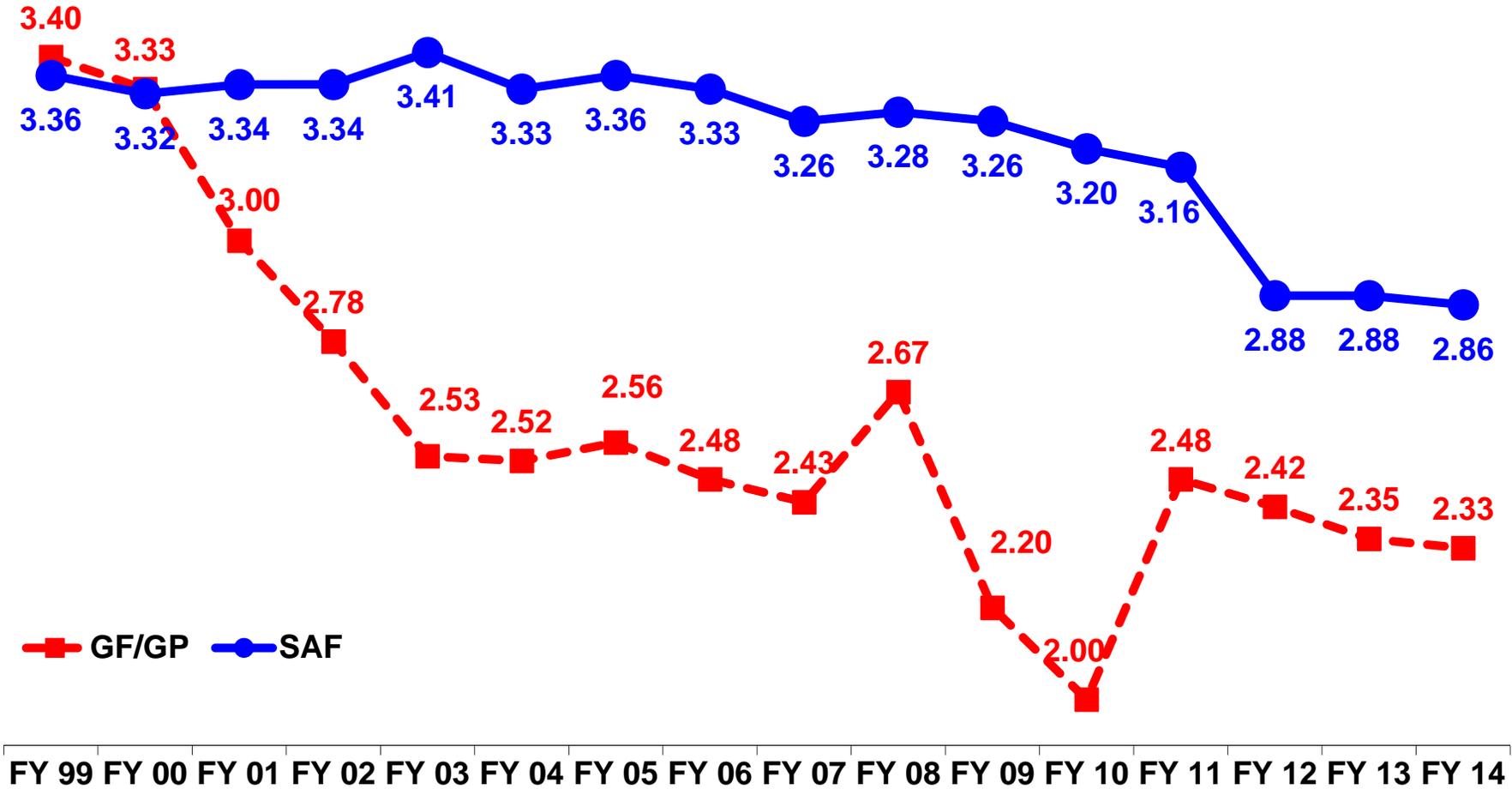
- **Change in revenue from previous fiscal year:**
  - **GF/GP and SAF revenue**
    - **FY 2007-08 increase due to tax changes**
    - **Great recession reduces FY 2008-09 and FY 2009-10 revenue**
    - **Economic recovery increases FY 2010-11 revenue**
    - **Tax cuts largely offset economic gains from FY 2011-12 through FY 2013-14**
  
- **As a % of Michigan personal income (relative to Michigan's economy):**
  - **GF/GP revenue**
    - **Decline from 3.4% in FY 1998-99 to 2.3% in FY 2013-14**
  - **SAF revenue**
    - **Decline from 3.4% in FY 1998-99 to 2.9% in FY 2013-14**

# Revenue Change From Previous Fiscal Year



# GF/GP and SAF Revenue

As a % of Michigan Personal Income



# Revenue: House Fiscal Agency Role

- **Prepare House Fiscal Agency forecast as part of consensus estimates**
  - National and state economic forecast
  - GF/GP and SAF forecast
- **Review and estimate fiscal impact of bills discussed in Tax Policy committee**
- **Prepare documents for House members**
  - Revenue Source and Distribution: January and May
  - Revenue Review: Quarterly

**For more information about Michigan  
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