



Background Briefing

MICHIGAN TAX REVENUE

Jim Stansell, Senior Economist

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Fiscal information in this briefing is based on January 2016 Consensus Revenue Estimates.

MAJOR STATE TAXES

Major State Taxes

- **Individual Income Tax**
- **Sales and Use taxes**
- **Business taxes**
 - Corporate Income Tax (CIT)
 - Michigan Business Tax (MBT)
 - Single Business Tax (SBT)
 - Insurance company taxes
- **State property taxes**
 - State Education Tax (SET)
 - Real Estate Transfer Tax (RET)
- **For information on transportation taxes see the Transportation Background Briefing**

Major State Taxes

- For FY 2016-17, the largest sources of School Aid Fund (SAF) and General Fund/General Purpose (GF/GP) tax revenue are estimated to be (in millions):

Individual Income Tax	\$9,515.4
Sales Tax	\$6,873.0
Use Tax	\$1,165.8
State Education Tax	\$1,935.8
Real Estate Transfer Tax	\$284.6
Business taxes	\$714.4
Corporate Income Tax (CIT)	
Michigan Business Tax (MBT)	
Single Business Tax (SBT)	
Insurance company taxes	

- These account for about 95.3% of all SAF and GF/GP tax revenue

Individual Income Tax

- **Base starts with federal adjusted gross income**
- **TY 2014 Rate = 4.25%**
- **\$4,000 personal exemption**
- **Retirement income taxable for most filers born after 1946**
- **Refundable property tax credit for homeowners and renters**
- **Estimated distribution in FY 2016-17**
 - Approximately 28.3% to SAF
 - Approximately 71.7% to GF/GP

Sales and Use Taxes

▪ Sales Tax

- 6% levied on retail sale of tangible personal property for use or consumption
- Major Exemptions: food, prescription drugs
- Estimated distribution in FY 2016-17
 - 72.7% to SAF
 - 15.7% to GF/GP
 - 10.3% to local units (Constitutional revenue sharing)
 - 1.2% to the Comprehensive Transportation Fund

▪ Use Tax

- 6% levied on some services, telephone/utility services, motor vehicle leases and private sales, hotels/motels
- The state share is 6% less the amount levied by the Metropolitan Areas Metropolitan Authority as a replacement for lost personal property tax revenue
- Complements sales tax
- Estimated distribution in FY 2016-17
 - 44.2% to SAF
 - 55.8% to GF/GP

Business Taxes

- **Corporate Income Tax (CIT)**
 - Replaced MBT effective January 1, 2012; MBT will be repealed after all existing certificated credits have been claimed
 - Corporate profits taxed at 6%
 - CIT only applies to C corporations; LLCs, S corporations, and other such entities are exempt
 - Certificated credits awarded under the MBT will be retained for the duration of the agreements provided a taxpayer continues to file under the MBT
 - No CIT credits, except for the small business credit

- **Disposition of CIT**
 - 100% to GF/GP

Business Taxes

- **Michigan Business Tax (MBT)**
 - Although the CIT has replaced the MBT as the primary tax on business activity, taxpayers that have outstanding certificated credits may still file under the MBT until the credits have expired
 - Existing credits are anticipated to extend through at least 2030, and could reduce GF/GP revenue by as much as \$1.0 billion in FY 2015-16 and \$750 million in FY 2016-17
 - Disposition of MBT: 100% to GF/GP

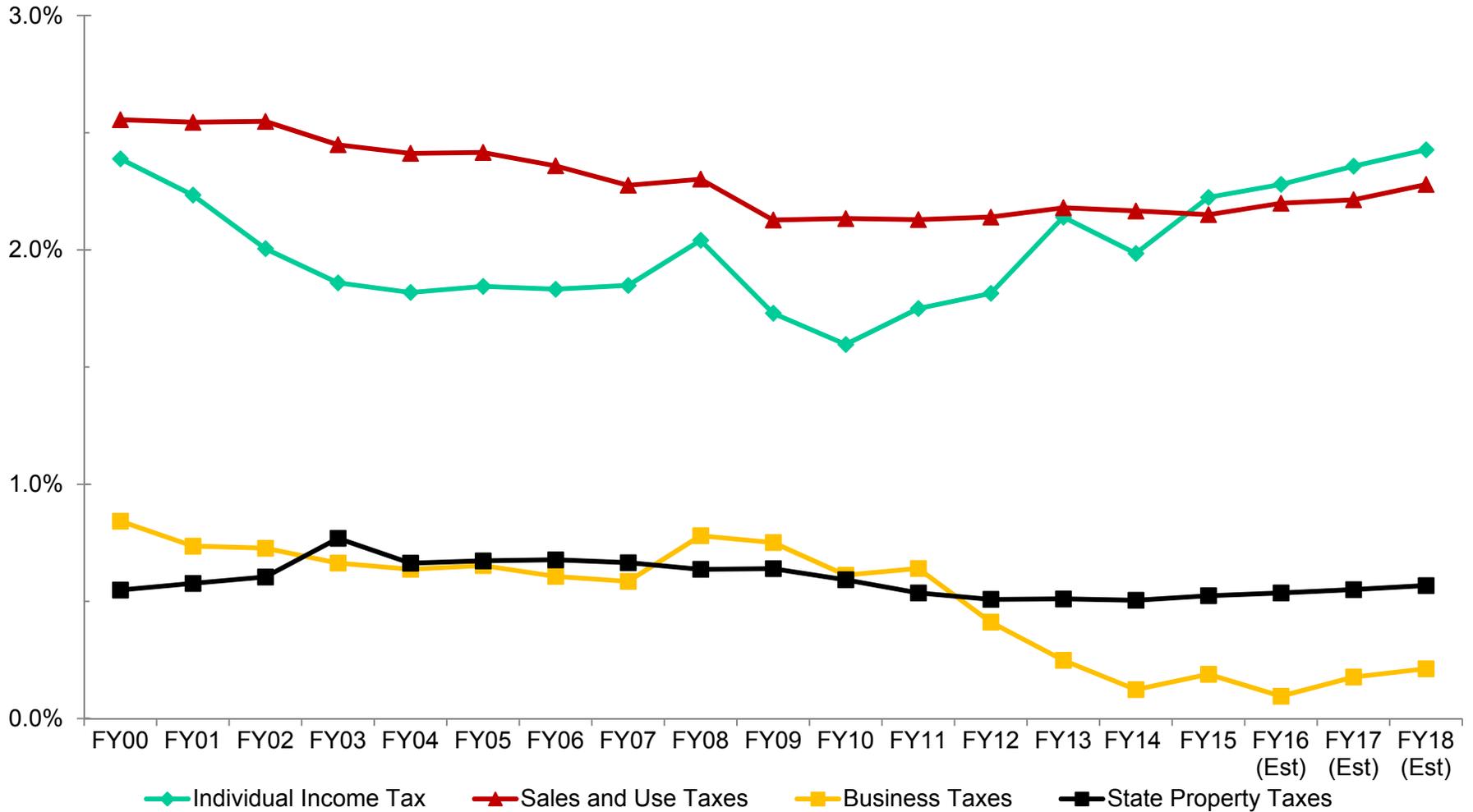
- **Insurance Company Taxes**
 - Levied on gross premiums of out-of-state insurance companies
 - Effective tax rate 1.25%
 - Disposition of Insurance taxes: 100% to GF/GP

State Property Taxes

- **State Education Tax (SET):**
6-mill levy on taxable value of real and some personal property
- **Real Estate Transfer Tax (RET):**
0.75% of fair market value of real property
- **Disposition of SET and RET: 100% to SAF**

Tax Revenue by Source

As a Percent of Michigan Personal Income



**RECENTLY ENACTED
TAX CHANGES**

Personal Property Tax Changes

- **Public Acts 397-404 and 406-408, of 2012.**
- **Exempts all commercial and industrial personal property owned by a single taxpayer in a local unit provided the combined market value is \$80,000 or less, effective January 1, 2014.**
- **Eliminates personal property taxes on “eligible manufacturing personal property” (a new definition within the legislation) acquired before 2006 or after 2012, effective January 1, 2016.**
- **Eligible manufacturing personal property (EMPP) acquired between 2006 and 2012 will be exempted one year at a time so that by 2023, all eligible manufacturing personal property will be exempt.**

Personal Property Tax Changes

- **In August 2014, a statewide election approved a use tax levy by the Metropolitan Areas Metropolitan Authority (MAMA) created by the legislation.**
- **Beginning in FY 2015-16, the MAMA will levy a portion of the 6% statewide use tax to reimburse local units of government for the revenue loss based on formulas contained within the legislation.**
- **Beginning January 1, 2016, the state will levy a special assessment against taxpayers benefitting from the PPT elimination to help offset some of the revenue loss.**
- **The net reduction in GF/GP revenue is estimated to be about \$90 million in FY 2015-16, \$350 million in FY 2016-17, and \$375 million in FY 2017-18. When fully implemented, the annual GF/GP revenue reduction will be about \$500 million.**

Road Funding Package

- **Public Acts 174–180 of 2015.**
- **Increases tax rates on gasoline and diesel to \$0.263 per gallon (from \$0.19 and \$0.15 per gallon, respectively), effective January 1, 2017. The rate is then adjusted for inflation with a maximum annual increase of 5%.**
- **Increases registration fees by approximately 29% effective January 1, 2017. Also creates a surcharge for electric and hybrid vehicles.**
- **Earmarks a portion of GF/GP income tax revenue to the Michigan Transportation Fund. The specified amounts are \$150 million in FY 2018-19, \$325 million in FY 2019-20, and \$600 million in subsequent years.**
- **Broadens the Homestead Property Tax Credit, thereby reducing GF/GP income tax revenue by about \$200 million per year.**
- **Creates a mechanism beginning in 2023 whereby income tax rates automatically decrease if GF/GP revenue increases by more than 1.425 times the rate of inflation.**

MAJOR STATE FUNDS

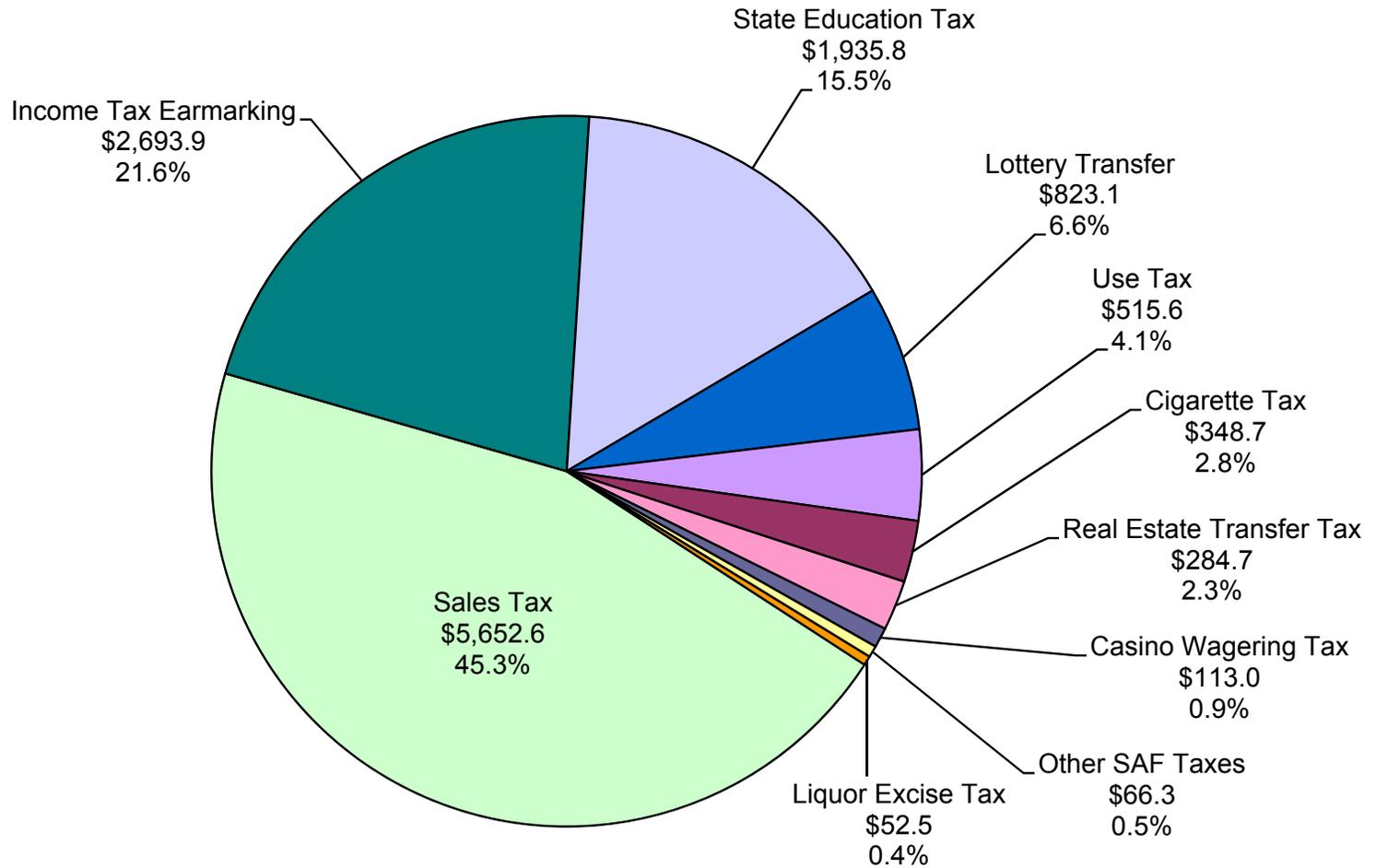
Major State Funds

- **School Aid Fund (SAF)**
 - Used primarily for K-12 education
 - Also used to replace GF/GP funding for community colleges and public universities
 - Major sources include sales and use taxes, individual income tax, 6-mill state education tax, tobacco taxes, the real estate transfer tax, and state lottery revenue

- **General Fund/General Purpose (GF/GP)**
 - Appropriated for any/all budget area(s)
 - Major sources include individual income tax, sales and use taxes, and net business taxes

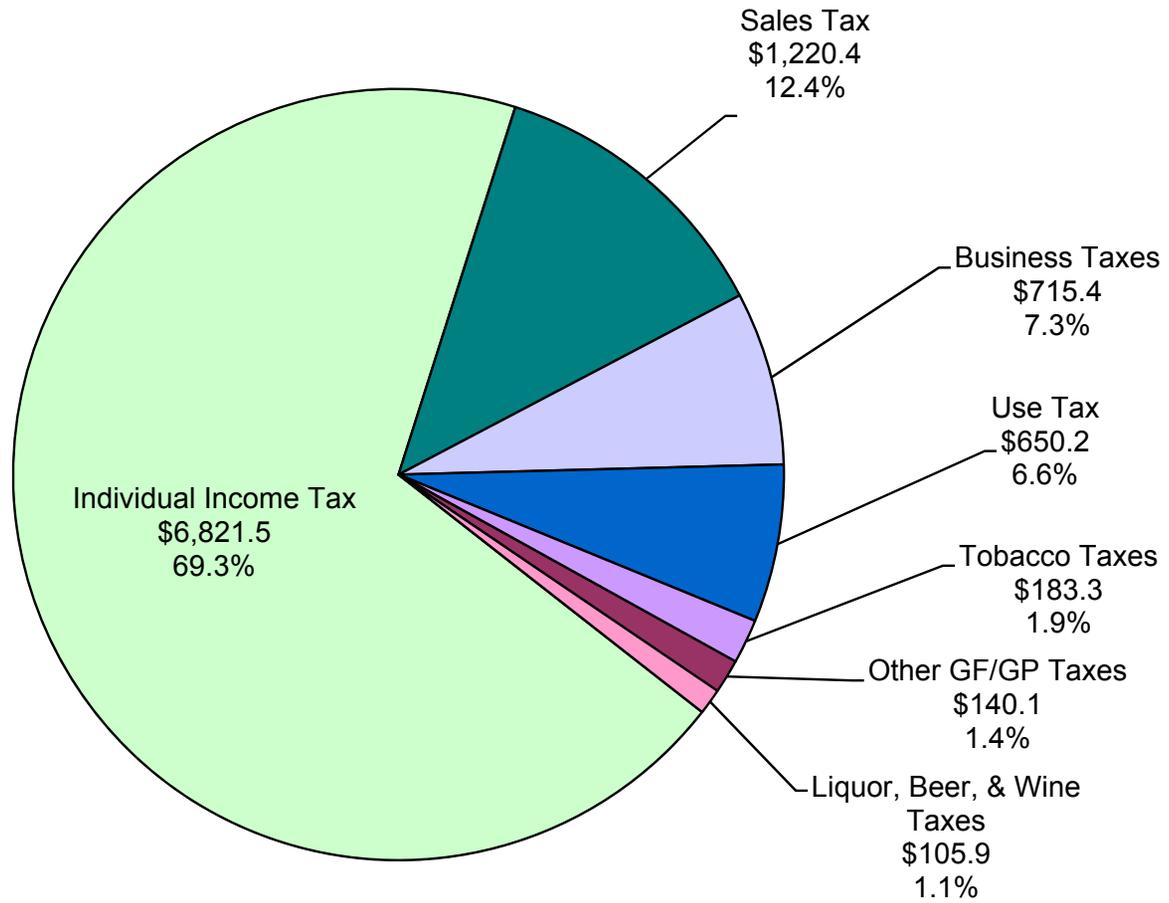
School Aid Fund Tax and Lottery Revenue

Estimated FY 2016-17 Total = \$12,486.2 million



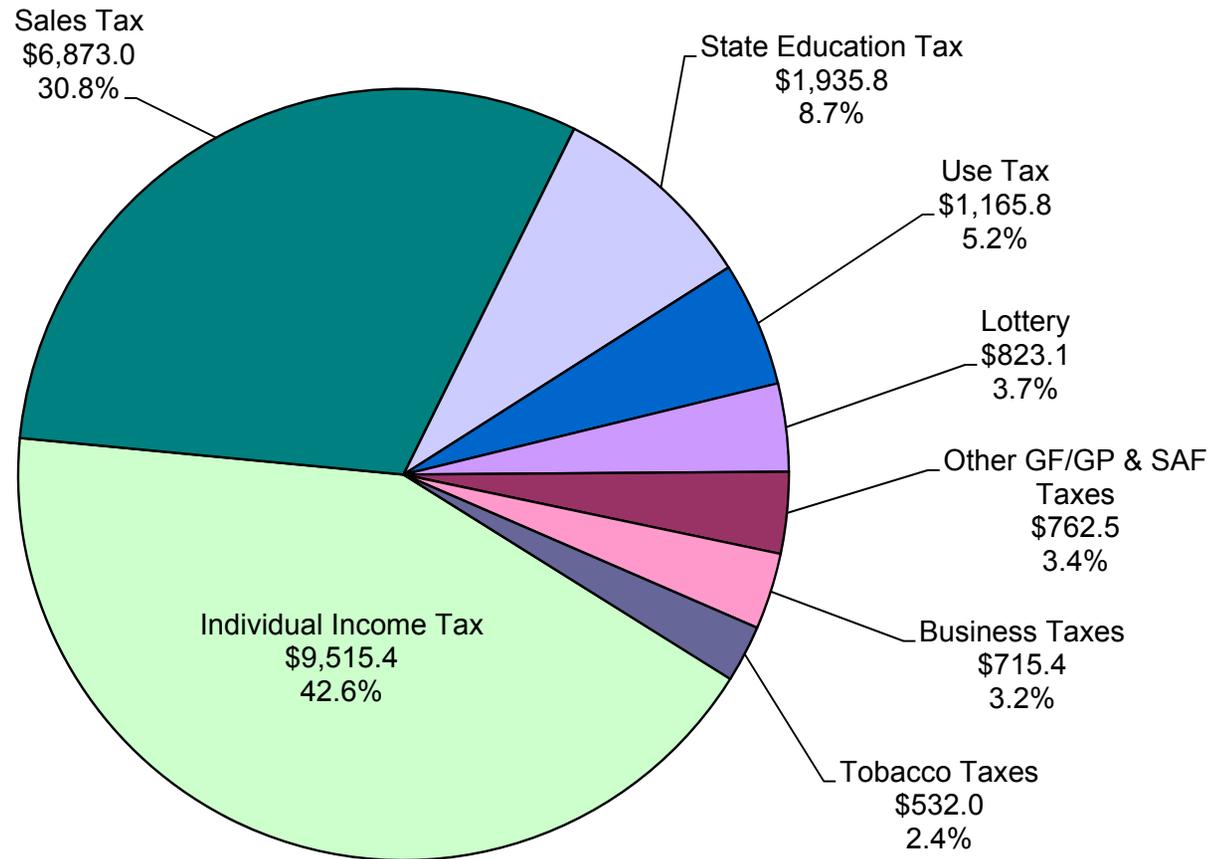
GF/GP Tax Revenue

Estimated FY 2016-17 Total = \$9,836.8 million



Combined GF/GP and School Aid Fund Tax and Lottery Revenue

Estimated FY 2016-17 Total = \$22,323.0 million



Trends in GF/GP and SAF Revenue

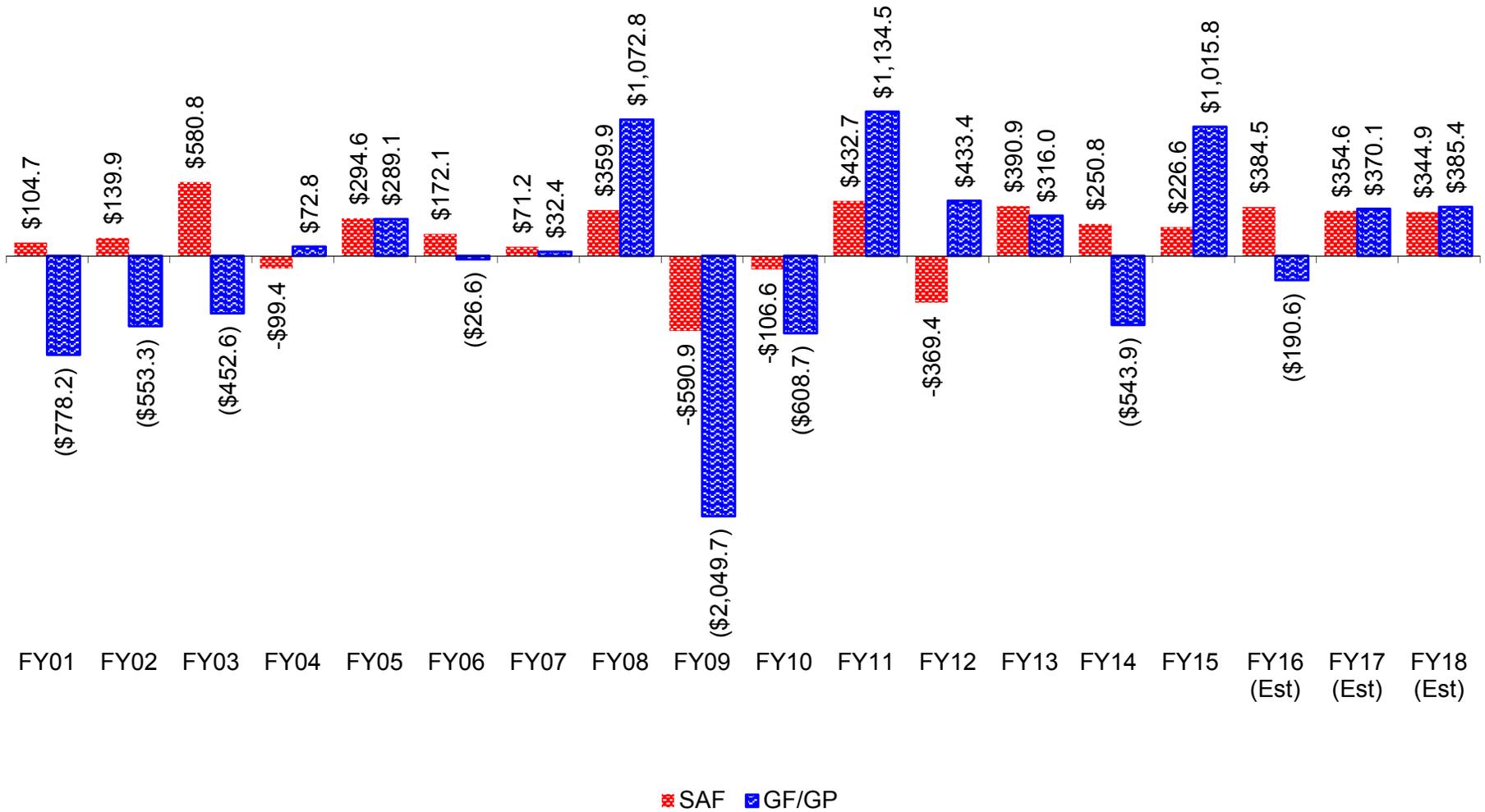
- **Change in SAF and GF/GP revenue from previous fiscal years:**
 - FY 2007-08 saw increases due primarily to tax changes
 - Great recession reduced FY 2008-09 and FY 2009-10 revenue
 - Economic recovery increased FY 2010-11 revenue
 - Decrease in FY 2011-12 SAF revenue largely due to business tax cuts
 - Volatility of GF/GP revenue due to increased reliance on individual income taxes
 - PPT reform will continue to reduce GF/GP revenue going forward

- **As a % of Michigan personal income (relative to Michigan's economy):**
 - SAF revenue estimated to decline from 3.3% in FY 2000-01 to 3.1% in FY 2016-17
 - GF/GP revenue is estimated to decline from 3.3% in FY 2000-01 to 2.5% in FY 2016-17

- **SAF and GF/GP Revenue**
 - Between FY 2000-01 and FY 2016-17, average annual SAF growth is expected to be 1.4%
 - Between FY 2000-01 and FY 2016-17, average annual GF/GP growth is expected to be 0.2%

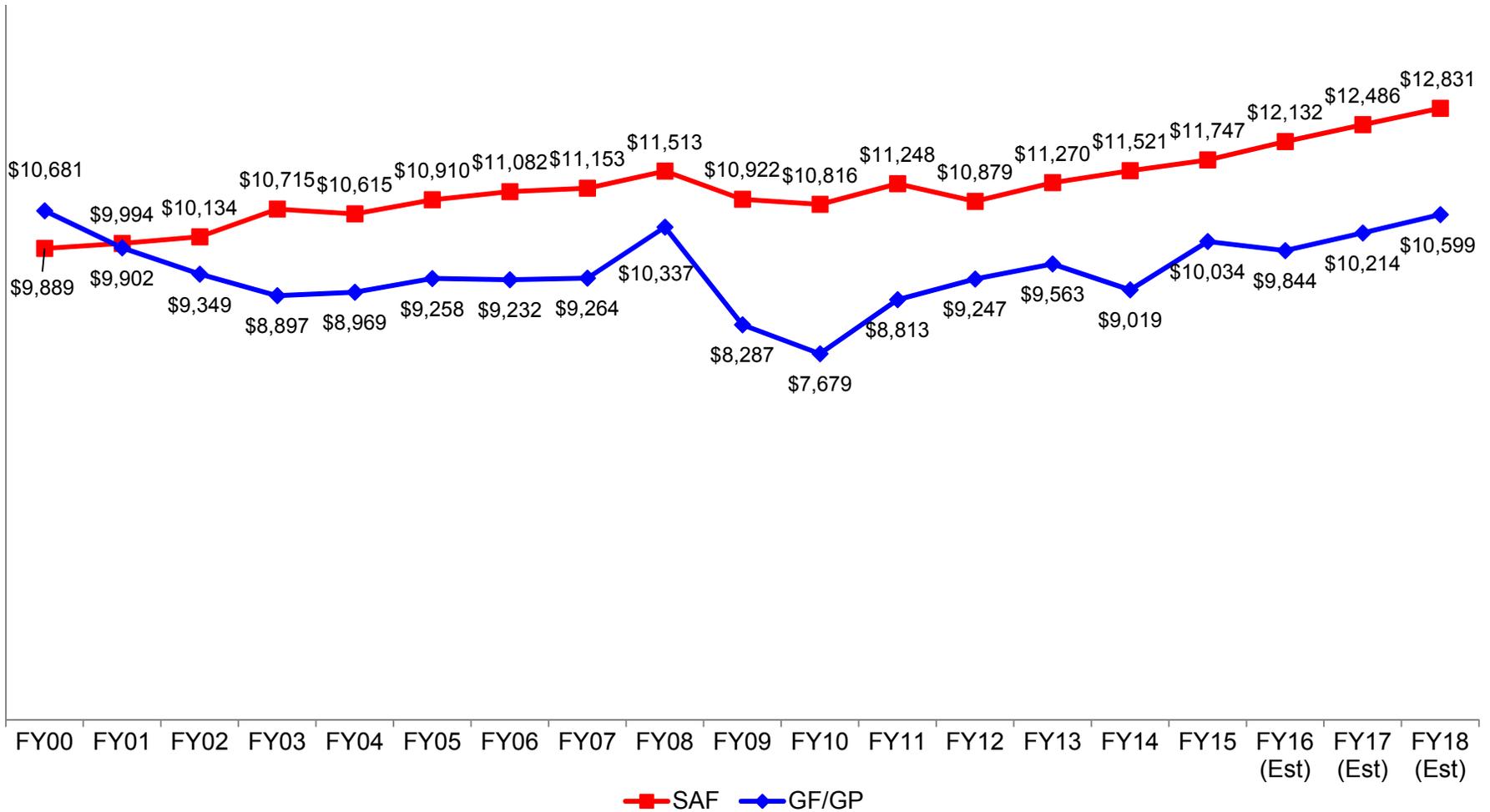
Revenue Change From Previous Fiscal Year

(In millions)



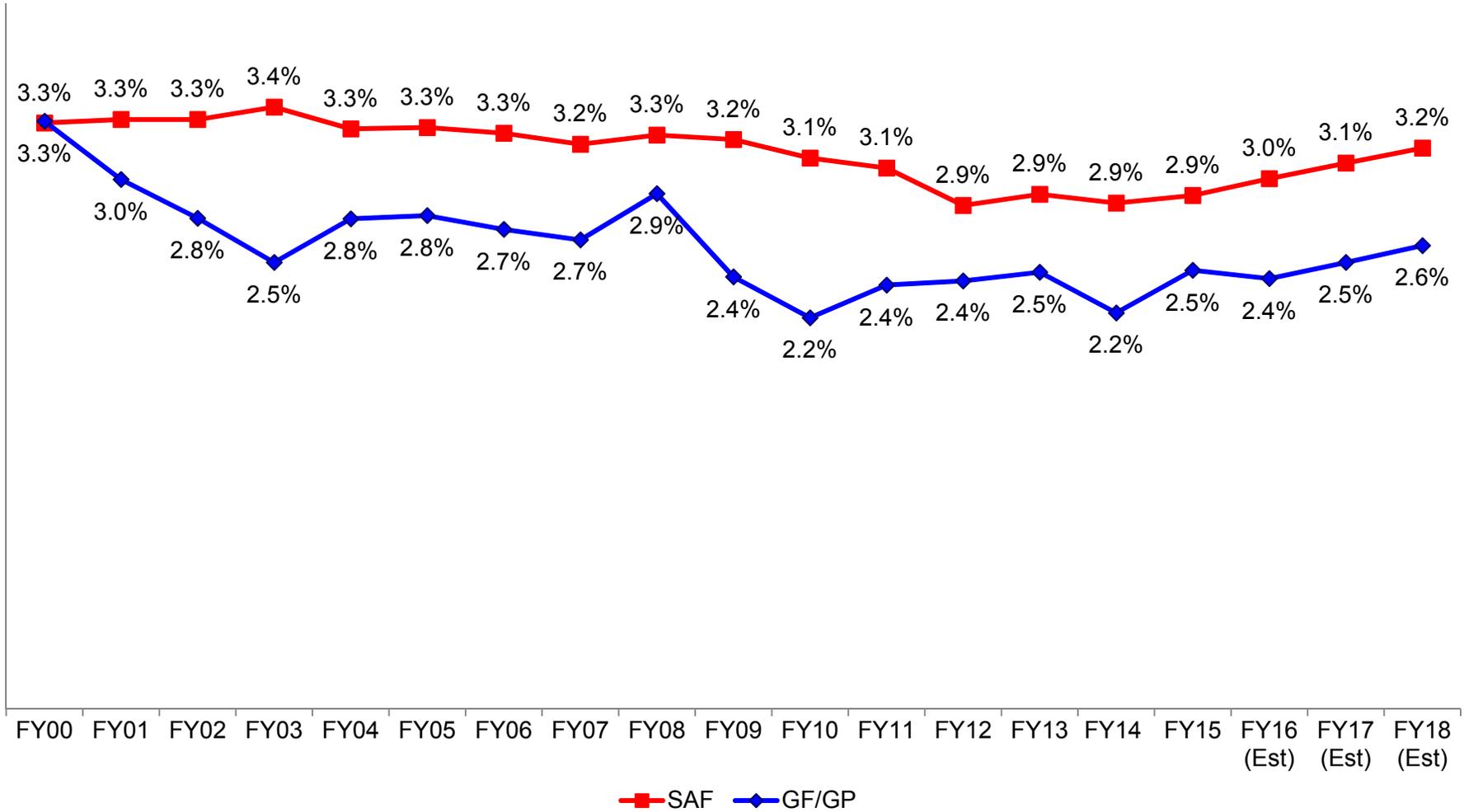
SAF and GF/GP Revenue

(In millions)



SAF and GF/GP Revenue

As a Percent of Michigan Personal Income



Revenue: House Fiscal Agency Role

- **Prepare House Fiscal Agency forecast as part of consensus estimates in January and May**
 - National and state economic forecast
 - GF/GP and SAF revenue forecast
- **Review and estimate fiscal impacts of bills discussed in Tax Policy, Commerce, and other standing committees**
- **Prepare documents for House members**
 - Revenue Source and Distribution: July
 - Revenue Review: Quarterly

**For more information about Michigan
Tax Revenue, contact:**

**Jim Stansell, Senior Economist
jstanse@house.mi.gov**

(517) 373-8080