

Michigan Tax Revenue

**Mary Ann Cleary, Director
House Fiscal Agency**

**Michigan State University
Institute for Public Policy and Social Research
February 6, 2017**

Major State Taxes

Major State Taxes

- **Individual Income Tax**
- **Sales and Use taxes**
- **State property taxes**
 - State Education Tax (SET)
 - Real Estate Transfer Tax (RET)
- **Business taxes**
 - Corporate Income Tax (CIT)
 - Michigan Business Tax (MBT)
 - Insurance company taxes

Major State Taxes

- **Total combined FY 2017 School Aid Fund (SAF) and General Fund/General Purpose (GF/GP) tax revenue is estimated to be \$22,747 million**

- **The largest sources of revenue are (in millions):**

Individual Income Tax	\$9,757
Sales Tax	\$7,485
Use Tax	\$1,194
State Education Tax	\$1,934
Real Estate Transfer Tax	\$305
Business Taxes	\$679
Corporate Income Tax (CIT)	
Michigan Business Tax (MBT)	
Single Business Tax (SBT)	
Insurance Company Taxes	

- **These account for almost 94% of all SAF and GF/GP tax revenue**

Individual Income Tax

- **Base starts with federal adjusted gross income**
- **TY 2016 Rate = 4.25%**
- **\$4,000 personal exemption**
- **Retirement income taxable for most filers born after 1946**
- **No deductions or credits for charitable contributions**
- **Refundable property tax credit for homeowners and renters and earned income tax credit (EITC)**
- **Disposition of income tax:**
 - Approximately 23.8% to SAF (gross income tax)
 - Approximately 71.2% 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
- Disposition of sales tax:
 - 72.8% to SAF
 - 15.7% to GF/GP
 - 10.1% 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
- Complements sales tax
- Disposition of use tax:
 - 1/3 to SAF
 - Dollar amount to Local Community Stabilization Authority (LCSA) per statute
 - Remainder 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**

Business Taxes

- **Corporate Income Tax (CIT)**
 - Replaced MBT effective January 1, 2012; MBT will be repealed after all existing certificated credits have been claimed
 - Business income taxed at 6%
 - CIT only applies to C corporations
 - Credits awarded (certificated credits) 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.
- As a result, net MBT revenue is negative, which reduces GF/GP revenue
- Disposition of MBT: 100% to GF/GP

- **Insurance Company Taxes**

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

Recently Enacted Tax Changes

Personal Property Tax Changes

- Public Acts 397-404 and 406-408, of 2012.
- Personal property is defined as property that is movable, which makes it distinct from real property (land and buildings). Business personal property is typically comprised of machinery and equipment.
- 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.

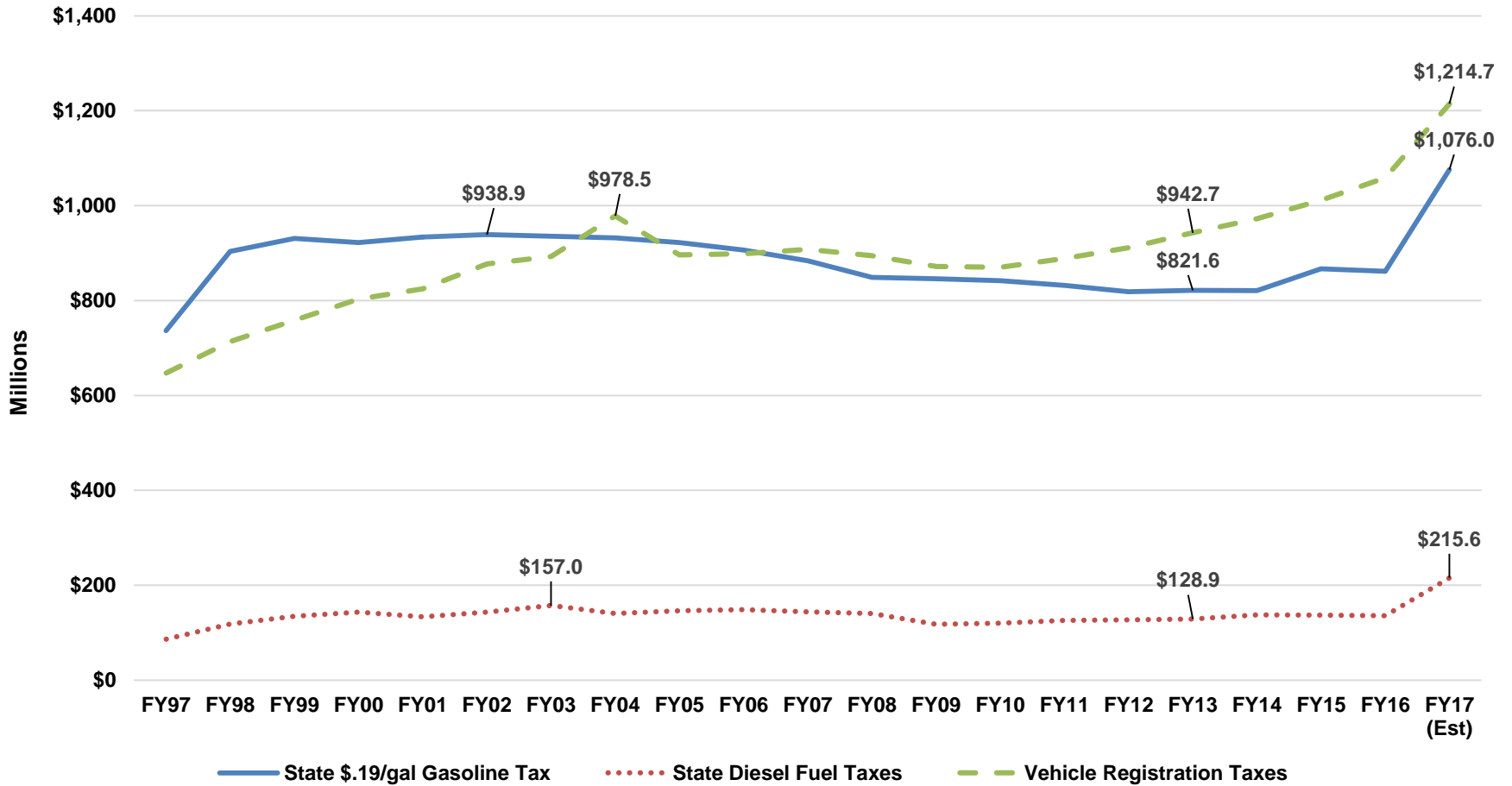
Personal Property Tax Changes

- In August 2014, a statewide election approved a use tax levy by the Local Community Stabilization Authority (LCSA) created by the legislation.
- In FY 2016, the LCSA levied 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.
- January 1, 2016, the state began to 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 \$96 million in FY 2016, \$381 million in FY 2017, and about \$411 million in FY 2018. When fully implemented, the annual GF/GP revenue reduction will be about \$575 million.

Transportation Package

- **Gasoline Tax**
 - Increased from 19.0 cents to 26.3 cents per gallon on January 1, 2017
 - FY 2017 estimated revenue \$1,076 million
- **State Diesel and Motor Carrier Fuel Tax**
 - Increased from 15.0 cents to 26.3 cents per gallon on January 1, 2017
 - FY 2017 estimated revenue \$216 million
- **Motor Vehicle Registrations**
 - Increased 20% on January 1, 2017. Fee based on weight, type, or price of vehicle
 - FY 2017 estimated revenue \$1,215 million
- **GF/GP Income Tax earmark**
 - \$150 million in FY 2019
 - \$325 million in FY 2020
 - \$600 million in FY 2021 and beyond
- Beginning in 2023, if GF/GP revenue increases by more than 1.425 times the rate of inflation relative to FY 2021, the income tax will automatically be reduced to offset the revenue increase.

History of Motor Fuel and Vehicle Registration Taxes



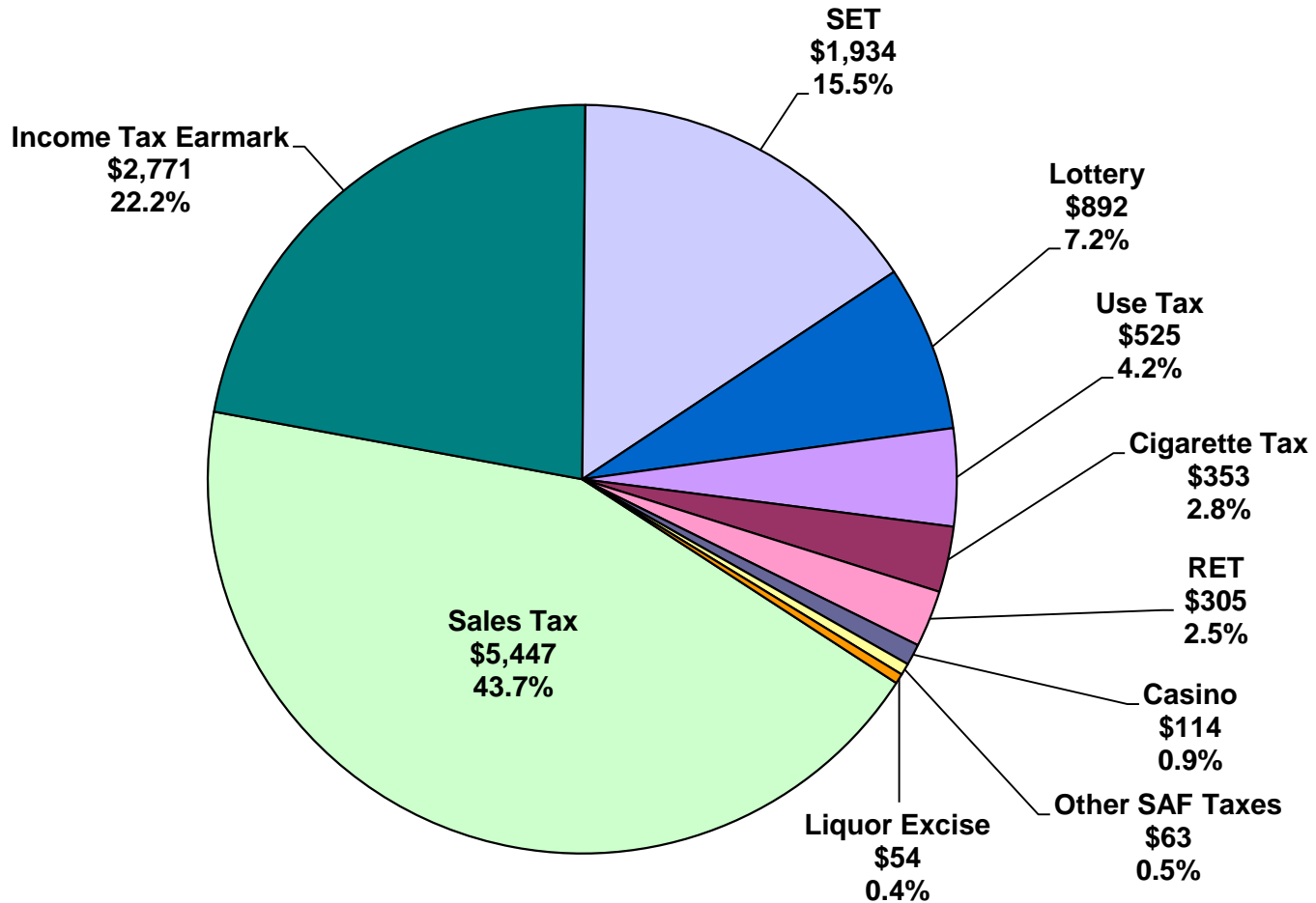
Major State Funds

Major State Funds

- **Earmarking:** dedication or restriction of a dollar amount or percentage of revenue from a source to a specific fund or purpose
- **School Aid Fund (SAF)**
 - Used primarily for K-12 education, although a portion is also appropriated to 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

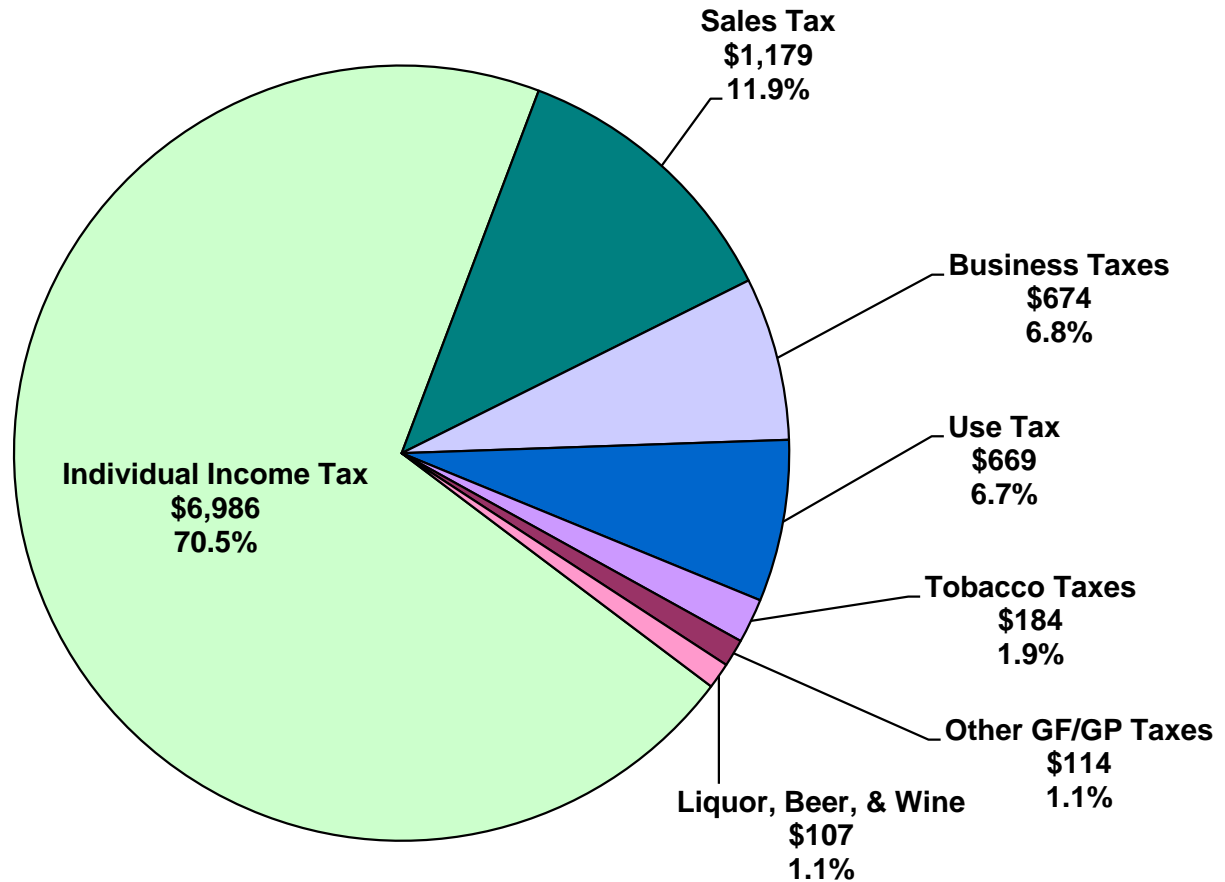
School Aid Fund Tax and Lottery Revenue

Estimated FY 2017 Total = \$12,457 million



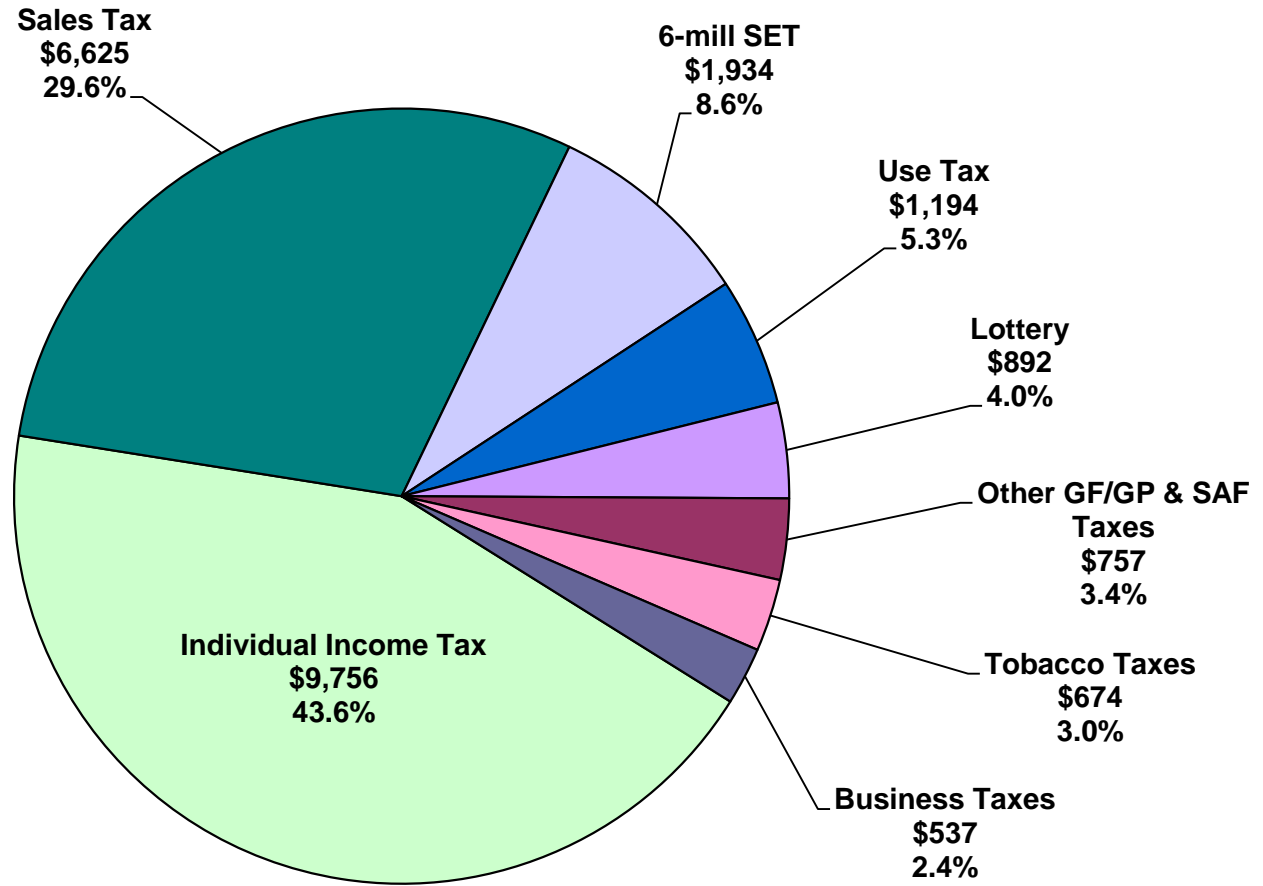
GF/GP Tax Revenue

Estimated FY 2017 Total = \$9,912 million



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

Estimated FY 2017 Total = \$22,369 million

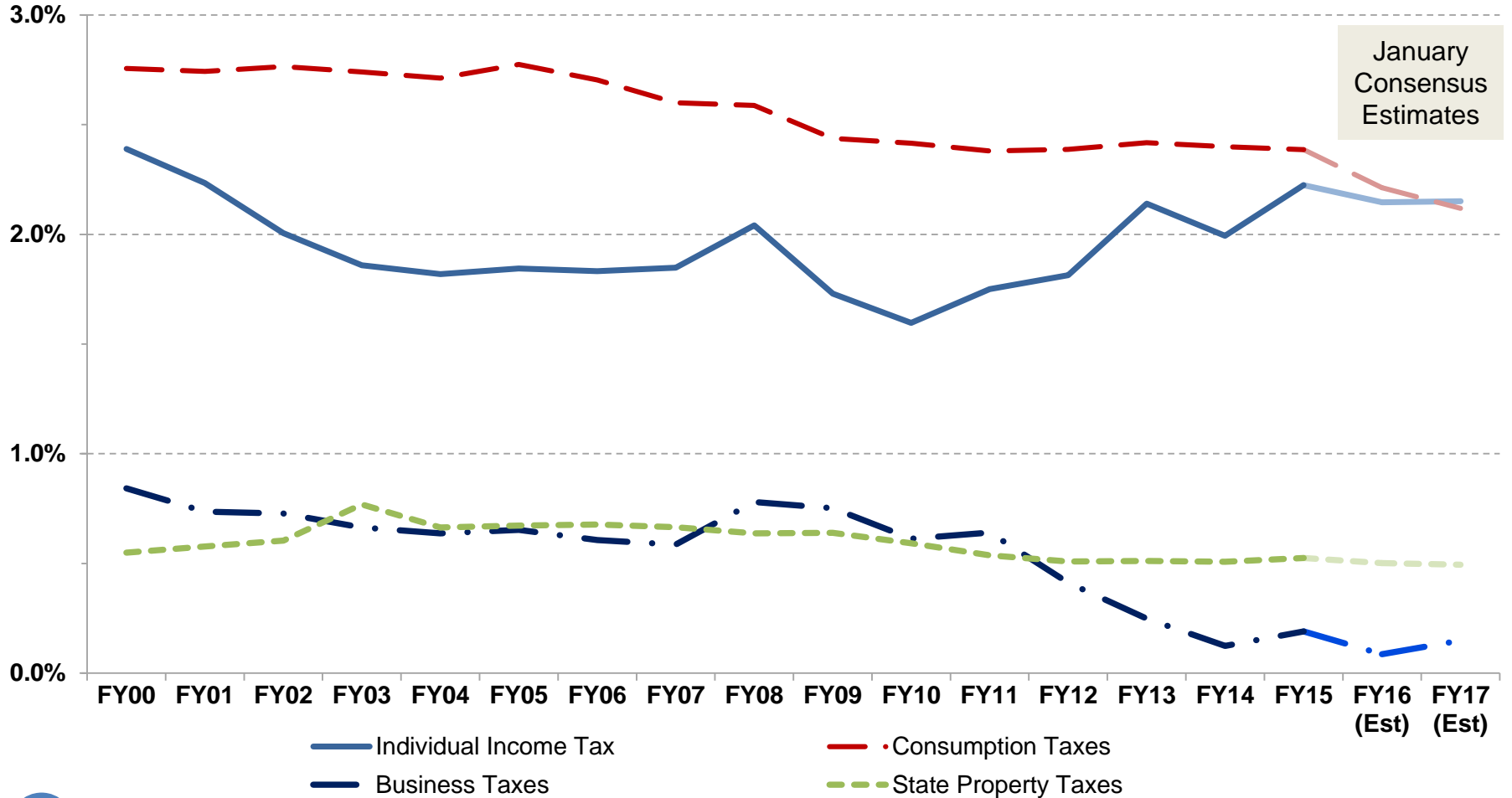


Revenue Trends of Major Taxes

- Between FY 2000 and FY 2016, personal income in Michigan grew at an average annual rate of 2.4%. However, since FY 2000, revenue generated from Michigan's major taxes as a percent of personal income has generally declined.
- Sales tax revenue has grown since FY 2000, albeit at a slower rate than for personal income. Over time, the base has eroded due to increased remote sales and a shift towards purchasing more services.
- Individual income tax revenue has shown the most volatility, partially because of fluctuations in capital gain realizations. Revenue increases since FY 2012 can be partially attributed to the taxation of retirement income.
- Business taxes have declined in absolute terms since FY 2012 because of existing certified MEGA credits as well as the replacement of the MBT with the CIT.
- Despite the sharp decline in property values beginning in FY 2008, statewide property taxes as a percent of personal income have remained relatively stable.

Major State Taxes as a Percentage of Michigan Personal Income

Recent growth in state revenue has been driven by the income tax. Other major state taxes have declined as a percentage of state personal income as a result of economic trends or tax policy decisions.



Trends in GF/GP and SAF Revenue

- **GF/GP Revenue**

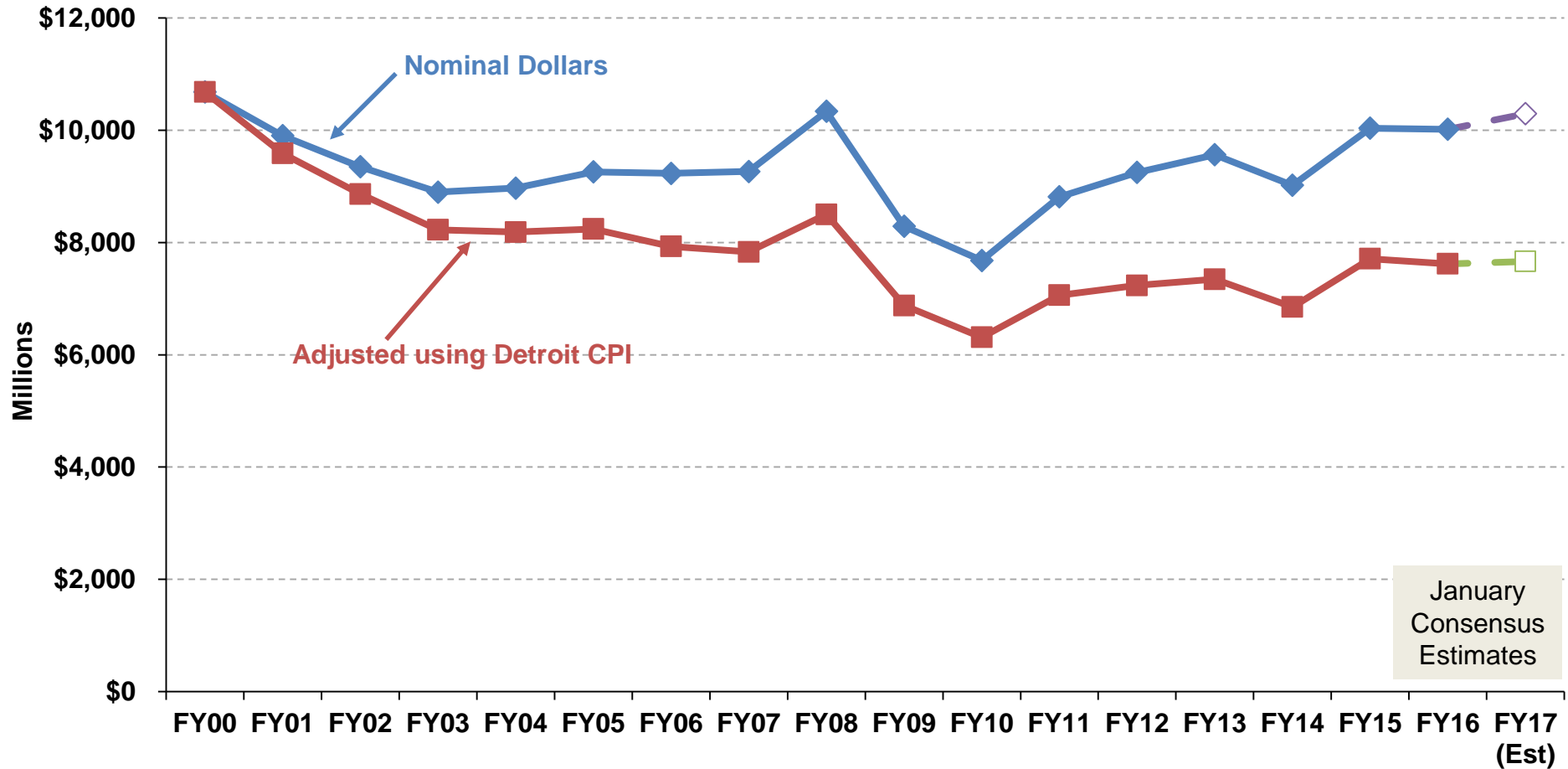
- Between FY 2000 and FY 2016, GF/GP revenue declined at an annual average rate of 0.4%
- Adjusted for inflation (D-CPI) revenue declined at an annual average of 2.1%
- In FY 2000 GF/GP was 3.6% of personal income, is estimated to decline to 2.3% in FY 2017
- Both personal property tax (PPT) reform and the transportation package will continue to reduce GF/GP revenue going forward

- **SAF Revenue**

- Between FY 2000 and FY 2016, SAF revenue grew at an average annual of 1.3%
- Adjusted for inflation (D-CPI) revenue declined at an annual average of 0.4%
- In FY 2000 GF/GP was 3.3% of personal income, is estimated to decline to 2.7% in FY 2017

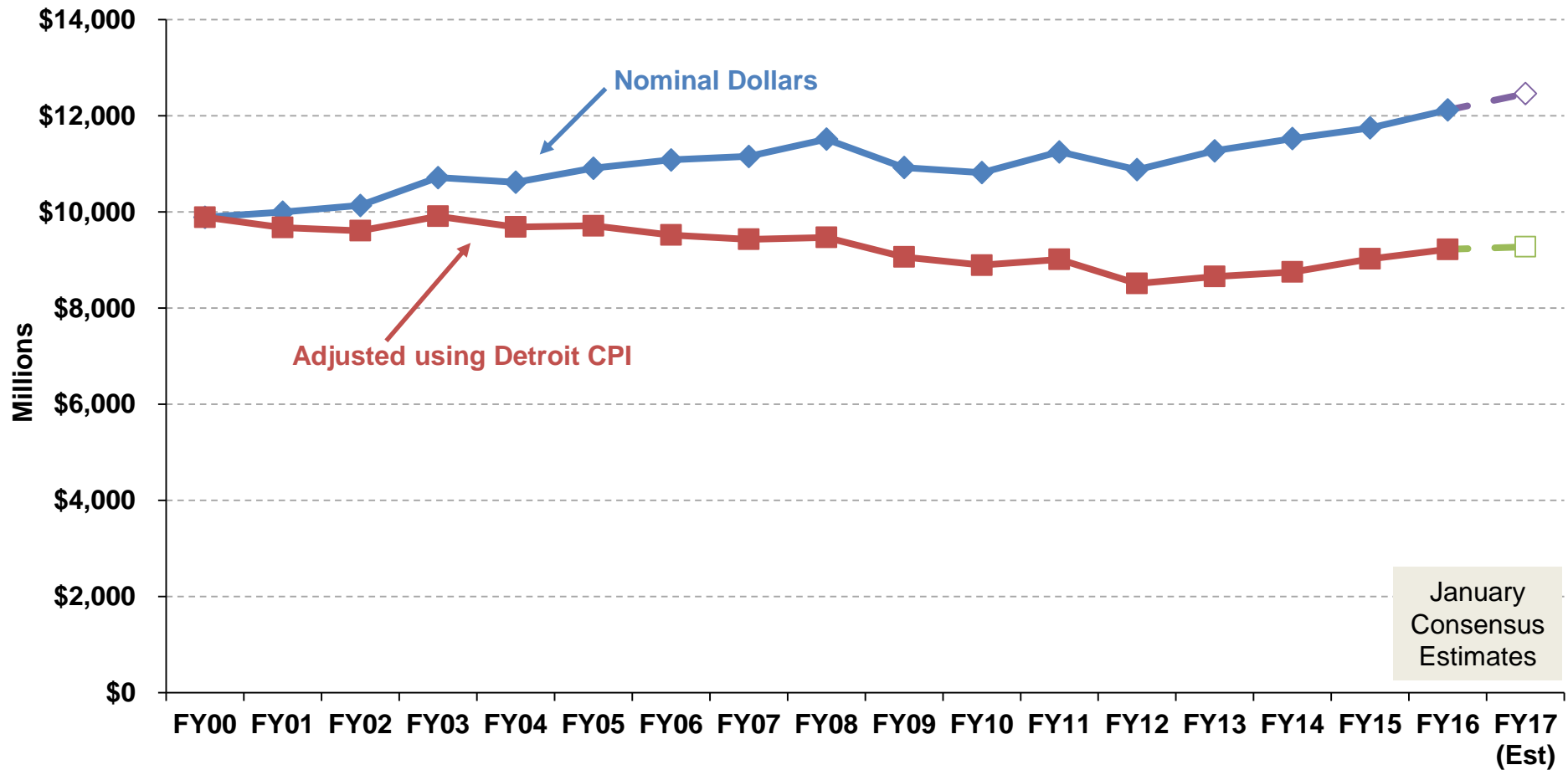
GF/GP Net Revenue

Nominal GF/GP revenue is expected to exceed \$10 billion in FY 2016-17. When adjusted for inflation, however, GF/GP revenue is estimated to be 28.3% below the FY 1999-00 level.



School Aid Fund Net Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, FY 2016-17 revenue is estimated to be 6.2% below the FY 1999-00 level.



House Fiscal Agency Economics Roles

- **Economic Forecasting and Revenue Estimating**
 - Prepare economic forecasts for both the U.S. and Michigan as well as a detailed revenue forecast for Michigan in preparation for the Consensus Revenue Estimating Conference held in January and May. The HFA forecast is typically published shortly before the conference date.
 - Monitor revenues to ensure that the consensus estimates remain viable. An HFA revenue update is published monthly.
- **Tax and Revenue Analysis**
 - Prepare fiscal analyses of bills with revenue implications which receive hearings in various subcommittees.
- **Legislative Assistance**
 - Provide assistance to members and staff about potential or introduced legislation that might have tax and revenue implications.
 - Assist legislators and staff in addressing constituent questions on tax and revenue related issues.
- **All tasks are completed in compliance with statutory requirements for nonpartisanship and confidentiality.**

HOUSE
FISCAL
AGENCY

www.house.mi.gov/hfa