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
- Transportation Taxes
  - Motor Vehicle Registrations
  - Gas and Diesel Taxes
Major State Taxes

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

<table>
<thead>
<tr>
<th>Tax</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>$9,993</td>
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<tr>
<td>Sales Tax</td>
<td>$7,365</td>
</tr>
<tr>
<td>Use Tax</td>
<td>$1,175</td>
</tr>
<tr>
<td>State Education Tax</td>
<td>$2,122</td>
</tr>
<tr>
<td>Real Estate Transfer Tax</td>
<td>$337</td>
</tr>
<tr>
<td>Business Taxes</td>
<td></td>
</tr>
<tr>
<td>Corporate Income Tax (CIT)</td>
<td>$923</td>
</tr>
<tr>
<td>Michigan Business Tax (MBT)</td>
<td>($650)</td>
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<tr>
<td>Insurance Company Taxes</td>
<td>$406</td>
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<tr>
<td>Transportation Taxes</td>
<td></td>
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<tr>
<td>Motor Vehicle Registrations</td>
<td>$1,319</td>
</tr>
<tr>
<td>Gasoline Tax</td>
<td>$1,215</td>
</tr>
<tr>
<td>Diesel and Motor Carrier Fuel Tax</td>
<td>$236</td>
</tr>
</tbody>
</table>
Individual Income Tax

- Base starts with federal adjusted gross income
- TY 2019 Rate = 4.25%
- $4,400 personal exemption for TY 2019
- 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)
- Earmark to Michigan Transportation Fund
  - $150 million in FY 2019
  - $325 million in FY 2020
  - $600 million in FY 2021 and beyond
- 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
    - 15.9% to GF/GP
    - 10.1% to local units (Constitutional revenue sharing)
    - 1.1% 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 (FY 2019 = $438 million)
    - Remainder to GF/GP
Wayfair Decision: Collecting Sales Taxes on Internet Purchases

- A June 2018 decision by the U. S. Supreme Court (Wayfair vs. South Dakota) reversed the 1992 Quill decision and allows states to utilize economic nexus as opposed to physical nexus as a basis for collecting sales taxes on remote purchases (Internet, mail order, catalog, etc.).

- Beginning October 1, 2018, an out-of-state vendor that makes sales to Michigan residents is required to collect and submit sales taxes unless the vendor made fewer than 200 sales in Michigan in the prior calendar year and the value of those sales was less than $100,000.

- It is expected that about $200 million in additional sales tax revenue will be collected in FY 2018-19. Collections are projected to increase to about $235 million in FY 2019-20 and roughly $250 million in FY 2020-21.

- About 73% of the sales tax is Constitutionally dedicated to the School Aid Fund with an additional 10% distributed to cities, villages, and townships as Constitutional revenue sharing. The bulk of the remainder accrues to the General Fund.
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 Michigan Business Tax (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.
Michigan Economic Growth Authority (MEGA) Tax Credits

- Public Act 24 of 1995 created the MEGA tax credits
  - Tax credit refundable toward a business’s MBT liability
- FY 2011 was the last year MEGA tax credit agreements were awarded
- MEGA tax credits continue to be modified by the Michigan Strategic Fund (MSF) Board
- Credits classified as job creation and/or job retention
  - Also requires a capital investment
- Companies issued a certificate have four years to file tax return
  - Creates a timing issue for estimating MBT revenue
- Projected outstanding liability $6.5 billion (FY 2031)
Transportation Revenues

- **Motor Vehicle Registrations**
  - Based on weight, or type, or price of vehicle

- **Gasoline Tax**
  - 26.3 cents per gallon
  - Adjusted annually by inflation beginning in January 1, 2022

- **Diesel and Motor Carrier Fuel Taxes**
  - 26.3 cents per gallon
  - Adjusted annually by inflation beginning in January 1, 2022

- **Income Tax Earmark**
  - $150 million in FY 2019
  - $325 million in FY 2020
  - $600 million in FY 2021 and beyond
History of Motor Fuel and Vehicle Registration Taxes

State Gasoline Tax
State Diesel Fuel Taxes
Vehicle Registration Taxes


Millions

$0  $200  $400  $600  $800  $1,000  $1,200  $1,400  $1,600

December 2018

House Fiscal Agency

13
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 Revenue

Estimated FY 2019 Total = $13,574.4 million

- Sales Tax: $6,047 (44.5%)
- Income Tax Earmark: $2,953 (21.8%)
- SET: $2,122 (15.6%)
- Lottery: $950 (7.0%)
- Use Tax: $581 (4.3%)
- Cigarette Tax: $347 (2.6%)
- RET: $337 (2.5%)
- Casino: $115 (0.8%)
- Other SAF Taxes: $67 (0.5%)
- Liquor Excise: $57 (0.4%)
Estimated FY 2019 Total = $10,411.6 million

GF/GP Revenue

- Individual Income Tax
  - $7,040
  - 67.6%

- Sales Tax
  - $1,318
  - 12.7%

- Use Tax
  - $595
  - 5.7%

- Business Taxes
  - $679
  - 6.5%

- Non-Tax Revenue
  - $350
  - 3.4%

- Tobacco Taxes
  - $182
  - 1.7%

- Liquor, Beer, & Wine
  - $111
  - 1.1%

- Other GF/GP Taxes
  - $137
  - 1.3%
Combined GF/GP and School Aid Fund Revenue

Estimated FY 2019 Total = $23,986.0 million

- Individual Income Tax: $9,993 (41.7%)
- Sales Tax: $7,365 (30.7%)
- Use Tax: $1,175 (4.9%)
- Lottery: $950 (4.0%)
- Business Taxes: $679 (2.8%)
- Tobacco Taxes: $529 (2.2%)
- Other GF/GP & SAF Taxes: $824 (3.4%)
- 6-mill SET: $2,122 (8.8%)
- Non-Tax Revenue: $350 (1.5%)
Trends in GF/GP and SAF Revenue

- **GF/GP Revenue**
  - Between FY 2000 and FY 2017, General Fund/General Purpose revenue declined at an annual average rate of 0.3%.
  - When adjusted for inflation using the Detroit CPI, GF/GP revenue declined at an average annual rate of 2.0% between FY 2000 and FY 2017.
  - Both personal property tax reform and the transportation package will continue to limit GF/GP revenue going forward.

- **SAF Revenue**
  - Between FY 2000 and FY 2017, School Aid Fund revenue grew at an annual average rate of 1.5%.
  - When adjusted for inflation using the Detroit CPI, SAF revenue declined at an average annual rate of 0.3% between FY 2000 and FY 2017.
Nominal GF/GP revenue is expected to exceed $10 billion in FY 2017-18. When adjusted for inflation, however, GF/GP revenue is estimated to be 30.3% 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 2018-19 revenue is estimated to be 1.9% below the FY 1999-00 level.
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.
Revenue Trends of Major Taxes

- Between CY 2000 and CY 2017, personal income in Michigan grew at an average annual rate of 2.4%. However, since CY 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. Tobacco taxes are decreasing as tobacco use becomes less prevalent.

- The individual income tax revenue has shown the most volatility, partially because of fluctuations in withholding and estimated payments. Revenue increases since FY 2012 can be partially attributed to the taxation of retirement income.

- As previously noted, business taxes have declined in absolute terms since FY 2012 because of existing certificated 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.
Budget Process and CREC
Michigan’s Budget Process

Supplemental/Transfer Adjustments
Throughout Year

First Revenue Estimating Conference
Second Week of January

Budget Schedule Set
Late January

Governor’s Budget Recommendation
Early February

Subcommittee Deliberations
February and March

Appropriations Committee Action
April

Floor Action
Early May

Second House Review
Early May

Second Revenue Estimating Conference
Third Week of May

Leadership Targets
Mid-/Late May

Conference Committee/
Final Floor Action
Late May/Early June

Governor’s Review/Line Item Vetoes/Signature
June

Reports, Review, Prepare for Next Budget
July thru January

Supplemental/Transfer Adjustments
Throughout Year
Consensus Revenue Estimating Conference

**FORECAST INPUT**
- University of Michigan Economic Outlook
- National Economic Forecasts
- State Economic Forecasts
- Business Executive Outlook
- AGENCY FORECASTS:
  - House Fiscal Agency
  - Senate Fiscal Agency
  - Administration

**FORECAST OUTPUT**
- Estimates of:
  - Total GF/GP Revenue
  - Total School Aid Fund Revenue
  - School Foundation Index
  - Constitutional Revenue Limit
  - Budget Stabilization Fund Pay-in/Pay-out

CONSENSUS REVENUE ESTIMATING CONFERENCE

December 2018

House Fiscal Agency
May Consensus Revenue Estimates

Millions of $ 

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<tbody>
<tr>
<td>GF/GP Revenue</td>
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<td>$10,412</td>
<td>$10,519</td>
<td>$10,591</td>
<td>$10,961</td>
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<td>$ Change</td>
<td>$268.1</td>
<td>($52)</td>
<td>$107</td>
<td>$72</td>
<td>$370</td>
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<tr>
<td>% Change</td>
<td>2.6%</td>
<td>(0.5%)</td>
<td>1.0%</td>
<td>0.7%</td>
<td>3.5%</td>
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<tr>
<td>SAF Revenue</td>
<td>$13,244</td>
<td>$13,574</td>
<td>$13,901</td>
<td>$14,290</td>
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<tr>
<td>$ Change</td>
<td>$559</td>
<td>$330</td>
<td>$326</td>
<td>$389</td>
<td>$401</td>
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<tr>
<td>% Change</td>
<td>4.4%</td>
<td>2.5%</td>
<td>2.4%</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

**GF/GP Revenue**
- Minimal growth in FY 2018-19 through FY 2020-01 due to individual income tax transfer for road funding, continued Michigan business tax credits, sluggish corporate income tax growth, and diversion of use tax revenue for personal property tax reimbursement.
- Stronger growth projected for FY 2021-22 despite increased individual income tax transfer for road funding.

**SAF Revenue**
- Moderate growth projected for the next several years based on sales tax and individual income tax growth.
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 February 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 Budget Roles

- **Analytical**
  - Prepare budget documents providing both summary-level and detailed information on proposed budget changes under Executive Budget and subsequent legislative versions.
  - Assist in development of alternative budget proposals; facilitate legislative decision making.
  - Gather objective information and analyze data related to specific budget issues of interest to legislators.
  - Provide analyses of non-appropriations bills, including estimated fiscal impacts on state and local governments.

- **Procedural**
  - Post meeting notices; clerk subcommittee meetings; prepare meeting agendas/minutes.

- **Technical**
  - Prepare substitute appropriation bills based on legislative decision making.
  - Prepare amendments proposed during subcommittee, committee, and floor debate.
  - Prepare supplemental appropriations bills and legislative transfer documents.

- All tasks are completed in compliance with statutory requirements for nonpartisanship and confidentiality.