



Michigan Department of
TREASURY

Engagement. Service. Improvement.

Michigan's Tax Structure

House Tax Policy Committee

March 8, 2023

Treasury Overview

Treasury has broad responsibilities

- Administering and collecting more than \$34 billion in taxes and fees.
- State and local tax policy.
- Economic and revenue forecasting.
- Overseeing a broadly diversified portfolio of State of Michigan investments that total nearly \$143 billion.
- Local government and school system 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.
- Processing more than 8 million tax returns per year.
- Managing unclaimed property on behalf of Michigan's Citizens, returning more than \$135 million last year.

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.



Our Mission, Vision, and Values

MISSION

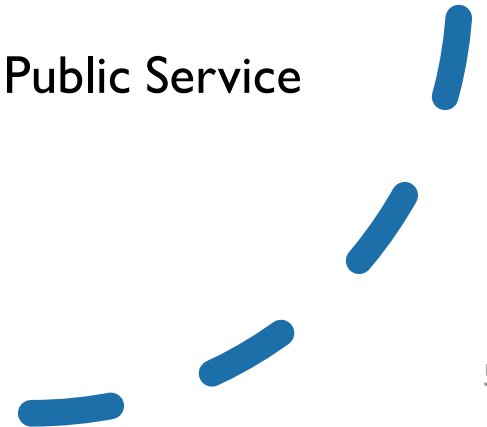
Providing fair and efficient financial services on behalf of taxpayers, governments, students and all Michiganders, for the long-term fiscal health and stability of our state.

VISION

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

VALUES

Integrity ~ Inclusion & Diversity ~ Innovation ~ Public Service



Continuous Improvement and Employee Engagement

Our 2022 Accomplishments

- Fitch upgraded credit ratings from an AA to AA+, which lowers the State's cost of financing.
- Provided \$175 million in low-cost state aid notes to benefit students in the state.
- Implemented Flow Through Entity Tax resulting in 25,000 returns and \$2.2 billion in payments.
- Invested in efforts to recruit, develop, engage, and retain an inclusive and diverse workforce focused on service, engagement, and continuous improvement.
- Continued data governance improvements with focus on training, data quality, data mapping, and developing a business glossary.
- Transitioned Treasury website to new platform with improved functions for customers.
- Continued conversion of papered processes to paperless, resulting in reduced costs and improved efficiencies.
- Improved collaboration on infrastructure projects with enhancements to the "Dig Once" Project Portal.

TAX ADMINISTRATION

Treasury annually receives over 8 million returns from 5.5 million taxpayers

- Most returns systematically audited and finalized with a small % 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 of 2:30 minutes
- 75,000 pieces of correspondence responded to and 90% resolved within 60 days or less
- 275,000 returns require manual review and all are 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 ⁱⁿ 2022

Engagement. Service. Improvement.

TAX ADMINISTRATION SERVICES

Individual Income Tax (IIT) Returns Backlog 0 Down from 350 in 2019	IIT Correspondence (within 60 days) 81% Down from 95% in 2021	IIT Call Center Wait Times (minutes) 2:34 Up from 2:14 minutes in 2021	Sales, Use and Withholding (SUW) Returns Backlog 0 Down from 110,000 in 2018	SUW Correspondence (within 60 days) 91% Down from 92% in 2021	SUW Call Center Wait Times (minutes) 4.08 Up from 3:12 minutes in 2021
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TAX COMPLIANCE

Processing Inventory < 90 days 86% Up from 70% in 2021	Audits in Progress (days) 157 Down from 182 days in 2021	Voluntary Disclosure (days to close) 312 Down from 392 days in 2021
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TAX POLICY/HEARINGS

Informal Tax Hearings (average months per hearing) 4.9 Down from 5.1 months in 2021	Revenue Administrative Bulletins (RABs) (total per fiscal year) 10 Up from 9 in 2021	UNCLAIMED PROPERTY—Paying Rightful Owners (in millions) \$136.9 Up from \$116.7 in 2021
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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 sixth consecutive year Treasury's tax processing team has achieved this completion rate. Prior to 2016, this had not previously been accomplished.

COLLECTIONS

One Call Resolution 90% Up from 86% in 2021	Electronic Payments Collected (in millions) \$83.8 Down from \$128.8 million in 2021	Number of Taxpayers Served by Call Centers and Field Staff 340,492 Up from 205,428 in 2021
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INVESTMENTS

Total Assets Under Management (in billions) \$143.9 Up from \$117.9 billion in December 2020
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@MiTreasury
CONNECTED
social media impressions/reach



6,846,816
Treasury, MET, and MI Student Aid



3,037,099
and 747,416 on Instagram
MET/MESP/Fostering Futures and MI Student Aid



100,013

CULTURE OF SERVICE

Treasury administered several grant programs in 2022, including the Growing MI Business Grant program and American Rescue

\$625 million

Plan Act programs. Approximately \$624.7 million went to communities and businesses.

POSTSECONDARY FINANCIAL SERVICES

Students, borrowers, & families served 385,150	Aversion Assistance provided (borrowers) 53,008 resulting in \$9 million in student loans moved to good standing.
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LOCAL GOVERNMENT

Attendance at Outreach Events for Local Governments and Schools 14,454 Up from 11,056 in 2021.
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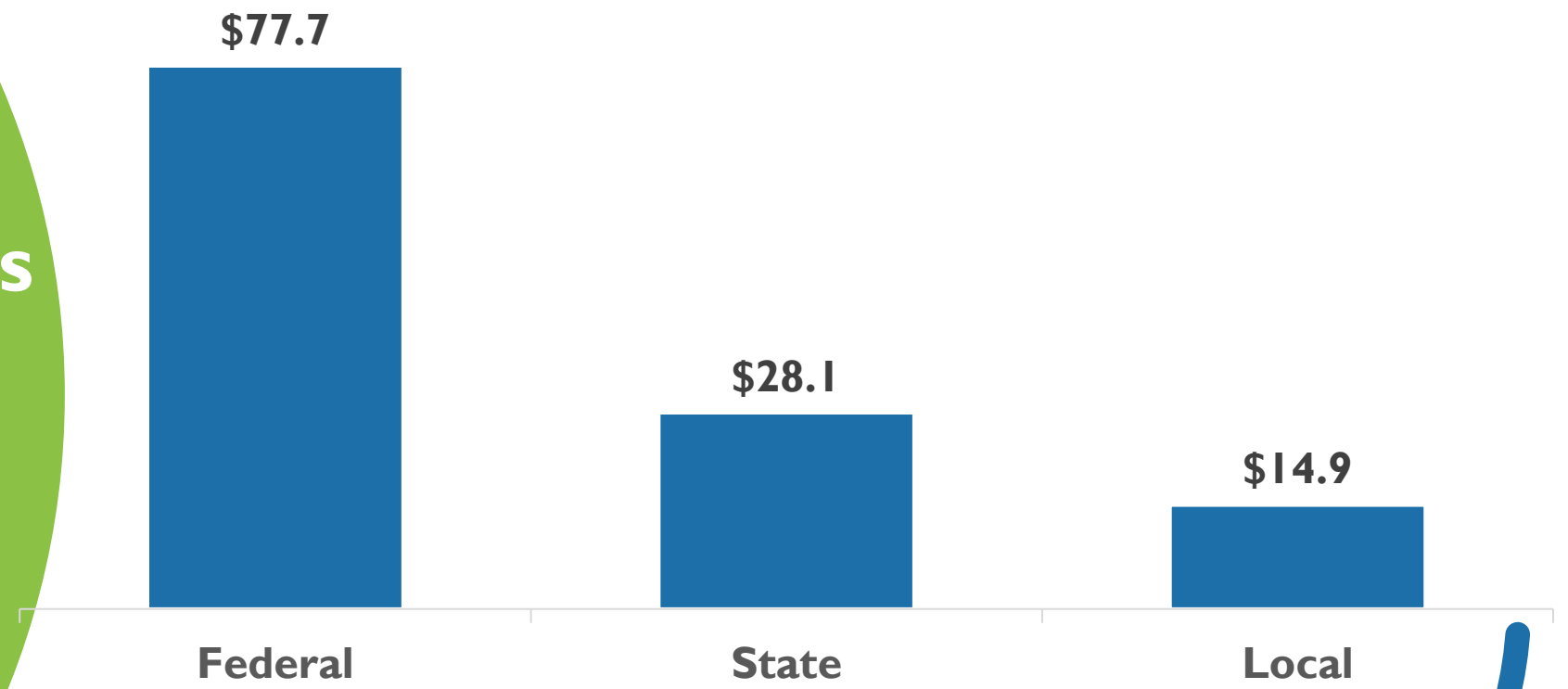
EMPLOYEE ENGAGEMENT

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.

6 ERGs

Michigan's Tax Structure

Taxes Paid by Michigan Residents (in billions)



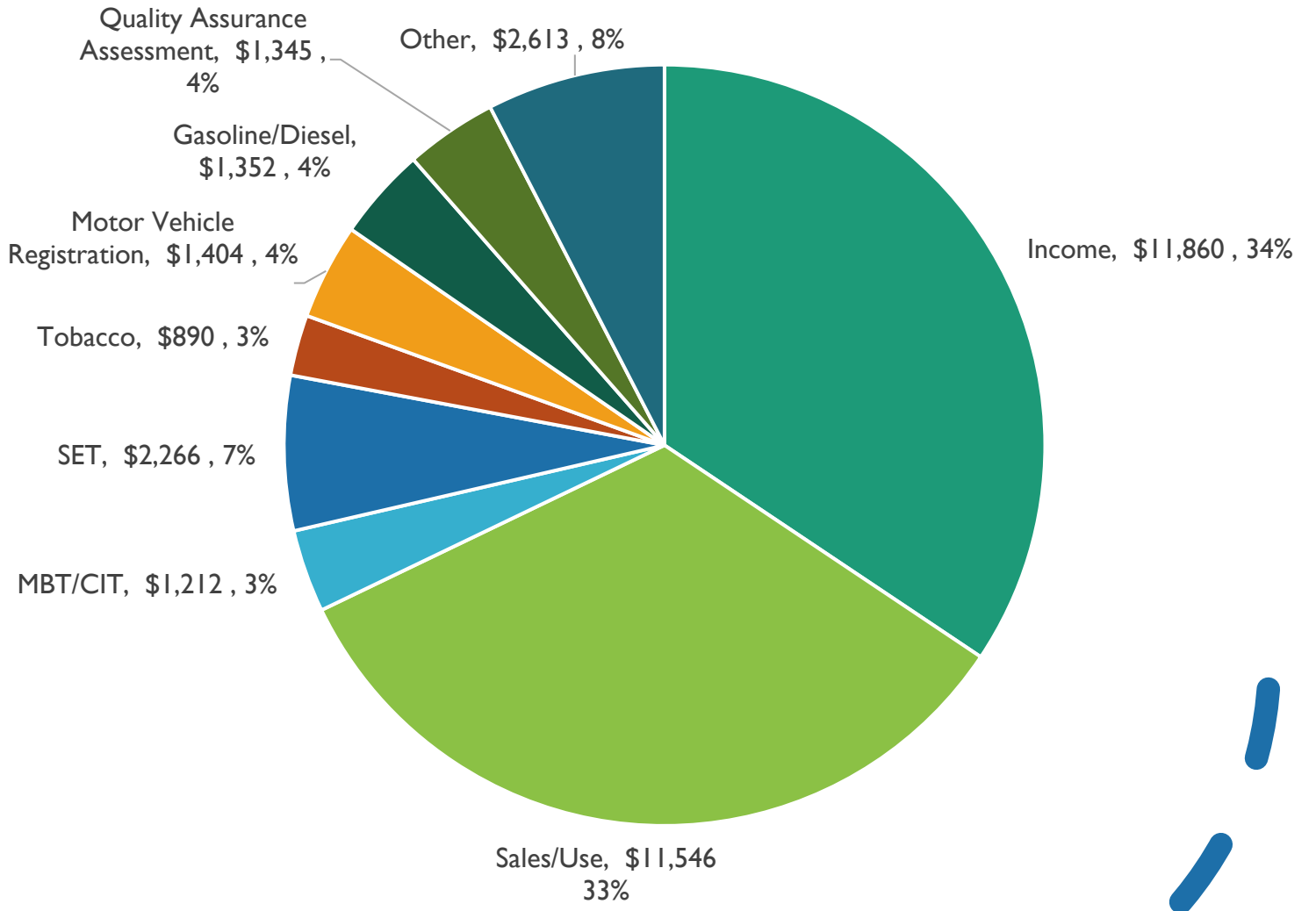
Source: U.S. Census and IRS
Data are for 2020

State and Local Taxes Generate \$50 billion in FY 21 ~ Big Three Account for 80%

The Big Three	FY 2021 Amount	Tax Rate	Fund
Income Tax	\$11.9 billion	4.25%	General Fund (72%) School Aid Fund (28%)
Sales/Use Tax	\$12.0 billion	6.0%	General Fund (21%) School Aid Fund (69%) Revenue Sharing (9%)
Property Tax (State and Local)	\$16.1 billion	varies	Local Units (86%) School Aid Fund (14%)
Other			
Corporate Income Tax (CIT)	\$1.6 billion	6.0%	General Fund
Michigan Business Tax (MBT)	(\$491 million)	Mostly credits	General Fund
Transportation (Gas, Diesel, MV Registration)	\$2.8 billion	26.3 cents per gallon value of vehicle	Michigan Transportation Fund
Tobacco Tax	\$890 million	Cigarettes \$2/pack; other 32% wholesale price	General Fund School Aid Fund Medicaid Trust Fund Other Funds
Other/Miscellaneous	\$4.8 billion	varies	General Fund School Aid Fund Other

Source: State of Michigan Annual Comprehensive Financial Report for 2021 and Michigan Department of Treasury

Taxes Paid to State Government (in millions)



Source: State of Michigan Annual Comprehensive Financial Report for 2021

Michigan's Major Taxes

State Income Tax

- Estimated to raise \$13.5B for FY 23
 - GF: \$9.0B
 - SAF: \$3.8B
 - 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
- 32 of the 41 states with an income tax have progressive rates, although for some states they are almost flat rate taxes, while for others the top rate is quite high for very high income

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 \$10.8B for FY 23
 - SAF: \$7.9B
 - Constitutional revenue sharing: \$1.1B
 - GF-GP: \$1.7B
 - 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 \$2.5B for FY 23
 - GF-GP: \$1.1B
 - SAF: \$0.8B
 - PPT reimbursement: \$0.5B
- Complements the sales tax
- Most services are exempt from sales/use taxation
- Michigan taxes very few services compared to other states – the median state taxes 60 services while Michigan taxes 27

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



Michigan's Major Taxes

Property Tax

- Raised \$16.5B for FY 21
 - SAF: \$2.3B
 - Local School operating: \$2.3B
 - Local governments: \$7.0B
 - Other (ISD, community college, libraries, authorities, etc.): \$5.0B
- 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

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 2023, \$548.0 million is allocated to the LCSA and increases to \$561.7 million in FY 2024.
- Small business exemption was increased last year, local government reimbursement legislation still needed
- In 2023, all eligible manufacturing property is exempt (the phase-in process having completed in 2022).

Headlee and Proposal A Constitutional Revenue Limits

Headlee

- State revenues limited to a fixed share of personal income. 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)

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)

Michigan's Major Taxes

Corporate Income Tax

- CIT estimated to raise \$1.8B in FY 23, but legacy MBT is -0.5B in FY 23
- 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 be \$1.2B for FY 23
- Rate was \$0.19 per gallon from 1997 until 2016
- Currently \$0.28.6 per gallon – indexed to inflation starting in 2022

Marihuana and Gaming Taxes

Marihuana Tax

- Adult use regulation and taxation established in Initiated Law 1 of 2018
- Tax rate is 10% of sales prices
- Raised \$193.8M in FY 22, expected to raise \$222M in FY 23
- Disposition: 30% to local governments; 35% to the School Aid Fund, and 35% to the Michigan Transportation Fund
- Marihuana sales are also subject to state's 6% sales tax

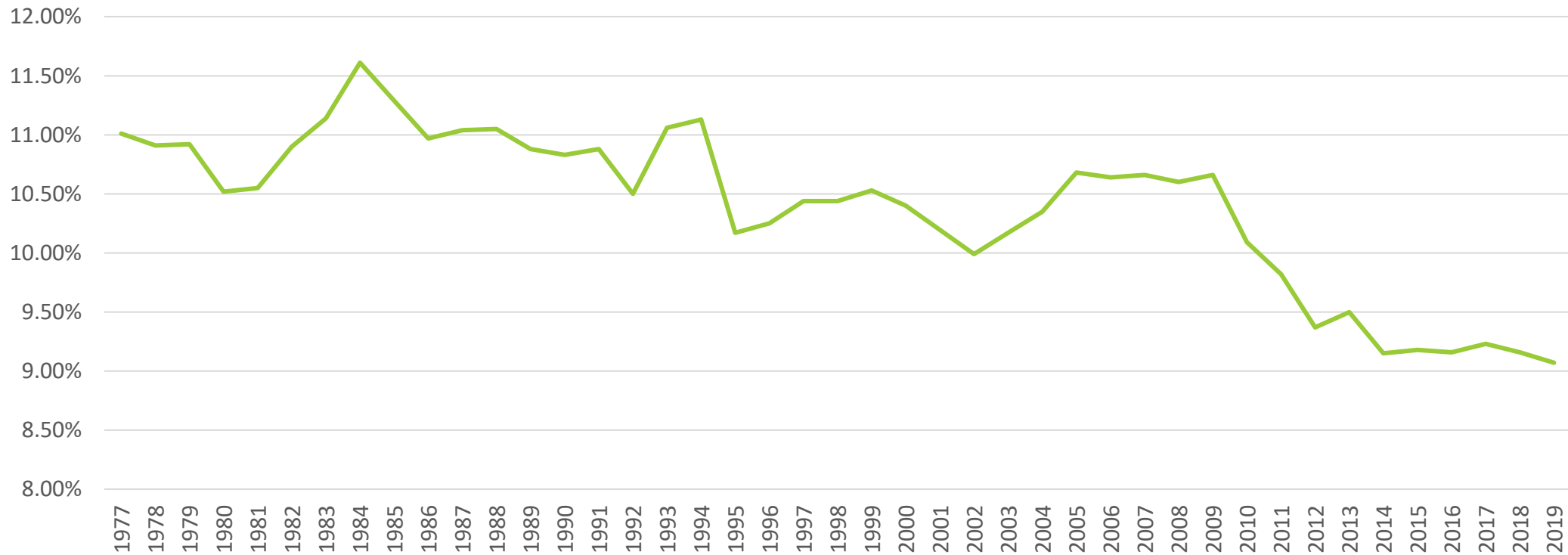
Michigan Gaming Taxes

- Onsite gaming at Detroit casinos 19% of adjusted gross wagering: 8.1% to the state and 10.9% to the City of Detroit
- 24 brick and mortar tribal casinos – 12 make compact payments to the state and local governments
- PA 148-153 of 2019 legalized sports betting and online gaming
- Sports betting rate is 8.4% -- online sports betting generated approximately \$15 million -- \$4 million for Detroit and the rest to the state
- Online gaming rates range from 20% to 28% depending on adjusted gross receipts – igaming raised \$364 million last year: \$63 million to Detroit, \$31 million to tribes, \$247 million for the School Aid Fund, and approximately \$23 million to other state funds

Michigan's Declining Level of Taxation

Michigan State and Local Taxes as a Share of the Economy were at a 40 Year Low

Michigan State and Local Taxes as a Percentage of Personal Income



Note: Data for 2001 and 2003 are not available so the average of adjacent years was used.

Source: Urban Institute query system of U.S. Census data: <https://state-local-finance-data.taxpolicycenter.org/pages.cfm>

Michigan was a High Tax State but is Now a Low Tax State

PER CAPITA S&L TAX (2019\$)

Year	Michigan	U.S.	MI % of U.S.	MI Rank
1979	\$3,679	\$3,222	114%	9 th
1989	\$4,114	\$3,917	105%	12 th
1999	\$4,637	\$4,484	103%	16 th
2009	\$4,322	\$4,981	87%	33 rd
2019	\$4,463	\$5,664	79%	35 th

S&L TAX AS PCT PERSONAL INCOME

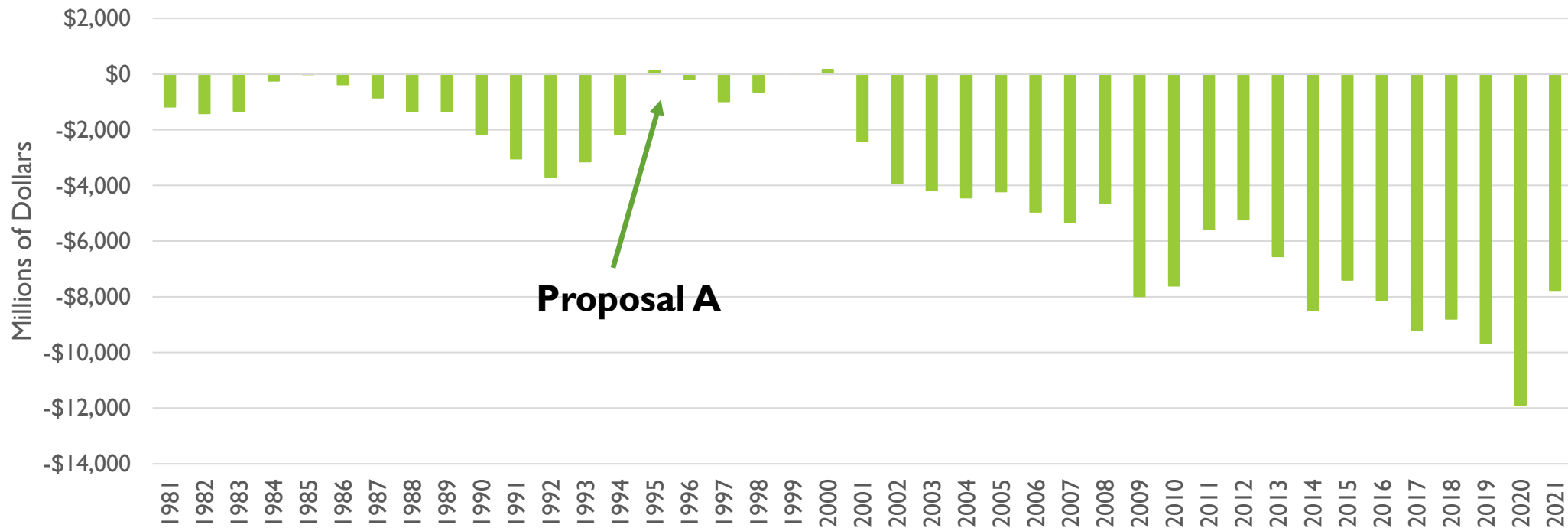
Year	Michigan	U.S.	MI % of U.S.	MI Rank
1979	10.9%	10.0%	110%	9 th
1989	10.9%	10.1%	107%	9 th
1999	10.5%	10.1%	103%	14 th
2009	10.7%	10.6%	100%	15 th
2019	9.0%	10.0%	90%	33 rd

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

Note: 2009 percent of personal income numbers show MI as a percent of the US as 100% while MI and U.S. look 0.1% apart due to rounding issues

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

Amount Below State Revenue Limit in Millions of \$



Tax Growth Has Been Exceptionally Strong the Past Two Years

Tax	FY 2021 Growth	Projected FY 2022 Growth
Sales and Use Tax	18.8%	11.0%
Individual Income Tax	12.8%	17.6%
Corporate Income Tax	54.7%	19.3%
GF-GP + SAF	17.1%	13.8%
US CPI-U (FY)	3.3%	7.9%
Michigan Personal Income (FY)	5.8%	0.3%

Reasons for Recent Strong Revenue Growth

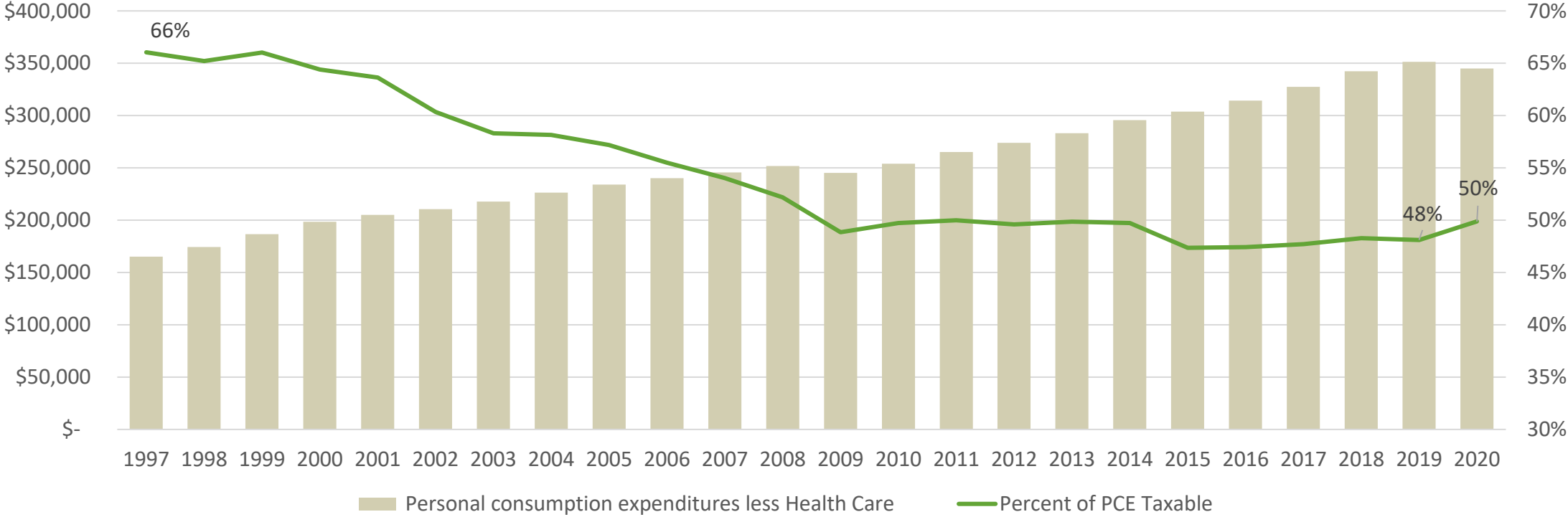
- ❑ **Higher inflation**--increases in prices and wages boost the growth rates of the sales tax and income tax
- ❑ **Consumption shifts**—during the pandemic consumers shifted away from untaxed services to taxable goods
- ❑ **Pandemic relief measures**—federal support to individuals and businesses during the economy led to increased consumption and corporate profits translating to stronger tax growth
- ❑ **Strong corporate profits**—business profits have been very high the past two years contributing to strong corporate income tax growth
- ❑ **Permanence?**—some factors strengthening growth are clearly transitory, while for others the degree of permanence is unknown creating uncertainty around the revenue outlook

Longer-Term Structural Issues

- Share of the economy covered by the sales tax has been shrinking over time due to shift in spending to untaxed services, although there has been a temporary spike due to the pandemic
- Constitutional property tax restrictions put in by Headlee and Proposal A limit result in property taxes growing more slowly than overall economy and these have limited the recovery from the Great Recession
- Local governments strictly limited in the taxes they can authorize
- Michigan's slow economic growth in the 2000s also had a big impact on the level of taxation

Sales and Use Tax Base is Shrinking as a share of the Economy

Michigan PCE (left axis) and Taxable Sales (right axis)



Source: Michigan Department of Treasury, 10/8/2021; Bureau of Economic Analysis, 10/8/2021.

Tax Cutting

- Over the last twenty years Michigan has enacted dozens of tax cuts both big and small
- Tax cuts include:
 - Replacement of the SBT/MBT with the CIT (\$1.5B business tax cut; \$500M+ annually after netting out offsetting individual income tax increases)
 - Repeal of the personal property tax on eligible manufacturing property (\$500M+ annually)
 - MEGA tax credits (\$500M+ annually)
 - Homestead property tax credit expansion (\$200M+ annually)
 - Driver responsibility fee repeal (\$85M+ annually)
 - Sales tax on the difference (\$50M+ annually)
 - Plus many smaller tax cuts

MBT to CIT Transition

Michigan Business Tax

- Replaced the SBT (a modified gross receipts tax) with a 4.95% tax on business income and a tax on modified gross receipts of 0.8%
- Philosophy behind the MBT was a high base offset by credits designed to export the tax and incent desirable activities like investment and job creation; MBT had more than 30 credits
- The MBT was unique among states, complicated, and unpopular

Corporate Income Tax

- MBT was replaced with a 6% corporate income tax in 2012
- The CIT is far simpler with no credits, but it raises far less revenue than the MBT or the SBT

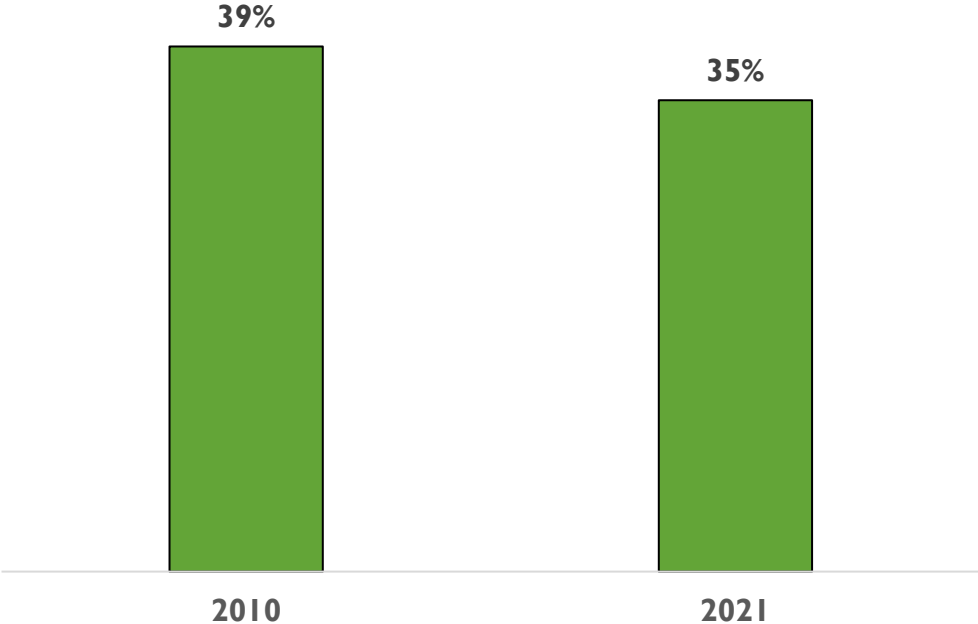
SBT and MBT and CIT Revenues

Totals are in Millions of Dollars

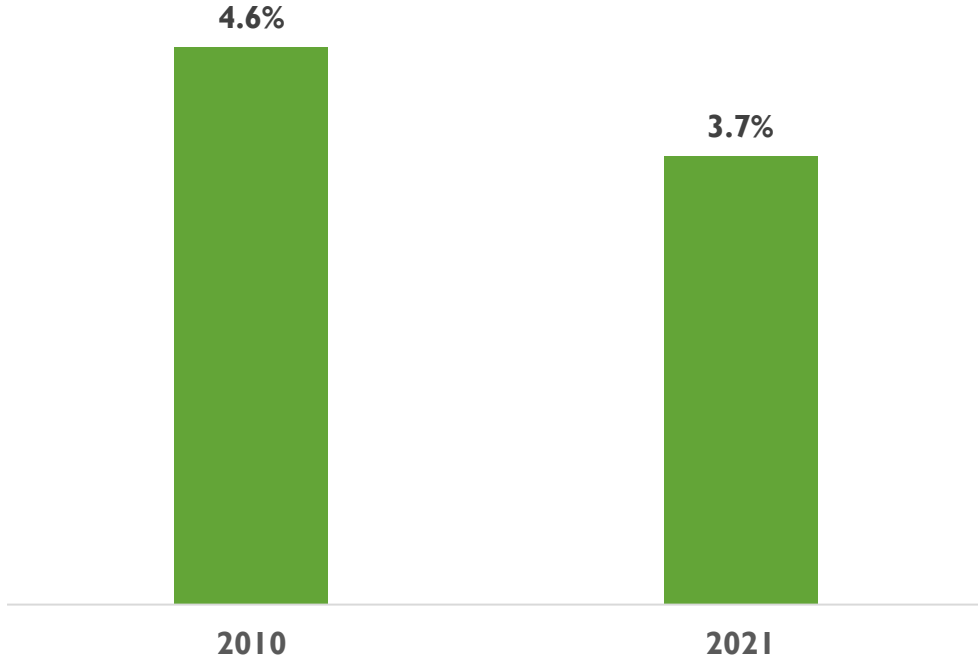


Level of Taxes on Michigan Businesses Has Declined

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 2022

Questions



Thank You!