



Background Briefing

MICHIGAN TAX REVENUE

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Fiscal information in this briefing is based on January 2015 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)
 - Insurance company taxes
- **State property taxes**
 - State Education Tax (SET)
 - Real Estate Transfer Tax (RET)

Major State Taxes

- **Total combined FY 2015-16 School Aid Fund (SAF) and General Fund/General Purpose (GF/GP) tax revenue is estimated to be \$20,266.5 million**

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

Individual Income Tax	\$8,395.5
Sales Tax	\$7,608.8
Use Tax	\$1,448.2
State Education Tax	\$1,845.3
Real Estate Transfer Tax	\$247.8
Business taxes	\$655.9
Corporate Income Tax (CIT)	
Michigan Business Tax (MBT)	
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 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 2015-16**
 - Approximately 29.1% to SAF
 - Approximately 70.8% 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 2015-16
 - 72.8% to SAF
 - 15.7% to GF/GP
 - 10.2% to local units (Constitutional revenue sharing)
 - 1.3% 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
- Estimated Distribution in FY 2015-16
 - 33.3% to SAF
 - 66.7% 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 - Replaced MBT effective January 1, 2012; MBT will be repealed after all existing certificated credits have been claimed
 - 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
 - Existing credits are anticipated to extend through at least 2030, and reduces GF/GP revenue by as much as \$600 million annually
 - Disposition of MBT: 100% to GF/GP

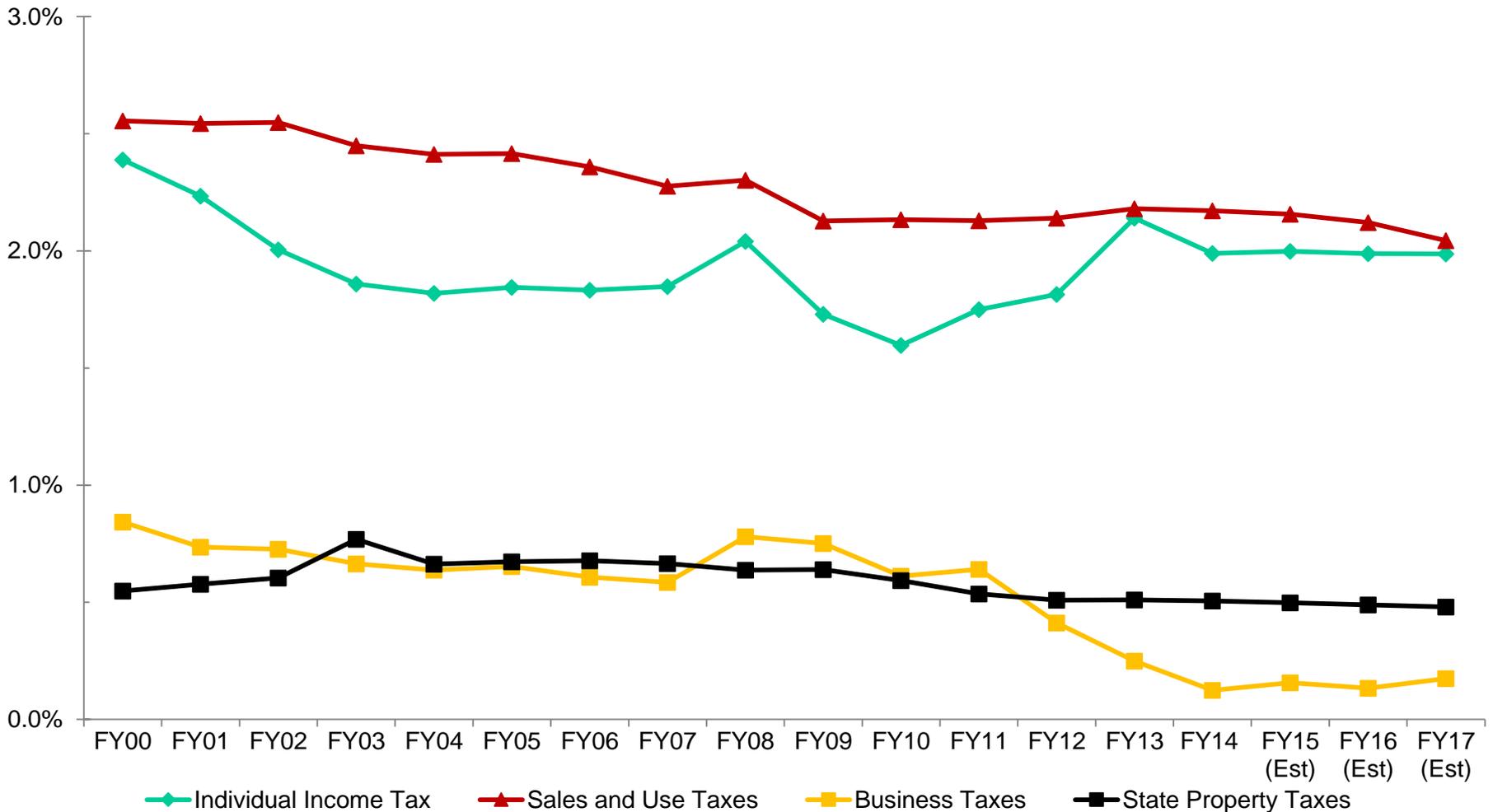
- **Insurance Company Taxes**
 - Levied on gross premiums of out-of-state insurance companies
 - Effective tax rate 1.25%
 - Disposition of Insurance taxes: 100% to GF/GP

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 \$125.0 million in FY 2015-15 and \$350.0 million in FY 2016-17. When fully implemented, the annual GF/GP revenue reduction will be about \$500.0 million.**

MAJOR STATE FUNDS

Major State Funds

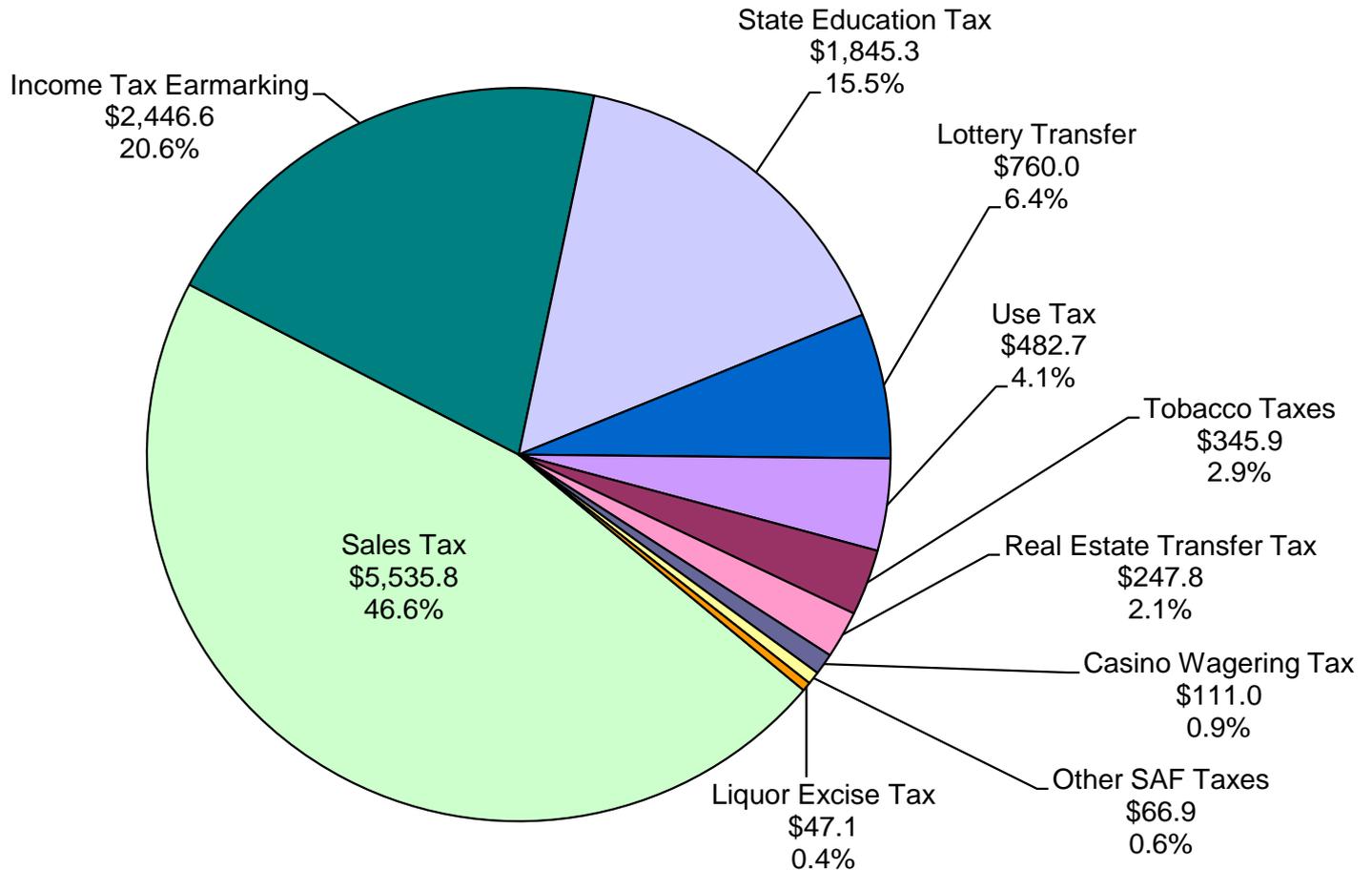
- **Earmarking:** dedication or restriction of an amount or percentage of revenue from a source to a specific fund or purpose

- **School Aid Fund (SAF)**
 - Used primarily for K-12 education
 - 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

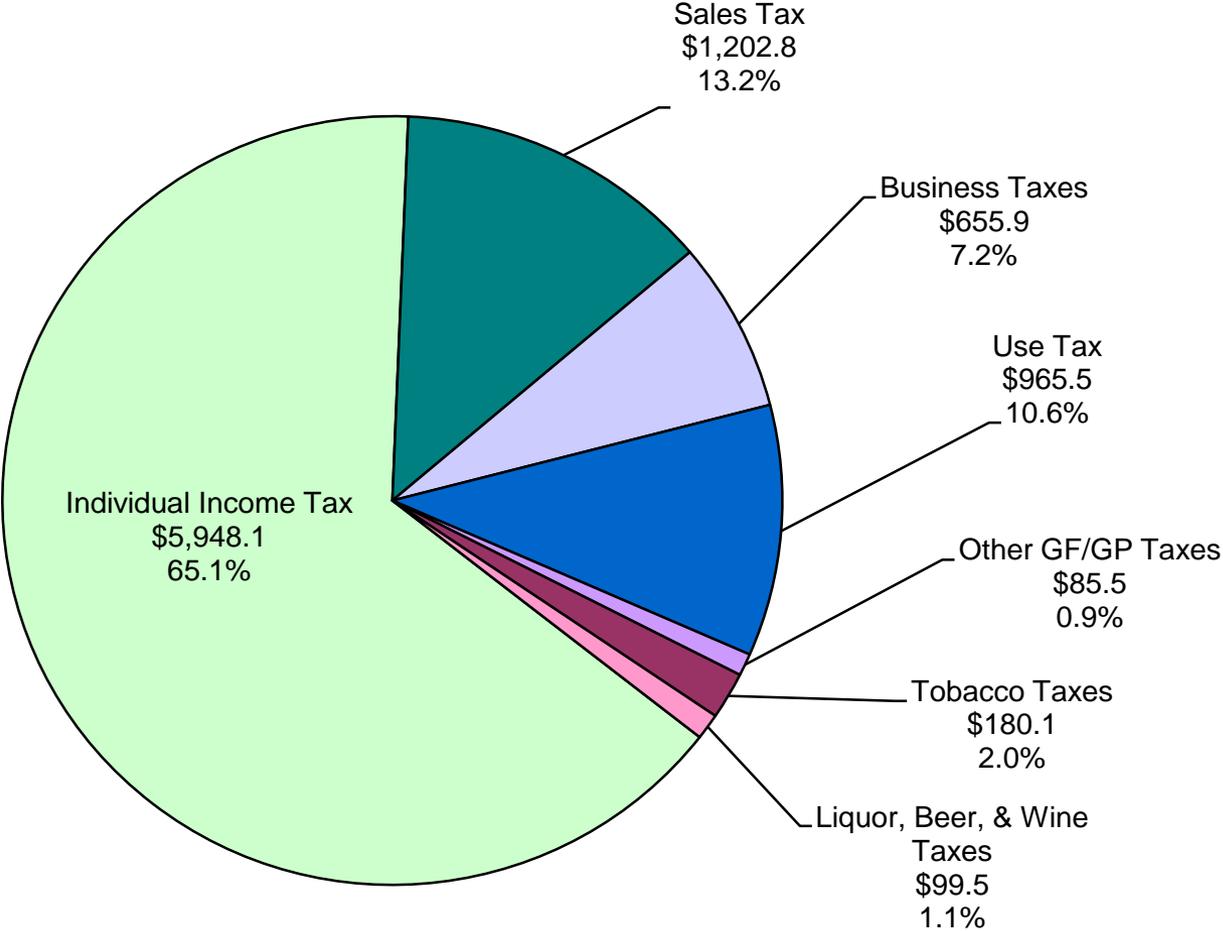
School Aid Fund Tax and Lottery Revenue

Estimated FY 2015-16 Total = \$11,889.1 million



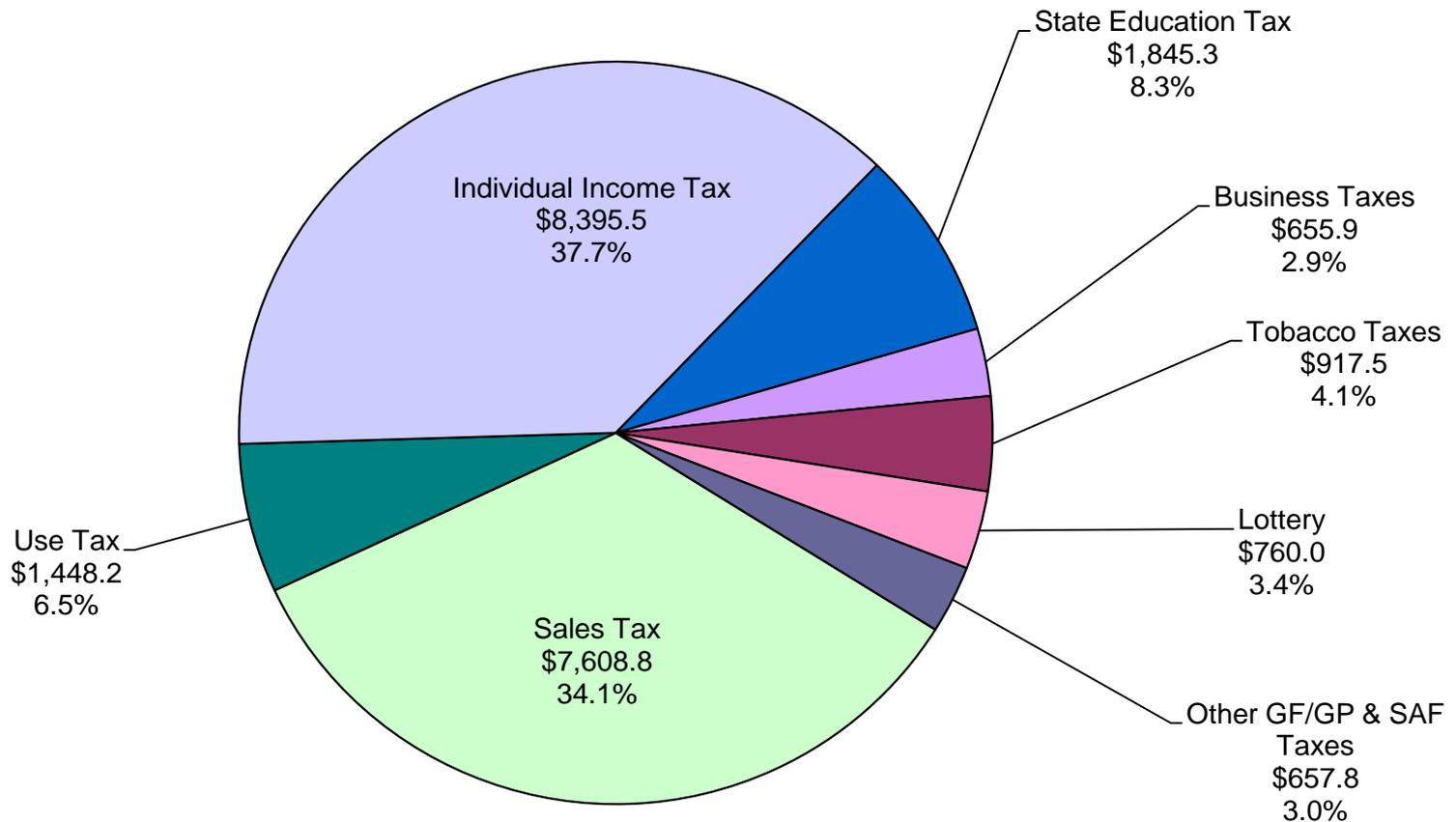
GF/GP Tax Revenue

Estimated FY 2015-16 Total = \$9,137.4 million



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

Estimated FY 2015-16 Total = \$22,289.8 million



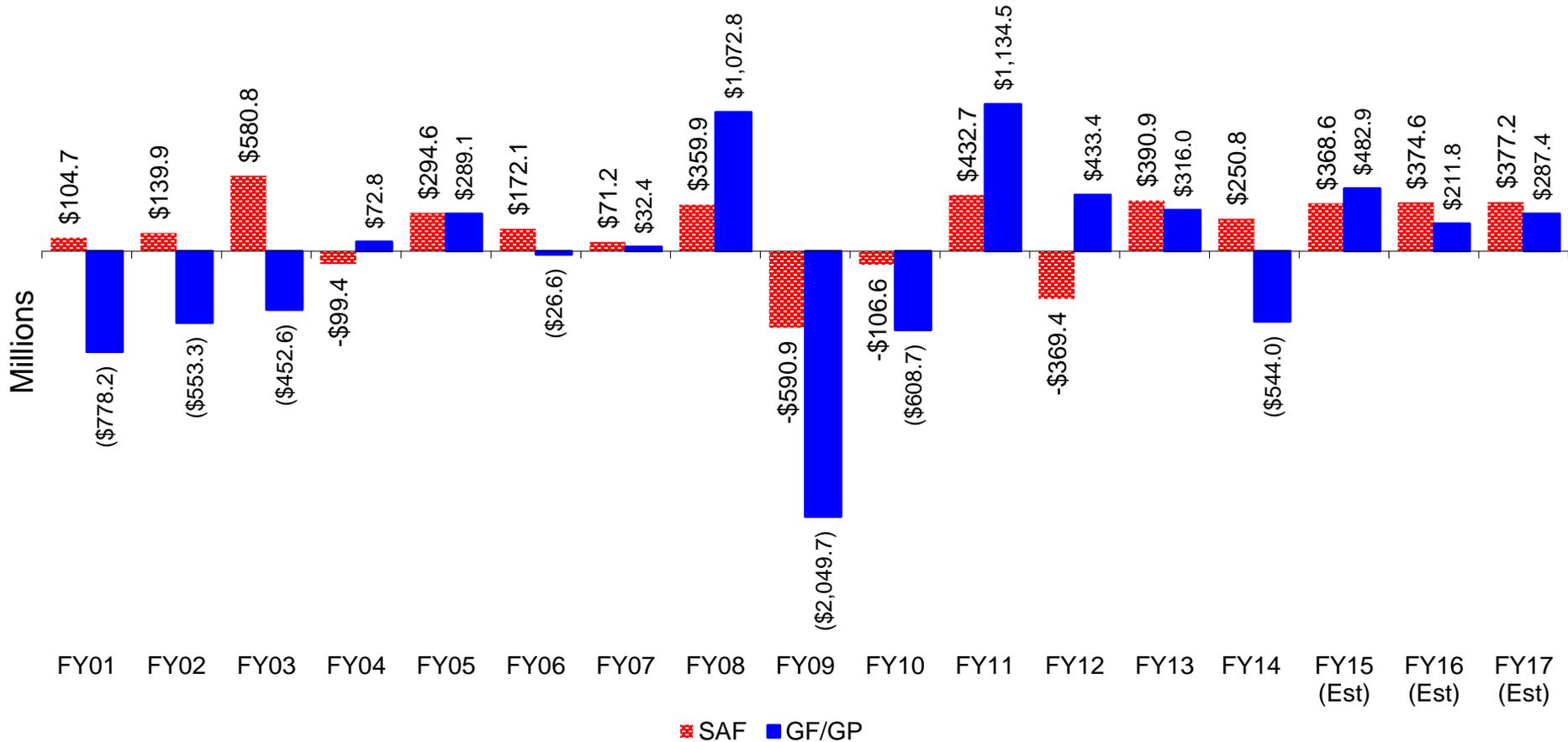
Trends in GF/GP and SAF Revenue

- **Change in SAF and GF/GP revenue from previous fiscal year:**
 - 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
 - Projected increases in FY 2014-15 and FY 2015-16 due to economic gains largely offset by business tax cuts

- **As a % of Michigan personal income (relative to Michigan's economy):**
 - SAF revenue estimated to decline from 3.3% in FY 2000-01 to 2.8% in FY 2016-17
 - GF/GP revenue is estimated to decline from 3.3% in FY 2000-01 to 2.2% in FY 2016-17

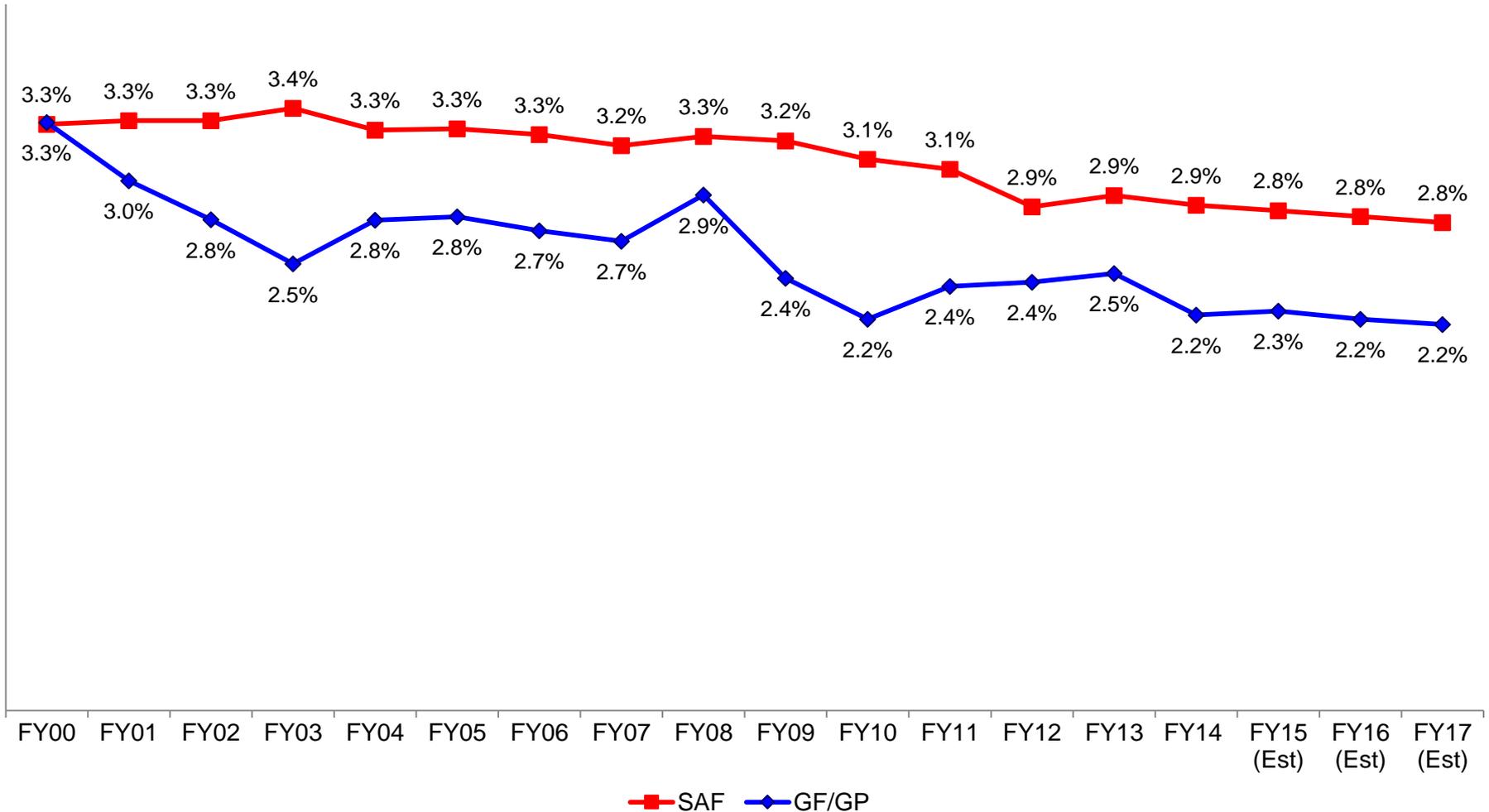
- **SAF and GF/GP Revenue**
 - Between FY 2000-01 and FY 2015-16, average annual SAF growth is expected to be 1.4%
 - Between FY 2000-01 and FY 2015-16, average annual GF/GP growth is expected to be -0.1%.

Revenue Change From Previous Fiscal Year

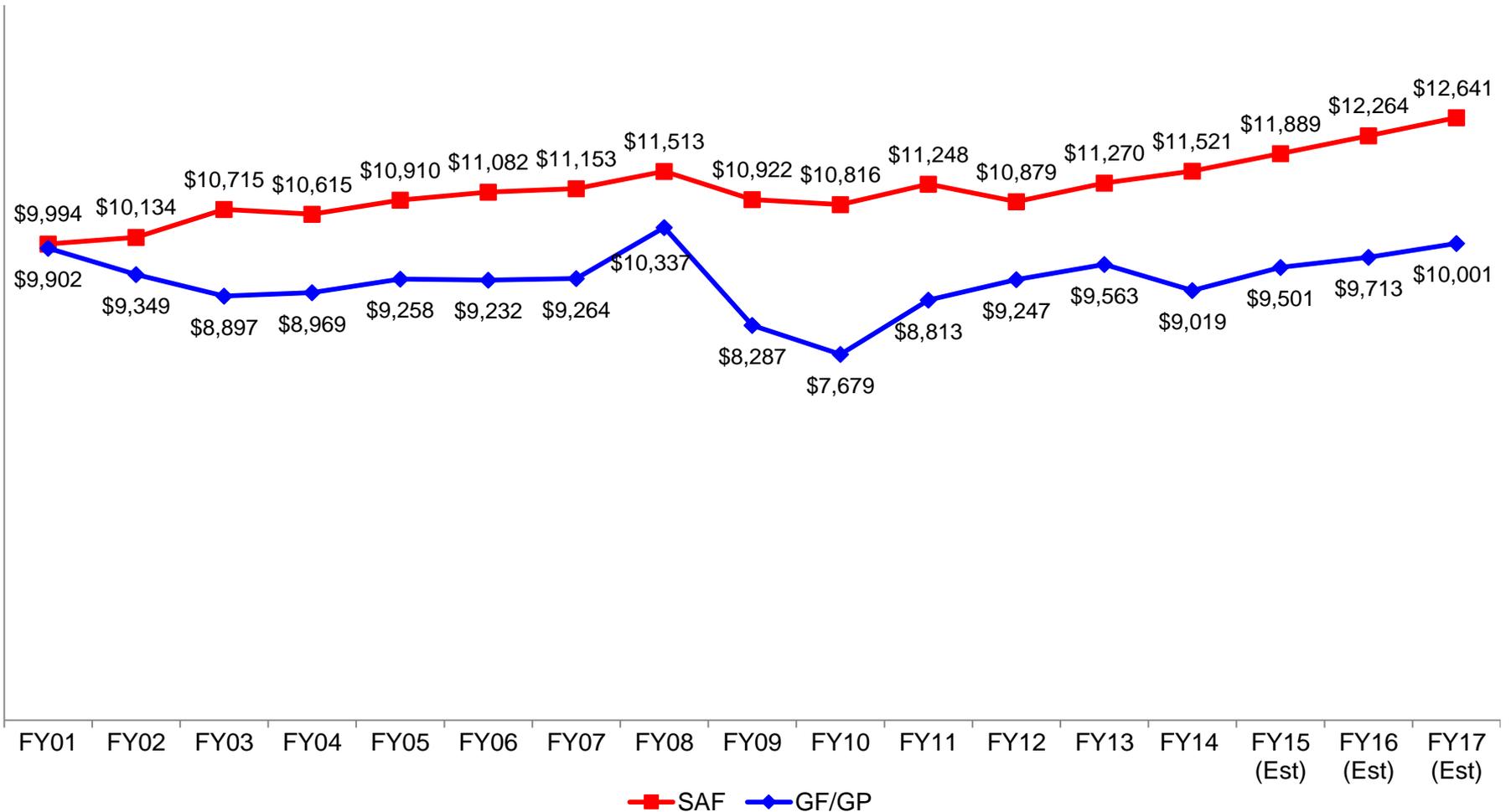


SAF and GF/GP Revenue

As a Percent of Michigan Personal Income



SAF and GF/GP Revenue



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, Commerce, and other standing committees**

- **Prepare documents for House members**
 - Revenue Source and Distribution: June
 - Revenue Review: Quarterly

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

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