Budget Briefing:
FY 2025-26
State Tax Revenue Overview

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Briefing Topics

- Explanation of Terms
- Major State Taxes
- Recently Enacted Tax Changes
- Major State Funds
- Revenue Trends

Explanation of Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2025-26 is October 1, 2025 through September 30, 2026.

Earmark: A specific designation for some or all of the revenue generated by a tax. Earmarks can be either constitutional or statutory.

Deductions and Exemptions: Deductions and/or exemptions are amounts subtracted from the tax base before the tax rate is applied to determine the tax liability. An exemption can also mean a specific item or activity that is explicitly excluded from taxation.

Credits: Unlike deductions and exemptions, which reduce the base of a tax, credits reduce a taxpayer's liability after the rate has been applied. Credits can either be refundable, in which case a taxpayer will receive a refund if the credit exceeds the tax liability, or non-refundable, in which a credit can only be used to the point where no tax liability remains.

Note: Unless otherwise indicated, historical revenue amounts in this presentation have not been adjusted for inflation.

Major State Taxes

Major State Taxes

- Individual Income Tax, which includes the Flow Through Entity (FTE) tax.
- Consumption based taxes, which include sales, use, tobacco, beer and wine, and liquor taxes. Sales, use, and tobacco taxes are by far the largest components.
- Business taxes, comprising the single business tax (SBT), the Michigan business tax (MBT), the corporate income tax (CIT), and insurance company taxes.
- Statewide property taxes, which are the state education tax (SET), the real estate transfer tax (RET), the essential services assessment (ESA).
- Some of these taxes include earmarks to specific funds, such as the School Aid Fund (SAF) or the Comprehensive Transportation Fund (CTF). In general, any revenue not otherwise earmarked becomes General Fund/General Purpose (GF/GP) revenue.
- This overview does not include gasoline and diesel taxes because they are earmarked to the Michigan Transportation Fund and are discussed as part of the Transportation budget briefing.

Major State Taxes

Estimated FY 2026-27, $ in Millions

Tax	GF/GP	SAF	Total
Individual Income Tax	$9,605	$4,579	$14,254
Sales Tax	766	8,044	9,917
Use Tax	1,306	992	2,945
Tobacco Taxes	116	199	584
Business Taxes	1,298		1,298
State Education Tax		3,197	3,197
Real Estate Transfer Tax		470	470
TOTAL	**$13,090**	**$17,481**	**$32,664**

Notes

1) All economic and revenue estimates in this budget briefing are from the May 2026 Consensus Revenue Estimating Conference.
2) The GF/GP and SAF amounts may not sum to the total shown due to rounding and/or because some taxes contain earmarks that direct revenues to other funds.
3) Business Taxes comprise the single business tax, the Michigan business tax, the corporate income tax, and insurance company taxes.
4) These taxes account for 95.8% of combined GF/GP and SAF tax revenue.

Individual Income Tax

- The starting point for the tax base is adjusted gross income (AGI) from the taxpayer's federal tax return. The tax rate is currently 4.25% and taxpayers receive a personal exemption of $5,800 per dependent in TY 2025 and $5,900 in TY 2026.
- 2023 PA 4 provides for a phase-out of the three-tier system of taxing retirement and pension benefits.
- Both the Homestead Property Tax Credit (HPTC) and the Earned Income Tax Credit (EITC) are refundable.
- Gross income tax revenue is the sum of withholding from wages and salaries, the flow-through entity tax, estimated quarterly payments, and annual payments. Net income tax revenue is gross income tax revenue less refunds.
- Approximately 25% of gross income tax revenue is earmarked to the School Aid Fund.

Individual Income Tax

- $600 million of net income tax revenue was earmarked to the Transportation Fund up until FY 2024-25. The Renew Michigan Fund earmark is $69 million through FY 2025-26, $52.0 million in FY 2026-27, $56.0 million in FYs 2027-28 and 2028-29, and $69.0 million for FY 2029-30 and beyond.
- Beginning in FY 2022-23 (TY 2023), the income tax rate would be automatically reduced if prior year GF/GP revenue is greater than 1.425 times GF/GP revenue in FY 2020-21, adjusted for inflation.
- Under 2025 PA 24, for tax years 2026, 2027, and 2028 an individual may deduct qualified tips and qualified overtime compensation from their adjusted gross income. Additionally, for the same tax years, a tier 3 taxpayer opting to take the $20,000/$40,000 deduction against all income could also deduct Social Security income (but could not also take the standard personal exemptions).

Sales Tax

- The sales tax is imposed on retailers' gross taxable sales of tangible personal property not exempt by law.
- The maximum rate as set forth in the Constitution is 4%, plus the additional 2% approved by voters in 1994.
- Major exemptions from the sales tax include motor fuels (newly enacted as part of 2025 Roads Plan), food not for immediate consumption, prescription drugs, and most services.
- 100% of the net sales tax revenue from the additional 2% levy is earmarked to the School Aid Fund.
- 60% of net sales tax revenue from the 4% levy is earmarked to the School Aid Fund.
- 15% of net sales tax revenue from the 4% levy is earmarked to cities, villages, and townships, and is distributed on a per capita basis.
- Smaller distributions are made to the Comprehensive Transportation Fund and the Michigan Health Initiative.

Use Tax

- The use tax complements the sales tax in that it applies to purchases subject to the sales tax but on which no sales tax was collected. In addition, the use tax applies to some services.
- The most prominent examples of the use tax are auto leases, rental cars, telecommunications, and mail order or Internet purchases on which the seller does not collect and remit the sales tax.
- The maximum rate is 4%, plus the additional 2% approved by voters in 1994.
- 100% of the net use tax revenue from the additional 2% levy is earmarked to the School Aid Fund.
- About one-third of the 4% amount ($572.2 million in FY 2026-27) is levied by the Local Community Stabilization Authority to reimburse local units of government for the loss of personal property tax revenue due to the phase-out.
- The remainder of the 4% amount accrues to the General Fund.

Tobacco Taxes

- Both cigarettes and other tobacco products (cigars, pipe tobacco, smokeless tobacco, etc.) are subject to tobacco taxes.
- Cigarettes are taxed at a rate of $2.00 per pack while other tobacco products are taxed at 32% of the wholesale price. Vaping products are not subject to tobacco taxes.
- Approximately 41.3% of cigarette tax revenue is earmarked to the School Aid Fund. The SAF receives about 34.0% of all tobacco tax revenue.
- Approximately 18.7% of cigarette tax revenue is earmarked to the General Fund. The GF receives about 19.8% of all tobacco tax revenue.
- Approximately 31.5% of cigarette tax revenue and 39.2% of all tobacco tax revenue is earmarked to the Medicaid Trust Fund.
- Smaller distributions are earmarked to the Healthy Michigan Fund, the Health and Safety Fund, the Michigan State Capitol Historic Site Fund, and to Wayne County for indigent health care.

Business Taxes

- The single business tax was enacted in 1976 but was subsequently repealed effective December 31, 2007.
- It was a value added tax imposed on all business activity in Michigan, regardless of business classification (sole proprietorship, partnership, S Corporation, C Corporation, etc.).
- The SBT was replaced by the Michigan business tax effective February 1, 2008, although the MBT was subsequently repealed effective December 31, 2011.
- Like the SBT, the MBT was broad-based in that it applied to all business activity in Michigan, regardless of organizational structure.
- Although the MBT was been repealed, taxpayers with existing certificated credits issued by the Michigan Economic Growth Authority (MEGA) must continue filing under the MBT to receive the credits.
- The credits are expected to reduce GF/GP revenue by about $524.4 million in FY 2026-27.

Business Taxes

- The Corporate income tax replaced the MBT effective February 1, 2012.
- Unlike the SBT and MBT, the CIT only applies to C Corporations, which has significantly reduced the number of taxpayers.
- The CIT rate is 6%, and it applies to business income apportioned to Michigan.
- While the SBT and MBT both allowed several types of credits, the CIT has a credit for small businesses and a recently enacted research and development tax credit.
- The transition from the MBT to the CIT reduced revenue derived from business taxes by over $1.0 billion at the time of enactment.
- Both Michigan and foreign (non-Michigan based) insurance companies are taxed at a rate of 1.25% of gross direct premiums written.

Business Taxes

- 2023 PA 4 earmarked $600.0 million of CIT revenue: SOAR Fund ($500.0 million through FY 2025), Revitalization and Placemaking Fund ($50.0 million through FY 2025), and MI Housing and Community Development Fund ($50.0 million in perpetuity).
- October 2025 Transportation Funding Package stopped the $500.0 million SOAR earmark one year early and instead replaced with a $250.0 million earmark to the Healthy Michigan Fund with remaining $250.0 million to GF/GP.
- Beginning in FY 2025-26, $688.0 million in CIT to the Neighborhood Roads Fund (NRF)
  - Earmark comes after $1.2 billion deposited in GF/GP and $50.0 million for Housing and Community Development Fund. CIT must be $1.9 billion for NRF to receive full $688.0 million in FY 2025-26.
  - CIT earmark to NRF increases each year by $88.0 million until the total reaches $1,040.0 million in FY 2029-30.

State Property Taxes

- The state education tax (SET) is a 6-mill levy against the taxable value of real property (land and structures) and personal property not otherwise exempt.
- The real estate transfer tax (RET) is assessed at 0.75% of the fair market value of real property.
- The state essential services (ESA) levy is imposed on businesses that reduce their liabilities by virtue of the phase-out of eligible manufacturing personal property (EMPP).
- All revenue from the SET and RET is earmarked to the School Aid Fund.
- Revenue from the ESA accrues to the General Fund.

Recently Enacted Tax Changes

Transportation Revenue

- Public Acts 16 to 20, 23, and 24 of 2025 made major tax changes to enhance transportation funding, among other things. The following represent the major changes in the legislative package of bills:
  - Exempt motor fuel from the sales and use taxes beginning January 1, 2026, and hold School Aid Fund harmless for revenue lost due to the exemptions. The 6% specific tax on interstate motor carriers would also be eliminated.
  - Increase tax levied on motor fuel from 31 cents per gallon to at least 51 cents per gallon beginning January 1, 2026 (annual inflation adjustment continues)
  - Impose a 24% excise tax on certain wholesale sales or transfers of marihuana and direct funds to new Neighborhood Roads Fund (NRF). Estimated to generate $420.0 million annually.
  - Earmark specific amounts from the CIT ($688.0 million in FY 2025-26 growing to $1,040.0 million in FY 2029-30) to the NRF.
  - Eliminate the $600.0 million earmark of income tax revenue that had been credited to the Michigan Transportation Fund since FY 2020-21.

Other Recent Tax Issues

- The Department of Treasury issued Revenue Administrative Bulletin 2018-16 on August 1, 2018 to implement essentially the same provisions as South Dakota to require certain out-of-state retailers to remit sales tax revenue. Public Acts 145 and 146 of 2019 codified this treatment.

- Public Acts 143 and 144 of 2019 extended the requirement to collect and remit sales and use tax revenue on remote sales to marketplace facilitators.

- Initiated Law 1 of 2018 legalized recreational marihuana, subject to certain conditions, and established a 10% excise tax. The revenue is earmarked to the School Aid Fund (35%), Transportation Fund (35%), counties where businesses are located (15%), and local governments where businesses are located (15%).

Other Recent Tax Issues

- Public Act 152 of 2019 legalized Internet gaming in Michigan and imposed tax rates of between 20% and 28% on the adjusted gross receipts of an Internet gaming provider.
- Public Act 134 of 2021 created the flow-through entity tax that allows non-C corporations (which file under the corporate income tax) to elect to file either at the entity level or have the recipients of flow-through income claim it on their individual income tax returns. The flow-through entity tax rate is 4.25%, the same as the individual income tax.
- Public Act 150 of 2021 increased the personal property true cash value exemption threshold from $80,000 to $180,000.
- Public Act 4 of 2023 included a phase-out of the three-tier system of taxing retirement and pension benefits, increased the value of the state earned income tax credit to 30% of the federal benefit, and earmarked up to $600.0 million of corporate income tax revenues.
- Public Act 24 of 2025 decoupled the state corporate income tax provisions used to determine taxable income from recently amended federal provisions in OBBBA; exempts tips, overtime income, and Social Security income for certain taxpayers from state income tax for tax years 2026, 2027, and 2028.

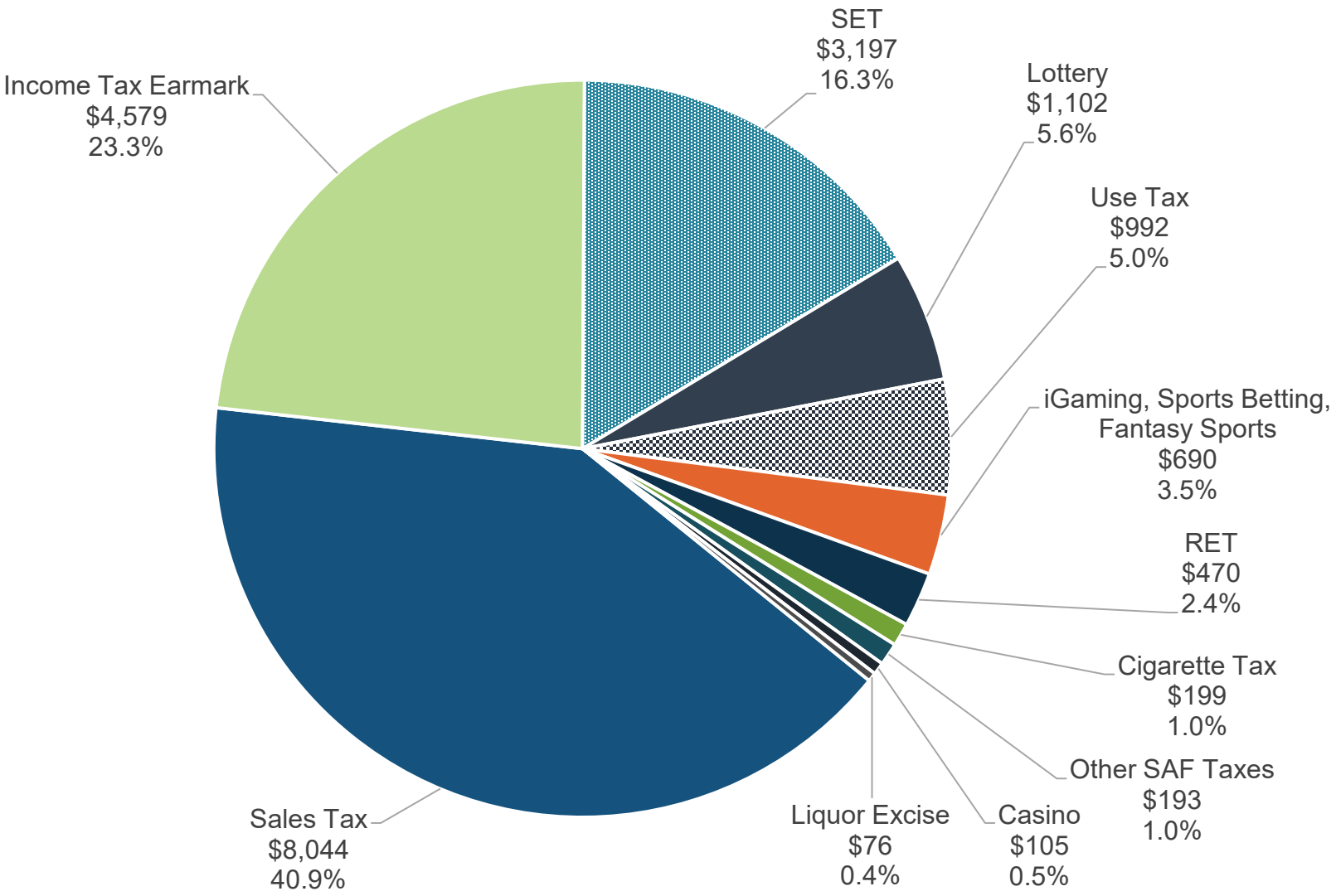
Major State Funds

Major State Funds

- The School Aid Fund is used primarily to fund K-12 education, although a portion is also appropriated to community colleges.
- The major sources of SAF revenue are the earmark from the individual income tax, consumption taxes, the 6-mill state education tax, the real estate transfer tax, online and casino gaming revenue, the excise tax on recreational marihuana, and net lottery proceeds.
- Unless otherwise specified, most remaining revenue becomes General Fund/General Purpose revenue.
- GF/GP revenue can be appropriated to any specific budget and/or program.
- Major sources of GF/GP tax revenue include the individual income tax, consumption taxes, and business taxes.

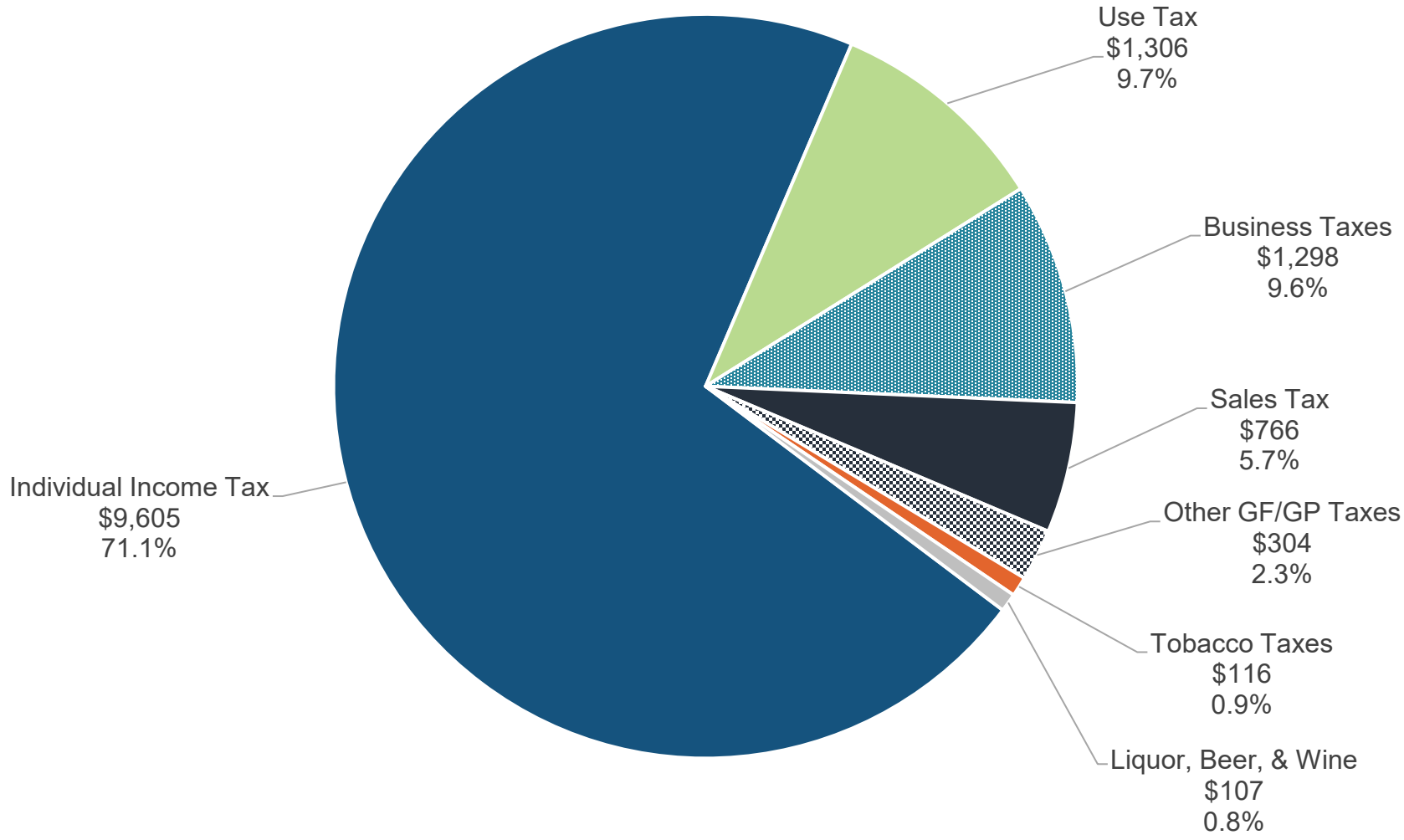
FY 2026-27 SAF Tax and Lottery Revenue

The School Aid Fund is projected to total approximately $19.6 billion in FY 2026-27. Dollar amounts below are in millions.



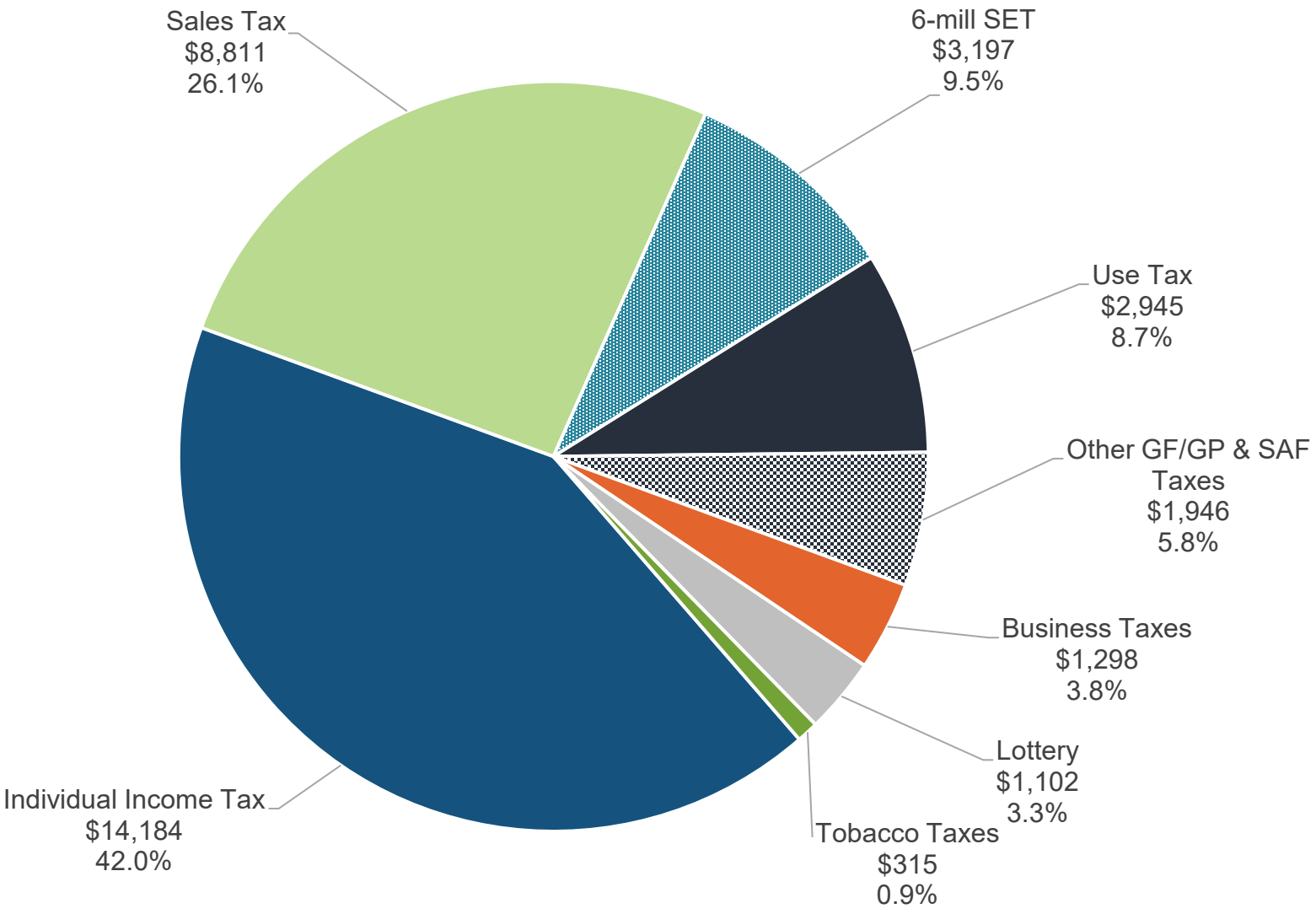
FY 2026-27 GF/GP Tax Revenue

The General Fund/General Purpose tax revenue is projected to total about $13.5 billion in FY 2026-27. Dollar amounts below are in millions.



FY 2026-27 Combined GF/GP and SAF Tax and Lottery Revenue

Combined GF/GP and SAF tax and lottery revenue is projected to total about $33.8 billion in FY 2026-27. Dollar amounts below are in millions.



Revenue Trends

Revenue Trends of Major Taxes

- Between CY 2000 and CY 2026, estimated personal income in Michigan grew at an average annual rate of 3.3%. Outside of the COVID-19 pandemic, since CY 2000, revenue generated from Michigan's major taxes as a percent of personal income has generally declined.
- Sales tax revenue grew consistently between FY 2000 and FY 2025, albeit generally at a slower rate than for personal income. That trend eroded somewhat during the pandemic as consumers purchased more taxable goods and fewer services, but it reverted to trend after. With the 2025 R 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 most retirement income, which began a phase out of the three-tier system in TY 2023.
- Despite the sharp decline in property values beginning in FY 2008, statewide property taxes as a percent of personal income have remained relatively constant.

Major State Taxes as a Percentage of Michigan Personal Income

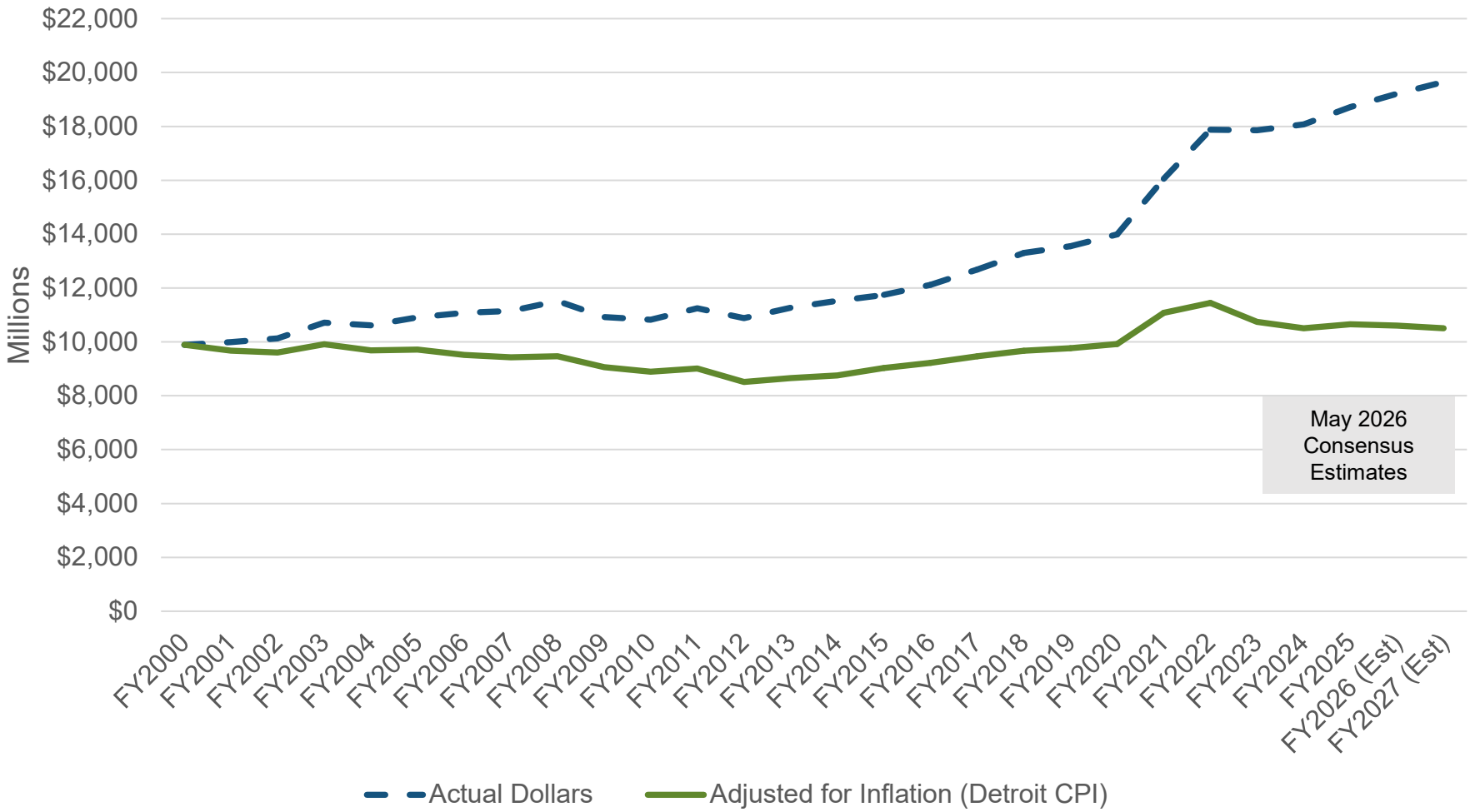
Recent growth in state revenue has been driven by the income tax. Consumption taxes grew mainly driven by COVID consumption patterns before declining back to trend. Other major state taxes have declined as a percentage of state personal income because of economic trends or tax policy decisions.

Revenue Trends of Major Funds

- Between FY 1999-00 and FY 2025-26, School Aid Fund revenue grew at an annual average rate of 2.6%.
- When adjusted for inflation using the Detroit CPI, SAF revenue grew at 0.3% per year between FY 1999-00 and FY 2025-26.
- SAF revenue, which was 3.3% of personal income in FY 1999-00, declined to 2.8% of personal income in FY 2025-26. It is expected to decline to 2.7% in FY 2026-27.
- Between FY 1999-00 and FY 2025-26, General Fund/General Purpose revenue increased at an annual average rate of 1.1%.
- When adjusted for inflation using the Detroit CPI, GF/GP revenue declined at an average annual rate of 1.1% between FY 1999-00 and FY 2025-26.
- GF/GP revenue, which was 3.5% of personal income in FY 1999-00, declined to 2.1% of personal income in FY 2025-26, and is expected to decline further to 2.0% in FY 2026-27.
- Reallocation of GF/GP revenue for personal property tax reform, transportation funding, economic development, and additional tax changes will continue to limit GF/GP revenue going forward.

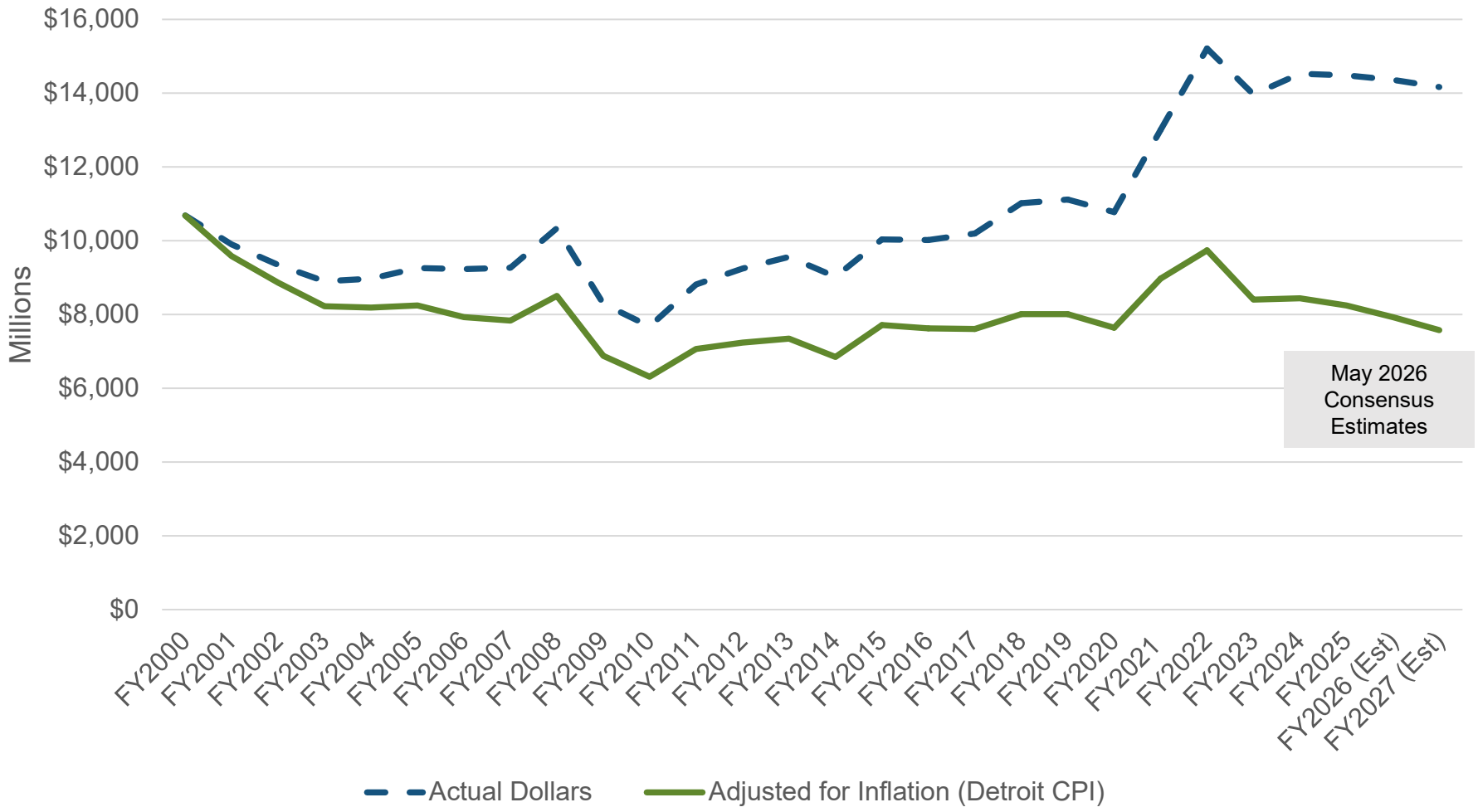
School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, SAF revenue remained below the FY 1999-00 level until FY 2020-21. Recent elevated inflation has minimized real gains in SAF revenue.



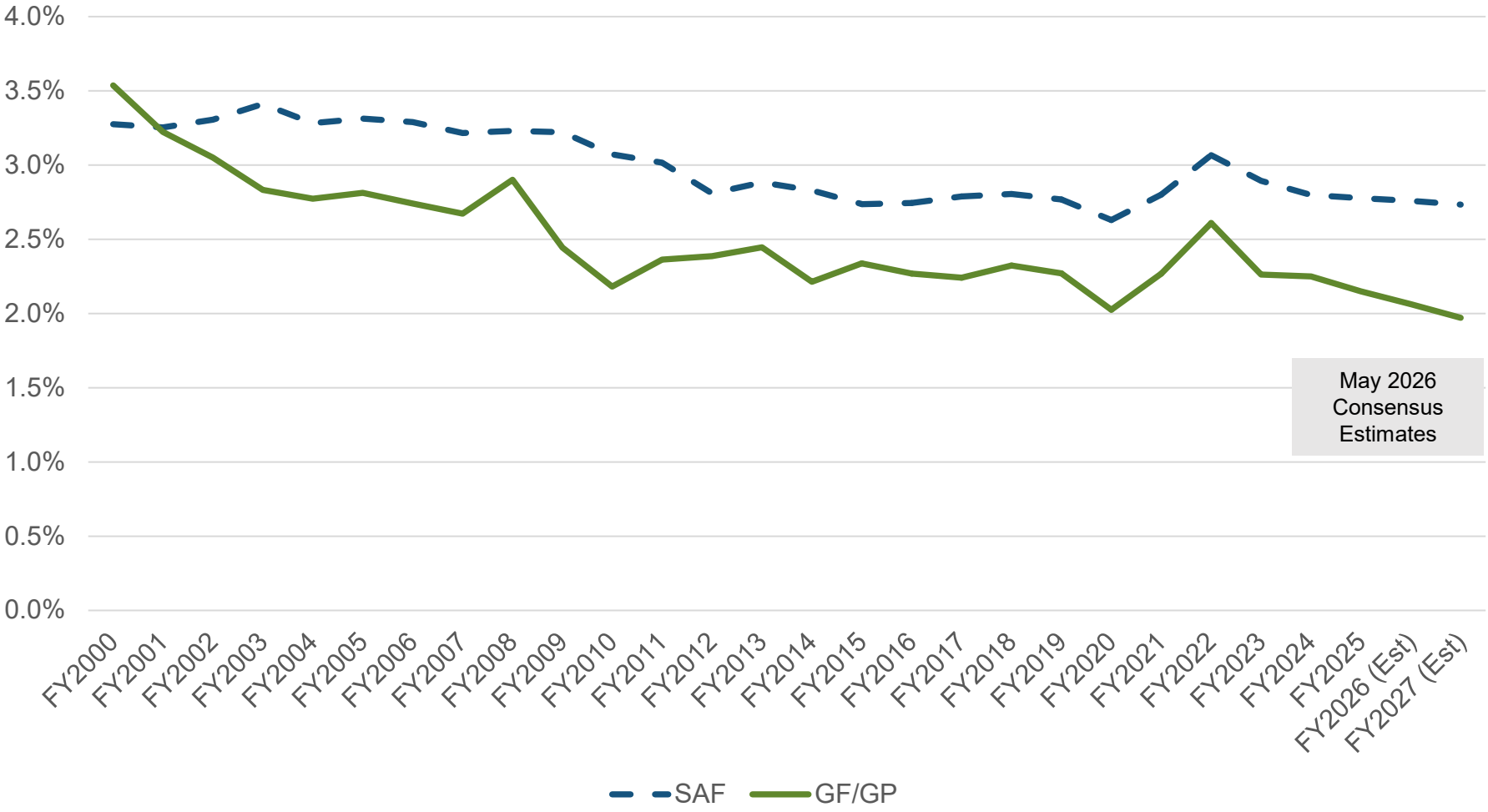
GF/GP Revenue

Nominal GF/GP revenue reached a high of $15.2 billion in FY 2021-22, but recent tax changes will reduce estimated collections. When adjusted for inflation, GF/GP revenue for FY 2025-26 is estimated to be 25.8% below the FY 1999-00 level.



SAF and GF/GP Revenue as a Percent of Michigan Personal Income

As a percent of Michigan personal income, both SAF and GF/GP revenue have generally declined since FY 2000-01. The recent two-year uptick represents temporary pandemic related activity, after which both SAF and GF/GP continued their decline as personal income gains outpace revenue 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.**

For more information about the state revenue:

HFA website

http://www.house.mi.gov/hfa/

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