



*Michigan Department of*  
**TREASURY**

**Engagement. Service. Improvement.**

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**House Appropriations Subcommittee  
on General Government**

March 21, 2023

# Treasury has broad responsibilities

- Administering and collecting more than \$30 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 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 approximately 8 million tax returns per year.
- Managing unclaimed property on behalf of Michigan's Citizens, returning more than \$135 million last year.

# Continuous Improvement Our Success

## TAX ADMINISTRATION SERVICES

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

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

<b>Informal Tax Hearings (average months per hearing)</b> <b>4.9</b> <i>Down from 5.1 months in 2021</i>	<b>Revenue Administrative Bulletins (RABs) (total per fiscal year)</b> <b>10</b> <i>Up from 9 in 2021</i>
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## UNCLAIMED PROPERTY

<b>Paying Rightful Owners (in millions)</b> <b>\$136.9</b> <i>Up from \$116.7 in 2021</i>
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## COLLECTIONS

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

<b>Total Assets Under Management (in billions)</b> <b>\$143.9</b> <i>Up from \$117.9 billion in December 2020</i>
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## POSTSECONDARY FINANCIAL SERVICES

<b>Students, borrowers, &amp; families served</b> <b>385,150</b>	<b>Aversion Assistance provided (borrowers)</b> <b>53,008</b> <i>resulting in \$9 million in student loans moved to good standing.</i>
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## LOCAL GOVERNMENT

<b>Attendance at Outreach Events for Local Governments and Schools</b> <b>14,454</b> <i>Up from 11,056 in 2021.</i>
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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.*

## CULTURE OF SERVICE

Treasury administered several grant programs in 2022, including the Growing MI Business Grant program and American Rescue Plan Act programs. Approximately **\$625 million** went to communities and businesses.

## 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

**@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**

# Continuous Improvement

## Our 2022 Accomplishments

- **Fitch upgraded credit ratings from an AA to AA+, which lowers the State's school districts' and local governments 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.

# Continuous Improvement

## Our 2023 Projects

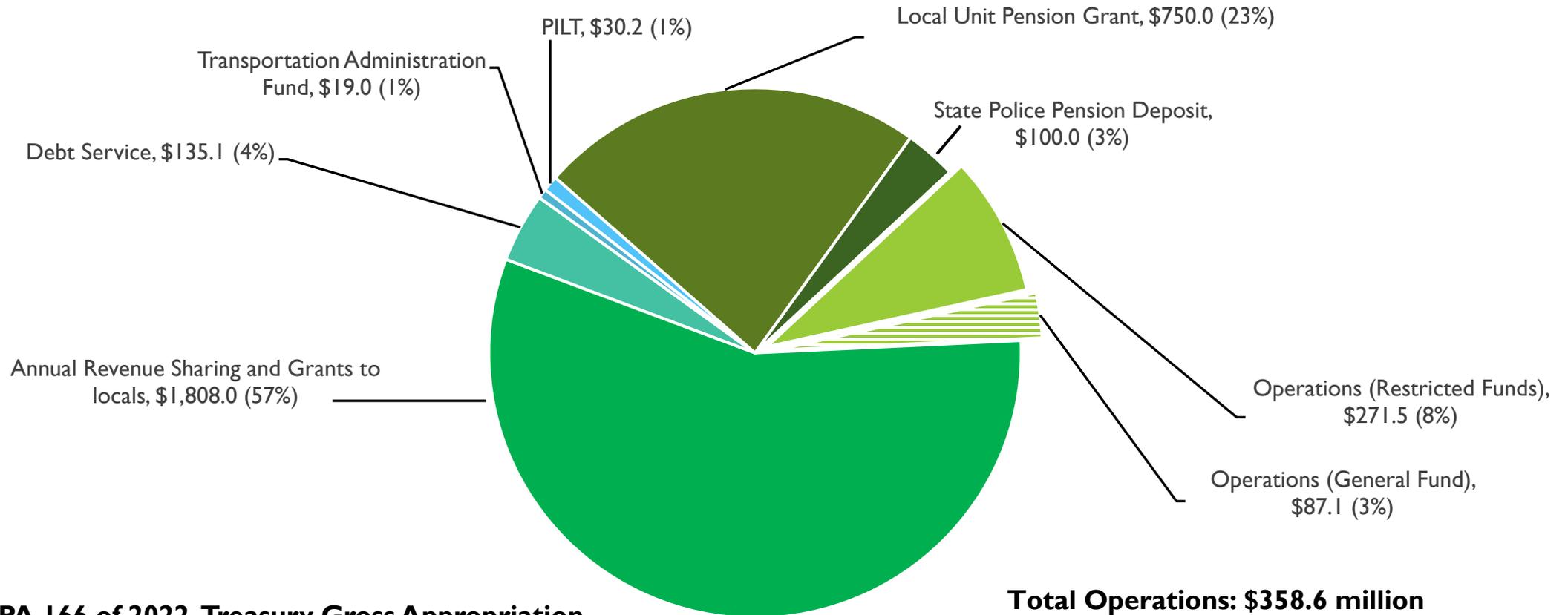
- Identify opportunities for streamlining the implementation and management of new grant programs to improve the overall customer experience.
- Redesign a more efficient application processing system for stakeholders and the School Bond Qualification and Loan Program.
- **Implement electronic local government information and taxation evaluation system (ELITES) to improve communication and service delivery to local units of government.**
- Streamline processes and improve taxpayer experience with continuation of multi-year MiTreas Modernization project.
- **Successfully implement Local Unit Municipal Pension Principal Payment Grant Program.**
- Develop a technology roadmap for 3- to 5- year strategic plan to manage application inventory.
- Evaluate and enhance system security plan process.
- **Grow Modern Technology Section to explore and advance the use of technology for improved customer experience.**
- Better coordinate processes and workflow throughout Revenue Services using global planning tools.
- Complete third and final phase of the Flow Through Entity Tax to effectively receive and process returns, and issue credits.
- Create a Quality Assurance program for Collections Field staff to improve data for tracking service and adherence to internal controls.
- Continue paperless initiative by exploring opportunities to expand the use of the virtual scanning process throughout Treasury.
- Implement MI Achievement Scholarship and MI Future Educator programs to provide money to students and educators.

# **Fiscal Year 2023 Budget Summary**

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# Majority of Treasury's budget is distributed to local units or dedicated to payments



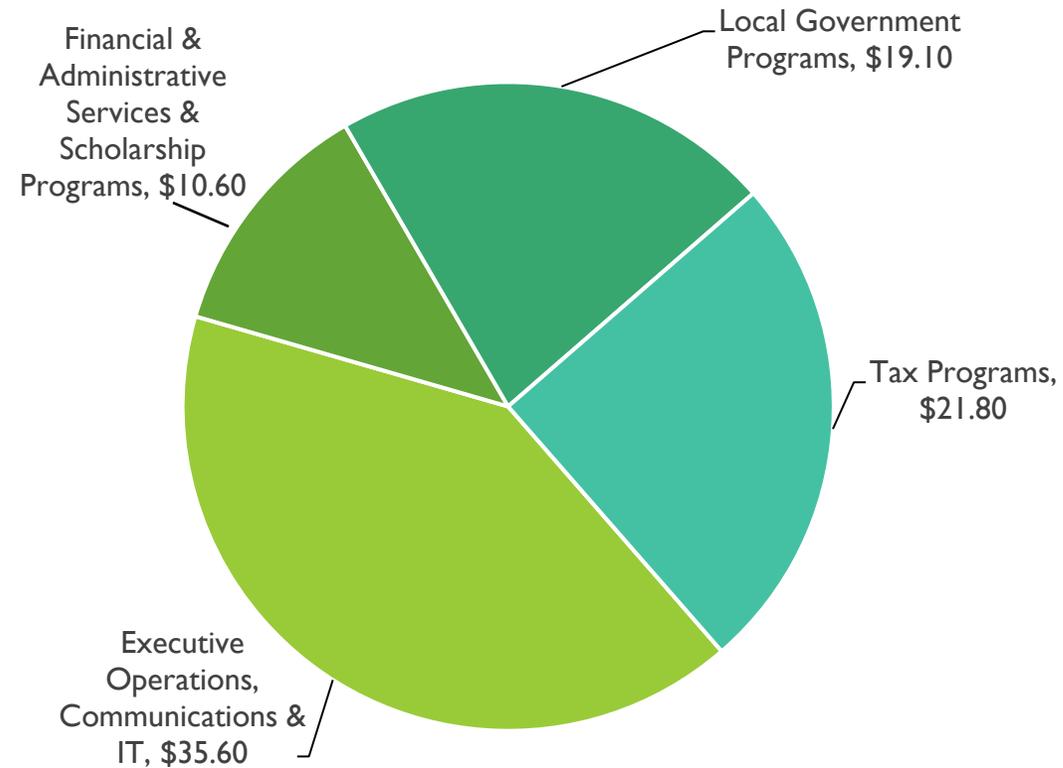
**FY23 PA 166 of 2022 Treasury Gross Appropriation  
\$3.17 Billion (Chart in Millions)**

**Total Operations: \$358.6 million**  
*GF portion represents less than 1% of Governors proposed GF budget*

# Treasury General Fund Operations Summary (in millions)

## Treasury Programs General Fund

Total = \$87.1



# Pending FY23 Supplemental Requests

## **Implementation of Changes related to HB 400 I**

- \$925,000 for EITC for Working Families implementation, primarily cost of mailing payments
- \$900,000 related to changes in treatment of retirement income over four-year phase-in period

## **Implementation of workforce housing package**

- \$1.37 million for IT and staff investment

## **Qualified Heavy Equipment Tax**

- \$3.4 million, the majority of which is to reimburse locals
- \$400,000 related to Treasury administrative needs

# Fiscal Year 2024 Budget Requests

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# Focused on IT investments and tax implementation

- IT continues to be a focus for continuous improvement and drives many of our investment priorities.
- Our MiTreas Modernization Project is ongoing, we appreciated the support via ITIF and work projects.
- In process of implementing Partnership Tax which was passed last session, we also continue to improve functionality of Flow Through Entity Tax systems.
- We have three ITIF requests impacting Treasury for FY24:
  - City Income Tax: \$42.4 million to provide ability to onboard additional cities
  - Miscellaneous Refunds: \$1.2 million
  - School Bond Loan Enhanced System: \$1.2 million

# City Income Tax Expansion; building off success with City of Detroit

- \$42.4 million ITIF proposal is designed to cover upfront cost of onboarding cities into our city income tax administration.
- This would cover cost of up to the 23 remaining cities with a City Income Tax.
- Cost of each city is estimated at between \$1-4 million.
  - Initial implementation is more expensive, with additional efficiencies as more cities are added.
- Treasury has successfully administered City of Detroit taxes for several years, allowing us to develop staff and efficiency in administering local city income taxes.
  - Since 2014 City of Detroit Income Tax revenue has increased from \$254 million to \$338 million.
  - The e-file rate for individual taxpayers in City of Detroit is 83%, a 10% increase from 2016.

# Office of Security and Data Risk Management

## **\$793,000 would fund 5 additional FTEs in the security space**

- Would be combined with existing 15 FTEs and associated funding in reorganization to continue to address growing security needs
- Due to the nature of the work, Treasury maintains extremely sensitive taxpayer data. The IRS and financial industry best practices have justifiably robust security requirements for this type of data that continue to evolve as trends and threats emerge.
- We continue to prioritize securing confidential taxpayer data in an environment where threat actors prey on human error to obtain that data.
  - The U.S. Federal Trade Commission (FTC) received more than 5.88 million fraud reports in 2021, a 19% increase from the year prior.
  - Reports of associated financial losses topped \$6.1 billion, an increase of more than 77% compared with 2020.
  - Identity theft makes up the largest share of reported incidents of fraud.

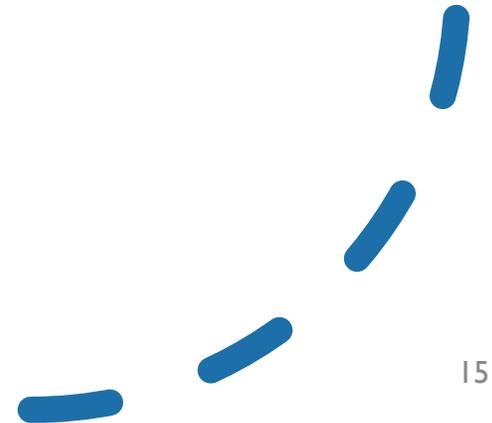
# Office of Revenue and Tax Analysis

**\$594,500 for 3 FTEs in the Office of Revenue and Tax Analysis to expand and standardize our grant management efforts.**

- We appreciate the partnership with the legislature in recent years in administering grants related to the COVID-19 emergency, dam failure in central Michigan, pension and other retirement obligations.
- Policy changes have also added or expanded programs requiring reimbursement calculations for locals:
  - Qualified Heavy Equipment Tax Exemption
  - Increased Small Business Taxpayer Exemption

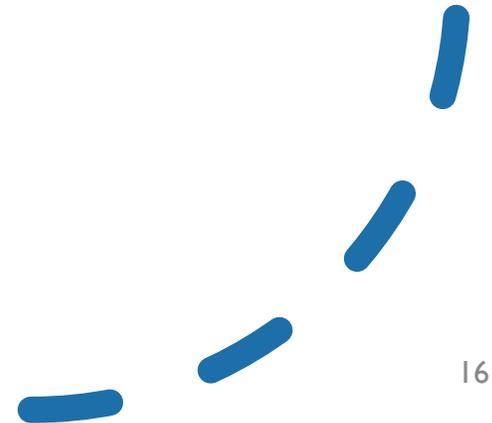
# Additional operating changes highlights

- \$665,00 in ongoing funding to support Workforce Housing Initiative with 4 additional FTEs within our Bureau of Local Government and School Services.
- \$120,000 and one additional FTE to support enhancements in our School Bond Loan Fund program.



# Additional changes in pass through payments highlights

- We also have several net-to zero Current Service Baseline adjustments to reflect organizational changes in recent years.
- \$3.75 million increase in anticipated payments for recreational marihuana grants.
- \$90,000 increase for Senior Citizen Cooperative Housing payments.



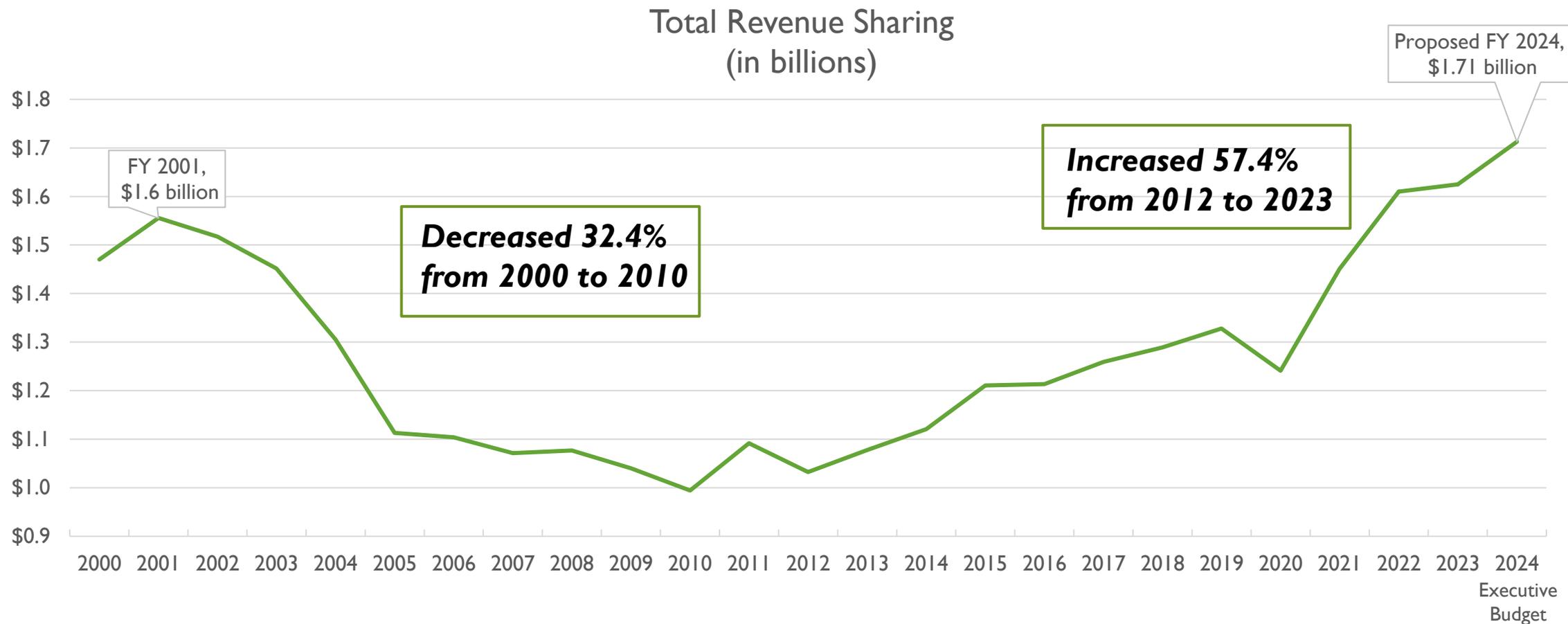
**New Tax  
Programs to  
invest in clean  
energy and  
manufacturing  
infrastructure  
as well as  
to support  
working families**

- \$200 million budgeted for a new Onshoring Clean Energy Supply Chain Tax Credit.
- \$48.4 million budgeted for Sales and Use Tax Exemption on the purchase of electric vehicles.
- \$24 million budgeted for new Child Care Workers Tax Credit.
- We look forward to working with legislative partners on these key tax policy initiatives.
- Treasury will likely have administrative needs depending on how final programs are structured.

**Fiscal Year  
2024  
Revenue  
Sharing  
Changes**



# State Funding for Local Government Exceeds 2001 Levels

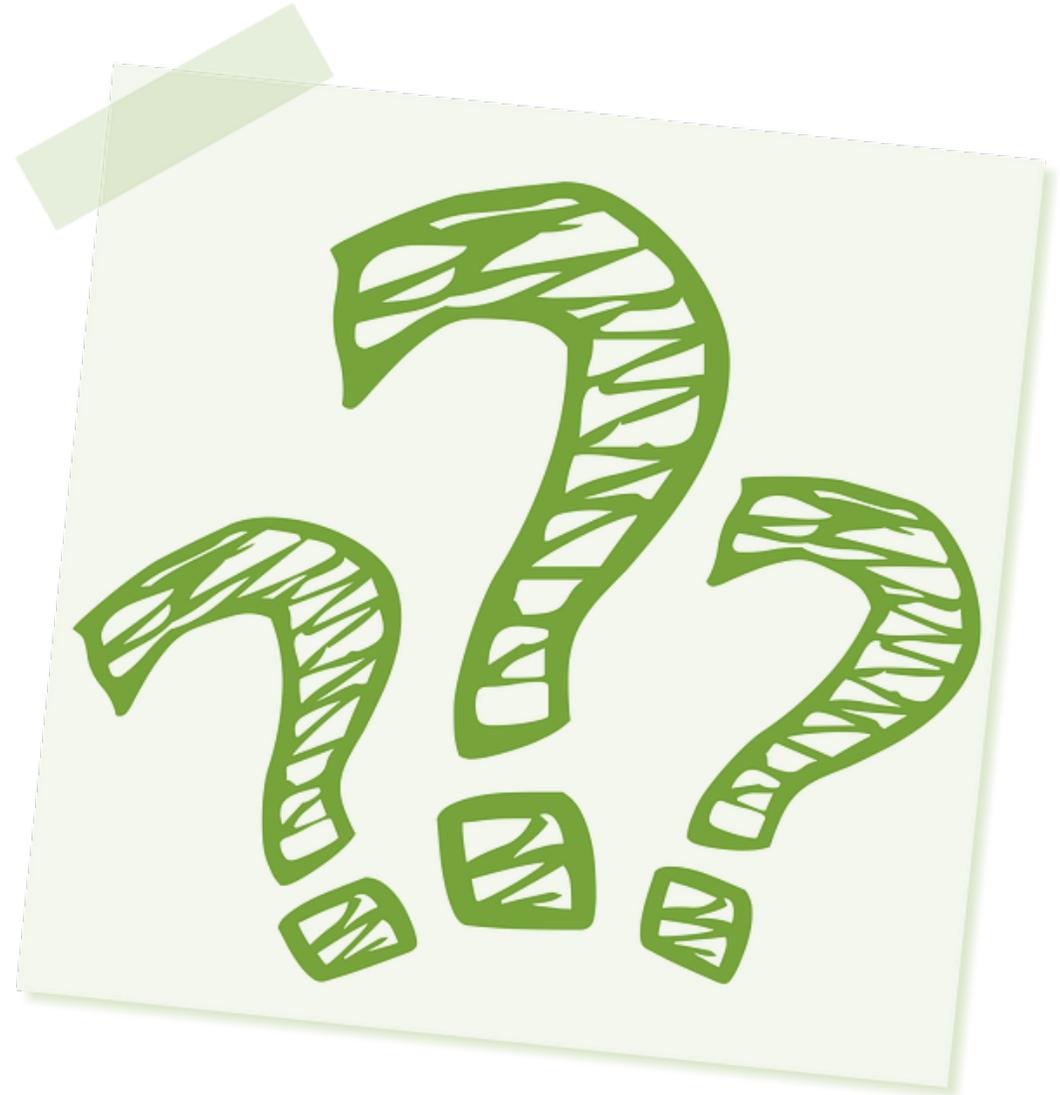


# FY24 Revenue Sharing Highlights

- Constitutional Revenue Sharing projected to be \$1.1 billion.
- City, Village, and Township Revenue Sharing (CVTRS) - recommended at \$327.1 million:
  - 5% ongoing increase
  - 5% one-time increase
  - 2% ongoing public safety increase
  - 5% one-time public safety increase
- County Revenue Sharing recommended at \$285.4 million:
  - 5% ongoing increase
  - 5% one-time increase
  - 2% ongoing public safety increase
  - 5% one-time public safety increase
- Financially Distressed Cities, Villages, or Townships (FDCVT) program maintained at \$2.5 million.

# Questions

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# Appendix: Proposed policy changes

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SUMMARY OF PROPOSED CHANGES TO RETIREMENT INCOME  
TREATMENT AND EARNED INCOME TAX CREDIT



# Retirement Income Current Law

- Treatment is based on the year the taxpayer was born.
- Tier 1 – born prior to 1946
  - Deducts qualifying retirement or pension benefits.
  - All qualifying public benefits may be deducted with private benefits deductible up to \$56,961 on a single return, \$113,922 on a joint return.
- Tier 2 – born 1946 through 1952
  - Deduction of \$20,000 single/\$40,000 joint against all income.
- Tier 3 – born after 1952
  - At age 67, deduction of \$20,000 single/\$40,000 joint against all but the benefit of the deduction is reduced by amounts deducted for personal exemptions or Social Security included in AGI.

# Retirement Income Proposed Changes

Phased in return to treating all retirees like those born prior to 1946.

- Beginning in 2023, taxpayers with qualifying benefits would be able to choose to deduct those benefits.
- Those choosing to deduct retirement benefits would not take the deduction against all income, but the deduction against all income would remain an option.
  - **Tax year 2023** – those age 65 and older can deduct retirement benefits up to 25% of the limit imposed on private benefits for Tier I.
  - **Tax year 2024** – those age 62 and older could deduct retirement benefits up to 50% of the limit.
  - **Tax year 2025** – those age 59 and older could deduct up to 75% of the limit.
  - **Tax year 2026** – the deduction that currently applies to those born prior to 1946 would apply to all Michiganders with qualifying benefits.

# Retirement Income Changes Impact

- The proposal would save approximately 500,000 households an average of \$1,000 per year.
- Proposal protects School Aid Fund revenue.
- Impact by fiscal year:
  - FY 2023 -\$39 million
  - FY 2024 -\$175 million
  - FY 2025 -\$339 million
  - FY 2026 -\$455 million



# Earned Income Tax Credit for Working Families Increase

- Proposal would increase the Michigan EITC for Working Families to 30% of the federal EITC, up from 6%, beginning in tax year 2022.
- The EITC for Working Families provides support to low-income working families.
- Nearly 750,000 families would receive an average increase of almost \$550 each.
- Impact by fiscal year:
  - FY 2023 -\$384 million
  - FY 2024 -\$384 million
  - FY 2025 -\$384 million

# Previously Appropriated Grant Programs

Fiscal Year	Program	Funding
20	School Device Purchasing Program for distance learning	\$25 million
20	First Responder Hazard Pay Premiums	\$40 million
20	Hospitality Relief Fund	\$2.5 million
20	Coronavirus Relief Local Government Grants	\$150 million
20	Public Safety/Public Health Payroll Reimbursement	\$200 million
20 and 21	Disaster Flooding Relief Grants	\$33 million
21	MI Classroom Heroes Grants	\$75.5 million
21	Employee Assistance Fund	\$45 million
21	Futures for Frontliners	\$15 million
<b>22</b>	<b>Afflicted Business Relief</b>	<b>\$400 million</b>
<b>22</b>	<b>First Responder Training and Retention Grants</b>	<b>\$5 million</b>

Thank You!