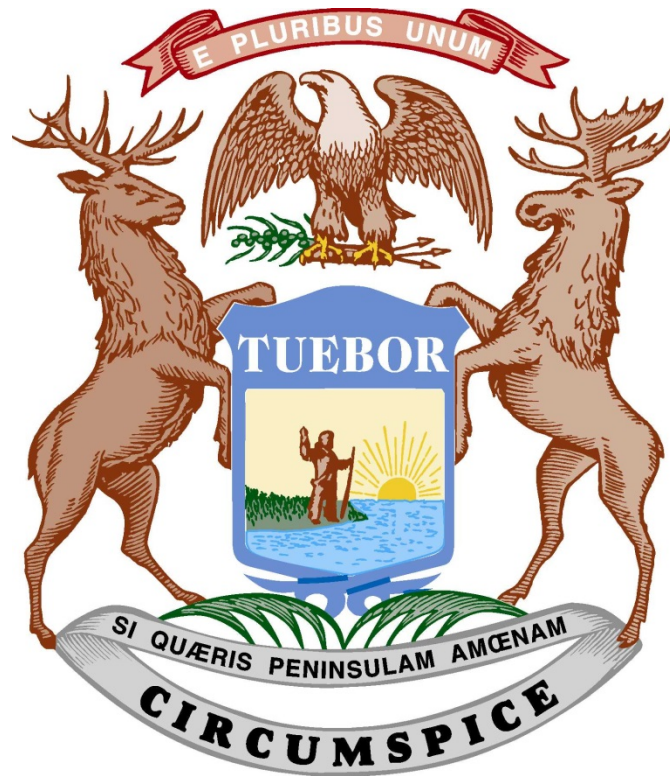


**Executive Budget  
Appendix on Tax  
Credits,  
Deductions, and  
Exemptions  
Fiscal Years 2018 and 2019**



**Executive Budget  
Appendix on Tax Credits,  
Deductions, and Exemptions  
Fiscal Years 2018 and 2019**



**State of Michigan  
Michigan Department of Treasury  
Gretchen Whitmer, Governor**

## ACKNOWLEDGMENTS

Scott Darragh compiled this report under the direction of Howard Heideman, Director of the Tax Analysis Division, Office of Revenue and Tax Analysis (ORTA). ORTA economists Denise Heidt, Andrew Lockwood, and Thomas Patchak-Schuster prepared significant contributions.

County equalization directors provided estimates of the value of tax-exempt property in their counties, county treasurers provided data for the taxes they administer, and city income tax directors provided estimates for other local tax credits, deductions, and exemptions. We would like to thank all of these officials for their assistance and cooperation.

The public act summaries in this report are intended to be brief overviews of the legislation enacted in 2016. They are not intended to provide any tax guidance and may not be relied upon as the official interpretation or position of the Michigan Department of Treasury.

This report is available on the Internet at <http://www.michigan.gov/treasury>.

Rachael Eubanks  
State Treasurer  
Department of Treasury

## TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	1
CHAPTER 1: INTRODUCTION TO TAX EXPENDITURES.....	2
Defining Tax Expenditures .....	2
Technical Issues .....	4
Measuring Tax Expenditures .....	5
Cautionary Notes and the Reliability of Estimates .....	6
Why Report Tax Expenditures?.....	7
CHAPTER 2: SUMMARY OF TAX EXPENDITURES .....	9
CHAPTER 3: TAX EXPENDITURE BUDGET .....	19
CHAPTER 4: BUSINESS PRIVILEGE TAX EXPENDITURES.....	28
Business Privilege Tax Expenditure Changes.....	28
Insurance Company Tax .....	28
Oil and Gas Severance Tax .....	29
Corporate Income Tax Expenditures .....	30
CHAPTER 5: CONSUMPTION TAX EXPENDITURES .....	33
Consumption Tax Expenditure Changes.....	33
Alcoholic Beverage Taxes .....	34
Tobacco Products Tax.....	35
State Convention Facility Development Tax .....	36
Sales and Use Tax Expenditures .....	36
CHAPTER 6: INDIVIDUAL INCOME TAX EXPENDITURES.....	43
Individual Income Tax Expenditure Changes.....	43
State Income Tax Expenditures .....	44

Federal Income Tax Expenditures .....	48
CHAPTER 7: TRANSPORTATION TAX EXPENDITURES .....	58
Transportation Tax Expenditure Changes.....	58
Aircraft Registration and Transfer Fee .....	58
Aviation Fuel Tax Expenditures .....	58
Marine Vessel Fuel Tax Expenditures .....	59
Motor Carrier Privilege Fee .....	59
Motor Fuel Taxes .....	59
Motor Vehicle Registration Fee .....	61
Watercraft Registration Fee .....	61
CHAPTER 8: PROPERTY AND OTHER LOCAL TAX EXPENDITURES .....	62
Property and Other Local Tax Expenditure Changes .....	62
Utility Property Tax Expenditures .....	64
General Property Tax .....	65
Iron Ore Specific Tax.....	70
Mobile Home Tax .....	77
Essential Services Assessment Tax.....	77
Real Estate Property Transfer Tax .....	78
Accommodations Tax .....	78
City Income Tax.....	78
City Utility Users' Tax.....	79

## LIST OF EXHIBITS

<u>Exhibit</u>		<u>Page</u>
1	Total Tax Expenditures, FY 2018 and FY 2019 .....	9
2	FY 2019 Distribution of Tax Expenditures .....	10
3	FY 2019 Tax Expenditures and Projected Revenue.....	11
4	Business Privilege Tax Expenditures .....	12
5	Consumption Tax Expenditures .....	13
6	Individual Income Tax Expenditures .....	15
7	Transportation Tax Expenditures .....	17
8	Local Property and Other Local Tax Expenditures.....	18
9	Tax Expenditure Budget, FY 2019.....	19
10	Comparison of State Tax and Direct Expenditures (From State Resources) for Selected Spending Categories, FY 2019.....	20
11	Fiscal Summary, Tax Expenditure Budget.....	21
12	Tax Expenditure Budget Detail.....	22
13	Selected Individual Income Tax Expenditures by Income Class, CY 2016.....	50
14	Effective Income Tax Rates by Income Class, CY 2016 .....	51
15	Tax Expenditures as a Percent of Adjusted Gross Income, CY 2016.....	52
16	Property Tax Credits by County, CY 2016 .....	53
17	Counties of Michigan .....	71
18	Estimated Taxable Value of Exempt Real and Personal Property by County, 2017 .....	72
19	General Property Tax – Estimated Exempt Acreage by County, 2017.....	76
20	Miscellaneous Local Taxes Kept by Local Units, 2016.....	80
21	Estimated Tax Expenditures From City Income Tax Personal Exemptions, 2016 .....	82
22	City Tax Rates and Exemption Allowances, 2016.....	83

**APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS  
(formerly TAX EXPENDITURE REPORT) PUBLICATION HISTORY**

<u>Fiscal Year</u>	<u>Date of Release</u>	<u>Lead Department</u>
1979 - 1980	January 1980	Management and Budget
1981 - 1982	March 1981	Management and Budget
1982 - 1983	April 1982	Management and Budget
1983 - 1984	July 1983	Management and Budget
1984 - 1985	July 1984	Management and Budget
1985 - 1986	December 1985	Management and Budget
1986 - 1987	October 1986	Management and Budget
1987 - 1988	November 1988	Management and Budget
1988 - 1989		
1989 - 1990	February 1991	Treasury
1990 - 1991		
1991 - 1992	March 1993	Treasury
1992 - 1993		
1993 - 1994	June 1994	Treasury
1994 - 1995		
1995 - 1996	April 1995	Treasury
1996 - 1997	March 1996	Treasury
1997 - 1998	June 1997	Treasury
1998 - 1999	May 1998	Treasury
1999 - 2000	February 2000	Treasury
2000 - 2001	April 2000	Treasury
2001 - 2002	July 2001	Treasury
2002 - 2003	April 2002	Treasury
2003 - 2004	March 2003	Treasury
2004 - 2005	August 2004	Treasury
2005 - 2006	May 2005	Treasury
2006 - 2007	May 2006	Treasury
2007 - 2008	September 2007	Treasury
2008 - 2009	November 2008	Treasury
2009 - 2010	December 2009	Treasury
2010 - 2011	January 2011	Treasury
2011 - 2012	October 2011	Treasury
2013 - 2014	July 2012	Treasury
2014 - 2015	June 2013	Treasury
2015 - 2016	December 2014	Treasury
2016 - 2017	June 2016	Treasury
2017 - 2018	September 2017	Treasury
2018 - 2019	July 2019	Treasury

## APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

### EXECUTIVE SUMMARY

#### Fiscal Years 2018 and 2019

The *Appendix on Tax Credits, Deductions, and Exemptions* (formerly entitled the *Tax Expenditure Appendix*) is a compilation of the revenue cost of the various tax credits, deductions, and exemptions contained in Michigan tax law. Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax credits, deductions, and exemptions along with the annual presentation of the *Executive Budget* to the Legislature. Throughout this report, credits, deductions, and exemptions will often be referred to as tax expenditures.

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as credits, deductions, exemptions, deferrals, exclusions, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system.

Total tax expenditures are projected to increase 3.9 percent between fiscal year (FY) 2018 and FY 2019, from \$40.33 billion to \$41.89 billion. Tax expenditures are divided into five broad categories: business privilege, consumption, individual income, local property, and transportation.

Business privilege tax expenditures are predicted to increase from \$1,005.1 million to \$1,021.1 million from FY 2018 to FY 2019. The estimates under the business privilege tax category reflect the credits, deductions, and exemptions in place under the corporate income tax and the credits which may be claimed under the Michigan business tax.

Consumption tax expenditures are predicted to increase 3.9 percent between FY 2018 and FY 2019, from \$18,727.1 million to \$19,448.4 million. Growth in tax expenditures related to health care services, prescription drugs, construction, and professional, scientific, and technical services account for most of the increase. Comparisons between the estimates for consumption tax expenditures contained in this report and those in prior editions of the *Tax Expenditure Appendix* are not valid due to changes in the methodology and data sources used to calculate tax expenditures related to services.

Individual income tax expenditures are predicted to rise from \$9,877.7 million in FY 2018 to \$10,456.2 million in FY 2019, a 5.9 percent increase. In recent tax years the income tax adjustment for income attributable to another state has been volatile, resulting in volatility of the estimated income tax expenditure.

Local tax expenditures are predicted to increase 2.2 percent between FY 2018 and FY 2019, rising from \$10,656.7 million to \$10,896.2 million. The value of local tax exemptions will rise as property values stabilize and begin to increase.

Transportation tax expenditures are predicted to increase by 0.4 percent between FY 2018 and FY 2019, from \$64.23 million to \$64.51 million.



## CHAPTER 1

### INTRODUCTION TO TAX EXPENDITURES

Section 1 of Public Act 72 of 1979 requires the Governor to submit a report on specific tax credits, deductions, and exemptions along with the annual presentation of the *Executive Budget* to the Legislature:

The governor, with the annual budget message to the legislature, shall report, at a minimum, the tax credits, deductions, and exemptions enumerated in this act. The message shall include tax credits, deductions, and exemptions by budget and also shall contain a separate report on tax credits, deductions, and exemptions in total, which may be printed as an appendix to the budget. The department of treasury shall furnish these items to the governor for inclusion in the report as required by this act.

The *Appendix on Tax Credits, Deductions, and Exemptions* is a compilation of the revenue cost of the various tax credits, deductions, and exemptions contained within the Michigan state and local tax structure. These provisions are more commonly known as tax expenditures and will be referred to as tax expenditures in this report. When known, the number of taxpaying units taking advantage of a given tax expenditure is also included.

This *Appendix* is divided into eight chapters. Chapter 1 discusses the definition and measurement of tax expenditures. Chapter 2 presents a summary of tax expenditures by type of tax. Chapter 3 lists tax expenditures by budget category. Chapters 4 through 8 examine the five main tax expenditure categories in greater detail: business privilege, consumption, individual income, transportation, and local property. Chapters 4 through 8 discuss changes in tax laws and the reliability of tax expenditure estimates. In addition, a brief description of each tax expenditure is provided.

#### Defining Tax Expenditures

Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as credits, deductions, exemptions, deferrals, exclusions, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system. For economic purposes, it makes no difference whether a policy objective is pursued through direct spending or through the tax code. For example, a tax credit of 50 percent of the amount spent on health care by individuals is exactly the same as a spending program that pays 50 percent of health care expenses, since both reduce the effective cost of health care by 50 percent.

Classifying items as tax expenditures is a subjective process. Some argue that the tax expenditure definition should be as broad as possible, encompassing all deductions or credits that reduce the taxable base from 100 percent of income or wealth. Others recommend a narrower definition that

includes only those tax deductions or credits that are adjustments to the “normal” or appropriate tax structure. The narrow tax expenditure definition reserves the term tax expenditure for items that are substitutes for direct spending. This report includes statutory credits, deductions, and exemptions, a broad concept than tax expenditures, and this broader approach includes several tax provisions that many would consider adjustments necessary to obtain the appropriate tax base, such as the exemption for food under the sales tax.

Changes in law can affect revenues and not involve a tax expenditure. For example, reductions in tax rates would generally reduce tax revenues but do not fit the definition of a tax expenditure. Changes in the way the tax law apportions income between states would also not qualify as a tax expenditure. Finally, a tax change that requires a change in the recognition of income between subsidiaries (perhaps through unitary or separate reporting) or the recognition of expenses between a client and an employment agency would not be tax expenditures.

Traditionally, tax expenditures have served two purposes. First, they redistribute the tax burden. Tax expenditures such as personal income tax exemptions, sales tax exemptions for food and prescription drug purchases, and the corporate income tax credit for small firms all shift the relative tax burden. These tax expenditures are designed to reduce the tax burden on low-income individuals and businesses. Second, tax expenditures create an incentive for individuals or firms to change their behavior. The earned income tax credit, at both the federal and state levels, is intended to increase work effort and attachment to the labor force and is a good example of a tax expenditure designed to influence taxpayer behavior.

Tax expenditures are so named because they can be viewed as alternatives to direct government appropriations or regulation. In fact, tax expenditures are very similar to direct appropriations in many respects. The main difference is that while appropriations achieve policy goals directly, tax expenditures achieve policy goals indirectly by changing relative prices or reducing costs. For example, the government may help the poor directly by providing food stamps. Alternatively, the government can exempt food from the sales tax, which lowers the cost of food purchases relative to other goods. This will aid poorer residents because they spend a greater percentage of their income on basic needs such as food, which is not taxed.

However, the allocation of government resources through the tax system suffers from some drawbacks. First, because tax expenditures accomplish their goals indirectly, they may provide a less efficient means of targeting benefits than direct expenditures. Sometimes, the targeted group may not receive the benefits, or other groups who were not targeted originally may benefit. Second, policymakers tend to ignore tax expenditures during the budgeting process. Instead, they focus their attention almost strictly upon actual revenue and spending. They may spend less time considering potential new tax expenditures and revenue that might be collected by eliminating or reducing current tax expenditures. Finally, providing resources via tax expenditures may be more costly than through direct appropriation. Centralized purchasing of certain items such as prescription drugs or diabetic supplies by the state may result in a lower cost than if individuals purchase the items and then apply for a tax credit. On the other hand, the cost to governments of administering most tax expenditures is usually a fraction of the cost of administering direct spending programs.

Annual review of tax expenditures would encourage policymakers to rank all policy goals before deciding which should be funded, by how much, and by what means. Ideally, this review process would use three criteria in order to evaluate which tax expenditures are retained. First, the effectiveness of the specific tax expenditure should be evaluated. Does it accomplish its objective at the lowest cost without unintended outcomes? Second, the tax expenditure should be more effective relative to alternatives such as direct spending or regulation. Finally, the relative importance of the tax expenditure and its goals should be examined and compared to direct spending actions. This report does not attempt to evaluate each tax expenditure according to these criteria. It is designed to aid policymakers in evaluating the efficiency, effectiveness, and relative importance of each tax expenditure.

## **Technical Issues**

### **State Versus Federal Tax Expenditures**

The starting point in calculating Michigan taxable income is the federal Internal Revenue Code definition of adjusted gross income (AGI). As a result, the exclusions and deductions used in the calculation of federal AGI also reduce state income tax liability. Exclusions or deductions from federal AGI that Michigan does not disallow specifically are classified as federal tax expenditures. This classification does not mean that federal tax expenditures are outside the control of state government. Michigan could require that specific federal tax expenditures be added back to AGI in calculating Michigan taxable income.

### **State Versus Local Tax Expenditures**

This report also distinguishes between state tax expenditures (associated with taxes collected by the state government) and local tax expenditures (associated with taxes collected by local governments). For the purposes of this report, the distinction between state and local government tax expenditures rests on which level of government collects the tax, not the level of government affected by the tax expenditure. In fact, some state tax expenditures have implications for local government budgets, while some local government tax expenditures have ramifications for the state government budget. For example, property tax exemptions granted for industrial or commercial development are classified as local tax expenditures. These local property tax exemptions also have state budget implications because they reduce state education tax revenue and reduce taxable value per pupil and thus increase state aid payments to local school districts through the state's formula for providing funds to K-12 education.

### **Income Tax Personal Exemption**

For tax year 2016, individual Michigan taxpayers could claim a \$4,000 personal exemption for themselves and each of their dependents. The personal exemption is classified as a tax expenditure in this report. Some contend that the exemption is essential for determining an appropriate income tax base and should not be considered a tax expenditure.

## **Industrial Processing Exemption From Sales Tax**

The levy of a “pure” retail sales tax takes place only at the retail level, that is, sales to the final consumer. Goods or services used in the production of consumer goods are exempt from this pure retail sales tax. States differ as to the business purchases they exempt from the sales tax. In Michigan, sales of goods used in industrial processing are exempt, although sales of goods used in business, but not in the actual manufacturing process, are subject to taxation. In this sense, the exclusion of non-retail sales from a pure retail sales tax base is not a tax expenditure even though it is a statutory exemption in the General Sales Tax Act.

### **Measuring Tax Expenditures**

The estimates in this report for fiscal year (FY) 2018 and FY 2019 are based on the most recent data available. Tax year 2016 income tax data (returns processed in the spring of 2017) are used, as are 2016 property and sales tax data, and tax year 2016 Corporate Income Tax (CIT) data. Most estimates of the cost (in terms of foregone revenue) of credits, deductions, exemptions, and other reductions are based on actual tax return data. However, many exemptions are not reported on tax returns. In these instances, tax expenditure estimates were derived from other sources.

The tax expenditure estimates *do not* necessarily reflect the amount of actual revenue that would be gained through the repeal of specific provisions. This is attributable to three economic assumptions (listed below) which have been made to ease the task of estimation. (These assumptions are consistent with those made at the federal level and used by other states.)

#### **Assumption 1: The elimination of a particular tax expenditure does not alter economic behavior.**

In many instances, tax expenditures are specifically designed to provide incentives for people and businesses to behave in a certain manner. Elimination of tax expenditures would most likely alter their behavior. For example, if the sales tax exemption for food were eliminated, the final price that consumers pay for food would increase and food purchases would decline. In this case, the elimination of the tax expenditure would be similar to a price increase. This drop in food purchases offsets some of the revenue gain from eliminating the exemption.

#### **Assumption 2: Each tax expenditure is independent.**

The repeal of certain tax expenditure provisions can increase or decrease the revenue losses associated with other provisions that are kept in place. For example, reducing or removing one property tax exemption may allow firms to take greater advantage of other exemptions, offsetting at least some of the original revenue impact.

**Assumption 3: The elimination of tax expenditures does not affect overall macroeconomic conditions.**

In principle, repeal or enactment of major tax expenditure provisions would have some impact on the economy. For example, imposing the sales tax on services or repealing the personal income tax exemption may significantly reduce income levels and affect taxpayers' spending which would affect the macro economy. However, marginal changes in particular provisions are unlikely to have a significant impact on overall income levels and rates of economic growth.

In essence, each tax expenditure estimate is an isolated estimate. That is, each estimate assumes implicitly that no other tax expenditures exist (i.e., there is no interaction) and that all other factors remain constant (i.e., taxpayers do not change their behavior and the repeal of the provision does not affect the overall economy). Because this report ignores many of these factors to simplify estimation, actual state revenue gains from eliminating specific tax expenditures would generally fall short of the estimates.

**Cautionary Notes and the Reliability of Estimates**

In many instances, this report aggregates individual tax expenditure estimates. However, due to the simplifying assumptions that have been made, aggregating various tax expenditure estimates in order to measure the cost of changing all of them simultaneously will not be accurate. The estimated revenue gain from simultaneously eliminating two tax expenditures will be less than the sum of the cost of the two measured separately. Therefore, the reader is cautioned regarding interactions between tax expenditures.

The reader is also cautioned about comparing tax expenditure estimates across years. Substantial changes in federal, state, and local tax laws occur each year that affect the number, type, and magnitude of tax expenditures. In addition, measurement techniques may also vary from year to year, depending on the available data.

Tax expenditure estimates that appear in this report have different levels of reliability depending on the accuracy of the data and the estimation procedure employed. Chapters 4 through 8 denote the reliability of tax expenditure estimates included in the respective chapters. High reliability implies that the estimate should be relatively accurate. If the estimate does not approximate closely the actual value of the tax expenditure, it is most likely incorrect by a relatively small margin. Conversely, low reliability implies that the actual value could be much greater or smaller and that the range of possible values is large. Reliability indicators are as follows:

### **1. High reliability level.**

This category is reserved for estimates that were derived using actual recent tax return data. The higher education tax expenditure, which is based on recent income tax return data, is an example of an estimate that is accurate and highly reliable.

### **2. Average reliability level.**

Tax expenditure estimates in this category were also based on tax return data. However, specific economic assumptions were necessary to derive these estimates because less recent data or sample data were used. The personal exemption from city income taxes is an example of an estimate with average reliability. Estimates were based on a recent survey of city treasurers. Some city estimates were carried forward from last year, while other estimates were based on rounded figures. While this will affect the precision of the total estimate, the impact should be relatively small.

### **3. Low reliability level.**

This category is reserved for estimates that are imprecise. Estimates in this category were based on highly aggregated (national) data, required restrictive assumptions, or used poor non-tax data sources. For example, federal income tax expenditure estimates have a low degree of reliability because they were based on national tax expenditure data apportioned to Michigan.

## **Why Report Tax Expenditures?**

Some economists argue that a regular periodic evaluation of tax expenditures should become common practice. Unlike fixed appropriations, tax expenditures are open-ended entitlements: if people or firms qualify for an exemption, they receive it. In periods of recession, tax expenditures are rarely re-examined as budget cuts are typically focused around direct spending. When the economy improves, both direct spending and tax expenditures tend to increase as legislators can afford to be more generous.

According to the Advisory Commission on Intergovernmental Relations (ACIR), there are at least three reasons why tax expenditures should be reviewed periodically:

### **1. Tax Equity.**

Reviewing tax expenditures helps to ensure both vertical and horizontal equity in the tax structure. Horizontal equity refers to taxpayers in similar income groups, while vertical equity refers to taxpayers in different income groups. If a tax system that relies on voluntary compliance is to work, people must regard that system as equitable.

## **2. Fiscal Discipline.**

Adopting regular tax expenditure reporting gives policymakers more information regarding available resources and how these resources are being used. All state programs, whether they are funded through direct or indirect spending, should work in unison so that particular policy objectives can be attained.

## **3. Political Accountability.**

By mandating a periodic review of the tax code, state lawmakers would foster a public discussion about how the tax system should be designed. In addition, lawmakers would indicate publicly whether they support or oppose certain tax expenditures, much like the appropriations process.

The Michigan Legislature has recognized these potential problems and places sunset dates on some new tax expenditures, or requires a report on the activity related to the tax break. In addition, the annual publication of this report provides an itemization of tax expenditures along with their cost.

Finally, the inclusion of any item as a tax expenditure should not be viewed as an expression of support for or objection to any particular tax policy. As noted above, tax expenditures represent spending done outside of the annual appropriation process. While a periodic review of tax expenditures is encouraged as a way to better conduct public policy, the inclusion of a particular credit, deduction, or exemption in this report does not signify any conclusion regarding the public policy merit of that particular tax expenditure.

## CHAPTER 2

### SUMMARY OF TAX EXPENDITURES

Chapter 2 lists tax expenditures by the tax categories business privilege, consumption, individual income, transportation, local property, and other local tax expenditures. Chapter 2 also includes aggregated tax expenditures. As noted earlier, aggregated measures of tax expenditures should be viewed with caution. The independence assumption underlying individual tax expenditure estimates is unrealistic and, if relaxed, aggregated figures would likely decrease.

Total tax expenditures are projected to increase from \$40.331 billion in FY 2018 to \$41.886 billion in FY 2019, a 3.9 percent increase (see Exhibit 1). The overall increase in tax expenditures was concentrated in consumption and individual income tax expenditures.

**Exhibit 1**  
**Total Tax Expenditures, FY 2018 and FY 2019**

<u>Tax Category</u>	<u>FY 2018 (000)</u>	<u>FY 2019 (000)</u>	<u>Change (000)</u>
Business Privilege	\$1,005,100	\$1,021,100	\$16,000
Consumption	18,727,093	19,448,407	721,314
Individual Income	9,877,690	10,456,230	578,540
Property	10,404,344	10,641,400	237,056
Other Local (City Income)	252,370	254,840	2,470
Transportation	<u>64,229</u>	<u>64,506</u>	<u>277</u>
<b>TOTAL</b>	<b>\$40,330,826</b>	<b>\$41,886,483</b>	<b>\$1,555,657</b>

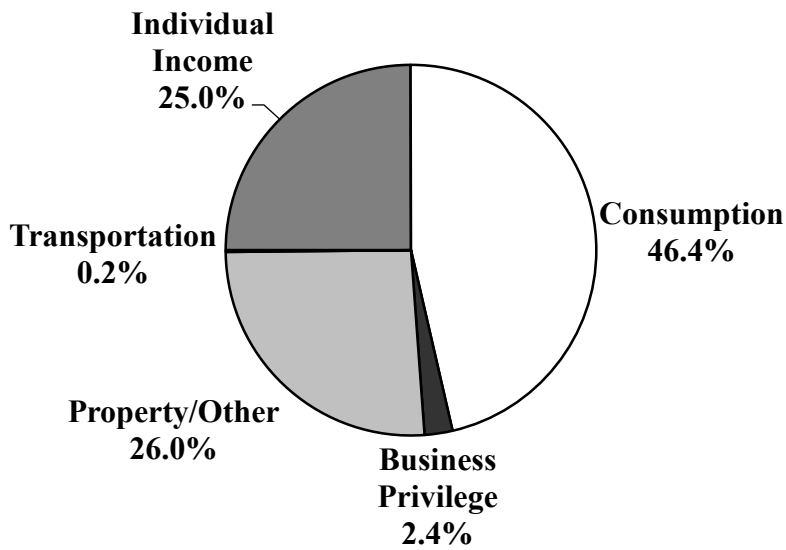
Totals may differ slightly due to rounding.

Most tax expenditures result from deductions, exemptions, or credits from consumption, income, and property taxes (see Exhibit 2). For FY 2019, consumption tax expenditures comprise 46.4 percent of total tax expenditures, while income tax expenditures comprise 25.0 percent and property and other local taxes comprise 26.0 percent. Not surprisingly, taxes that generate



significant revenue are also associated with large tax expenditures (see Exhibit 3). Most notable are consumption tax expenditures resulting from the exemptions for food, services, and industrial processing.

**Exhibit 2**  
**FY 2019 Distribution of Tax Expenditures**



Total may not equal 100 percent due to rounding.

**Exhibit 3**  
**FY 2019 Tax Expenditures and Projected Revenue**  
**(millions of dollars)**

<u>Tax Category</u>	<u>Tax Expenditure</u>	<u>Projected Revenues*</u>	<u>Percent of Revenues</u>
Business Privilege			
Oil and Gas Severance	\$5.3	\$26.0	20.4%
Corporate Income/MBT	999.6	513.7	194.6%
Consumption			
Total Alcohol	0.1	227.1	0.0%
Cigarette and Tobacco	18.1	905.1	2.0%
Sales and Use	19,430.2	10,650.7	182.4%
Individual Income Tax	7,241.4	10,278.4	70.5%
Transportation			
Aviation Fuel	4.0	5.3	75.9%
Gasoline	39.4	1,218.6	3.2%
Diesel Fuel	6.1	245.6	2.5%
Motor Vehicle Registration	14.2	1,327.9	1.1%
City Income Tax	254.8	578.0	44.1%
<b>TOTAL</b>	<b>\$28,013.3</b>	<b>\$25,976.4</b>	<b>107.8%</b>

\*From Consensus Revenue Estimating Conference, May 2019. City income taxes are not a consensus estimate.

Exhibits 4 through 8 provide a breakdown of individual tax expenditures across the five tax categories. An asterisk denotes a new tax expenditure or one that has been modified by legislation since the publication of the previous report. For more detailed information regarding these changes, consult the specific chapter relating to the tax expenditure.

**Exhibit 4**  
**Business Privilege Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2018</u> <u>(000)</u>	<u>FY 2019</u> <u>(000)</u>
Insurance Company		
Disability Insurance Exclusion	\$9,800	\$10,300
Michigan Association and Facilities Credit	0	\$0
Michigan Examination Fees Credit	5,400	5,700
Supplemental Workers' Compensation	200	200
<b>SUBTOTAL</b>	<b>\$15,400</b>	<b>\$16,200</b>
Oil and Gas Severance Tax		
Marginal Wells	\$4,200	\$4,400
Public Land	900	900
<b>SUBTOTAL</b>	<b>\$5,100</b>	<b>\$5,300</b>
Corporate Income Tax		
Foreign Dividends Income Exclusion	\$225,500	\$232,900
Government Securities' Income Exclusion	600	700
Income from Extractive Activities Deduction	600	600
Small Business Alternate Tax Credit	5,500	5,800
<b>SUBTOTAL</b>	<b>\$232,200</b>	<b>\$240,000</b>
Michigan Business Tax Certificated Credits		
Brownfield Redevelopment Credit	43,400	37,100
Farmland Preservation Credit	1,500	1,500
Historic Preservation Credit	8,800	10,700
Michigan Economic Growth Authority (MEGA)	550,300	565,700
MEGA Polycrystalline Silicon Manufacturing	39,600	37,400
Renaissance Zone Credit	14,300	12,000
Michigan Business Tax Non-Certificated Credits		
Compensation Credit and Investment Tax Credit	48,600	49,000
Personal Property Tax Credit	20,400	20,600
Research and Development Credit	16,200	16,300
Small Business Credit	300	300
Other Non-Certificated Credits	9,000	9,000
<b>SUBTOTAL</b>	<b>\$752,400</b>	<b>\$759,600</b>
<b>TOTAL</b>	<b>\$1,005,100</b>	<b>\$1,021,100</b>

**Exhibit 5**  
**Consumption Tax Expenditures**

<b><u>Tax or Tax Expenditure</u></b>	<b><u>FY 2018</u></b> <b><u>(000)</u></b>	<b><u>FY 2019</u></b> <b><u>(000)</u></b>
<b>Alcoholic Beverages Taxes</b>		
Beer Shipped Out-of-State	n.a.	n.a.
Damaged Beer	n.a.	n.a.
Homemade Wine	n.a.	n.a.
Small Brewer's Credit	\$90	\$90
<b>SUBTOTAL</b>	<b>\$90</b>	<b>\$90</b>
<b>Tobacco Products Tax</b>		
Bad Debt Deduction	\$400	\$400
Licensee Expenses	13,750	13,580
Sales on Military Bases and Reservations	4,180	4,140
<b>SUBTOTAL</b>	<b>\$18,330</b>	<b>\$18,120</b>
<b>Sales and Use Tax Expenditures</b>		
Air and Water Pollution	\$57,170	\$56,600
Aircraft Parts	14,080	14,220
Bad Debts	7,900	8,100
Cargo Aircraft	22,120	22,340
Church Construction	2,340	2,360
Church Cars	2,390	2,450
Collection Fee	29,970	30,960
Commercial Domestic Aircraft	4,020	4,060
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	30,060	29,310
Data Centers	16,000	16,400
Donated Property	n.a.	n.a.
Donated Vehicles	125	125
Driver Training	151	150
Employee Meals	19,560	20,080
Enterprise Zone Credit	n.a.	n.a.
Food	1,423,240	1,470,000
Food for Students	46,100	46,600
Government or Red Cross	173,000	178,000
Gratuity and Tips	81,600	84,300
Horticultural and Agricultural Products	284,000	293,000
Imported Property from Other States	1,790	1,830

**Exhibit 5 (Continued)**

<b>Tax or Tax Expenditure</b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
Industrial Processing	\$1,299,000	\$1,292,000
Interstate Communications	6,300	6,200
Interstate Trucks and Trailers	39,730	40,790
Investment Coins	2,800	2,770
Isolated Sales	n.a.	n.a.
Military PX Sales	533	522
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	102,000	104,000
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	5,490	5,640
Nonprofit Organizations	187,200	193,400
Nonprofits Sales under \$5,000	n.a.	n.a.
Nonresident Merchandise Transfer	n.a.	n.a.
Nonresident Property	n.a.	n.a.
Ophthalmic and Orthopedic Products	64,270	66,200
Prescription Drugs	675,000	713,000
Radio and TV	6,280	6,220
Rail Rolling Stock	6,890	6,840
Residential Utilities	164,500	173,000
Returned Vehicles	1,100	900
Sales of Business	n.a.	n.a.
Sale of Water	73,200	73,900
Services (Including Nonprofits)	13,739,590	14,337,250
Small Out-of-State Purchases	n.a.	n.a.
Tax on the Difference - Vehicles	35,320	41,220
Telephone Services	21,880	22,100
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	40,750	41,570
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	21,224	21,790
<b>SUBTOTAL</b>	<b>\$18,708,673</b>	<b>\$19,430,197</b>
<b>TOTAL</b>	<b>\$18,727,093</b>	<b>\$19,448,407</b>

Note: Total may differ from Exhibit 1 due to rounding.

**Exhibit 6**  
**Individual Income Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2018</u> <u>(000)</u>	<u>FY 2019</u> <u>(000)</u>
State Income Tax		
Adjustments to Income (except military)	\$0	\$0
College Savings Accounts	13,590	14,500
Dependent Exemption	19,250	19,440
Disabled Veteran Exemption	300	400
Earned Income Credit	117,940	122,070
Farmland Credit	49,520	50,760
Historic Preservation Credit	60	50
Home Heating Assistance Credit	80	80
Homestead Property Tax Credit	529,820	743,260
Income Attributable to Another State	3,268,530	3,399,270
Income from Extractive Activities Deduction	800	800
Income Tax Paid to Other State Credit	61,050	63,440
Military Pay	26,590	27,690
Miscellaneous Deductions	9,000	8,820
Net Operating Loss Deduction	5,000	4,750
Net Adjustment for Gains/Losses	46,850	48,260
Pension and Retirement Benefits Deduction	500,000	484,000
Personal Exemption	1,392,700	1,405,750
Renaissance Zones	980	930
Senior Investment Income Deduction	9,140	9,290
Senior Standard Deduction	290,000	346,000
Social Security Benefits	428,100	445,230
Special Exemption	14,190	14,330
State and Local Income Tax Refunds	21,950	22,170
Tribal Tax Agreements	n.a.	n.a.
U.S. Government Bond Interest Deduction	10,050	10,150
<b>TOTAL STATE</b>	<b>\$6,815,490</b>	<b>\$7,241,440</b>
Federal Adjustments		
Accelerated Depreciation	\$68,630	\$30,870
Employer Contributions to Insurance	1,085,680	1,219,620
Employer Pension Plans	638,210	780,980
Federal Adjustments to Income	48,220	53,600
Fellowships and Scholarships	22,540	22,710
Gain on Sale of Primary Residence	\$245,570	\$219,300
Income Maintenance Benefits	3,860	3,790

**Exhibit 6 (Continued)**

<b><u>Tax or Tax Expenditure</u></b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
Federal Adjustments (continued)		
Individual Retirement Accounts	349,520	324,200
Interest on Life Insurance Savings	108,970	70,260
Medical Savings Account	33,820	44,770
Railroad Retirement Benefits	1,390	1,230
Social Security Benefits	315,670	289,550
Student Loan Deduction	12,940	15,550
Veterans' Benefits	76,820	90,450
Workers' Compensation	50,360	47,910
<b>TOTAL FEDERAL</b>	<b>\$3,062,200</b>	<b>\$3,214,790</b>
<b>TOTAL STATE AND FEDERAL</b>	<b>\$9,877,690</b>	<b>\$10,456,230</b>

**Exhibit 7**  
**Transportation Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2018</u> <u>(000)</u>	<u>FY 2019</u> <u>(000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$323	\$325
Interstate Flight Refund	3,600	3,700
Marine Vessel Exemption	740	750
<b>SUBTOTAL</b>	<u>\$4,663</u>	<u>\$4,775</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$5,955	\$6,104
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	18,576	18,557
Fuel for Off-Road Use	1,500	1,550
Municipal Franchise Vehicles	1,788	1,770
Public Vehicles	17,682	17,510
Tribal Tax Agreements	n.a.	n.a.
<b>SUBTOTAL</b>	<u>\$45,501</u>	<u>\$45,491</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$700	\$725
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	13,350	13,500
<b>SUBTOTAL</b>	<u>\$14,050</u>	<u>\$14,225</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	\$15	\$15
<b>TOTAL</b>	<u>\$64,229</u>	<u>\$64,506</u>



**Exhibit 8**  
**Local Property and Other Local Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2018</u> <u>(000)</u>	<u>FY 2019</u> <u>(000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$41,800	\$44,900
Air and Water Pollution Control	130,000	130,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Disabled Veteran Homestead Exemption	22,500	23,200
Enterprise Zone Credit	0	0
Exempt Property - ESA	3,900	6,000
Fairground Property	n.a.	n.a.
Homestead Exemption	3,370,000	3,450,000
Homestead Exemption for Farm Property	178,000	181,600
Industrial Facilities Development	240,500	242,900
Mobile Homes	60,200	63,800
Neighborhood Enterprise Zones	28,600	29,200
Obsolete Property Rehabilitation	12,800	13,100
Personal Property - Indust./Commercial Ad Valorem	372,000	373,900
Personal Property - Industrial Facilities	71,300	72,000
Small Taxpayer Exemption and Eligible Manufacturing		
Personal Property	410,500	438,000
Poverty Exemption	9,100	9,300
Railroad Right-of-Way/Broadband Credit	61,844	62,400
Renaissance Zones	36,000	40,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,949,000	1,988,000
Tax Increment Financing	315,000	320,000
Taxable Value Cap	3,090,000	3,151,800
Water Softeners	1,300	1,300
<b>SUBTOTAL</b>	<b>\$10,404,344</b>	<b>\$10,641,400</b>
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$240,510	\$242,920
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	11,860	11,920
Supplemental Unemployment Benefits	n.a.	n.a.
<b>SUBTOTAL</b>	<b>\$252,370</b>	<b>\$254,840</b>
<b>TOTAL</b>	<b>\$10,656,714</b>	<b>\$10,896,240</b>

## CHAPTER 3

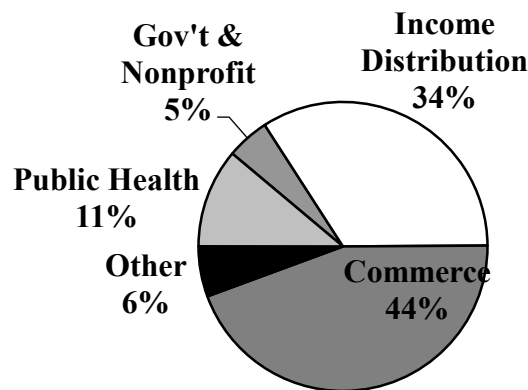
### TAX EXPENDITURE BUDGET

Chapter 3 illustrates the concept of a tax expenditure budget. This presentation organizes tax expenditures by the spending category that benefits from the expenditure rather than by the revenue source that finances it. Tax expenditures are grouped in categories similar to direct expenditures in the *Executive Budget* such as commerce, education, transportation, and natural resources. This allows for a comparison of funding between direct appropriations and tax expenditures for selected spending categories.

By a wide margin, the commerce and income distribution budget categories tend to receive most funding from tax expenditures (see Exhibit 9). Relative to direct spending, tax expenditures appear to be a preferred method to fund these objectives. In contrast, transportation and higher education are funded much more intensively via direct appropriations (see Exhibit 10).

Exhibits 11 and 12 provide an itemized breakdown of tax expenditures by spending category. These exhibits are a simple reorganization of the summary tables provided in Chapter 2; only the groupings are different.

**Exhibit 9**  
**Tax Expenditure Budget, FY 2019**



**Exhibit 10**  
**Comparison of State Tax and Direct Expenditures (From State Resources)**  
**for Selected Spending Categories, FY 2019**

<u>Spending Category</u>	<u>FY 2019 Tax Expenditure (000)</u>	<u>FY 2019 Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$343,760	\$95,757	\$439,517	78.2%
Commerce (LARA)	16,162,510	403,392	16,565,902	97.6%
Higher Education	606,370	1,546,206	2,152,576	28.2%
Health & Human Services	13,046,424	6,958,934	20,005,358	65.2%
Military Affairs	124,227	92,117	216,344	57.4%
Natural Resources	58,000	319,048	377,048	15.4%
Transportation	76,721	3,469,294	3,546,015	2.2%
<b>TOTAL</b>	<b>\$30,418,012</b>	<b>\$12,884,747</b>	<b>\$43,302,760</b>	<b>70.2%</b>

Notes:

1. FY 2019 expenditure figures from *FY 2018-19 Appropriations Report, Part II - Initial Appropriations*, Senate Fiscal Agency. Totals are from "State Spending from State Resources."
2. The Governor combined the Departments of Human Services and Community Health into the Department of Health and Human Services. Tax expenditures related to public health and income distribution have been combined here.

Note that Exhibit 10: (1) compares *own* state resources to tax expenditures (i.e., it ignores federal grants), and (2) *does not* include local tax expenditures and local direct expenditures. For example, the income distribution budget category does not include tax expenditures associated with the city income tax. Tax expenditures associated with the government and nonprofit budget category are also not included, because there is no comparable direct expenditure category.

**Exhibit 11**  
**Fiscal Summary, Tax Expenditure Budget**

<u><b>Budget Category</b></u>	<u><b>FY 2018</b></u> <u><b>(000)</b></u>	<u><b>FY 2019</b></u> <u><b>(000)</b></u>
Agriculture	\$831,420	\$853,922
Commerce	17,978,931	18,629,542
Education	1,090,960	1,117,370
Government and Nonprofit Organizations	1,960,921	2,001,231
Income Distribution	13,611,505	14,248,341
Military Affairs	109,463	124,227
Natural Resources	188,570	188,000
Public Health	4,482,899	4,647,129
Transportation	<u>76,157</u>	<u>76,721</u>
<b>TOTAL</b>	<b>\$40,330,826</b>	<b>\$41,886,483</b>

Note: Total may differ from Exhibit 1 due to rounding.  
 See Exhibit 12 for a detailed list of tax expenditures.

**Exhibit 12**  
**Tax Expenditure Budget Detail**

<b>Tax/Tax Expenditure</b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
<b>Agriculture</b>		
General Property Tax		
Agriculture Transfer	\$41,800	\$44,900
Homestead Exemption for Farm Property	178,000	181,600
Taxable Value Cap	278,100	283,662
Income Tax		
Farmland Development Credit (PA 116)	49,520	50,760
Sales and Use Taxes		
Horticultural or Agricultural Products	284,000	293,000
<b>TOTAL</b>	<b>\$831,420</b>	<b>\$853,922</b>
<b>Commerce</b>		
Alcoholic Beverage Taxes		
Small Brewer's Credit	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	400	400
Licensee Expenses	13,750	13,580
Income Tax		
Accelerated Depreciation	68,630	30,870
Income Attributable to Another State	3,268,530	3,399,270
Net Operating Loss Deduction	5,000	4,750
Net Adjustment for Gains/Losses	46,850	48,260
Renaissance Zone Credit	980	930
Insurance Company Retaliatory Tax		
Disability Insurance Exclusion	9,800	10,300
Michigan Association and Facilities Credit	0	0
Michigan Examination Fees Credit	5,400	5,700
Supplemental Workers' Compensation Credits	200	200
Corporate Income Tax		
Foreign Dividends Income Exclusion	225,500	232,900
Government Securities' Income Exclusion	600	700
Small Business Alternate Tax Credit	5,500	5,800
Michigan Business Tax		
Brownfield Redevelopment Credit	43,400	37,100
Compensation/Investment Tax Credits	48,600	49,000
Farmland Development Credit (PA 116)	1,500	1,500
Historic Preservation Credit	8,800	10,700

<b>Tax/Tax Expenditure</b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
<b>Commerce (Continued)</b>		
Michigan Economic Growth Authority (MEGA)	550,300	565,700
MEGA Polycrystalline Silicon Manufacturing	39,600	37,400
Personal Property Tax Credit	20,400	20,600
Renaissance Zone Credit	14,300	12,000
Research and Development Credit	16,200	16,300
Small Business Credit	300	300
Other Certificated Credits	9,000	9,000
Oil and Gas Severance Tax		
Marginal Wells	4,200	4,400
Property Tax		
Broadband Investment Credit	24,887	25,100
Enterprise Zone	0	0
Exempt Property - ESA	3,900	6,000
Industrial Facilities Development	240,500	242,900
Mobile Homes	60,200	63,800
Neighborhood Enterprise Zones	28,600	29,200
Obsolete Property Rehabilitation	12,800	13,100
Personal Property - Indust./Commercial Ad Valorem	372,000	373,900
Personal Property - Industrial Facilities	71,300	72,000
Small Taxpayer/Eligible Manufacturing Personal Prop.	410,500	438,000
Renaissance Zones	36,000	40,000
Tax Increment Financing	315,000	320,000
Taxable Value Cap	741,600	756,432
Water Softeners	1,300	1,300
Sales and Use Taxes		
Aircraft Parts	14,080	14,220
Bad Debts	7,900	8,100
Cargo Aircraft	22,120	22,340
Collection Fee	29,970	30,960
Commercial Domestic Aircraft	4,020	4,060
Communication and Telephone Exemption	30,060	29,310
Data Centers	16,000	16,400
Employee Meals	19,560	20,080
Gratuities and Tips	81,600	84,300
Imported Property from Other States	1,790	1,830
Industrial Processing	1,299,000	1,292,000
Interstate Telecommunications	6,300	6,200
Interstate Trucks and Trailers	39,730	40,790

<b>Tax/Tax Expenditure</b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
<b>Commerce (Continued)</b>		
Investment Coins	2,800	2,770
Newspapers, Periodicals, and Films	102,000	104,000
Radio and TV	6,280	6,220
Returned Vehicles	1,100	900
Sale of Water	73,200	73,900
Services (except education, health, and nonprofits)	9,375,830	9,845,000
Tax on the Difference - Vehicles	35,320	41,220
Telephone Services	21,880	22,100
Vehicle and Aircraft Transfers	\$40,750	\$41,570
Vending Machines	21,224	21,790
<b>TOTAL</b>	<b>\$17,978,931</b>	<b>\$18,629,542</b>
<b>Education</b>		
Income Tax		
College Savings Account	\$13,590	\$14,500
Fellowships and Scholarships	22,540	22,710
Higher Education/Public Contribution Credit	\$0	\$0
Property Tax		
Exempt Public Education Property	501,000	511,000
Sales Tax		
Services	553,830	569,160
<b>TOTAL</b>	<b>\$1,090,960</b>	<b>\$1,117,370</b>
<b>Government and Nonprofit Organizations</b>		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$323	\$325
Income Tax		
Historic Preservation Credit	60	50
U.S. Government Bond Interest Deduction	10,050	10,150
Motor Fuel Taxes		
Public Vehicles	17,682	17,510
Motor Vehicle Weight Tax		
Public and Nonprofit Vehicles	13,350	13,500
Oil and Gas Severance Tax		
Public Land	900	900
Property Tax		
Tax Exempt Property	1,448,000	1,477,000

<b>Tax/Tax Expenditure</b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
<b>Government and Nonprofit Organizations (Continued)</b>		
Sales and Use Taxes		
Church Cars	2,390	2,450
Church Construction	2,340	2,360
Government or Red Cross	173,000	178,000
Nonprofit Organizations	187,200	193,400
Services	105,611	105,571
Watercraft Registration Fee		
Publicly Owned Watercraft	15	15
<b>TOTAL</b>	<b>\$1,960,921</b>	<b>\$2,001,231</b>

#### **Income Distribution**

City Income Tax		
Nonresident Reduced Rate	\$240,510	\$242,920
Personal Exemption	11,860	11,920
General Property Tax		
Disabled Veteran Homestead Exemption	\$22,500	\$23,200
Homestead Exemption	3,370,000	3,450,000
Poverty Exemption	9,100	9,300
Taxable Value Cap	2,070,300	2,111,706
Income Tax		
Adjustments to Income (gains/losses and other)	0	0
Adjustments to Income (federal)	48,220	53,600
Dependent Exemption	19,250	19,440
Earned Income Tax Credit	117,940	122,070
Employer Contributions to Health and Life Insurance	1,085,680	1,219,620
Employer Pension Plans	638,210	780,980
Gain on Sale of Primary Residence	245,570	219,300
Home Heating Assistance Credit	80	80
Homestead Property Tax Credit (excluding veterans)	529,480	742,960
Income Maintenance Benefits	3,860	3,790
Individual Retirement Account	349,520	324,200
Interest on Life Insurance Savings	108,970	70,260
Miscellaneous Deductions	9,000	8,820
Other State Tax Credit	61,050	63,440
Pension and Retirement Benefits Deduction	500,000	484,000



<b>Tax/Tax Expenditure</b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
<b>Income Distribution (Continued)</b>		
Personal Exemption	1,392,700	1,405,750
Railroad Retirement Benefits	1,390	1,230
Senior Investment Income Deduction	9,140	9,290
Senior Special Deduction	290,000	346,000
Social Security Benefits (federal exclusion)	315,670	289,550
Social Security Benefits (in federal AGI)	428,100	445,230
Special Exemption	14,190	14,330
State and Local Income Tax Refunds	21,950	22,170
Student Loan Deduction	12,940	15,550
Workers' Compensation	50,360	47,910
Sales and Use Taxes		
Donated Vehicles	125	125
Food	1,423,240	1,470,000
Food for Students	46,100	46,600
Residential Utilities	164,500	173,000
<b>TOTAL</b>	<b>\$13,611,505</b>	<b>\$14,248,341</b>
<b>Military Affairs</b>		
Cigarette Tax		
Sales on Military Bases and Reservations	\$4,180	\$4,140
Income Tax		
Disabled Veteran Exemption	300	400
Military Pay	26,590	27,690
Veterans' Benefits	76,820	90,450
Veterans' Property Tax Credit	340	300
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	700	725
Sales and Use Taxes		
Military Post-Exchange Sales	533	522
<b>TOTAL</b>	<b>\$109,463</b>	<b>\$124,227</b>

<b>Tax/Tax Expenditure</b>	<b>FY 2018 (000)</b>	<b>FY 2019 (000)</b>
<b>Natural Resources</b>		
Income Tax		
Income from Extractive Activities Deduction	\$800	\$800
Corporate Income Tax		
Income from Extractive Activities Deduction	\$600	\$600
Property Tax		
Air and Water Pollution	130,000	130,000
Sales and Use Taxes		
Air and Water Pollution	57,170	56,600
<b>TOTAL</b>	<b>\$188,570</b>	<b>\$188,000</b>
<b>Public Health</b>		
Income Tax		
Medical Care Savings	\$33,820	\$44,770
Sales and Use Taxes		
Medical Services	3,704,319	3,817,519
Nonprofit Hospital Construction	5,490	5,640
Ophthalmic and Orthopedic Products	64,270	66,200
Prescription Drugs	\$675,000	\$713,000
<b>TOTAL</b>	<b>\$4,482,899</b>	<b>\$4,647,129</b>
<b>Transportation</b>		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,600	\$3,700
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,955	6,104
Evaporation and Loss Allowance	18,576	18,557
Fuel for Off-Road Use	1,500	1,550
Marine Vessel Fuel	\$740	\$750
Municipal Franchise Vehicles	1,788	1,770
Sales and Use Taxes		
Driver Training	151	150
Rail Rolling Stock	6,890	6,840
Utility Property Tax		
Railroad Right-of-Way	36,957	37,300
<b>TOTAL</b>	<b>\$76,157</b>	<b>\$76,721</b>

## CHAPTER 4

### BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and corporate income expenditures. Business privilege tax expenditures are projected to increase from \$1,005.1 million in FY 2018 to \$1,021.1 million in FY 2019. The reduction of tax credits and deductions under the corporate income tax results in much smaller tax expenditures than under the Michigan Business Tax (MBT).

- Estimate Reliability**
- (2) Small Business Alternative Tax Rate Credit, most Certificated Credits, Severance and Insurance Tax
  - (3) Other Corporate Income Tax and MBT Tax Expenditures

This year's report includes tax expenditures for the corporate income tax, which replaced the MBT for most corporate taxpayers effective January 1, 2012. A big difference between the corporate income tax and the MBT is that business entities other than traditional corporations (sole proprietorships, partnerships, S-corporations, and other flow-through entities) are not taxed under the corporate tax. The income from flow-through entities is taxable to the owners under the individual income tax. Other tax expenditure estimates from business privilege taxes were based on 2016 data. Insurance and oil and gas severance tax expenditure estimates are also reliable because they were based on recent data collected by the state.

#### Business Privilege Tax Expenditure Changes

**Public Act 118 of 2016** amended the Michigan Renaissance Zone Act to allow a business located in a renaissance zone designated after November 30, 2010 by the Michigan Strategic Fund under section 8a(2) of the Act to make a payment in lieu of taxes to any taxing jurisdiction in the zone.

**Public Acts 277 and 278 of 2016** amended the Michigan Business Tax Act and the Income Tax Act of 1967, respectively, to eliminate insurance company credits for amounts paid for the Michigan Assigned Claims Plan.

**Public Act 426 of 2016** amended the Michigan Business Tax Act to allow an estate or trust to claim an MBT farmland preservation credit that had formerly been claimed under the income tax act by the farmland owner who has died.

#### Insurance Company Tax

Effective January 1, 2012, the MBT on Michigan insurance premiums was replaced by a 1.25 percent tax in the Income Tax Act. Foreign companies are also subject to a retaliatory tax, which requires them to pay the same tax that a Michigan-based insurer would have to pay in the firm's

home state. Foreign insurers pay the premiums tax or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$376.5 million for FY 2019; revenue goes to the State General Fund.

**FY 2019 Estimate**

<b>Captive Insurance Companies</b>	n.a.
Exempts companies authorized under the Insurance Code as captive insurance companies or special purpose financial captives from the MBT and its gross premiums tax.	
<b>Disability Insurance Exclusion</b>	\$10,300,000
Exempts the first \$190,000,000 of disability insurance premiums written in Michigan.	
<b>Michigan Examination Fees Credit</b>	\$5,700,000
Allows an insurance company to claim a credit equal to 50 percent of the examination fees paid by the company during the year under section 224 of the insurance code.	
<b>Workers' Disability Supplemental Benefit (WDSB) Credit</b>	\$200,000
Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Prior to the identical Single Business Tax (SBT) credit, firms were reimbursed through the appropriations process for these payments.	

**Oil and Gas Severance Tax**

Enacted in 1929, the oil and gas severance tax is levied on the privilege of producing oil and gas. The base is the gross cash market value of oil and gas that is severed from the ground. The tax rate is 6.6 percent for normal oil production, 5.0 percent for natural gas production, and 4.0 percent for stripper wells, marginal properties, and production achieved through carbon dioxide secondary or enhanced recovery projects. The projected yield is \$26.0 million for FY 2019; revenue goes to the State General Fund.

**FY 2019 Estimate**

<b>Marginal Wells</b>	\$4,400,000
Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.	
<b>Public Land</b>	\$900,000
Exempts oil and gas severed from publicly-owned lands from taxation.	

## Corporate Income Tax Expenditures

Public Act 38 of 2011 added a 6.0 percent tax on corporate income to the Income Tax Act. The new tax took effect on January 1, 2012, and applies only to C corporations and entities taxed as C corporations for federal income tax purposes, with the tax imposed on federal taxable income subject to allocation or apportionment. A significant difference between the MBT and the new corporate tax is the elimination of most tax credits. The only credit enacted against the corporate income tax is the small business alternative credit. Financial institutions are not taxed on business income or gross receipts, but are subject to a tax of 0.29 percent on their apportioned net capital.

An entity that has received, has been approved before 2012 to receive, or has been assigned certain certificated tax credits under the MBT may elect to continue to file and pay under the MBT in lieu of the corporate income tax. Examples of the remaining certificated credits are the photovoltaic credit, the MEGA employment tax credit, polysilicon credit, select renaissance zone credits, battery pack credits, historic preservation credit, brownfield redevelopment credit, film production and infrastructure credits, and the farmland preservation credit.

Revenues from the corporate income tax were estimated at the January 2019 Consensus Conference to be \$1,186.4 million in FY 2019. The net revenues from the MBT were estimated at -\$607.7 million in FY 2019, driven mainly by certificated credits with some other factors contributing.

Included with the estimated reduction in corporate tax revenue associated with the small business alternative credit are estimates of the remaining certificated credits that will be claimed by those taxpayers that continue to file under the MBT.

	<u><b>FY 2019 Estimate</b></u>
<b>Brownfield Redevelopment Credit (MBT Certificated Credit)</b>	\$37,100,000
Provides credit for a portion of the cost for investments made for the demolition, construction, restoration, alteration, renovation, or improvement of buildings located in Brownfield development zones.	
<b>Compensation and Investment Tax Credits (Non-Certificated Credits)</b>	\$49,000,000
The compensation credit is equal to 0.370 percent of the taxpayer's Michigan compensation. The investment tax credit (ITC) is equal to 2.90 percent of Michigan investment. The sum of the compensation credit and ITC cannot exceed 52 percent of the MBT liability.	
<b>Farmland Preservation Credit (MBT Certificated Credit)</b>	\$1,500,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Public Act 451 of 1994. Unlike most MBT certificated credits, an agreement for this credit may be entered into after 2011.	

	<u><b>FY 2019 Estimate</b></u>
<b>Foreign Dividends Exemption (Corporate Income)</b>	\$232,900,000
Excludes dividends and royalties received from a foreign entity or person from taxable income.	
<b>Government Securities Interest Exemption (Corporate Income)</b>	\$700,000
Excludes interest income from obligations or securities of the federal government, State of Michigan or Michigan governmental unit.	
<b>Historic Preservation Credit (MBT Certificated Credit)</b>	\$10,700,000
Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site.	
<b>Income from Extractive Activities Deduction (Corporate Income)</b>	\$600,000
The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes.	
<b>Michigan Economic Growth Authority (MEGA) Credits (MBT Certificated Credit)</b>	\$565,700,000
Provides numerous credits for new or expanding firms based on additional payroll and health care costs or additional business activity costs associated with an expansion or new location. Credits are also available for job retention.	
<b>MEGA Polycrystalline Silicon Manufacturing Credit (MBT Certificated Credit)</b>	\$37,400,000
Provides for a single twelve-year MEGA credit for the manufacture of polycrystalline silicon to be used for solar cells and semiconductor microchips beginning with a tax year that begins after December 31, 2011. The credit's MEGA agreement must have been entered by December 31, 2008.	
<b>Other Non-Certificated Credits</b>	\$9,000,000
These include the Arts and Culture, Large Food Retailer, Low-Grade Hematite, and Worker's Disability Supplemental Benefit credits.	
<b>Personal Property Tax Credit (Non-Certificated Credit)</b>	\$20,600,000
The personal property tax credit provides three separate refundable credits for personal property taxes paid in the tax year. The credits equal: (1) 35 percent of eligible industrial personal property taxes; (2) 13.5 percent of State Utility Tax Act taxes on eligible telephone equipment; and (3) 10 percent of the personal property tax paid on an eligible natural gas pipeline.	

**FY 2019 Estimate**

<b>Renaissance Zone Credit (MBT Certificated Credit)</b>	\$12,000,000
Provides a credit for the portion of tax attributable to business activity in a renaissance zone designated based on a development or qualified collaboration agreement.	
<b>Research and Development Credit (Non-Certificated Credit)</b>	\$16,300,000
Provides a credit equal to 1.90 percent of the taxpayer's research and development expenses in Michigan. The taxpayer cannot claim an ITC and this credit on the same expenses. The sum of this credit, the ITC, and compensation credit cannot exceed 65 percent of the taxpayer's MBT liability.	
<b>Small Business Alternative Tax Credit (Corporate Income)</b>	\$5,800,000
For qualifying smaller firms, provides a credit that effectively lowers the taxpayer's tax to 1.8 percent of adjusted business income. Qualifications include: Gross receipts must be less than or equal to \$20 million (the credit is phased out for firms with gross receipts between \$19 million and \$20 million). Total adjusted business income may not exceed \$1.3 million. Allocated business income limit for any one owner may not exceed \$180,000 (with a credit phase-out between \$160,000 and \$180,000).	
<b>Small Business Credit (Non-Certificated Credit)</b>	\$300,000
For qualifying smaller firms, provides a credit that effectively lowers the taxpayer's tax to 1.8 percent of adjusted business income. Qualifications include: Gross receipts must be less than or equal to \$20 million (the credit is phased out for firms with gross receipts between \$19 million and \$20 million). Total adjusted business income may not exceed \$1.3 million. Allocated business income limit for any one owner may not exceed \$180,000 (with a credit phase-out between \$160,000 and \$180,000).	

## CHAPTER 5

### CONSUMPTION TAX EXPENDITURES

Consumption tax expenditures include tax expenditures associated with alcohol, cigarette, and sales and use taxes. Total consumption tax expenditures are projected to increase to \$19,448.4 million in FY 2019, a 3.9 percent increase over the FY 2018 level of \$18,727.1 million. The growth in sales and use tax expenditures associated with exempt services such as construction, health care, and professional, scientific, and technical services account for most of the growth between FY 2018 and FY 2019. Sales and use tax expenditure estimates are based on FY 2008 through FY 2017 data. Alcohol and cigarette tax expenditure estimates were based on FY 2017 and FY 2018 data.

- Estimate Reliability**
- (1) Alcohol and Cigarette Taxes
  - Residential Utilities Exemption
  - (3) Other Sales and Use Tax Expenditures

Because firms' sales tax returns provide no information regarding most sales of exempt goods or services, sales and use tax expenditures are difficult to estimate. For example, because restaurants do not report the actual gratuities and tips their workers receive, it is not possible to accurately gauge the revenue lost from excluding these payments from the sales tax base. In this and many other instances, it was necessary to base estimates on restrictive assumptions. In addition, many estimates were based on national sales data apportioned to Michigan.

Cigarette tax expenditure estimates were based on recent tax collections. These estimates are reliable.

#### Consumption Tax Expenditure Changes

**Public Acts 7 and 8 of 2016** amended the Use Tax Act and the General Sales Tax Act, respectively, to modify the provisions for tax-on-the-difference when a motor vehicle or watercraft is used as a partial payment for a new motor vehicle or watercraft. The Public Acts clarify when the exemption applies and eliminate the requirement that the Healthy Michigan program must remain in place for the maximum exemption to be increased each year.

**Public Acts 42 and 43 of 2016** amended Public Act 244 of 1999 and the Tobacco Products Tax Act, respectively. Public Act 42 changed the process for tobacco product manufacturers that do not participate in the Master Settlement Agreement to make escrow payments based on Michigan cigarette sales. Public Act 43 allowed the Department of Treasury to disclose information relevant to the enforcement of Public Act 244 of 1999 to the Attorney General.

**Public Act 86 of 2016** amended the Tobacco Products Tax Act to delay to October 1, 2021, the sunset date on a provision limiting the maximum tax on a cigar to \$0.50.



**Public Acts 159 and 160 of 2016** amended the General Sales Tax Act and the Use Tax Act, respectively, to conform to the Streamlined Sales and Use Tax Agreement regarding the taxation of advertising and promotional direct mail and other direct mail.

**Public Acts 372 and 373 of 2016** amended the General Sales Tax Act and Use Tax Act, respectively, to expand the exemption for a county long-term medical care facility to include a freestanding building that meets certain requirements.

**Public Act 390 of 2016** amended the Use Tax Act to end collection of the Medicaid managed care Use Tax on December 31, 2016, but reinstate the tax when the HICA sunsets on July 1, 2020, or earlier if the HICA statute is repealed or the HICA rate is reduced to 0.0%.

**Public Acts 431 and 432 of 2016** amended the General Sales Tax Act and Use Tax Act, respectively, to exempt agricultural land tile, subsurface irrigation pipe, portable grain bins, and grain drying equipment, when they are permanently affixed and become a structural part of the real estate.

**Public Act 503 of 2016** amended the General Sales Tax Act to provide an exemption for the sale of personal property by a veteran’s organization for the purpose of raising funds for the benefit of active duty service members or veterans. The exemption is limited to \$25,000 in aggregate sales for each individual fund-raising event.

**Public Act 515 and 516 of 2016** amended the General Sales Tax Act and Use Tax Act, respectively, to exclude from the definition of “sales price” a core charge or disposal fee for motor vehicle and recreational vehicle parts or batteries.

### **Alcoholic Beverage Taxes**

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2019 (millions of dollars).

<b>Alcoholic Beverage Taxes (millions)</b>		
<b><u>Tax</u></b>	<b><u>Location of Deposit</u></b>	<b><u>FY 2019 Revenue</u></b>
Beer and Wine Excise	General Fund	\$52.0
4.0 Percent Liquor Excise	School Aid Fund	\$58.1
4.0 Percent Liquor Specific	General Fund	\$58.5
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$58.5

**FY 2019 Estimate**

**Beer Shipped Out-of-State** n.a.

Exempts beer manufactured in Michigan, or imported into this state, and then shipped for sale and consumption outside the state.

**Damaged Beer** n.a.

Exempts beer from the beer tax when consumed on the manufacturer's property or not offered for sale.

**Homemade Wine** n.a.

Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.

**Small Brewer's Credit** \$90,000

Allows brewers who produce less than 50,000 barrels annually to apply for a \$2 per barrel credit on the first 30,000 barrels produced.

**Tobacco Products Tax**

In 1947, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers. The tax rate is currently \$2.00 per pack of 20 cigarettes. Cigarette tax revenues are mainly distributed to the School Aid Fund, the Medicaid Benefits Trust Fund, and the General Fund-General Purpose account. In FY 2019, the tax on cigarettes will yield an estimated \$821.1 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$84.0 million.

**FY 2019 Estimate**

**Bad Debt Deduction** \$400,000

Allows cigarette wholesalers to deduct any losses from bad debts.

**Licensee Expenses** \$13,580,000

Exempts 1.5 percent of the cigarette tax due from licensees, and 1.0 percent of the tax on other tobacco products, to cover their expenses in administering the tax.

**Sales on Military Bases and Reservations** \$4,140,000

Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.

**FY 2019 Estimate**

**Tribal Tax Agreements**

n.a.

Establishes the number of cigarettes that each tribe may obtain tax-free for the tribe's resident members, while requiring retailers in each tribal agreement area to limit tax-free sales to resident members.

**State Convention Facility Development Tax**

Public Act 106 of 1985 is known as the State Convention Facility Development Act. The Act levies a tax of 1.5 percent of the room charge on hotels with 81 to 160 rooms located in Wayne (excluding Detroit), Oakland, and Macomb Counties, and 5 percent on hotels with over 160 rooms. For Detroit, the rates are 3 and 6 percent. The Act became effective October 1, 1985. Revenue is used to pay for qualified convention facilities, with excess revenue returned to Michigan counties.

**FY 2019 Estimate**

**Small Hotel Exemption**

n.a.

Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.

**Sales and Use Tax Expenditures**

Enacted in 1933, the sales tax is levied on gross proceeds from retail sales of tangible personal property for use or consumption. The sales tax rate is equal to 6 percent. Sales tax collections are projected to yield \$8,298.7 million in FY 2019. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; up to 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. State law earmarks 4.65 percent of the sales tax on transportation-related items to the Comprehensive Transportation Fund (CTF). The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total \$1,352.0 million in FY 2019. Use tax collections do not include the local community stabilization share tax described under Public Act 80 of 2014. Current law directs \$438.0 million of the tax collected for FY 2019 to the authority. Due to their complementary nature, sales and use tax expenditures are reported together and include both the state use tax and the local community stabilization share tax.

	<u><b>FY 2019 Estimate</b></u>
<b>Air and Water Pollution</b>	\$56,600,000
Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	
<b>Aircraft Parts</b>	\$14,220,000
Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	
<b>Bad Debts</b>	\$8,100,000
Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible.	
<b>Cargo Aircraft</b>	\$22,340,000
Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.	
<b>Church Construction</b>	\$2,360,000
Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	
<b>Church Cars</b>	\$2,450,000
Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	
<b>Collection Fee</b>	\$30,960,000
Sales and use tax returns are due by the 20th of the month for sales made the previous month. A seller may retain 0.75 percent of the tax (not to exceed \$20,000) if proceeds are remitted by the 12th of the month, or 0.50 percent of the tax (not to exceed \$15,000) if proceeds are remitted from the 13th through the 20th of the month.	
<b>Commercial Domestic Aircraft</b>	\$4,060,000
Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	
<b>Commercial Vessels</b>	n.a.
Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce.	

	<u><b>FY 2019 Estimate</b></u>
<b>Communication and Telephone Exemption</b>	\$29,310,000
Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds.	
<b>Data Centers</b>	\$16,400,000
Exempts the sale of data center equipment to the owner or operator of a qualified data center or a colocated business for assembly, use, or consumption in the operation of the data center, or a person engaged in construction or improvement to the extent the equipment is affixed to or made a structural part of a data center.	
<b>Donated Vehicles</b>	\$125,000
Exempts certain vehicle transfers from the sales or use taxes when the vehicle is transferred from a qualifying organization to certain low-income families.	
<b>Driver Training</b>	\$150,000
Exempts property used for demonstration or driver training programs.	
<b>Employee Meals</b>	\$20,080,000
Exempts meals provided by employers to their employees.	
<b>Food</b>	\$1,470,000,000
Exempts food for human consumption, except prepared food intended for immediate consumption.	
<b>Food for Students</b>	\$46,600,000
Exempts sales of food by nonprofit schools or other similar educational institutions to students.	
<b>Government or Red Cross</b>	\$178,000,000
Exempts sales to the United States or agencies or instrumentalities wholly owned by the U.S.; the American Red Cross; and the State of Michigan, its departments, institutions, and political subdivisions.	
<b>Gratuity and Tips</b>	\$84,300,000
Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	
<b>Horticultural and Agricultural Products</b>	\$293,000,000
Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	

	<b><u>FY 2019 Estimate</u></b>
<b>Imported Property</b>	\$1,830,000
Exempts property that is not an aircraft purchased by a nonresident and brought into Michigan more than 90 days after purchase from the use tax. A similar exemption applies to property purchased by a resident and brought into the state more than 360 days after purchase.	
<b>Industrial Processing</b>	\$1,292,000,000
Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	
<b>International Telecommunications</b>	\$6,200,000
Exempts international and WATS calls from the use tax.	
<b>Interstate Trucks and Trailers</b>	\$40,790,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax.	
<b>Investment Coins</b>	\$2,770,000
Exempts investment coins from sales and use tax. Investment coins are legal tender with a fair market value greater than the face value of the coins.	
<b>Isolated Sales</b>	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
<b>Military PX Sales</b>	\$522,000
Exempts military post-exchange sales.	
<b>Military Vehicle Sales</b>	n.a.
Exempts vehicle sales to nonresidents serving in the U.S. armed forces, or when purchased by a Michigan resident in military service when sales tax is paid to another state.	
<b>Newspapers, Periodicals, and Films</b>	\$104,000,000
Exempts sales of copyrighted films, newspapers, and periodicals.	
<b>Nonprofit Ambulance and Fire Service</b>	n.a.
Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	

**FY 2019 Estimate**

<b>Nonprofit Hospital or Housing Construction</b>	\$5,640,000
Exempts tangible personal property used by contractors where the property is affixed to and made a structural part of the real estate of a nonprofit hospital or nonprofit housing.	
<b>Nonprofit Organizations</b>	\$193,400,000
Exempts sales to nonprofit schools, hospitals, homes for the care of children or aged persons, and other benevolent institutions operated by an entity of government, a regularly-organized church, a religious or fraternal organization, a veteran's organization, a nonprofit corporation, or a parent-cooperative preschool.	
<b>Nonprofit Sales Under \$5,000</b>	n.a.
Exempts aggregate sales under \$5,000 for qualified nonprofit organizations.	
<b>Nonresident Merchandise Transfer</b>	n.a.
Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	
<b>Nonresident Property</b>	n.a.
Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	
<b>Ophthalmic and Orthopedic Products</b>	\$66,200,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	
<b>Prescription Drugs</b>	\$713,000,000
Exempts drugs, both prescription and over-the-counter drugs dispensed by a prescription, for human consumption.	
<b>Radio and TV</b>	\$6,220,000
Exempts sales to persons licensed to operate commercial radio or television stations when the property is used as a component of a film, tape, or recording produced for resale or transmission.	
<b>Rail Rolling Stock</b>	\$6,840,000
Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	
<b>Residential Utilities</b>	\$173,000,000
Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	

**FY 2019 Estimate**

<b>Returned Vehicles</b>	\$900,000
Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	
<b>Sale of Business</b>	n.a.
Excludes from the use tax non-inventoried property purchased as part of a business.	
<b>Sale of Water</b>	\$73,900,000
Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	
<b>Services</b>	\$14,337,250,000
Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately \$4.58 billion of the total represents services purchased by consumers.	

**Service Tax Expenditures, FY 2019  
(millions)**

<b><u>Category</u></b>	<b><u>For Profit</u></b>	<b><u>Nonprofit</u></b>	<b><u>Total</u></b>
Accommodations and Food Service	\$12.8	\$0.0	\$12.8
Admin., Support, and Waste Mgmt.	1,037.1	15.2	1,052.3
Arts, Entertainment, and Recreation	198.1	57.4	255.4
Construction	1,700.3	0.0	1,700.3
Educational Services	81.1	488.0	569.2
Health Care and Social Assistance	1,689.7	2,127.8	3,817.5
Information	561.7	0.0	561.7
Other Services (except Public Admin.)	571.7	110.1	681.8
Professional, Scientific, and Technical	3,025.2	76.0	3,101.2
Real Estate and Rental and Leasing	945.1	0.0	945.1
Transportation and Warehousing	1,521.7	12.7	1,534.4
Utilities	<u>0.0</u>	<u>105.6</u>	<u>105.6</u>
<b>TOTAL</b>	\$11,344.5	\$2,992.7	\$14,337.2

Source: Calculations by the Office of Revenue and Tax Analysis using the *2012 Economic Census: Geographic Area Series, Michigan*, U.S. Department of Commerce. Totals may differ from other exhibits and may not add due to rounding.



**FY 2019 Estimate**

<b>Small Out-of-State Purchases</b>	n.a.
Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.	
<b>Tax on the Difference - Vehicles</b>	\$41,220,000
Exempts a portion of the credit given for motor vehicles used as a partial payment on the purchase of a motor vehicle. The exemption was limited to no more than \$3,000 in 2016, and will rise by \$500 each succeeding January 1. The full value of a trade-in is also exempt for a titled watercraft used as partial payment on the purchase of a titled watercraft.	
<b>Telephone Services</b>	\$22,100,000
Exempts tangible personal property located on the premises of the subscriber and central office equipment or wireless equipment directly used in transmitting, receiving, or switching, or in the monitoring or switching of a two-way interactive device.	
<b>Textbooks Sold by Schools</b>	n.a.
Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program.	
<b>Tribal Tax Agreements</b>	n.a.
Exempts certain sales of tangible personal property to tribes and tribal members for use within a designated agreement area, while providing for increased collections on sales to non-members.	
<b>Vehicle and Aircraft Transfers</b>	\$41,570,000
Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft.	
<b>Vehicles Purchased for Use in Another State</b>	n.a.
Provides for an adjusted tax on the vehicles purchased in Michigan for use in another state. The sales tax is equal to what would have been paid if the vehicle had been purchased in the other state.	
<b>Vending Machines and Mobile Facilities</b>	\$21,790,000
Exempts the portion of gross proceeds representing commissions paid to an entity otherwise exempt from the sales tax where the gross proceeds are from certain non-electric vending machines where consideration is 10 cents or less. Also exempts sales of nonalcoholic beverages, and items sold near room temperature from a mobile facility or vending machine.	

## CHAPTER 6

### INDIVIDUAL INCOME TAX EXPENDITURES

Individual income tax expenditures include federal income tax expenditures (i.e., tax revenue foregone due to deductions, credits, or exemptions from the calculation of federal adjusted gross income), and state income tax expenditures (i.e., tax revenue foregone due to credits and exemptions that appear on the state income tax form). State individual income tax expenditures are projected to increase 6.2 percent from \$6,815.5 million in FY 2018 to \$7,241.4 million in FY 2019. More than ½ of the growth from FY 2018 is due to the expansion of the homestead property tax credit. Federal income tax expenditures are projected to increase 5.0 percent from \$3,062.2 million in FY 2018 to \$3,214.8 million in FY 2019. Individual income tax expenditure estimates were based on tax year 2016 data.

<b>Estimate Reliability</b>	(1)	State Income Tax Expenditures
	(3)	Federal Income Tax Expenditures

State income tax expenditure estimates are reliable because they are based on actual individual tax returns for tax year 2016. In addition, most state income tax expenditures are credits that are relatively stable from year to year.

In contrast, federal income tax expenditure estimates are less reliable. Federal income tax expenditures are estimated by apportioning total (national) federal tax expenditure estimates to Michigan using a three-step formula (outlined later). Thus, Michigan federal income tax expenditure estimates will only be as reliable as federal government (national) estimates and the assumptions used to apportion those estimates to Michigan.

#### Individual Income Tax Expenditure Changes

**Public Act 158 of 2016** amended the Income Tax Act of 1967 to eliminate the requirement that flow-through entities (S corporations, partnerships, and LLCs) withhold and remit income tax for their owners.

**Public Act 212 of 2016** amended the Income Tax Act of 1967 to revise the definition of veteran for purposes of the homestead property tax credit.

**Public Acts 265 through 267 of 2016** amended Part 361 of the Natural Resources and Environmental Protection Act, the Income Tax Act of 1967, and 1941 PA 122, respectively, to modify terms for processing and relinquishment of farmland and open space development rights agreements; deposit an amount of income tax equal to 3.5% of farmland credits into the agricultural preservation fund; and specify that the interest calculation for income tax refunds also apply to interest on farmland credit refunds.

## State Income Tax Expenditures

Enacted in 1967, the Michigan individual income tax is a direct tax on federal AGI after certain adjustments are made. For FY 2019, the State of Michigan will collect an estimated \$10,278.4 million in net income tax revenue. Income tax revenue goes to the School Aid Fund and General Fund.

State income tax expenditures include the state personal exemption, subtractions from income, and various state tax credits. In tax year 2016, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.25 percent to an average effective rate of 2.41 percent. Detailed information on income tax expenditures is presented in Exhibits 13 through 16.

	<u><b>FY 2019 Estimate</b></u>
<b>College Savings Account</b>	\$14,500,000
A deduction is allowed for contributions to purchase contracts under the Michigan Education Trust or to fund accounts in the Michigan Education Savings Program. Investment earnings are also exempt.	
<b>Dependent Exemption</b>	\$19,440,000
Taxpayers claimed as a dependent on another taxpayer's return may claim an exemption equal to \$1,500 for themselves when filing their tax return.	
<b>Disabled Veterans Exemption</b>	\$400,000
Allows a taxpayer to claim an additional exemption of \$400 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.	
<b>Earned Income Tax Credit</b>	\$122,070,000
Provides a refundable income tax credit equal to 6 percent of any federal earned income tax credit for which a taxpayer is eligible.	
<b>Farmland Development Credit</b>	\$50,760,000
Provides an income tax credit for property taxes paid on farms covered by a farmland development rights agreement to reduce conversion of agricultural and open space lands to other uses (see Exhibit 16). This credit was expanded by Public Act 421 of 2000.	
<b>Historic Preservation Credit</b>	\$50,000
Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.	

**FY 2019 Estimate**

<b>Holocaust Survivor Asset Recovery Deduction</b>	n.a.
Public Act 181 of 1999 allows Holocaust survivors to subtract any income received as a result of a settlement of claims against any entity or individual for any recovered asset pursuant to the German act regulating unresolved property claims.	
<b>Home Heating Assistance Credit</b>	\$80,000
Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2017, these credits totaled an estimated \$65.7 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$78,900 in FY 2017.	
<b>Homestead Property Tax Credit</b>	\$743,260,000
Provides a refundable credit against income tax liability for property tax paid. Beginning for tax year 2018, this credit is generally 60 percent of the amount by which property taxes exceed 3.2 percent of household income. Renters may use 23 percent of the rent paid to approximate their property tax, and then calculate their credit as above.	
Special credits are available for low-income senior citizens, veterans, and blind and disabled persons. For tax year 2016, homestead credits, excluding the farmland credit itemized separately, totaled \$532.3 million (Exhibit 16). Of the homestead credits, 53.2 percent went to general taxpayers, 36.8 percent went to senior citizens, and the remaining 10.0 percent went to veterans and blind and disabled persons.	
<b>Income Attributable to Another State</b>	\$3,399,270,000
Provides a deduction to Michigan residents for business income earned in another state and gains on the sale of property in other states. In addition, non-residents may deduct income not allocated to Michigan. This deduction has been growing rapidly in recent tax years.	
<b>Income from Extractive Activities Deduction</b>	\$800,000
The extraction of oil, natural gas, and non-ferrous metals are subject to specific taxes in lieu of other taxes.	
<b>Income Tax Paid to Another State Credit</b>	\$63,440,000
Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2016, taxpayers claimed \$57.1 million in credits.	

**FY 2019 Estimate**

<b>Military Pay</b>	\$27,690,000
Exempts compensation received while on active duty in the U.S. Armed Forces.	
<b>Miscellaneous Deductions</b>	\$8,820,000
Includes the amount used to determine the federal credit for the elderly or totally and permanently disabled and any portion of a qualified withdrawal from an MESP account that is included in AGI.	
<b>Net Operating Loss Deduction</b>	\$4,750,000
Taxpayers may only deduct the Michigan portion of a net operating loss.	
<b>Net Adjustment for Gains/Losses</b>	\$48,260,000
Michigan taxpayers only include in Michigan taxable income gains or losses on business or real property if that property is in Michigan. Losses on property located outside Michigan may not be subtracted and gains on property located outside Michigan may be excluded.	
<b>Pension and Retirement Benefits Deduction</b>	\$484,000,000
Provides a deduction for pension and retirement benefits based on the age of the taxpayer and, if married, the taxpayer's spouse. For those born prior to 1946, all benefits from public sources are deductible and benefits from private sector plans are deductible up to \$51,570 for singles and \$103,140 for married couples filing a joint return (2018 limits). Taxpayers born between 1946 and 1952, inclusive, may deduct from all retirement benefits up to \$20,000 for singles and \$40,000 for married couples. The deduction for pension and retirement benefits is replaced with the Michigan standard deduction against all income when those born between 1946 and 1952 reach age 67. A deduction is allowed for taxpayers born after 1953 before they turn age 67 in only special circumstances.	
<b>Personal Exemption</b>	\$1,405,750,000
Exempts \$4,050 (tax year 2018) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption will increase to \$4,400 for tax year 2019, based on legislation enacted in 2018. The personal exemption reduced tax year 2016 revenue by approximately \$1,188 million.	
The distribution of effective exemptions across AGI classes is outlined in Exhibit 13. Effective exemptions are exemptions that offset actual income.	

**FY 2019 Estimate**

<b>Renaissance Zones</b>	\$930,000
<p>Public Act 376 of 1996 establishes Renaissance Zones. Public Act 98 of 1999 allows for the designation of 10 additional zones. Public Act 139 of 1999 lets the communities with zones designated in 1996 establish new subzones and extend the tax cuts in their subzones. The Income Tax Act exempts residents of the zones from tax on most types of income. Special provisions apply to capital gains, interest, dividend, and lottery income.</p>	
<b>Senior Investment Income Deduction</b>	\$9,290,000
<p>Allows a taxpayer who was born prior to 1946 to deduct dividends, interest, and capital gains included in AGI up to limits which are adjusted for inflation annually. The limits for tax year 2018 are \$11,495 for singles and \$22,991 for couples filing a joint return. The limits are reduced by the amount deducted for pension and retirement benefits.</p>	
<b>Senior Standard Deduction</b>	\$346,000,000
<p>Beginning in tax year 2013, taxpayers born after 1945 and before 1953 who have reached age 67 are eligible for a deduction against all income in lieu of a deduction for retirement benefits. The deduction is \$20,000 for singles and \$40,000 for couples filing a joint return.</p>	
<b>Social Security Benefits</b>	\$445,230,000
<p>Provides a deduction for Social Security benefits included in AGI. Depending on income, benefit recipients may have to include some Social Security benefits in AGI for federal tax purposes.</p>	
<b>Special Exemption</b>	\$14,330,000
<p>Allows a taxpayer and his or her spouse to each claim a \$2,700 exemption for tax year 2018 if they or a dependent are disabled. These exemptions are adjusted periodically for inflation.</p>	
<b>State and Local Income Tax Refunds</b>	\$22,170,000
<p>Provides a deduction of a state and local income tax refund if the refund is included in AGI. For federal tax purposes, payments of state and local taxes that are reported as an itemized deduction but subsequently returned as a refund are included in AGI for the year in which the refund was received. It is anticipated that the number of taxpayers who itemize deductions will decline sharply beginning with tax year 2018. The reduction in the number of taxpayers claiming itemized deductions will reduce the number subsequently required to include any refund in AGI.</p>	

**Tribal Tax Agreements**

n.a.

Exempts all non-business income of resident tribal members from the income tax. Business income will be allocated based on the percentage of business activity that takes place within tribal and trust lands.

**U.S. Government Bond Interest Deduction**

\$10,150,000

Provides a deduction for interest received on debt issued by the U.S. Government and included in AGI. The deduction includes interest received from U.S. Savings Bonds and U.S. Treasury bills, notes, and bonds.

**Federal Income Tax Expenditures**

Michigan's income tax uses the federal definition of AGI as the starting point in calculating taxable income. Therefore, income sources excluded from AGI at the federal level are excluded automatically from state income taxation unless the state explicitly adds these items back. This section lists income sources that are not included in the federal definition of AGI and are not added back to Michigan taxable income.

Federal income tax expenditure estimates were derived using a three-step formula:

1. Federal (national) government tax expenditure estimate times Michigan's apportionment factor equals Michigan's share of federal government revenue loss.
2. Michigan's share of federal revenue loss divided by the average marginal tax rate for federal taxpayers equals Michigan income excluded from federal taxation.
3. Michigan income excluded from federal taxation times the state income tax rate equals Michigan's tax expenditure due to federal deductions or exemptions.

Federal government estimates are from the *Budget of the United States Government*.

The apportionment factors for the various expenditures are based on relevant statistics from the Bureau of Economic Analysis, the U.S. Census Bureau, and other sources. Federal marginal tax rates are from the U.S. Department of Treasury.

The reader is again cautioned regarding the reliability of federal income tax expenditure estimates. The accuracy of these estimates is dependent upon the accuracy of federal estimates, apportionment factor estimates, and marginal tax rate estimates.

**FY 2019 Estimate**

<b>Accelerated Depreciation</b>	\$30,870,000
<p>When a person buys property to be used in a business or to earn rent and the property has a useful life of more than one year, the cost of the property is typically depreciated over its expected life. For tax purposes, a person may deduct depreciation at an accelerated rate. The federal tax expenditure estimate for depreciation now compares tax law depreciation with the estimated economic depreciation adjusted for inflation.</p>	
<b>Employer Contributions to Health and Life Insurance</b>	\$1,219,620,000
<p>Exempts employer payments for employee medical insurance from taxation. Also exempts employer payments for life insurance premiums on the first \$50,000 of life insurance.</p>	
<b>Employer Pension Plans</b>	\$780,980,000
<p>Exempts employer payments into qualified employee pension plans from taxation.</p>	
<b>Federal Adjustments to Income</b>	\$53,600,000
<p>Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.</p>	
<b>Fellowships and Scholarships</b>	\$22,710,000
<p>Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.</p>	
<b>Gain on Sale of Primary Residence</b>	\$219,300,000
<p>Excludes from AGI a gain from the sale of a primary residence. To qualify for the full exemption, the taxpayer must have owned and lived in the home for at least two of the past five years and not claimed an exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.</p>	
<b>Income Maintenance Benefits</b>	\$3,790,000
<p>Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.</p>	



**Exhibit 13**  
**Selected Individual Income Tax Expenditures by Income Class, CY 2016**

<b>Adjusted Gross Income</b>	<b>MI-1040s</b>		<b>Gen. Prop Tax Credit</b>		<b>Effective Exemptions<sup>(1)</sup></b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
Zero Income <sup>(2)</sup>	123,217	2.6%	9,974	\$6,362,978	0	\$0
\$0 - 2,000	173,972	3.6%	11,437	6,596,474	-32,090	-5,455,379
2,001 - 4,000	148,472	3.1%	9,550	4,841,197	27,578	4,688,288
4,001 - 6,000	149,185	3.1%	13,112	6,375,245	51,033	8,675,664
6,001 - 8,000	147,412	3.1%	17,488	8,516,912	70,428	11,972,732
8,001 - 10,000	156,683	3.3%	28,649	14,856,177	110,528	18,789,777
10,001 - 12,000	153,613	3.2%	32,129	16,940,731	127,456	21,667,552
12,001 - 14,000	151,816	3.2%	36,211	19,120,001	158,500	26,944,939
14,001 - 16,000	152,104	3.2%	41,784	22,319,852	187,394	31,856,949
16,001 - 18,000	136,389	2.8%	36,555	18,748,946	167,357	28,450,730
18,001 - 20,000	128,097	2.7%	34,625	17,030,784	156,382	26,584,893
20,001 - 25,000	295,732	6.2%	80,869	37,949,518	379,366	64,492,260
25,001 - 30,000	266,297	5.6%	73,782	32,793,953	365,766	62,180,211
30,001 - 35,000	235,311	4.9%	63,326	27,157,315	342,089	58,155,148
35,001 - 40,000	206,942	4.3%	52,677	21,994,590	315,874	53,698,516
40,001 - 45,000	180,398	3.8%	40,796	14,348,888	285,264	48,494,921
45,001 - 50,000	160,862	3.4%	30,815	5,603,238	263,362	44,771,521
50,001 - 55,000	145,850	3.0%	4,485	817,939	249,803	42,466,576
55,001 - 60,000	135,077	2.8%	796	202,027	243,071	41,322,149
60,001 - 70,000	240,155	5.0%	371	132,559	463,160	78,737,202
70,001 - 80,000	205,513	4.3%	111	60,333	434,236	73,820,161
80,001 - 90,000	175,033	3.7%	58	38,169	389,047	66,137,948
90,001 - 100,000	149,583	3.1%	42	25,605	348,181	59,190,764
Over 100,000	<u>768,068</u>	<u>16.0%</u>	<u>138</u>	<u>104,594</u>	<u>1,881,796</u>	<u>319,905,331</u>
<b>TOTAL</b>	<b>4,785,781</b>	<b>100.0%</b>	<b>619,780</b>	<b>\$282,938,025</b>	<b>6,985,582</b>	<b>\$1,187,548,855</b>

<sup>(1)</sup> Effective exemptions in this exhibit are personal exemptions that offset exemptions.

This number does not include disabled and other special exemptions.

<sup>(2)</sup> Includes 48,050 credit-only returns.

**Exhibit 14**  
**Effective Income Tax Rates by Income Class, CY 2016<sup>(1)</sup>**

<u>Adjusted Gross Income</u>	<u>Total Adjusted Gross Income</u>	<u>Total Income Tax Paid</u>	<u>Effective Tax Rate</u>
Zero Income <sup>(2)</sup>	(\$7,037,779,165)	(\$49,975,515)	
\$0 - 2,000	134,457,888	(64,479,572)	-47.96%
2,001 - 4,000	446,161,396	(21,936,671)	-4.92%
4,001 - 6,000	746,132,294	(18,609,804)	-2.49%
6,001 - 8,000	1,031,001,205	(16,051,913)	-1.56%
8,001 - 10,000	1,417,514,131	(20,033,694)	-1.41%
10,001 - 12,000	1,685,470,587	(16,347,026)	-0.97%
12,001 - 14,000	1,977,350,906	(14,226,070)	-0.72%
14,001 - 16,000	2,277,041,066	(11,518,391)	-0.51%
16,001 - 18,000	2,317,324,426	5,094,589	0.22%
18,001 - 20,000	2,432,129,763	16,334,380	0.67%
20,001 - 25,000	6,640,858,815	79,318,200	1.19%
25,001 - 30,000	7,313,176,314	125,432,442	1.72%
30,001 - 35,000	7,633,095,718	160,340,461	2.10%
35,001 - 40,000	7,750,957,858	183,343,927	2.37%
40,001 - 45,000	7,657,314,625	195,133,340	2.55%
45,001 - 50,000	7,635,149,565	208,832,279	2.74%
50,001 - 55,000	7,652,473,502	215,744,256	2.82%
55,001 - 60,000	7,762,280,892	219,584,091	2.83%
60,001 - 70,000	15,576,121,675	443,235,597	2.85%
70,001 - 80,000	15,383,557,713	447,188,374	2.91%
80,001 - 90,000	14,852,252,853	438,451,516	2.95%
90,001 - 100,000	14,190,624,691	424,617,403	2.99%
Over 100,000	<u>212,994,073,418</u>	<u>5,263,883,255</u>	<u>2.47%</u>
<b>TOTAL</b>	<b>\$340,468,742,136</b>	<b>\$8,193,355,452</b>	<b>2.41%</b>

Effective rate excluding zero income AGI and Taxes Paid 2.37%

Effective rate excluding zero income AGI 2.36%

(1) Values in this table are based on a sample of the 4,737,731 MI-1040 and MI-1040CR returns.

(2) Includes 48,050 credit-only returns (zero income).

**Exhibit 15**  
**Tax Expenditures as a Percent of Adjusted Gross Income, CY 2016**

Adjusted Gross Income	Effective Exemptions <sup>(1)</sup>	Adjustments to Income	Nonrefundable Credits <sup>(2)</sup>	Prop. Tax Credits
Less Than \$2,000	579.7%	215.7%	0.0%	989.6%
2,001 - 4,000	121.0%	43.0%	0.1%	118.2%
4,001 - 6,000	81.8%	33.6%	0.1%	73.9%
6,001 - 8,000	64.9%	30.5%	0.1%	58.1%
8,001 - 10,000	58.6%	27.1%	0.1%	51.7%
10,001 - 12,000	52.2%	27.3%	0.2%	44.6%
12,001 - 14,000	50.0%	25.6%	0.2%	38.3%
14,001 - 16,000	47.5%	23.7%	0.2%	34.5%
16,001 - 18,000	40.7%	23.0%	0.2%	27.8%
18,001 - 20,000	36.2%	23.3%	0.2%	23.6%
20,001 - 25,000	31.0%	22.7%	0.2%	18.3%
25,001 - 30,000	26.0%	21.1%	0.2%	13.5%
30,001 - 35,000	22.5%	19.4%	0.2%	10.1%
35,001 - 40,000	19.8%	18.4%	0.2%	7.8%
40,001 - 45,000	18.0%	19.0%	0.3%	5.1%
45,001 - 50,000	16.5%	19.2%	0.3%	2.0%
50,001 - 55,000	15.3%	19.8%	0.3%	0.3%
55,001 - 60,000	14.5%	20.4%	0.3%	0.1%
60,001 - 70,000	13.4%	20.7%	0.3%	0.0%
70,001 - 80,000	12.4%	19.8%	0.3%	0.0%
80,001 - 90,000	11.5%	19.6%	0.3%	0.0%
90,001 - 100,000	10.7%	19.3%	0.4%	0.0%
Over 100,000	4.1%	37.9%	0.4%	0.0%

(1) The effective exemption number includes special exemptions (e.g., disabled exemption).

(2) Income tax credits were divided by the tax rate (4.25%) to determine the equivalent tax deduction. Nonrefundable credits include the credit for taxes paid to other states, and the historic preservation credit.

**Exhibit 16**  
**Property Tax Credits by County, CY 2016**

<u>County</u>	<u>General</u>		<u>Seniors</u>		<u>Veterans</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
ALCONA	300	\$98,100	400	\$154,600	< 50	\$1,200
ALGER	300	88,600	300	118,700	< 50	1,200
ALLEGAN	4,900	1,923,400	3,200	1,916,100	< 50	3,200
ALPENA	1,200	355,500	1,100	495,100	< 50	3,500
ANTRIM	1,000	355,900	800	418,300	< 50	1,700
ARENAC	500	164,000	500	237,000	< 50	900
BARAGA	200	59,800	200	89,600	< 50	1,000
BARRY	2,200	869,900	1,700	1,037,000	< 50	2,000
BAY	5,900	1,981,500	4,500	2,321,000	100	10,700
BENZIE	800	269,600	600	286,800	< 50	1,900
BERRIEN	8,800	3,179,500	5,900	3,316,000	< 50	4,200
BRANCH	1,900	687,300	1,200	695,100	< 50	1,200
CALHOUN	7,600	2,898,700	4,500	2,685,600	100	8,700
CASS	1,700	581,000	1,200	637,600	< 50	1,900
CHARLEVOIX	1,400	498,600	1,000	581,900	< 50	700
CHEBOYGAN	1,100	310,600	800	349,300	< 50	2,000
CHIPPEWA	1,500	449,400	1,000	486,900	< 50	3,000
CLARE	1,300	404,800	900	392,900	< 50	3,400
CLINTON	2,400	974,500	2,000	1,169,600	< 50	900
CRAWFORD	500	143,200	300	154,100	< 50	2,000
DELTA	1,700	550,800	1,400	683,900	100	6,200
DICKINSON	1,300	413,300	1,000	588,000	< 50	3,600
EATON	6,600	2,800,700	4,400	2,643,900	< 50	1,900
EMMET	2,000	744,900	1,200	672,000	< 50	1,100
GENESEE	26,300	9,946,400	11,900	6,092,800	100	18,200
GLADWIN	900	308,100	1,000	450,100	< 50	2,300
GOGEBIC	600	157,300	500	240,300	< 50	3,700
GRAND TRAVERSE	6,200	2,777,300	3,500	2,244,400	< 50	2,900
GRATIOT	1,800	612,800	1,300	676,600	< 50	1,100
HILLSDALE	1,800	685,300	1,300	644,200	< 50	3,300
HOUGHTON	1,200	390,800	800	382,100	< 50	4,200
HURON	1,500	598,100	1,600	928,600	< 50	1,700
INGHAM	21,900	9,571,700	8,200	5,314,000	< 50	7,100
IONIA	2,600	886,400	1,600	838,300	< 50	1,300
IOSCO	900	274,600	800	343,400	100	4,000
IRON	400	119,700	400	196,800	< 50	2,600
ISABELLA	3,400	1,213,200	1,300	779,000	< 50	1,300
JACKSON	8,300	3,124,400	5,100	2,825,900	100	7,600
KALAMAZOO	17,000	7,212,100	8,000	5,345,000	< 50	5,100
KALKASKA	800	246,600	500	209,700	< 50	1,400
KENT	44,700	18,740,800	18,500	11,325,000	100	9,800
KEWEENAW	0	14,600	0	17,000	< 50	100

**Exhibit 16 (Continued)**

<u>County</u>	<u>General</u>		<u>Seniors</u>		<u>Veterans</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
LAKE	400	\$142,000	300	\$149,100	< 50	\$1,800
LAPEER	3,500	1,370,100	2,200	1,153,300	< 50	2,700
LEELANAU	600	246,600	600	312,900	< 50	300
LENAWEE	5,100	1,991,100	3,800	2,212,800	< 50	2,400
LIVINGSTON	400	142,000	300	149,100	< 50	1,800
LUCE	100	35,000	100	28,100	< 50	1,100
MACKINAC	400	141,400	300	175,200	< 50	1,000
MACOMB	64,100	34,929,100	37,200	25,567,000	100	19,900
MANISTEE	1,000	356,600	1,100	567,800	< 50	1,700
MARQUETTE	3,400	1,168,700	1,600	833,800	100	7,500
MASON	1,700	595,900	1,300	769,600	< 50	1,300
MECOSTA	1,600	588,200	1,000	483,900	< 50	1,700
MENOMINEE	900	295,600	700	364,300	< 50	2,600
MIDLAND	4,000	1,477,600	2,400	1,405,900	100	6,700
MISSAUKEE	500	180,000	400	211,400	< 50	500
MONROE	5,600	2,194,300	4,300	2,226,000	< 50	4,300
MONTCALM	3,200	1,132,200	2,200	1,179,600	< 50	3,900
MONTMORENCY	400	108,800	300	135,900	< 50	1,300
MUSKOGON	10,900	4,067,800	6,400	3,737,100	100	8,000
NEWAYGO	2,000	731,800	1,500	840,600	< 50	2,700
OAKLAND	62,000	34,136,500	35,000	25,163,600	100	15,800
OCEANA	1,200	409,500	1,000	578,600	< 50	2,800
OGEMAW	800	266,300	800	332,300	< 50	2,300
ONTONAGON	200	51,600	200	94,400	< 50	1,900
OSCEOLA	1,000	302,800	800	425,500	< 50	1,900
OSCODA	200	55,000	100	55,300	< 50	1,000
OTSEGO	1,200	432,800	700	333,000	< 50	2,000
OTTAWA	13,500	5,597,400	8,700	5,331,500	< 50	4,400
PRESQUE ISLE	500	150,100	500	247,000	< 50	3,300
ROSCOMMON	1,200	353,100	1,000	444,900	< 50	2,500
SAGINAW	10,900	3,740,500	6,000	2,883,400	100	13,300
ST. CLAIR	9,100	3,545,700	5,800	3,244,800	100	8,500
ST. JOSEPH	2,800	914,700	1,800	948,900	< 50	3,200
SANILAC	1,800	695,600	1,400	774,300	< 50	2,400
SCHOOLCRAFT	200	69,300	200	85,100	< 50	1,400
SHIAWASSEE	3,800	1,337,300	2,700	1,370,600	< 50	3,500
TUSCOLA	2,300	783,600	1,900	928,700	< 50	4,600
VAN BUREN	4,300	1,615,700	2,800	1,717,500	< 50	3,100
WASHTENAW	20,500	11,092,200	7,400	5,624,900	< 50	5,800
WAYNE LESS DETROIT	72,000	39,331,600	37,300	26,327,800	100	21,000
WEXFORD	1,900	642,400	1,200	605,600	< 50	2,900
OUTSIDE OF MICHIGAN	4,900	2,164,400	1,900	1,252,000	< 50	4,700
DETROIT	90,800	43,038,100	19,200	11,426,900	100	32,500
<b>TOTAL</b>	<b>619,800</b>	<b>\$282,938,000</b>	<b>316,800</b>	<b>\$196,122,200</b>	<b>3,100</b>	<b>\$363,200</b>

**Exhibit 16 (Continued)**

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	< 50	\$15,600	< 50	\$14,800	700	\$284,300
ALGER	< 50	24,900	< 50	0	600	233,300
ALLEGAN	700	405,600	100	962,900	9,000	5,211,300
ALPENA	300	155,200	< 50	24,200	2,700	1,033,500
ANTRIM	100	58,300	< 50	49,800	1,900	884,000
ARENAC	100	57,000	100	271,800	1,300	730,700
BARAGA	< 50	15,900	< 50	0	400	166,300
BARRY	300	186,100	100	624,900	4,300	2,719,900
BAY	1,200	673,700	200	1,574,500	12,000	6,561,400
BENZIE	100	48,900	< 50	3,700	1,500	610,800
BERRIEN	1,300	747,100	100	423,500	16,100	7,670,200
BRANCH	300	126,600	200	981,900	3,600	2,492,200
CALHOUN	1,600	954,900	200	1,066,400	14,000	7,614,200
CASS	200	126,300	100	863,500	3,200	2,210,300
CHARLEVOIX	100	68,400	< 50	51,700	2,600	1,201,300
CHEBOYGAN	200	93,400	< 50	18,000	2,100	773,300
CHIPPEWA	200	89,800	< 50	26,800	2,700	1,055,900
CLARE	300	128,100	< 50	127,400	2,500	1,056,500
CLINTON	300	172,900	200	866,600	4,900	3,184,500
CRAWFORD	100	41,400	< 50	0	900	340,700
DELTA	400	167,600	< 50	68,100	3,500	1,476,600
DICKINSON	200	93,000	< 50	18,900	2,600	1,116,800
EATON	800	512,600	100	703,900	11,900	6,663,000
EMMET	200	96,900	< 50	2,500	3,400	1,517,500
GENESEE	4,800	2,767,000	100	387,900	43,100	19,212,400
GLADWIN	200	88,300	< 50	54,100	2,200	902,900
GOGEBIC	100	55,200	< 50	0	1,200	456,500
GRAND TRAVERSE	600	364,700	< 50	51,300	10,400	5,440,500
GRATIOT	300	148,000	400	2,278,900	3,800	3,717,300
HILLSDALE	300	159,400	200	854,900	3,700	2,347,000
HOUGHTON	200	65,300	< 50	0	2,200	842,400
HURON	300	115,000	900	6,813,400	4,300	8,456,800
INGHAM	2,700	1,730,300	200	1,560,200	32,900	18,183,400
IONIA	400	194,500	100	1,021,500	4,700	2,942,000
IOSCO	200	90,700	< 50	66,900	2,000	779,600
IRON	100	36,200	< 50	2,600	900	357,900
ISABELLA	400	194,700	100	763,600	5,200	2,951,800
JACKSON	1,600	907,300	100	397,600	15,000	7,262,800
KALAMAZOO	2,200	1,377,100	100	593,200	27,300	14,532,400
KALKASKA	100	55,000	< 50	7,800	1,400	520,400
KENT	4,800	3,050,600	100	829,200	68,200	33,955,400
KEWEENAW	< 50	5,800	< 50	0	100	37,400

**Exhibit 16 (Continued)**

<b>County</b>	<b>Blind and Disabled</b>		<b>Farmland</b>		<b>Total Credits</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
LAKE	200	\$68,700	< 50	\$6,100	1,000	\$367,700
LAPEER	500	271,100	100	251,000	6,300	3,048,300
LEELANAU	< 50	26,300	< 50	53,100	1,200	639,300
LENAWEE	900	557,800	400	2,344,300	10,300	7,108,500
LIVINGSTON	600	405,200	< 50	6,100	10,700	6,030,000
LUCE	< 50	13,200	< 50	0	300	77,300
MACKINAC	100	29,000	< 50	10,300	800	356,800
MACOMB	7,600	5,726,500	< 50	132,200	109,000	66,374,800
MANISTEE	200	96,300	< 50	5,800	2,300	1,028,200
MARQUETTE	300	178,400	< 50	1,900	5,400	2,190,200
MASON	300	140,700	100	262,500	3,300	1,770,100
MECOSTA	300	127,800	< 50	220,400	2,900	1,422,000
MENOMINEE	100	51,300	< 50	77,700	1,700	791,500
MIDLAND	600	313,300	< 50	270,200	7,100	3,473,600
MISSAUKEE	100	34,500	100	763,700	1,100	1,190,100
MONROE	900	510,600	100	747,100	11,000	5,682,400
MONTCALM	600	301,100	200	925,900	6,200	3,542,800
MONTMORENCY	100	30,300	< 50	16,200	800	292,500
MUSKEGON	2,300	1,358,200	< 50	274,200	19,700	9,445,300
NEWAYGO	400	199,700	100	251,400	4,000	2,026,300
OAKLAND	6,200	4,587,100	< 50	131,900	103,400	64,034,800
OCEANA	200	117,300	100	299,400	2,500	1,407,500
OGEMAW	200	93,900	< 50	139,100	1,900	833,900
ONTONAGON	< 50	19,000	< 50	1,600	400	168,500
OSCEOLA	200	80,300	< 50	251,100	2,000	1,061,600
OSCODA	100	22,400	< 50	4,700	400	138,400
OTSEGO	200	88,000	< 50	0	2,100	855,800
OTTAWA	1,300	840,800	200	2,003,400	23,800	13,777,600
PRESQUE ISLE	100	51,400	< 50	25,400	1,200	477,200
ROSCOMMON	300	113,600	< 50	25,100	2,400	939,400
SAGINAW	2,200	1,187,600	500	2,602,900	19,600	10,427,600
ST. CLAIR	1,600	965,900	< 50	247,700	16,600	8,012,600
ST. JOSEPH	400	200,800	100	1,094,600	5,200	3,162,200
SANILAC	300	163,700	400	2,236,100	4,000	3,872,100
SCHOOLCRAFT	100	20,200	< 50	3,900	500	179,900
SHIAWASSEE	800	417,200	200	916,700	7,500	4,045,300
TUSCOLA	400	203,900	600	3,720,800	5,200	5,641,700
VAN BUREN	700	395,100	100	420,200	7,900	4,151,700
WASHTENAW	1,600	1,167,400	200	1,431,600	29,700	19,321,900
WAYNE LESS DETROIT	9,000	7,058,400	< 50	135,000	118,300	72,873,700
WEXFORD	300	169,700	< 50	52,200	3,400	1,472,800
OUTSIDE OF MICHIGAN	500	294,400	< 50	336,300	7,400	4,051,800
DETROIT	11,200	7,734,900	< 50	0	121,400	62,232,500
<b>TOTAL</b>	<b>82,200</b>	<b>\$52,898,700</b>	<b>7,400</b>	<b>\$47,383,600</b>	<b>1,029,200</b>	<b>\$579,705,700</b>

**FY 2019 Estimate**

<b>Individual Retirement Accounts</b>	\$324,200,000
<p>Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. The maximum contribution is \$5,500 for 2018. Only persons with an AGI below \$101,000 on a joint return (\$63,000 on a single return) or those not covered by an employer retirement plan can take the full \$5,500 deduction. A partial deduction, phased out according to income, is available between \$101,000-\$121,000 for joint filers and \$63,000-\$73,000 for single filers.</p>	
<b>Interest on Life Insurance Savings</b>	\$70,260,000
<p>Exempts interest earned from life insurance from tax if used to buy additional life insurance.</p>	
<b>Medical Care Savings Account</b>	\$44,770,000
<p>Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.</p>	
<b>Railroad Retirement Benefits</b>	\$1,230,000
<p>Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).</p>	
<b>Social Security Benefits</b>	\$289,550,000
<p>Exempts most social security benefits. Federal social security benefits are not taxable unless half of these benefits plus modified AGI exceed \$32,000 on a joint return or \$25,000 on an individual return. If benefits exceed this amount, a portion (generally no more than 50 percent but potentially up to 85 percent of social security benefits) is taxable under federal law. This estimate is only for the portion of Social Security benefits that are excluded from federal AGI. The portion included in AGI is reported separately above.</p>	
<b>Student Loan Deduction</b>	\$15,550,000
<p>Allows a deduction for interest paid on qualified education loans.</p>	
<b>Veterans' Benefits</b>	\$90,450,000
<p>Excludes veterans' benefits administered by the Veterans' Administration from AGI.</p>	
<b>Workers' Compensation</b>	\$47,910,000
<p>Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.</p>	



## CHAPTER 7

### TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to rise modestly, increasing from \$64.23 million in FY 2018 to \$64.51 million in FY 2019. Transportation tax expenditure estimates were based on FY 2016 and FY 2017 data.

<b>Estimate Reliability</b>	(1)	Aviation Fuel Tax Motor Vehicle Registration Fee Watercraft Registration Fee
	(2)	Marine Vessel Fuel Motor Fuel Tax

Because most transportation tax expenditures require taxpayers to claim a refund from the state, transportation tax expenditure estimates have a relatively high degree of reliability. In addition, most of the estimates were based on recent data.

#### Transportation Tax Expenditure Changes

None enacted in 2016.

#### Aircraft Registration and Transfer Fee

In lieu of general or local property taxes on aircraft, the state levies an aircraft registration fee. The tax base is either the maximum gross weight or maximum take-off weight, whichever is greater. The registration fee is assessed at one cent per pound. The transfer fee is \$1. These fees will yield an estimated \$380,000 to the state's Aeronautics Fund in FY 2019.

#### Aviation Fuel Tax Expenditures

Enacted in 1929, the aviation fuel tax is a tax on fuel sold for propelling aircraft. It is levied on the privilege of using aviation facilities, and the rate is three cents per gallon. In FY 2019, the aviation fuel tax is projected to yield \$5.3 million, which is deposited into the state's Aeronautics Fund.

#### FY 2019 Estimate

##### **Federally-Owned Aircraft**

\$325,000

Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.

**FY 2019 Estimate**

**Interstate Flight Refund**

\$3,700,000

Airlines that operate scheduled interstate flights receive a refund of 1.5 cents per gallon of aviation fuel used.

**Marine Vessel Fuel Tax Expenditures**

Enacted in 1947, the marine vessel fuel tax is levied on the privilege of operating vessels on navigable streams. The rate is 15 cents per gallon on diesel fuel. Two percent of gasoline sales is assumed to be for off-road use and is earmarked to the Recreation Improvement Fund. Not less than 80 percent of this amount is transferred to the Waterways Fund.

**FY 2019 Estimate**

**Marine Vessel Exemption**

\$750,000

Exempts watercraft used: by federal, state, or local governments; for commercial fishing; by the Sea Scouts; in interstate or foreign commerce; by a railroad company; and in connection with an activity providing a person's chief means of livelihood from the tax on marine fuels.

**Motor Carrier Privilege Fee**

A \$100 fee is assessed on most vehicles operating on highways as common and contract carriers. Buses, trucks, or tractors used solely for the transportation of household goods pay a \$50 fee. The fee was enacted in 1929 for the privilege of using highways. Revenue is deposited into the Michigan Transportation Fund. There are no tax expenditures associated with this fee.

**Motor Fuel Taxes**

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum gas taxes. The tax rate on gasoline increased to 26.3 cents per gallon, effective January 1, 2017. The diesel fuel tax rate also increased to 26.3 cents per gallon in January 2017. Revenue is earmarked to the Michigan Transportation Fund, and distributed to the state, counties, and cities to maintain roads, and to the Comprehensive Transportation Fund to help finance public transportation. In FY 2019, motor fuel taxes will yield an estimated \$1,464.2 million including the new revenue from the higher tax rates.

**FY 2019 Estimate**

<b>Diesel Fuel for Railroads</b>	n.a.
Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	
<b>Evaporation and Loss Allowance</b>	\$18,557,000
The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.	
<b>Fuel for Job Sites and Charter Firms</b>	\$6,104,000
Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.	
<b>Fuel for Off-Road Use</b>	\$1,550,000
Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	
<b>Municipal Franchise Vehicles</b>	\$1,770,000
Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	
<b>Public Vehicles</b>	\$17,510,000
Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	
<b>Tribal Tax Agreements</b>	n.a.
Provides for tribes to obtain tax-free motor fuel for use by the tribe, tribal entities, and resident tribal members. Sales to other parties made by tribal retailers will be fully taxed.	

## Motor Vehicle Registration Fee

The motor vehicle registration fee was based originally on vehicle weight and type and was levied in lieu of the general property tax. Beginning with model year 1984, the registration fee for passenger vehicles became based on the vehicle's value rather than its weight. Other vehicles are still taxed on their weight. Registrations are effective for one year and expire annually on the owner's birthday. For FY 2019, the motor vehicle registration fee is projected to yield \$1,327.9 million, including the higher fees.

### FY 2019 Estimate

<b>Disabled Veterans' Vehicles</b>	\$725,000
Provides totally disabled veterans free vehicle license plates.	
<b>Handicapper Vans</b>	n.a.
Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	
<b>Intercity Commercial Buses</b>	n.a.
Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.	
<b>Public and Nonprofit Vehicles</b>	\$13,500,000
Motor vehicles owned and operated by the state, a state institution, a municipality, a nonprofit college or university, or other nonprofit organization pay a lower rate of \$5 for license plates with a five-year registration period.	

## Watercraft Registration Fee

A fee is assessed on motorboats and other vessels operating in Michigan waters based on boat type and length. The fee was enacted in 1967. The Marine Safety Fund receives 49 percent of the revenue, the Waterways Fund receives 17.5 percent, and the Harbor Development Fund receives the remaining 33.5 percent. Registrations are valid for three years.

### FY 2019 Estimate

<b>Publicly-Owned Watercraft</b>	\$14,600
Levies a special fee of \$1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.	

## CHAPTER 8

### PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 2.2 percent from \$10,656.7 million in FY 2018 to \$10,896.2 million in FY 2019. Estimates related to property taxes have stopped decreasing due to the stabilization of property values in many parts of the state. Estimates were based on FY 2016 and FY 2017 data.

<b>Estimate Reliability</b>	(1)	Railroad Right-of-Way
	(3)	Tax-Exempt Property
	(1-2)	Homestead Exemption for Farm and Homestead Property
		Other Local Taxes
		Technology Parks

Tax expenditure estimates attributable to tax-exempt property are not reliable due to the inherent difficulty of estimating values of tax-exempt properties within each of Michigan's 83 counties. County equalization directors provide these estimates based on their own estimates or surveys of local units. Estimates are somewhat arbitrary because equalization directors use different methods to derive estimates. In many cases, equalization directors did not provide estimates, and estimates from previous years were used. These latter cases are noted in the exhibits.

Other local tax expenditures include accommodations, city income, and city utility users' tax. For most of these categories, data were not available to estimate the statewide value of tax expenditures associated with these taxes. The two exceptions are the Nonresident Reduced Rate and Personal Exemption tax expenditures associated with the city income tax. These estimates were based on a survey of city treasurers and are relatively stable from year to year.

#### Property and Other Local Tax Expenditure Changes

**Public Acts 9 and 10 of 2016** amended the Michigan Promise Zone Act and the State Education Tax Act, respectively, to allow the Department of Treasury to make certain changes to the capture of State Education Tax revenues.

**Public Act 25 of 2016** amended the General Property Tax Act to allow an assessor to maintain the assessment roll electronically under certain conditions.

**Public Act 78 of 2016** amended section 7d of the General Property Tax Act to allow an exemption for certain housing for the elderly or disabled to take effect if the facility is complete and the exemption claim is filed by October 31. The Public Act also allowed a retroactive exemption for certain property, effective December 31, 2011. Under section 7d, the State makes a payment in lieu of tax equal to the total property tax excluding school operating tax and SET.

**Public Acts 82 and 83 of 2016** amended the General Property Tax Act and the Revenue Bond Act, respectively, to permit counties to sell delinquent tax revolving fund notes under the Revenue Bond Act, and to revise the procedures and processes for counties to borrow money, issue notes, and administer the delinquent tax revolving fund.

**Public Acts 107 through 110 of 2016** amended the State Essential Services Assessment Act, the General Property Tax Act, 1974 PA 198, and the Alternative State Essential Services Assessment Act, respectively, to revise the provisions for the exemption for eligible manufacturing personal property (EMPP) and the procedures for and administration of the State essential services assessment (ESA). Among the changes, the bills delayed until May 31, 2016 the deadline for claiming the 2016 EMPP exemption, excluded from the exemption utility personal property and property used to generate, transmit, or distribute electricity for sale, reduced the ESA on construction in progress, allowed the lessee of EMPP to claim the exemption and pay the ESA, and clarified the ESA reduction for EMPP formerly subject to the industrial facilities tax under 1974 PA 198.

**Public Act 144 of 2016** amended the General Property Tax Act to extend the principal residence exemption to homes owned by military service members temporarily residing elsewhere due to military deployment and by homeowners living in a nursing home or assisted living facility who demonstrate an intent to return to the property.

**Public Act 151 of 2016** amended the Tax Reverted Clean Title Act to revise the administration of the eligible tax reverted property specific tax.

**Public Act 222 of 2016** amended the Obsolete Property Rehabilitation Act to delay the deadline for granting a new exemption under the act from December 31, 2016 to December 31, 2026.

**Public Act 251 of 2016** repealed 1889 PA 226, which established collection provisions for specific taxes imposed by state law.

**Public Acts 260 through 262 of 2016** enacted the Transitional Qualified Forest Property Specific Tax Act and amended the General Property Tax Act and Part 511 of the Natural Resources and Environmental Protection Act, respectively, for properties previously enrolled in the commercial forest program, to provide a five-year tax transition period before paying tax as qualified forest property.

**Public Act 329 of 2016** amended the General Property Tax Act to require new personal property exemptions under section 9f after 2016 to include a written agreement containing a remedy provision with certain tax exemption revocation and repayment requirements.

**Public Act 375 of 2016** amended the General Property Tax Act to provide that if a portion of a parcel of qualified agricultural property ceases to be qualified agricultural property, the assessor may split off that portion of the parcel into a new parcel, and only that new parcel would be subject to the uncapping of its taxable value and subject to the agricultural recapture tax.

**Public Act 433 of 2016** amended the General Property Tax Act to extend the exemption from tax foreclosure to include interests in property assessable under section 8(g) of the Act.

**Public Act 471 of 2016** amended the Brownfield Redevelopment Financing Act to make numerous definition and program changes.

**Public Acts 505 through 510** amended the Tax Increment Finance Authority Act, the downtown development authority act, the Corridor Improvement Authority Act, the Water Resource Improvement Tax Increment Finance Authority Act, the Local Development Financing Act, and the Historical Neighborhood Tax Improvement Finance Authority Act, respectively, to prohibit the capture of library millage unless capture is approved by the library board or unless voters approved the millage before 2017 and the tax increment financing plan has outstanding obligations.

**Public Act 518 of 2016** amended the General Property Tax Act to extend until June 30, 2019 the sunset on tax foreclosure avoidance agreements entered into by a county treasurer and the owner of residential property subject to tax foreclosure.

### **Utility Property Tax Expenditures**

The State of Michigan levies a utility property tax on certain public utilities doing business in Michigan. The tax base is equal to 50 percent of the true cash value of all property owned by railroad, railroad car, and telephone and telegraph companies. Enacted in 1905, the utility property tax rate equals the average statewide general property tax rate in the preceding year on commercial and industrial property. Revenue is deposited into the General Fund, and FY 2019 collections are projected to total \$32.0 million.

#### **FY 2019 Estimate**

##### **Broadband Investment Credit**

\$25,100,000

Public Act 50 of 2002 provides a credit for the state utility property tax for a company that installs telecommunications equipment with information carrying capability exceeding 200 kilobits per second in both directions. This credit was intended to accelerate the introduction of broadband Internet access to Michigan.

##### **Railroad Right-of-Way**

\$37,300,000

Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan.

## General Property Tax

Enacted in 1893, Michigan’s general property tax is the main source of revenue for local governments. The property tax is levied on a base of taxable value. Taxable value cannot increase in any one year by more than 5 percent or the rate of inflation, whichever is less (excluding transfers, new construction, and additions). Rates may vary by local unit, though each local unit’s rate is subject to the State Constitution (Article IX, Sec. 6) and various statutes. The following table lists average statewide millage rates since 1990. The one-year reduction in the State Education Tax to 5 mills was responsible for the decline in average millage rates for 2003.

### FY 2019 Estimate

#### **Agricultural Transfers**

\$44,900,000

Increases in the taxable value of property are capped at 5 percent or the rate of inflation, whichever is less. When ownership in property is transferred, the taxable value is set equal to the state equalized value, which is 50 percent of the true cash value. This provision exempts transfers of agricultural property from the “pop up” in taxable value when the new owner certifies that the property will continue to be used in agriculture.

#### **Air and Water Pollution Control**

\$130,000,000

Exempts air and water pollution control equipment from the property tax after approval and certification by the State Tax Commission.

#### **Cultural Organizations**

n.a.

Exempts from the property tax real property owned and occupied by a nonprofit organization meeting specific requirements. Some of the requirements are that the organization must be: incorporated under state law; devoted exclusively to the development of literature, music, painting or sculpture; and available to the general public on a regular basis. Data are not available to estimate this item.

#### **Disabled Veteran Homestead Exemption**

\$23,200,000

Exempts from property taxes real property used and owned by a disabled veteran who is entitled to veterans’ benefits at the 100 percent rate, has received or is receiving assistance due to disability for specially adapted housing, or has been rated by the U.S. Department of Veterans Affairs as unemployable.

#### **Fairground Property**

n.a.

Exempts property owned by an agricultural society and used primarily for fair purposes.



### Average Statewide Millage Rates

<u>Calendar Year</u>	<u>Homestead Property</u>	<u>Non-homestead Property</u>	<u>All Property</u>
1993	n.a.	n.a.	56.64
1994	30.22	48.17	38.19
1995	31.00	48.79	38.88
1996	31.36	49.54	39.32
1997	31.36	49.63	39.25
1998	31.43	49.68	39.27
1999	31.40	49.76	39.16
2000	31.54	50.10	39.32
2001	32.12	50.72	39.78
2002	32.60	51.00	40.17
2003	31.81	49.74	39.00
2004	32.71	50.81	40.00
2005	32.60	51.38	39.88
2006	32.66	51.38	39.96
2007	32.72	51.49	39.89
2008	33.14	50.94	38.94
2009	32.86	51.09	39.13
2010	33.13	50.40	39.70
2011	33.68	50.97	40.00
2012	33.47	51.24	40.40
2013	33.53	51.47	40.47
2014	33.92	51.77	40.79
2015	34.21	52.33	41.12
2016	34.55	52.95	41.70

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Non-homestead millage rates from Office of Revenue and Tax Analysis, Michigan Department of Treasury.

### FY 2019 Estimate

#### **Homestead Exemption**

\$3,450,000,000

Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills, generally 18 mills.

#### **Homestead Exemption for Farm Property**

\$181,600,000

Exempts qualified agricultural property, including houses, from local school operating mills.

**FY 2019 Estimate**

**Industrial Facilities Development**

\$242,900,000

Allows local governments to grant property tax exemptions for up to 12 years to encourage the establishment of new industrial facilities and the creation, restoration, or replacement of obsolete facilities. In lieu of property tax, an industrial facilities tax is levied on industrial property (building, machinery, and equipment, but not land).

For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility. The full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 18 displays a partial estimate of the taxable value of property subject to the industrial facilities development program. Public Act 39 of 2007 and Public Act 457 of 2008 reduced the tax on new facility personal property on land classified as industrial or commercial real property.

**Neighborhood Enterprise Zones**

\$29,200,000

Allows local units of government that participate in this program to grant property tax abatements. For new housing, the property tax rate is equal to one-half the statewide average millage rate. For rehabilitated housing, assessments are frozen so that the value of improvements is not taxed. Currently, 24 cities participate in this program.

**Obsolete Property Rehabilitation Exemption**

\$13,100,000

Under the Obsolete Property Rehabilitation Act (OPRA), commercial buildings in qualified local governmental units may be granted an OPRA abatement certificate, which results in reduced property taxes on the increased value of renovated and redeveloped facilities.

**Personal Property Ad Valorem Exemptions**

\$373,900,000

Exempts industrial personal property from the 18-mill property tax for local schools and the state education tax (6 mills). Commercial personal property is exempt from 12 of the 18 mills for schools.

**Personal Property Industrial Facilities**

\$72,000,000

Provides an exemption from the industrial facilities tax equal to the portion of the tax attributable to the 6 mills for state education tax and the 18 mills for school operations.

**FY 2019 Estimate**

**Small Taxpayer Exemption/Eligible Manufacturing Personal Property** \$438,000,000

The small taxpayer exemption provides an exemption for personal property classified as industrial or commercial personal property if, among other qualifications, the true cash value of all industrial and commercial personal property owned by, leased by or in the possession of the owner in a tax collecting unit is less than \$80,000.

Eligible Manufacturing Personal Property (EMPP) is personal property used at least 50% of the time in industrial processing or direct integrated support. EMPP is exempt if placed in service after 2012 or more than 10 years before the tax year, e.g. for 2017, placed in service before 2007. Exempt EMPP is subject to the state Essential Services Assessment.

**Poverty Exemption** \$9,300,000

Provides an exemption for impoverished individuals who, in the judgment of the township supervisor and board of review, are unable to contribute towards the provision of public services.

**Renaissance Zones** \$40,000,000

Exempts homeowners in a Renaissance Zone or a business that is located and conducts business activity within a Renaissance Zone from most property taxes.

**Tax-Exempt Property** \$1,988,000,000

Exhibit 18 reports the results from the 2014 County Survey of Tax-Exempt Property. The survey includes seven categories of tax-exempt property reported by county. These estimates of the taxable value of exempt property were provided by county equalization departments, as required by Public Act 155 of 1925. Exhibit 17 contains a map of Michigan's counties.

The total estimated taxable value of exempt property (not including tax-exempt property for industrial facility development) reported was \$36.1 billion. If taxed at the 2016 average nonhomestead statewide rate of 52.95 mills, tax-exempt property would have yielded \$1.91 billion in property tax revenue.

Note: Tax-exempt property for Ingham and Wayne counties is not included in estimates. Both counties contain *substantial* tax-exempt property used for public education, state and federal government, municipal and personal purposes. Estimates for the various classifications of tax-exempt property are presented below.

**FY 2019 Estimate**

<b>Tax-Exempt Acreage</b>	n.a.
Exhibit 19 shows exempt nonprofit religious or educational property by county. Properties are exempt under Article IX, Sec. 4, of the State Constitution. Tax-exempt acreage totaled an estimated 630,412 acres in 2017.	
<b>Tax-Exempt County and Municipal Property</b>	\$264,000,000
Exempts real property owned by counties, townships, cities, villages, and school districts.	
<b>Tax-Exempt Federal Property</b>	\$346,000,000
Exempts real property belonging to the United States government.	
<b>Tax-Exempt Other Real Tax Exempt Property</b>	\$230,000,000
Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.	
<b>Tax-Exempt Personal Property</b>	\$437,000,000
Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment.	
Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.	
<b>Tax-Exempt Public Education Property</b>	\$511,000,000
Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.	
<b>Tax-Exempt Specifically-Taxed Property</b>	n.a.
Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure.	
<b>Tax-Exempt State Property</b>	\$200,000,000
Exempts real property owned by the State of Michigan.	

**FY 2019 Estimate**

**Tax Increment Financing**

\$320,000,000

Allows municipalities to create tax increment finance plans under the Downtown Development Authority Act, P.A. 197 of 1975; the Tax Increment Finance Authority Act, P.A. 450 of 1980; the Local Development Finance Authority Act, P.A. 281 of 1986; and the Brownfield Redevelopment Act, P.A. 381 of 1996. Each authority may capture millage from the general property tax and industrial and commercial facilities taxes. The captured revenue, which would normally accrue to the city, county, and school district, is diverted to finance commercial and industrial costs.

Estimates of the cost of tax increment financing assume that local units would have invested in projects without assistance from tax increment finance plans. To the extent these investments would not have occurred without funding through the tax increment finance plan, the tax expenditure estimates are overstated.

**Taxable Value Cap**

\$3,151,800,000

Limits the rate of increase in property tax assessments to 5 percent or the rate of inflation, whichever is less. Taxable value becomes 50 percent of true cash value when ownership is transferred.

**Veterans' Organizations**

n.a.

Exempts real and personal property owned and occupied by veterans' organizations. Previously, exemptions were limited to those buildings used as residences. Some revenue will be lost through the exemption, but only a few headquarters were previously on the tax rolls.

**Water Softeners and Water Coolers**

\$1,300,000

Exempts rented or leased water softener equipment and leased bottled water coolers from the personal property tax.

**Iron Ore Specific Tax**

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded \$7.3 million in FY 2018. The state's share of the iron ore specific tax is deposited into the School Aid Fund. The state received \$6.5 million in FY 2017 and \$5.1 million in FY 2018.

# Exhibit 17 Counties of Michigan



**Exhibit 18**  
**Estimated Taxable Value of Exempt Real and Personal Property by County, 2017**  
**(Taxable Value in Thousands)**

<u>County</u>	<b>Industrial Facilities Tax</b>	<b>Federal</b>	<b>State</b>	<b>County and Municipal</b>	<b>Public Education</b>
ALCONA *	\$210,400	\$97,198	\$7,143	\$24,099	\$15,649
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN *	120,594	0	0	0	0
ALPENA *	2,041	9,094	68,954	103,000	68,200
ANTRIM	0	0	0	0	0
ARENAC	2,799	517	4,594	1,450	1,160
BARAGA *	3,412	20,100	39,143	20,860	24,515
BARRY	5,578	800	53,680	24,542	51,179
BAY *	144,357	15,669	13,958	19,377	212,856
BENZIE *	0	33,116	85,394	20,320	5,463
BERRIEN	39,612	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN	193,926	n.a	n.a	n.a	n.a
CASS *	22,739	10	3,419	20,837	133,043
CHARLEVOIX *	101,829	979	22,066	24,426	44,643
CHEBOYGAN *	0	2,192	72,007	38,012	21,395
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE *	8,209	927	25,013	3,443	37,108
CLINTON *	18,536	15	3,200	15,000	25,000
CRAWFORD *	915	28,545	330,000	6,233	21,150
DELTA *	20,090	56,950	14,051	12,450	27,608
DICKINSON	10,467	4,496	90,007	16,802	50,130
EATON	100,202	335	21,440	132,886	46,901
EMMET	7,139	0	61,189	324	2,308
GENESEE	59,732	19,278	64,515	551,660	643,304
GLADWIN	6,300	0	25,000	13,000	31,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	15,837	7,059	103,514	144,040	84,727
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	23,951	275	3,885	22,050	78,750
HOUGHTON	1,058	18,019	99,332	13,373	135,093
HURON*	56,841	39,400	10,542	85,700	0
INGHAM *	186,082	n.a.	n.a	n.a.	n.a.
IONIA *	16,624	0	3,297	17,255	21,800
IOSCO *	0	7,893	49,295	3,394	185
IRON	1,680	16,800	12,600	3,552	2,420
ISABELLA	10,177	n.a.	n.a.	n.a.	n.a.
JACKSON *	94,089	2,000	201,000	38,000	98,000
KALAMAZOO	61,074	40,634	413,101	872,477	1,617,786
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	543,538	24,450	23,766	174,895	484,900
KEWEENAW	0	33,410	2,680	540	270

**Exhibit 18 (Continued)**

<u>County</u>	<u>Personal Property</u>	<u>Other</u>	<u>Exempt Total</u>	<u>Total Taxable Value Real and Personal Property</u>	<u>Exempt as a Percent of Taxable</u>
ALCONA *	\$0	\$850	\$144,939	\$737,874	16.4%
ALGER*	55,000	0	88,568	\$376,612	19.0%
ALLEGAN *	113,900	0	113,900	\$4,505,123	2.5%
ALPENA *	34,525	0	283,773	\$905,800	23.9%
ANTRIM	0	0	0	\$1,794,368	0.0%
ARENAC	34,483	0	42,205	\$554,782	7.1%
BARAGA *	53,017	125,669	283,304	\$242,853	53.8%
BARRY	67,958	37,198	235,357	\$2,069,161	10.2%
BAY *	255,154	2,593	519,607	\$2,760,382	15.8%
BENZIE *	0	15,503	159,796	\$1,208,978	11.7%
BERRIEN	12,066	760,410	772,476	\$7,669,810	9.2%
BRANCH *	0	6,500	22,304	\$1,371,398	1.6%
CALHOUN	n.a.	n.a.	0	\$3,456,816	0.0%
CASS *	0	0	157,309	\$2,063,327	7.1%
CHARLEVOIX *	3,526	13	95,653	\$2,084,831	4.4%
CHEBOYGAN *	28,393	9,494	171,493	\$1,392,704	11.0%
CHIPPEWA *	21,200	3,500	1,374,928	\$1,114,409	55.2%
CLARE *	72,638	0	139,129	\$1,020,823	12.0%
CLINTON *	43,215	0	86,430	\$2,662,802	3.1%
CRAWFORD *	53,403	20,000	459,331	\$534,648	46.2%
DELTA *	0	0	111,059	\$1,136,362	8.9%
DICKINSON	7,101	32,705	201,241	\$896,331	18.3%
EATON	217,709	161,920	581,191	\$3,448,055	14.4%
EMMET	0	0	63,821	\$2,814,380	2.2%
GENESEE	832,208	0	2,110,965	\$8,962,066	19.1%
GLADWIN	6,315	2,460	77,775	\$945,730	7.6%
GOGEBIC *	330	302	44,759	\$518,530	7.9%
GRAND TRAVERSE *	125	188,774	528,239	\$4,868,438	9.8%
GRATIOT *	135,000	10,000	349,600	\$1,287,027	21.4%
HILLSDALE	45,000	44,625	194,585	\$1,283,615	13.2%
HOUGHTON	3,898	10,167	279,882	\$890,603	23.9%
HURON*	0	0	135,642	\$2,311,914	5.5%
INGHAM *	n.a.	n.a.	n.a.	\$7,580,908	n.a.
IONIA *	3,900	0	46,252	\$1,574,055	2.9%
IOSCO *	0	597	61,364	\$1,126,452	5.2%
IRON	0	0	35,372	\$494,059	6.7%
ISABELLA	n.a.	n.a.	0	\$1,758,380	0.0%
JACKSON *	200,000	5,000	544,000	\$4,361,830	11.1%
KALAMAZOO	148,719	118,249	3,210,966	\$8,243,738	28.0%
KALKASKA *	100,000	55,000	451,000	\$759,394	37.3%
KENT *	1,840,872	158,010	2,706,893	\$21,838,347	11.0%
KEWEENAW	370	6,400	43,670	\$141,785	23.5%



**Exhibit 18 (Continued)**

<u>County</u>	<b>Industrial</b>	<b>County</b>			<b>Public</b>
	<b>Facilities</b>	<b>and</b>	<b>Public</b>		<b>Education</b>
	<u>Tax</u>	<u>Federal</u>	<u>State</u>	<u>Municipal</u>	
LAKE *	\$118	\$73,422	\$41,768	\$8,266	\$9,252
LAPEER *	57,151	3,272	16,794	140,854	98,456
LEELANAU *	0	494,414	13,927	52,248	3,862
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON	66,689	3,202	3,337	99,692	87,692
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB *	795,737	2,939,414	82,904	461,687	880,193
MANISTEE	9,093	142,839	42,610	37,900	40,660
MARQUETTE *	90	64,000	45,000	24,000	210,000
MASON *	7,350	143,000	34,700	93,300	178,600
MECOSTA	11,503	10,850	4,500	11,500	410,000
MENOMINEE	4,473	0	74,966	94	705
MIDLAND *	162,044	335	9,130	75,210	90,150
MISSAUKEE	1,722	80	58,053	30,000	68,650
MONROE *	132,623	145	10,908	80,528	177,373
MONTCALM	6,851	n.a.	0	n.a.	n.a.
MONTMORENCY *	421	156	180,000	572	360
MUSKEGON	45,525	17,505	87,355	147,013	265,901
NEWAYGO *	3,776	n.a.	n.a.	n.a.	n.a.
OAKLAND	313,240	n.a.	n.a.	n.a.	n.a.
OCEANA *	7,218	16,500	6,100	2,200	15,000
OGEMAW *	533	6,230	12,830	8,171	6,256
ONTONAGON	18	219,829	27,851	4,460	10,917
OSCEOLA	3,778	0	4,790	5,700	23,800
OSCODA *	734	279,766	96,109	21,910	33,483
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	349,968	20,400	30,432	203,300	852,604
PRESQUE ISLE *	373,177	0	40,315	108,911	n.a.
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW	152,714	26,845	159,329	216,648	708,584
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH *	104,296	n.a.	n.a.	n.a.	n.a.
SANILAC	6,992	n.a.	n.a.	n.a.	n.a.
SCHOOLCRAFT *	10,039	n.a.	n.a.	n.a.	48,867
SHIAWASSEE *	6,074	675	18,500	68,000	93,000
TUSCOLA*	13,292	0	0	0	0
VAN BUREN *	97,974	0	1,000	12,500	7,500
WASHTENAW *	280,902	0	230	474	10,259
WAYNE	120,546	1,654	1,707	237,872	29,485
WEXFORD	18,230	n.a.	n.a.	n.a.	0
<b>TOTAL</b>	<b>\$5,224,305</b>	<b>\$6,279,633</b>	<b>\$3,627,795</b>	<b>\$4,795,091</b>	<b>\$9,273,000</b>

Note: Wayne and Ingham Counties are not in totals. 2017 taxable value for Wayne County was \$39.5 billion.

\* Based on surveys from current and prior years as counties did not provide estimates.

**Exhibit 18 (Continued)**

<u>County</u>	<u>Personal Property</u>	<u>Other</u>	<u>Exempt Total</u>	<u>Total Taxable Value Real and Personal Property</u>	<u>Exempt as a Percent of Taxable</u>
LAKE *	\$680	\$5,462	\$138,850	\$564,491	19.7%
LAPEER *	184,151	0	443,527	\$2,806,879	13.6%
LEELANAU *	0	49,657	614,108	\$2,638,969	18.9%
LENAWEE *	0	21,000	362,400	\$3,235,071	10.1%
LIVINGSTON	0	45,574	239,497	\$8,463,029	2.8%
LUCE *	650	1,749	17,321	\$188,967	8.4%
MACKINAC *	7,817	2,164	131,295	\$1,005,237	11.6%
MACOMB *	159,121	415,808	4,939,127	\$26,056,431	15.9%
MANISTEE	53,346	58,713	376,068	\$1,109,095	25.3%
MARQUETTE *	10	242,000	585,010	\$2,344,351	20.0%
MASON *	0	84,000	533,600	\$1,801,651	22.8%
MECOSTA	66,500	4,500	507,850	\$1,272,093	28.5%
MENOMINEE	0	4,431	80,196	\$768,462	9.4%
MIDLAND *	154,540	110,240	439,605	\$3,422,005	11.4%
MISSAUKEE	0	0	156,783	\$604,026	20.6%
MONROE *	0	8,671	277,625	\$5,826,233	4.5%
MONTCALM	89,554	0	89,554	\$1,794,388	4.8%
MONTMORENCY *	0	0	181,088	\$488,335	27.1%
MUSKEGON	752,243	0	1,270,017	\$4,338,143	22.6%
NEWAYGO *	n.a.	n.a.	0	\$1,449,016	0.0%
OAKLAND	235,880	n.a.	235,880	\$54,723,743	0.4%
OCEANA *	4,100	0	43,900	\$1,166,275	3.6%
OGEMAW *	0	2,844	36,331	\$832,514	4.2%
ONTONAGON	27,141	111,646	401,844	\$257,775	60.9%
OSCEOLA	0	6,750	41,040	\$693,933	5.6%
OSCODA *	7,365	7,552	446,185	\$386,360	53.6%
OTSEGO *	45,800	3,665	160,066	\$1,231,608	11.5%
OTTAWA	0	777,140	1,883,876	\$10,827,868	14.8%
PRESQUE ISLE *	n.a.	n.a.	149,226	\$655,880	18.5%
ROSCOMMON*	8,400	9,514	285,832	\$1,278,309	18.3%
SAGINAW	1,552,516	248,200	2,912,122	\$4,889,462	37.3%
SAINT CLAIR*	129,346	178,053	850,371	5,799,677	12.8%
SAINT JOSEPH *	n.a.	n.a.	0	1,939,627	0.0%
SANILAC	40,389	n.a.	40,389	1,575,059	2.5%
SCHOOLCRAFT *	n.a.	n.a.	48,867	354,045	12.1%
SHIAWASSEE *	12,000	0	192,175	1,728,820	10.0%
TUSCOLA*	0	0	0	1,751,550	0.0%
VAN BUREN *	1,500	0	22,500	3,238,865	0.7%
WASHTENAW *	774	647	12,384	15,807,731	0.1%
WAYNE	90,937	27,566	389,220	39,461,393	1.0%
WEXFORD	n.a.	n.a.	0	934,306	0.0%
<b>TOTAL</b>	<b>\$7,923,849</b>	<b>\$4,175,919</b>	<b>\$36,075,286</b>	<b>\$288,438,871</b>	<b>11.1%</b>

Note: Wayne and Ingham Counties are not in totals. 2017 taxable value for Wayne County was \$39.5 billion.

\* Based on surveys from current and prior years as counties did not provide estimates.

**Exhibit 19**  
**General Property Tax – Estimated Exempt Acreage by County, 2017**

<u>County</u>	<u>Estimated Acreage</u>	<u>County</u>	<u>Estimated Acreage</u>
ALCONA *	410	LAKE *	1,052
ALGER*	14,000	LAPEER*	4,600
ALLEGAN *	1,000	LEELANAU	4,665
ALPENA *	5,800	LENAWEE *	9,200
ANTRIM	1,000	LIVINGSTON	1,309
ARENAC	23,112	LUCE *	2,300
BARAGA	91,685	MACKINAC *	240
BARRY *	31,269	MACOMB *	5,467
BAY*	3,650	MANISTEE	4,500
BENZIE *	554	MARQUETTE	140
BERRIEN	20,667	MASON	620
BRANCH *	425	MECOSTA	2,700
CALHOUN *	5,670	MENOMINEE *	80,196
CASS *	773	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	900
CHEBOYGAN *	10,950	MONROE *	3,200
CHIPPEWA *	1,500	MONTCALM *	7,000
CLARE *	172	MONTMORENCY *	200
CLINTON *	100	MUSKEGON	2,250
CRAWFORD *	1,519	NEWAYGO *	6,800
DELTA *	700	OAKLAND	4,392
DICKINSON	250	OCEANA *	500
EATON	3,165	OGEMAW *	693
EMMET *	1,000	ONTONAGON	200
GENESEE	12,000	OSCEOLA	1,285
GLADWIN *	1,000	OSCODA *	211
GOGEBIC *	2,300	OTSEGO *	735
GRAND TRAVERSE	2,717	OTTAWA	7,251
GRATIOT *	300	PRESQUE ISLE *	92,659
HILLSDALE	2,900	ROSCOMMON *	1,398
HOUGHTON	7,694	SAGINAW	4,500
HURON *	341	SAINT CLAIR *	11,972
INGHAM *	n.a.	SAINT JOSEPH *	8,712
IONIA *	544	SANILAC	5,200
IOSCO *	32,857	SCHOOLCRAFT *	n.a.
IRON *	50	SHIAWASSEE *	325
ISABELLA *	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN *	4,530
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA *	340	WAYNE	625
KENT *	3,200	WEXFORD *	343
KEWEENAW	13,000	TOTAL	630,412

\* Based on a previous year's survey.

Notes: Many estimates are rounded to the nearest hundred. Wayne County is not included. Total may differ due to rounding.

## Mobile Home Tax

Enacted in 1959, the mobile home tax is levied on mobile homes in lieu of property tax. The tax rate is \$3 per month per occupied mobile home located in licensed mobile home parks. Township or city treasurers administer the mobile home tax. Counties and municipalities keep 50 cents each, while the remaining \$2 is remitted to the state and deposited into the School Aid Fund. The 2018 state share of this tax totaled \$3.3 million indicating \$4.9 million in total state and local collections. Exhibit 20 only shows the county share of the tax.

### FY 2019 Estimate

#### **Mobile Home Tax Expenditure**

\$63,800,000

The tax burden on mobile home occupants (\$36 per year) is small compared with the tax burden on homeowners. The reported figure is an estimate of the difference between the amount of property taxes that would be paid on mobile homes if they were not exempt and the amount collected from the mobile home tax.

#### **Out-of-State Coaches**

n.a.

Exempts out-of-state coaches when accompanied by an out-of-state auto for an accumulated period of up to 90 days during any 12-month period if the occupants are tourists and not engaged in business in Michigan.

## Essential Services Assessment Tax

Enacted in 2014, the Essential Services Assessment (ESA) is imposed on manufacturing personal property otherwise exempt from the general property tax. The tax is imposed at a declining rate based on increasing age. The Michigan Strategic Fund may exempt property from the regular rate of the ESA and either subject the property to the alternative rate (1/2 of the regular rate) or exempt the property entirely, based on certain conditions. The tax is due by August 15<sup>th</sup> and is deposited into the General Fund. The ESA is projected to yield \$107.0 million in FY 2019.

### FY 2019 Estimate

#### **Exempt Property**

\$6,000,000

Partial or full exemptions from the ESA may be granted by the Michigan Strategic Fund for personal property that is part of a broader business plan that includes at least \$25 million in personal property investment.

## **Real Estate Property Transfer Tax**

Enacted in 1966, the county real estate property transfer tax is a tax on the transfer of an interest in real property. The tax is levied at a rate of 55 cents per \$500 (0.11 percent), or fraction thereof, on the fair market value of the property being transferred. The treasurer of the county in which the transfer takes place collects the tax, and the revenue goes to the county general fund. The estimated statewide revenue yield was approximately \$38.4 million in 2016 (see Exhibit 20).

The School Finance Reform Package of 1994 created a state real estate property transfer tax in addition to the county tax. The rate is \$3.75 per \$500 (0.75 percent), or fraction thereof, on the fair market value of the property being transferred. The tax is collected by the county treasurer and forwarded to the state. Revenue is deposited into the School Aid Fund. The state real estate transfer tax is projected to yield \$350.9 million in FY 2019.

Although several exemptions from the state and county transfer tax are permitted, they are designed to define which real estate transfers are subject to the tax. The act does not define real estate transfers explicitly, but by exclusion. Exempt transfers include transfers involving federal, state and local units of governments, certain conveyances between spouses, instruments used to straighten boundary lines when no money is paid, and land contracts in which the title passes to the grantee only when the contract has been paid. Public Act 203 of 2000 added churches and church property to the list of exempt transfers. Transfers of less than \$100 are also exempt. There are no estimates regarding these tax expenditures due to an absence of data.

## **Accommodations Tax**

Under Public Act 263 of 1974, owners of businesses providing rooms to transient guests are subject to the accommodations tax which is collected by the county treasurer. Housing and nursing homes are excluded from the tax. Only counties with a population of less than 600,000 that have a city with a population of at least 40,000 may levy the tax. Counties currently imposing the tax include: Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, Washtenaw, and Wexford. The tax is levied on the amount transient guests pay for lodging. The maximum rate is 5 percent and is determined by the county. Revenues (less administrative costs) are dedicated to convention facilities and the promotion of conventions and tourism. The tax yielded approximately \$23.0 million in 2016 (see Exhibit 20).

## **City Income Tax**

A city income tax is levied by adoption of a city ordinance subject to voter approval. Income earned and received by city residents, income earned in the city by nonresidents, and corporate income earned in the city are subject to city income taxes. In CY 2017, city income taxes totaled \$534.3.0 million after raising \$517.8 million in 2016 (see Exhibit 22). For 2017, 22 cities levied a city income tax. Benton Harbor began to impose the tax in 2018, and East Lansing began in 2019. While rates vary, most cities levy a 1.0 percent tax on residents and corporations and a 0.5 percent tax on nonresidents. Revenue collections go to the general fund of the taxing city, and most revenue comes from city residents.

**FY 2019 Estimate**

**Federal Deductions** n.a.

Tax expenditures for city income taxes are similar to those for state and federal income taxes. However, most city income taxes are based on gross income from salaries, bonuses, wages, commissions, interest, and dividends rather than on federal AGI.

**Net Profits of Financial Institutions** n.a.

Exempts net profits of financial institutions and insurance companies from the city income tax. No statewide estimate is available.

**Nonresident Reduced Rate** \$242,920,000

Nonresidents' income is taxed at half the rate paid by residents.

**Pensions, Annuities, and Retirement Plans** n.a.

Exempts proceeds of pensions, annuities, and retirement plans from the city income tax. Although no statewide estimate is available, this tax expenditure is likely to be substantial.

**Personal Exemption** \$11,920,000

Exempts a certain amount of income for each person claimed on the federal form. The exemption amounts for the various cities are listed in Exhibit 22. While most cities record the number of personal exemptions provided, some do not. In these cases, personal exemptions are estimated based on the number of tax returns multiplied by a weighted average number of exemptions.

**Supplemental Unemployment Benefits** n.a.

Exempts supplemental unemployment benefits from the city income tax. A statewide estimate is not available.

**City Utility Users' Tax**

The uniform city utility users' tax is based on the privilege of consuming public telephone, electric, steam, or gas services in a city of 600,000 or more. Currently, Detroit is the only city in Michigan eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled \$36.3 million in 2016.

**Exhibit 20**  
**Miscellaneous Local Taxes Kept by Counties, 2016**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA	\$0	\$116	\$50,861
ALGER	0	174	133,172
ALLEGAN *	0	29,436	453,342
ALPENA	0	538	87,485
ANTRIM	0	288	195,341
ARENAC	0	1,813	40,423
BARAGA	0	0	0
BARRY *	0	4,233	198,876
BAY *	0	13,780	185,739
BENZIE	0	290	118,094
BERRIEN *	0	0	676,479
BRANCH	0	4,091	137,661
CALHOUN *	1,279,065	16,437	0
CASS *	0	5,154	213,133
CHARLEVOIX	0	134	65,326
CHEBOYGAN	0	913	130,450
CHIPPEWA	0	1,845	119,576
CLARE	0	1,311	94,001
CLINTON	0	12,591	376,356
CRAWFORD	0	142	48,035
DELTA	0	2,052	96,785
DICKINSON	0	2,069	79,678
EATON *	0	8,237	321,152
EMMET	0	2,163	343,736
GENESEE *	1,309,443	49,883	936,102
GLADWIN *	0	1,901	75,676
GOGEBIC *	0	131	39,629
GRAND TRAVERSE	0	11,242	769,108
GRATIOT	0	4,062	103,103
HILLSDALE	0	1,968	162,032
HOUGHTON	0	212	93,838
HURON	0	2,837	131,057
INGHAM *	122,456	808	14,150
IONIA	0	4,486	195,373
IOSCO	0	1,349	101,436
IRON	0	151	35,426
ISABELLA	0	6,307	159,630
JACKSON	0	22,089	451,437
KALAMAZOO *	2,332,566	19,363	879,570
KALKASKA *	0	160	55,942
KENT *	7,660,224	50,989	3,077,951
KEWEENAW *	0	0	15,319

**Exhibit 20 (Continued)**

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$49,553
LAPEER *	0	11,507	226,346
LEELANAU *	0	632	268,589
LENAWEE	0	11,094	345,447
LIVINGSTON	0	22,033	1,315,216
LUCE	0	0	43,519
MACKINAC	0	52	80,863
MACOMB *	0	67,791	2,794,557
MANISTEE *	0	156	76,811
MARQUETTE	0	2,755	292,931
MASON	0	2,764	129,343
MECOSTA	0	2,209	146,853
MENOMINEE	0	960	55,261
MIDLAND	0	4,845	300,139
MISSAUKEE	0	47	47,210
MONROE	0	33,265	515,034
MONTCALM	0	3,829	1,372,159
MONTMORENCY	0	72	44,445
MUSKEGON	1,217,438	19,931	616,689
NEWAYGO	0	4,900	188,173
OAKLAND *	0	84,319	7,447,033
OCEANA	0	1,420	116,531
OGEMAW *	0	457	38,328
ONTONAGON	0	0	30,159
OSCEOLA	0	115	58,567
OSCODA	0	21	29,472
OTSEGO	0	134	112,034
OTTAWA	0	29,488	1,853,386
PRESQUE ISLE *	0	354	32,736
ROSCOMMON	0	6,214	128,342
SAGINAW *	2,731,436	12,088	344,048
SAINT CLAIR *	0	84,992	479,913
SAINT JOSEPH *	0	5,117	169,625
SANILAC *	0	6,402	127,945
SCHOOLCRAFT *	0	24	20,228
SHIAWASSEE *	0	8,821	135,574
TUSCOLA	0	3,984	122,390
VAN BUREN	0	6,063	313,967
WASHTENAW	6,302,497	34,329	2,327,929
WAYNE *	0	76,019	4,062,968
WEXFORD	0	5,527	109,678
<b>TOTAL</b>	<b>\$22,955,125</b>	<b>\$840,464</b>	<b>\$38,432,468</b>

\* Figures carried forward from a previous year.



**Exhibit 21**  
**Estimated Tax Expenditures From**  
**City Income Tax Personal Exemptions, 2016**

<u>City</u>	<u>Resident</u>		<u>Nonresident and Partial-Year Resident</u>	
	<u>Quantity</u>	<u>Amount</u>	<u>Quantity</u>	<u>Amount</u>
Albion	14,642	\$87,852	2,665	\$9,532
Battle Creek	29,726	222,945	38,295	143,606
Big Rapids	2,357	14,142	13,140	39,420
Detroit	257,270	3,704,688	354,490	2,552,328
Flint	36,299	217,794	57,493	172,479
Grand Rapids	115,037	1,035,333	160,654	722,943
Grayling	697	20,910	3,735	56,025
Hamtramck	15,755	94,530	9,260	27,780
Highland Park	5,775	69,300	5,916	35,496
Hudson *	1,762	17,620	1,251	6,255
Ionia	4,556	31,892	13,058	45,703
Jackson	14,819	88,914	29,690	89,070
Lansing	76,067	456,402	99,634	298,902
Lapeer	5,924	35,544	28,217	84,651
Muskegon	11,641	69,846	26,569	79,707
Muskegon Heights	1,077	6,462	3,099	9,297
Pontiac *	17,733	106,398	48,713	146,139
Port Huron	12,825	76,950	18,712	56,136
Portland	3,138	31,380	2,296	11,480
Saginaw	24,561	276,311	37,191	209,199
Springfield *	4,020	30,150	6,049	22,684
Walker	20,605	123,630	34,980	104,940
<b>TOTAL</b>	<b>676,286</b>	<b>\$6,818,993</b>	<b>995,107</b>	<b>\$4,923,772</b>

\* Used from previous year's survey

**Exhibit 22**  
**City Tax Rates and Exemption Allowances, 2016**

<u>City</u>	<u>City Income Tax Rate</u>			<u>Personal Exemption</u>	<u>Collections (000s)</u>
	<u>Resident</u>	<u>Non-Resident</u>	<u>Corporation</u>		
Albion	1.00%	0.50%	1.00%	\$600	\$1,061
Battle Creek	1.00%	0.50%	1.00%	750	16,656
Big Rapids	1.00%	0.50%	1.00%	600	2,098
Detroit	2.40%	1.20%	2.00%	600	282,153
Flint	1.00%	0.50%	1.00%	600	15,604
Grand Rapids	1.50%	0.75%	1.50%	600	90,553
Grayling	1.00%	0.50%	1.00%	3,000	552
Hamtramck	1.00%	0.50%	1.00%	600	2,202
Highland Park	2.00%	1.00%	2.00%	600	3,398
Hudson	1.00%	0.50%	1.00%	1,000	463
Ionia	1.00%	0.50%	1.00%	700	2,326
Jackson	1.00%	0.50%	1.00%	600	8,307
Lansing	1.00%	0.50%	1.00%	600	34,077
Lapeer	1.00%	0.50%	1.00%	600	3,173
Muskegon	1.00%	0.50%	1.00%	600	8,291
Muskegon Heights	1.00%	0.50%	1.00%	600	1,050
Pontiac	1.00%	0.50%	1.00%	600	12,625
Port Huron	1.00%	0.50%	1.00%	600	6,532
Portland	1.00%	0.50%	1.00%	1,000	624
Saginaw	1.50%	0.75%	1.50%	750	12,998
Springfield	1.00%	0.50%	1.00%	750	930
Walker	1.00%	0.50%	1.00%	600	11,082
<b>TOTAL</b>					<b>\$516,755</b>