



Background Briefing

MICHIGAN REVENUE

Jim Stansell, Senior Economist

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Fiscal information in this briefing is based on May 2013 Consensus Revenue Estimates.

Revenue Sources

- **Total FY 2013-14 Michigan revenue is estimated to be \$49,162.8 million**

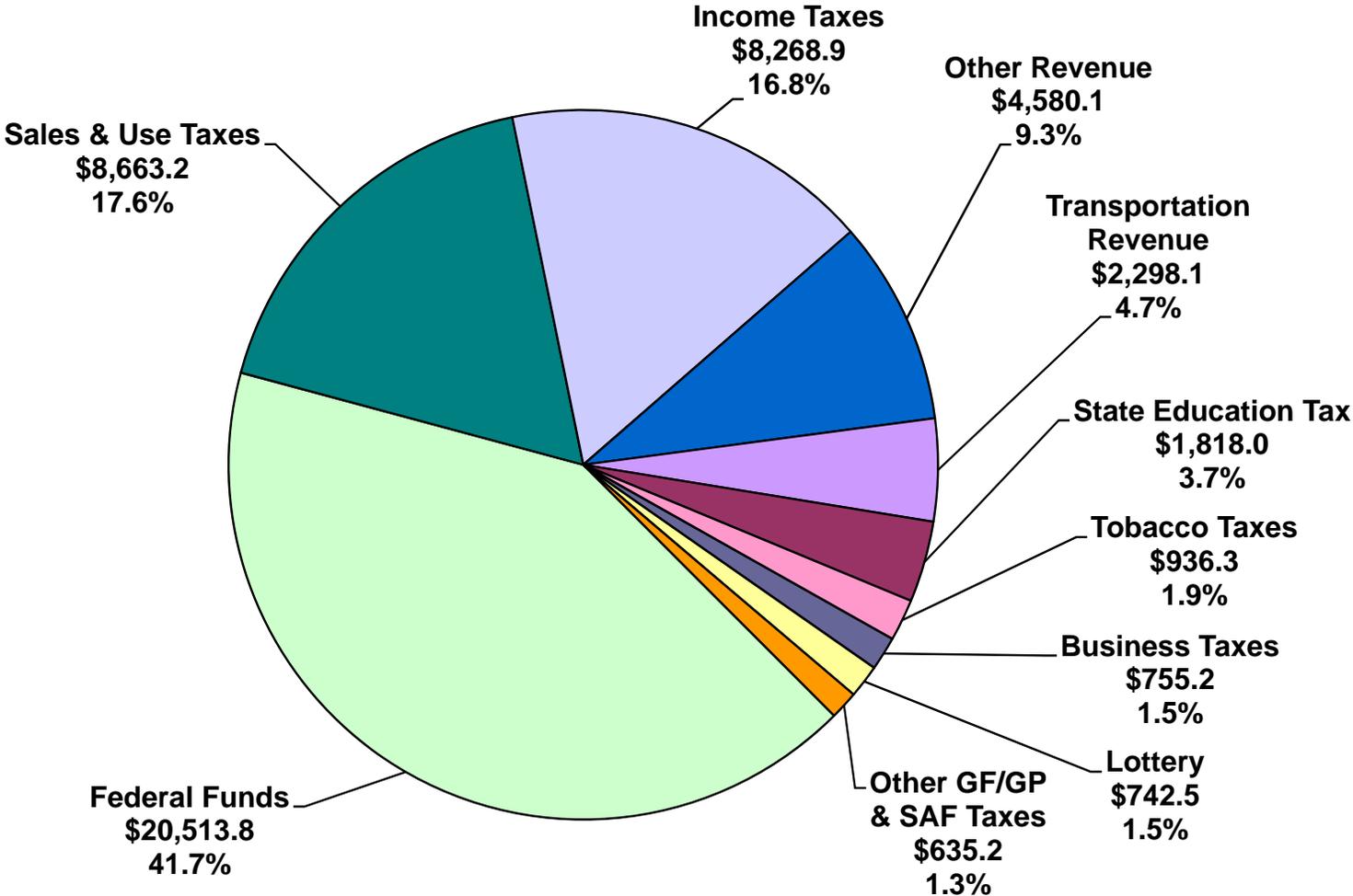
- **The three largest sources of revenue are:**
 - **Federal funds**
 - **Sales and use taxes**
 - **Income taxes**

Earmarked Revenue and Major State Funds

- **Earmarking: dedication or restriction of an amount or percentage of revenue from a source to a specific fund or purpose**
- **Revenue not earmarked is General Fund/General Purpose (GF/GP) revenue**
- **Major state funds**
 - **School Aid Fund (SAF) for K-12 Education**
 - **GF/GP appropriated for any/all budget areas**
 - **Transportation Fund for transportation services**

State of Michigan Revenue

FY 2013-14 Total = \$49,211.3 million



MAJOR STATE TAXES

Major State Taxes

- **Sales and use taxes**
- **Individual income tax**
- **Business taxes**
 - **Corporate income tax (CIT)**
 - **Insurance tax**
 - **Casino wagering tax**
- **State property taxes**
 - **State education tax (SET)**
 - **Real estate transfer tax (RET)**

Sales and Use Taxes

- **Sales Tax**
 - 6% levied on retail sale of tangible personal property for use or consumption
 - Major Exemptions: food, prescription drugs
 - Disposition
 - 72.7% to SAF
 - 15.7% to GF/GP
 - 10.0% to local units (Constitutional revenue sharing)
 - 1.3% transportation fund

- **Use Tax**
 - 6% levied on some services, telephone/utility services, motor vehicle leases and private sales, hotels/motels
 - Complements sales tax
 - Disposition
 - 67% to GF/GP
 - 33% to SAF

Individual Income Tax

- **Base starts with federal adjusted gross income**
- **TY 2013 Rate = 4.25%**
- **\$3,950 personal exemption**
- **Retirement income taxable for most filers < 68 years old**
- **Property tax credit: refundable credit for homeowners and renters**
- **Disposition in FY 2013-14**
 - **Approximately 71.5% to GF/GP**
 - **Approximately 28.5% to SAF**

Business Taxes

- **Corporate Income Tax (CIT)**
 - Effective January 1, 2012; replaced MBT; MBT will be repealed after all certificated credits have been claimed
 - Business income taxed at 6%
 - CIT only applies to C corporations
 - Credits awarded (certificated credits) under the MBT will be retained for the duration of the agreements provided a taxpayer continues to file under the MBT
 - No CIT credits, except for the small business credit

- **Disposition of CIT:**
 - 100% to GF/GP

Business Taxes

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

State Property Taxes

- **State Education Tax (SET):**
6-mill levy on taxable value of real and some personal property
- **Real Estate Transfer Tax (RET):**
0.75% of fair market value of real property
- **Disposition of SET and RET:**
 - 100% to SAF

RECENTLY ENACTED TAX CHANGES

Personal Property Tax Changes

- **Contained in Public Acts 397 through 404, and 406 through 408, of 2012.**
- **Exempts all commercial and industrial personal property owned by a single taxpayer in a local unit provided the combined taxable value is \$40,000 or less, effective January 1, 2014.**
- **Eliminates personal property taxes on “eligible manufacturing personal property” (a new definition within the legislation) acquired before 2006 or after 2012, effective January 1, 2016.**
- **Eligible manufacturing personal property acquired between 2006 and 2012 will be exempted one year at a time so that by 2023, all eligible manufacturing personal property will be exempt.**

Personal Property Tax Changes

- In August 2014, there will be a statewide election to approve a local use tax levy by the Metropolitan Areas Metropolitan Authority (MAMA) created by the legislation. If approved, the MAMA will levy a portion of the 6% statewide use tax, and use the funds to partially reimburse local units of government for the revenue loss based on formulas contained within the legislation. If the MAMA is granted with taxing authority, local units of government would be eligible for partial reimbursement of revenue losses.
- If the ballot initiative is not approved, none of the provisions eliminating personal property taxes will become effective, and the public act that exempted commercial and industrial personal property values at less than \$40,000 will be repealed.
- Beginning January 1, 2016, local units of government may levy a special assessment to help replace the revenue loss associated with providing essential services.

MAJOR STATE FUNDS

Major State Funds

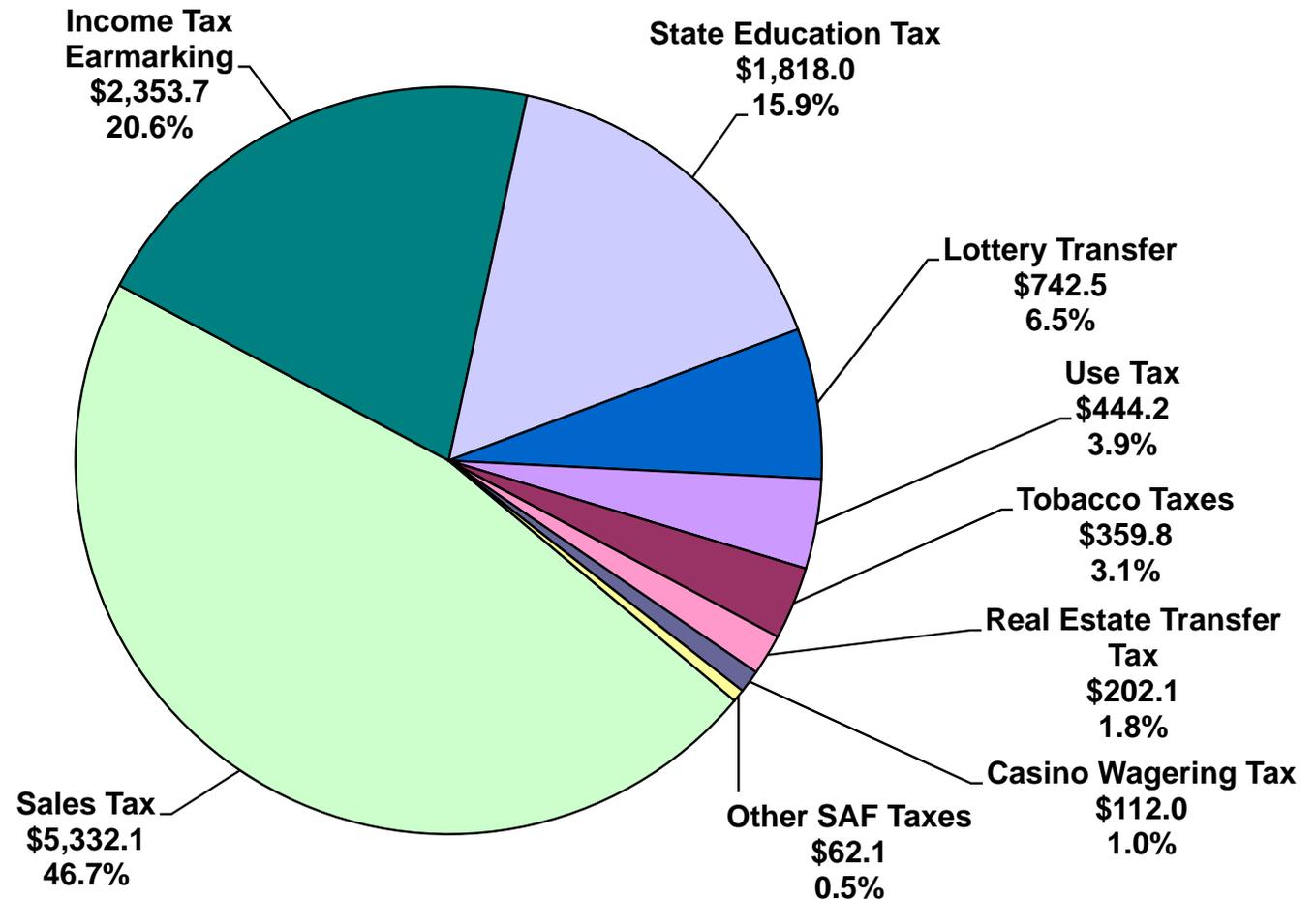
- **School Aid Fund (SAF)**
 - Used primarily for K-12 education
 - Major sources include sales and use tax, individual income tax, and 6-mill state education tax

- **General Fund/General Purpose (GF/GP)**
 - Appropriated for any/all budget area(s)
 - Major sources include individual income tax, sales tax, and corporate income tax (CIT) / Michigan business tax (MBT)

- **Transportation Fund**
 - Used for transportation services
 - Major sources include federal funds, fuel taxes, and registrations, licenses, and permits

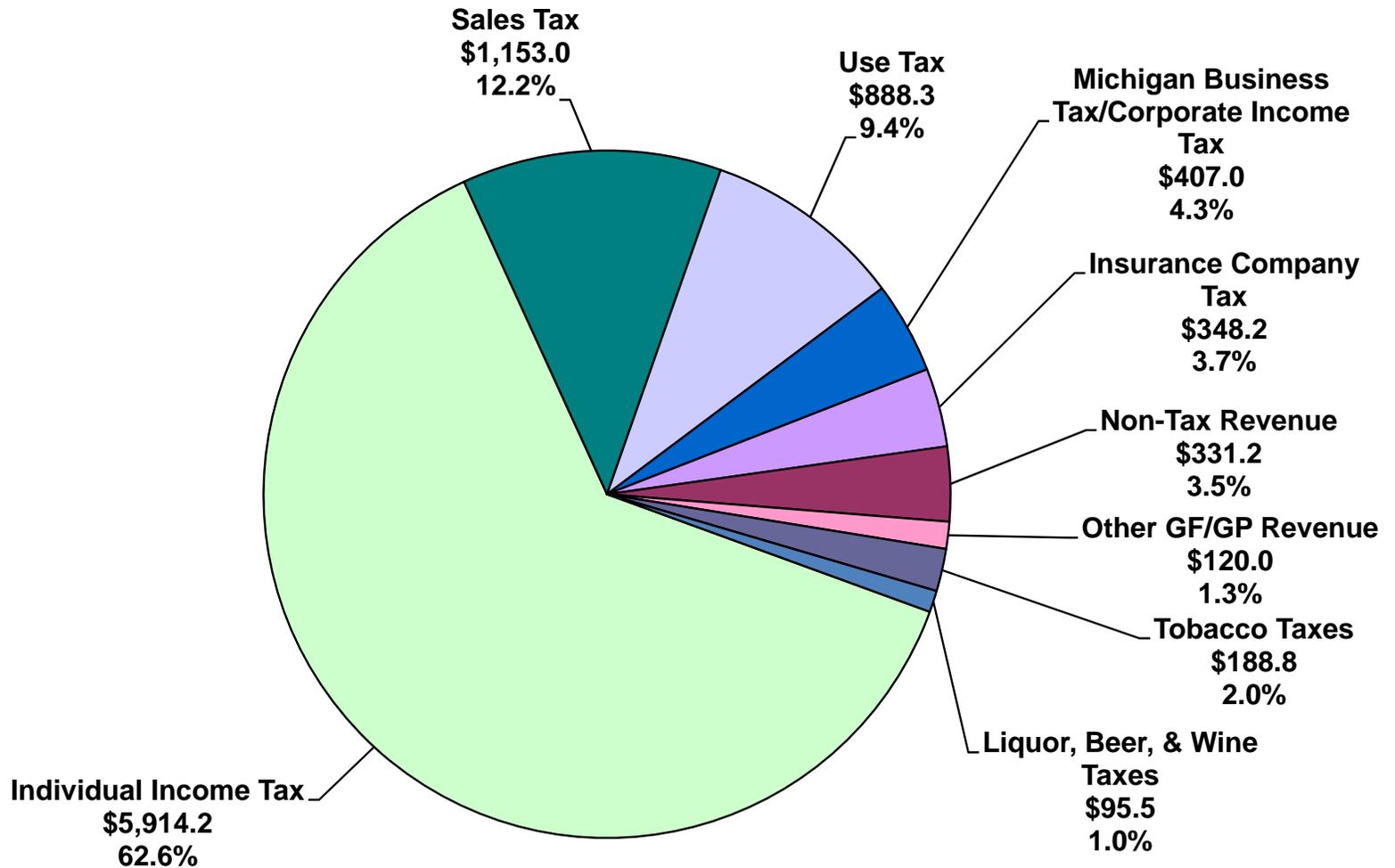
School Aid Fund Revenue

FY 2013-14 Total = \$11,470.1 million



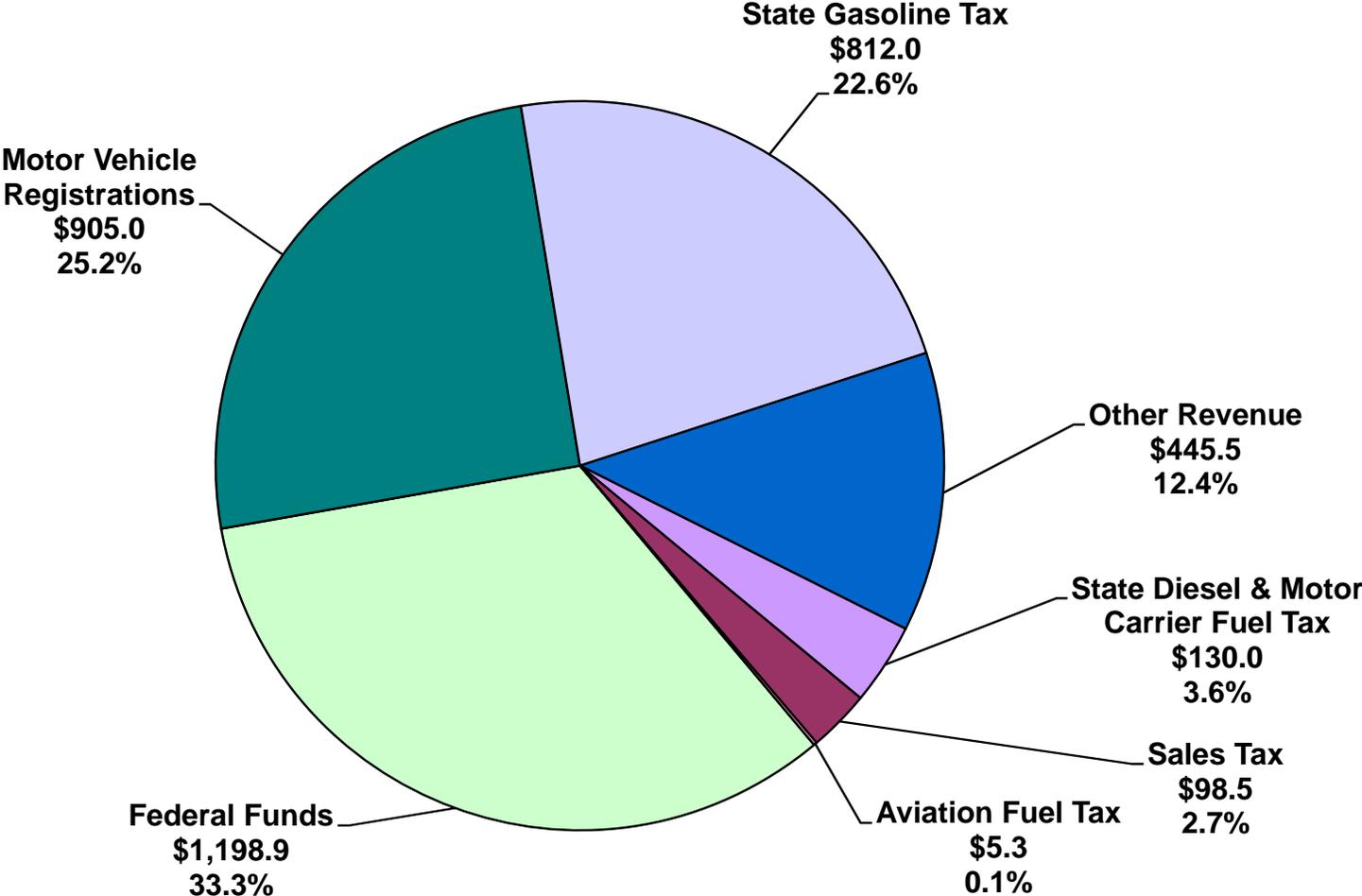
General Fund/General Purpose Revenue

FY 2013-14 Total = \$9,446.2 million



Transportation Revenue

FY 2013-14 Total = \$3,595.1 million

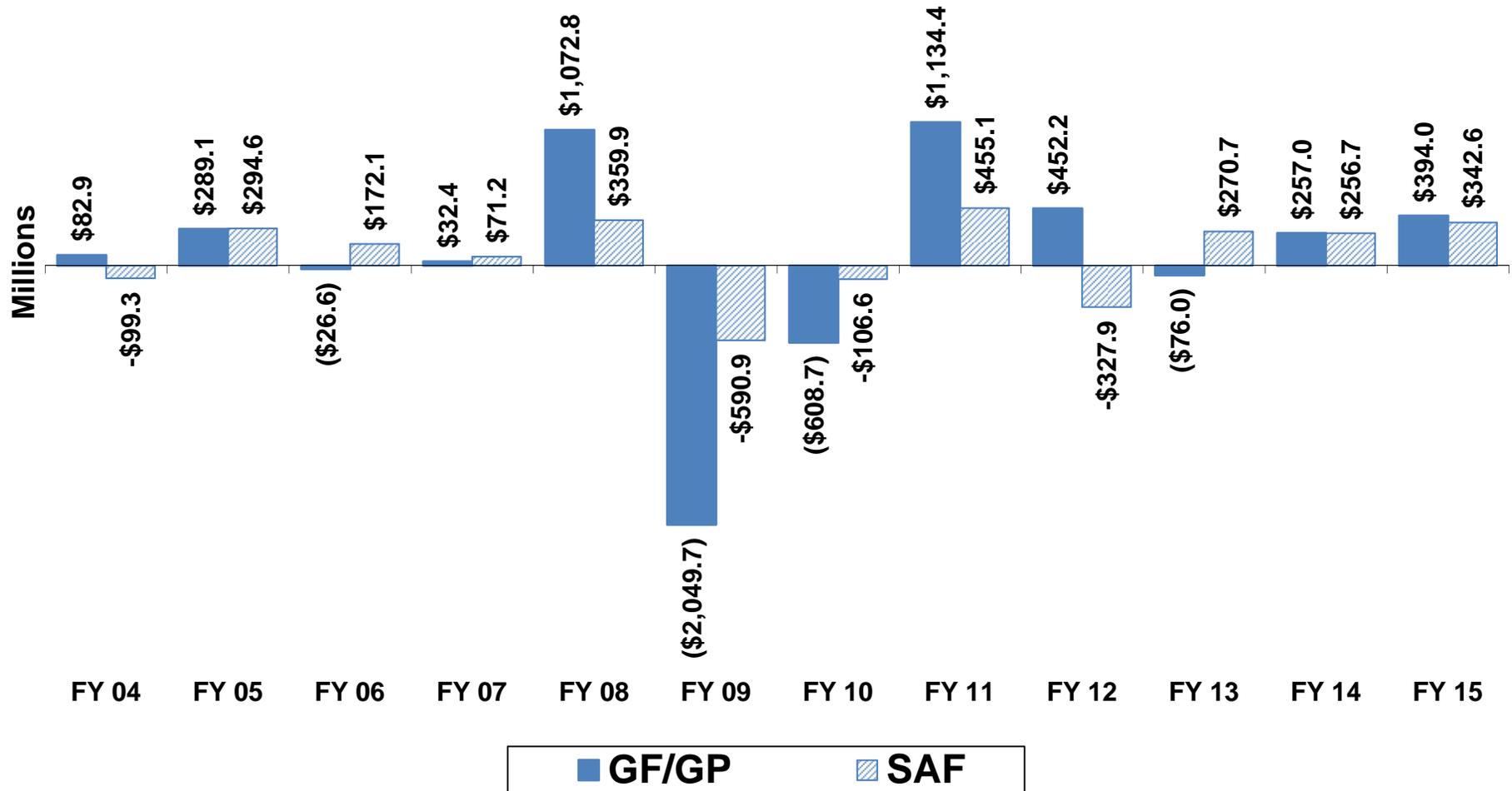


Trends in General Fund/General Purpose and School Aid Fund Revenue

- **Change in revenue from previous fiscal year:**
 - **GF/GP and SAF revenue**
 - **FY 2007-08 and FY 2012-13 saw increases due primarily to tax changes**
 - **Great recession reduced FY 2008-09 and FY 2009-10 revenue**
 - **Economic recovery increased FY 2010-11 revenue**
 - **Increases in FY 2013-14 and FY 2014-15 due to economic gains largely offset by business tax cuts**

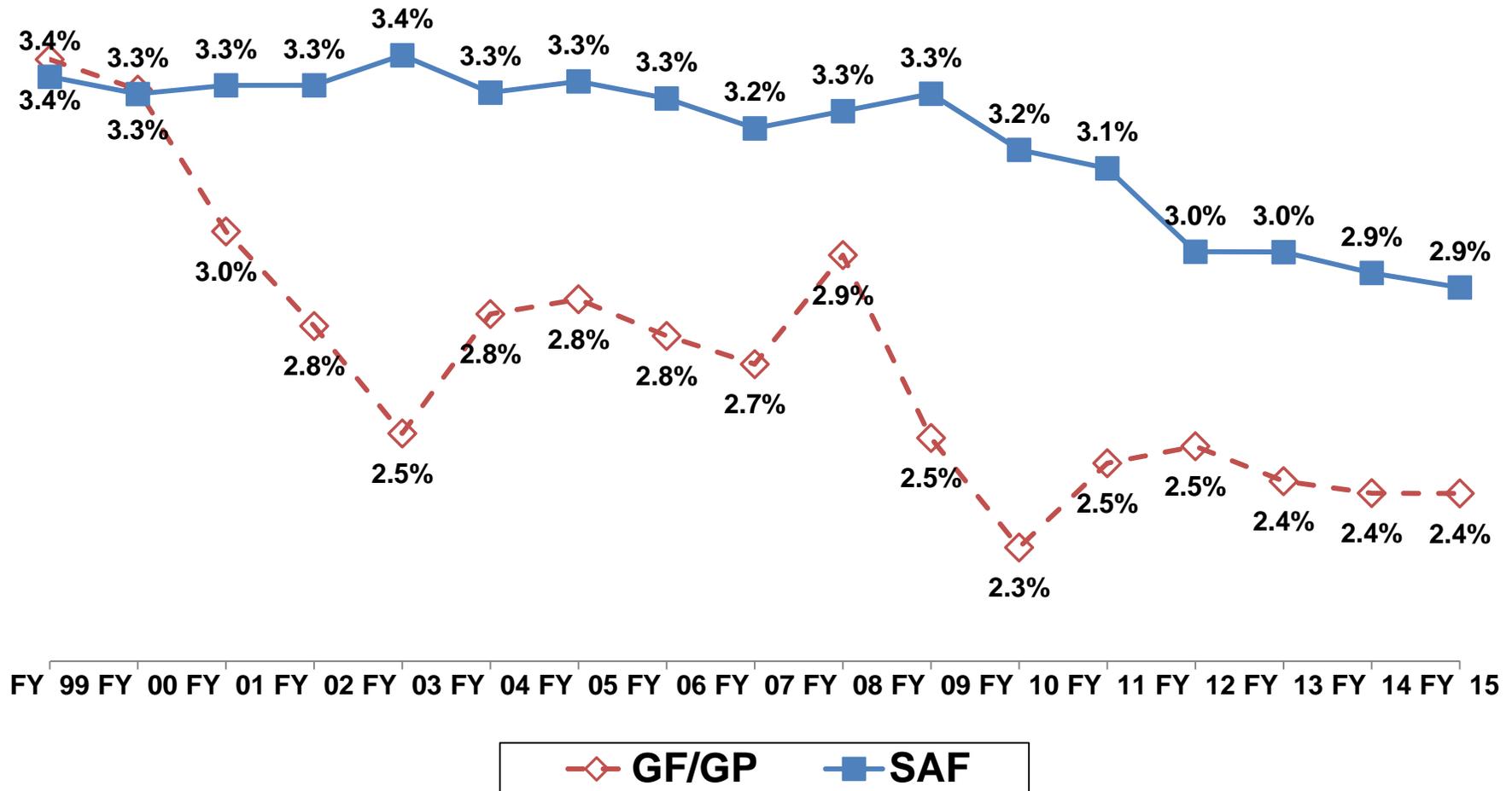
- **As a percent of Michigan personal income (relative to Michigan's economy):**
 - **GF/GP revenue**
 - **Declined from 3.4% in FY 1998-99 to 2.4% in FY 2014-15**
 - **SAF revenue**
 - **Declined from 3.4% in FY 1998-99 to 2.9% in FY 2014-15**

Revenue Change From Previous Fiscal Year



General Fund/General Purpose and School Aid Fund Revenue

As a Percent of Michigan Personal Income



Revenue: House Fiscal Agency Role

- **Prepare House Fiscal Agency forecast as part of consensus estimates**
 - National and state economic forecast
 - GF/GP and SAF forecast
- **Review and estimate fiscal impact of bills discussed in Tax Policy committee**
- **Prepare documents for House members**
 - Revenue Source and Distribution: February and June
 - Revenue Review: Quarterly

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

**Jim Stansell, Senior Economist
jstanse@house.mi.gov**

**Adam Desrosiers, Economist
adesrosiers@house.mi.gov**

(517) 373-8080