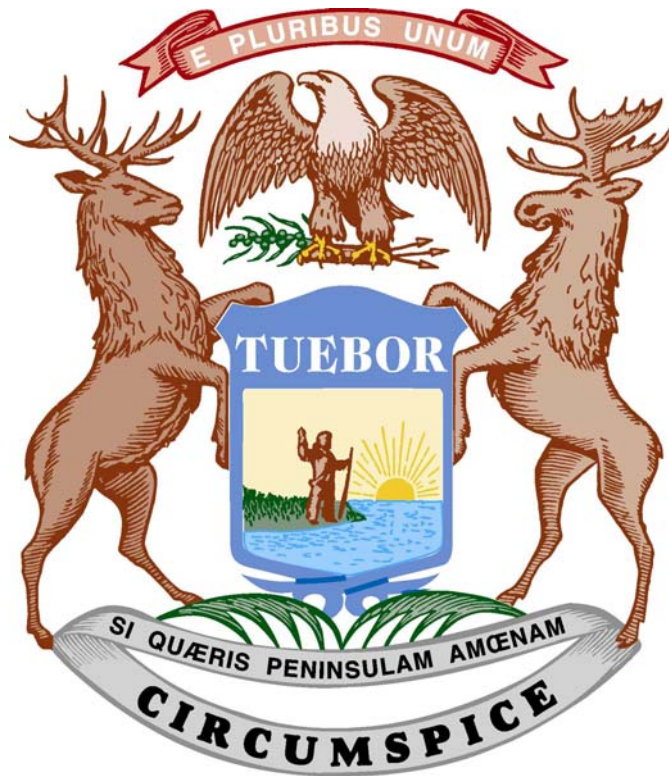


**Executive Budget
Appendix on Tax Credits,
Deductions, and
Exemptions
Fiscal Year 2012**



**State of Michigan
Rick Snyder, Governor**

**Executive Budget
Appendix on Tax Credits,
Deductions, and Exemptions
Fiscal Year 2012**



**State of Michigan
Michigan Department of Treasury
Rick Snyder, Governor**

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

Andy Dillon
State Treasurer
Department of Treasury

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**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

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS
EXECUTIVE SUMMARY
FY 2012

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 1.1 percent between fiscal year (FY) 2011 and FY 2012, from \$33.20 billion to \$33.58 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 \$2,489.9 million to \$2,596.7 million from FY 2011 to FY 2012. The estimates under the business privilege tax category reflect the credits, deductions, and exemptions in place under the Michigan Business Tax, which for most taxpayers will be replaced by a corporate income tax on January 1, 2012.

Consumption tax expenditures are predicted to increase 2.1 percent between FY 2011 and FY 2012, from \$14,267.2 million to \$14,563.7 million. Growth in tax expenditures related to health care services, food for home use, and prescription drugs 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 \$8,192.4 million in FY 2011 to \$8,585.4 million in FY 2012, a 4.8 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 decrease 5.1 percent between FY 2011 and FY 2012, dropping from \$8,207.5 million to \$7,786.5 million. The decrease for 2012 is due to falling taxable values which reduce the value of many tax exemptions.

Transportation tax expenditures are predicted to increase 0.2 percent between FY 2011 and FY 2012, from \$48.5 million to \$48.7 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. Either way, the individual receives a 50 percent reduction in the effective cost of health care.

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 more narrow 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 true substitutes for direct spending. This report does not make any assumptions regarding the correct definition of the term tax expenditure but rather reports all exemptions, deductions, and credits that are explicitly outlined in statute.

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 Michigan business tax (MBT) credits for small, low-profit 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 college contribution credit, intended to increase contributions to colleges and universities, is an 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 2009, individual Michigan taxpayers could claim a \$3,600 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. Yet even using a

narrow definition of tax expenditures, the personal exemption would be considered a tax expenditure because it changes the distribution of the tax burden based on family size.

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. However, Michigan’s sales tax is not a pure retail sales tax because many final consumer goods, such as services, are not subject to taxation. Hence, this report includes the business purchase exemption as a tax expenditure for the state sales tax.

Measuring Tax Expenditures

The estimates in this report for fiscal year (FY) 2010 and FY 2011 are based on the most recent data available. Tax year 2008 income tax data (returns processed in the spring of 2009) are used, as are 2008 property and sales tax data, and tax year 2008 MBT data (the first year available). 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 MBT deduction or credit may allow firms to take greater advantage of other deductions or credits, 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 regularly places sunset dates on 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 tax category. Categories include 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 \$33.204 billion in FY 2011 to \$33.580 billion in FY 2012, a 1.1 percent increase (see Exhibit 1). A decline in property tax expenditures caused by falling property values was offset by increases in consumption and individual income tax expenditures.

Exhibit 1
Total Tax Expenditures, FY 2011 and FY 2012

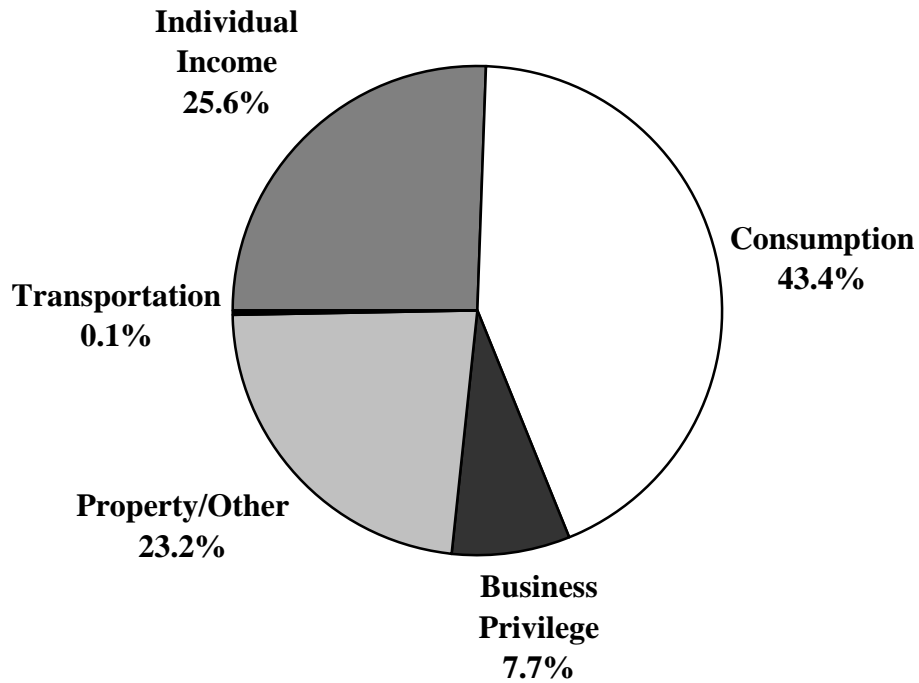
<u>Tax Category</u>	<u>FY 2011</u> <u>(000)</u>	<u>FY 2012</u> <u>(000)</u>	<u>Change</u> <u>(000)</u>
Business Privilege	\$2,489,880	\$2,596,650	\$106,770
Consumption	14,267,232	14,563,699	296,467
Individual Income	8,192,368	8,585,425	393,057
Property	8,043,590	7,621,780	-421,810
Other Local (City Income)	163,900	164,700	800
Transportation	<u>48,548</u>	<u>48,662</u>	<u>114</u>
TOTAL	\$33,205,518	\$33,580,916	\$375,398

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 2012, consumption tax expenditures comprise 43.4 percent of total tax expenditures, while income tax expenditures comprise 25.6 percent and property and other local taxes comprise 23.2 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 2012 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2012 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	\$10.0	\$71.6	14.0%
Michigan Business**	2,545.3	2,159.0	117.9%
Consumption			
Total Alcohol	0.1	186.8	0.0%
Cigarette and Tobacco	23.8	940.8	2.5%
Sales and Use	14,539.9	7,916.0	183.7%
Individual Income Tax**	6,051.7	6,238.4	97.0%
Transportation			
Aviation Fuel	3.7	5.5	66.5%
Gasoline	27.6	841.0	3.3%
Diesel Fuel	5.3	124.0	4.3%
Motor Vehicle Registration	11.4	844.0	1.3%
City Income Tax	164.7	425.0	38.8%
TOTAL	\$23,383.2	\$19,752.1	118.4%

*From Consensus Revenue Estimating Conference, May 2011. City income taxes are not a consensus estimate.

**MBT and income tax estimates do not reflect 2012 tax reform.

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 2011</u> <u>(000)</u>	<u>FY 2012</u> <u>(000)</u>
Insurance Company		
Disability Insurance Exclusion	\$5,000	\$5,200
Michigan Association and Facilities Credit	30,500	\$32,000
Michigan Examination Fees Credit	2,900	3,000
Supplemental Workers' Compensation	1,100	1,200
SUBTOTAL	\$39,500	\$41,400
Oil and Gas Severance Tax		
Marginal Wells	\$6,000	\$6,800
Public Land	3,200	3,200
SUBTOTAL	\$9,200	\$10,000
Michigan Business Tax Expenditure		
Affordable Housing	\$4,100	\$5,400
Agricultural Producers	45,600	47,800
Arts and Culture Credit	1,300	1,400
Bad Debts Gross Receipts Exclusion	6,900	8,000
Biodiesel Infrastructure Credit	250	250
Bonus Depreciation Credit *	11,200	1,100
Bottle Deposit Administration Credit	9,600	9,800
Bottle Deposit Gross Receipts Exclusion	4,600	4,700
Brownfield Redevelopment Credit	73,200	76,800
Business Loss Deduction	107,400	118,200
Certain Taxes/Fees Gross Receipts Exclusion	64,100	83,700
Community/Education Foundation Credit	350	370
Compensation Credit	266,700	278,600
Construction Subcontractor Payments Exemption	18,900	18,900
Entrepreneurial Credit	240	260
Farmland Preservation Credit	1,500	1,600
Film Credits	105,000	75,000
Floor Plan Interest Deduction	3,000	3,400
Flow-Through Entity Business Income Deduction	112,900	117,900
Food Retailer Credits	8,800	9,200
Foreign Dividends Gross Receipts Exclusion	150,500	162,800
Foreign Persons	6,100	6,100
Government Securities' Income Exclusion	3,800	3,900

Exhibit 4 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2011 (000)</u>	<u>FY 2012 (000)</u>
Government Utilities Exemption	\$30,000	\$31,200
Gross Receipts Filing Threshold	33,200	27,300
Gross Receipts Filing Threshold Credit	35,000	28,800
Health Care Consulting Gross Receipts Exclusion *	1,000	1,000
Historic Preservation Credit	9,500	13,300
Homeless Shelter/Food Bank Credit	560	590
Hybrid Technology R & D Credit	1,400	1,500
International Auto Show Credit	250	250
Investment Tax Credit	214,200	223,700
Low-Grade Hematite Credit	1,100	1,100
Michigan Economic Growth Authority (MEGA)	104,200	109,400
MEGA Photovoltaic Technology Credit *	1,500	7,500
MEGA Vehicle Battery Credit *	0	40,000
Motion Picture Gross Receipts Exclusion	2,100	2,100
Multiple Employer Welfare Arrangement	30	30
NASCAR Safety Credit	6,200	6,200
NASCAR Speedway Credit	1,200	1,800
New Motor Vehicle Dealer Inventory Credit	23,800	25,000
Nonprofit Organizations	157,500	165,400
Pass-Through Entity Gross Receipts Exclusion	12,700	12,900
Personal Property Tax Credit	137,300	123,600
Public Contribution Credit	1,100	1,200
Renaissance Zone Credit	21,200	22,300
Research and Development Credit	23,100	24,200
Self-Employment Net Earnings Deduction	150,700	157,300
Small Business Alternate Tax Credit	413,100	431,500
Stadium Credit	2,800	1,700
Staffing Company/PEO Gross Receipts Reduction	44,300	44,300
Tobacco Taxes Tax Credit *	3,400	2,100
Workers' Disability Supplemental Benefit Credit	2,700	2,800
SUBTOTAL	\$2,441,180	\$2,545,250
TOTAL	\$2,489,880	\$2,596,650

* Indicates a new or expanded tax expenditure not included in the previous report.

Exhibit 5
Consumption Tax Expenditures

<u>Tax or Tax Expenditure</u>	<u>FY 2011</u> <u>(000)</u>	<u>FY 2012</u> <u>(000)</u>
Alcoholic Beverages Taxes		
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
SUBTOTAL	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	\$400	\$400
Licensee Expenses	14,300	13,990
Sales on Military Bases and Reservations	9,550	9,360
SUBTOTAL	\$24,250	\$23,750
Sales and Use Tax Expenditures		
Air and Water Pollution	\$55,000	\$57,000
Aircraft Parts	6,700	6,600
Bad Debts	58,800	60,900
Cargo Aircraft	24,000	23,640
Church Construction	3,600	3,600
Church Cars	3,070	3,180
Collection Fee	41,700	42,600
Commercial Domestic Aircraft	4,000	4,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Donated Property	n.a.	n.a.
Donated Vehicles	125	125
Driver Training	370	360
Employee Meals	17,160	17,550
Enterprise Zone Credit	n.a.	n.a.
Food	1,193,130	1,220,210
Food for Students	19,750	20,200
Government or Red Cross	176,670	182,870
Gratuity and Tips	60,260	61,620
Horticultural and Agricultural Products	247,700	260,100
Imported Property from Other States	1,600	1,600

Exhibit 5 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2011</u> <u>(000)</u>	<u>FY 2012</u> <u>(000)</u>
Industrial Processing	\$860,000	\$920,000
Inmate Purchases	487	480
Interstate Communications	11,000	10,000
Interstate Trucks and Trailers	24,110	24,950
Investment Coins	5,100	5,220
Isolated Sales	n.a.	n.a.
Military PX Sales	670	694
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	94,040	95,100
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	1,220	1,260
Nonprofit Organizations	232,700	238,000
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	52,410	53,980
Prescription Drugs	512,100	536,300
Radio and TV	4,400	4,400
Rail Rolling Stock	1,630	1,690
Residential Utilities	155,000	156,500
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	59,000	59,600
Services (Including Nonprofits)	10,208,400	10,357,200
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	12,860	13,310
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	34,730	35,420
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	21,300	21,500
SUBTOTAL	\$14,242,892	\$14,539,859
TOTAL	\$14,267,232	\$14,563,699

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

**Exhibit 6
Individual Income Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2011 (000)</u>	<u>FY 2012 (000)</u>
State Income Tax		
Adjustments to Income (except military)	\$3,137,164	\$3,296,162
Adoption Credit	692	717
Child Deduction	51,587	52,103
City Income Tax Credit	29,335	29,629
College Savings Accounts	13,234	10,884
Community Foundation Credit	3,441	3,493
Dependent Exemption	15,827	15,985
Donated Vehicle Credit	108	112
Earned Income Credit	340,000	360,000
Energy Efficient Home Improvement Credit	15,796	16,428
Farmland Credit	41,459	43,117
Higher Education/Public Contributions Credit	23,542	23,455
Historic Preservation Credit	1,301	1,362
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	228	232
Homeless/Food Bank Credit	19,848	20,460
Homestead Property Tax Credit	865,691	831,063
Income Tax Paid to Other State Credit	42,058	43,232
Military Pay and Pensions	52,044	55,533
Personal Exemption	1,162,069	1,173,690
Renaissance Zones	1,400	1,400
Renewable Energy Surcharge Credit	4,213	1,064
Special Exemption	60,792	63,224
Stillbirth Credit	62	62
Tribal Tax Agreements	n.a.	n.a.
Tuition Credit	3,175	8,275
TOTAL STATE	\$5,885,066	\$6,051,683
Federal Adjustments		
Accelerated Depreciation	\$14,437	\$39,365
Employer Contributions to Insurance	870,230	902,896
Employer Pension Plans	541,595	545,052
Federal Adjustments to Income	48,316	52,388
Fellowships and Scholarships	9,116	14,717

Exhibit 6 (Continued)

<u>Tax or Tax Expenditure</u>	<u>FY 2011</u> <u>(000)</u>	<u>FY 2012</u> <u>(000)</u>
Federal Adjustments (continued)		
Gain on Sale of Primary Residence	\$198,170	\$236,758
Income Maintenance Benefits	5,618	7,190
Individual Retirement Accounts	199,017	230,992
Interest on Life Insurance Savings	97,848	109,509
Medical Savings Account	9,365	8,834
Railroad Retirement Benefits	1,350	1,489
Social Security Benefits	231,602	276,747
Student Loan Deduction	4,578	4,232
Veterans' Benefits	38,486	53,299
Workers' Compensation	37,573	50,274
TOTAL FEDERAL	\$2,307,302	\$2,533,742
TOTAL STATE AND FEDERAL	\$8,192,368	\$8,585,425

**Exhibit 7
Transportation Tax Expenditures**

<u>Tax or Tax Expenditure</u>	<u>FY 2011 (000)</u>	<u>FY 2012 (000)</u>
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	\$295	\$305
Interstate Flight Refund	3,350	3,350
Marine Vessel Exemption	740	740
SUBTOTAL	<u>\$4,385</u>	<u>\$4,395</u>
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	\$5,210	\$5,290
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	12,810	12,780
Fuel for Off-Road Use	1,000	1,050
Municipal Franchise Vehicles	450	430
Public Vehicles	13,480	13,350
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	<u>\$32,950</u>	<u>\$32,900</u>
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	\$450	\$506
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	10,750	10,847
SUBTOTAL	<u>\$11,200</u>	<u>\$11,353</u>
Watercraft Registration Fee		
Publicly-Owned Vehicle	<u>\$13</u>	<u>\$14</u>
TOTAL	<u>\$48,548</u>	<u>\$48,662</u>

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

<u>Tax or Tax Expenditure</u>	<u>FY 2011</u> <u>(000)</u>	<u>FY 2012</u> <u>(000)</u>
Property and Other Local Tax Expenditures		
Agriculture Transfers	\$33,200	\$33,700
Air and Water Pollution Control	120,000	120,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	160	130
Enterprise Zone Credit	0	0
Fairground Property	n.a.	n.a.
Homestead Exemption	3,170,000	3,110,000
Homestead Exemption for Farm Property	150,000	160,000
Industrial Facilities Development	225,000	221,000
Mobile Homes	50,600	52,100
Neighborhood Enterprise Zones	20,500	21,500
Next Energy Exemption	3,000	3,200
Obsolete Property Rehabilitation	10,500	11,000
Personal Property - Indust./Commercial Ad Valorem	369,000	356,000
Personal Property - Industrial Facilities	66,000	65,000
Poverty Exemption	7,500	7,800
Railroad Right-of-Way/Broadband Credit	49,400	50,200
Renaissance Zones	83,500	84,900
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,659,000	1,684,000
Tax Increment Financing	275,000	280,000
Taxable Value Cap	1,750,000	1,360,000
Water Softeners	1,230	1,250
SUBTOTAL	\$8,043,590	\$7,621,780
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	\$151,300	\$152,000
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	12,600	12,700
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	\$163,900	\$164,700
TOTAL	\$8,207,490	\$7,786,480

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 2012

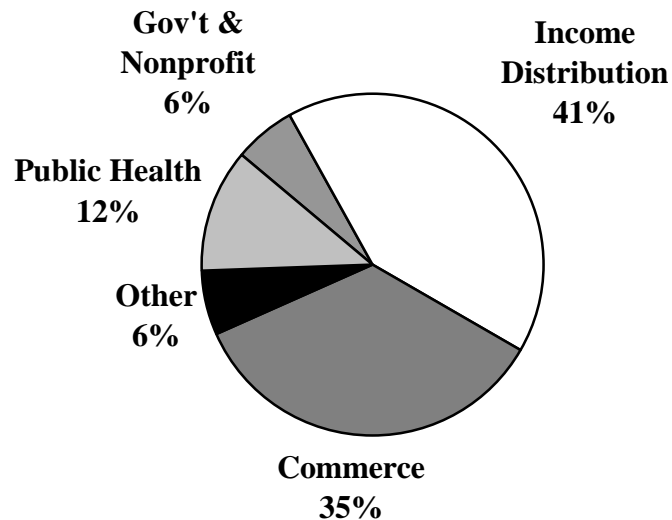


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2011

<u>Spending Category</u>	<u>Tax Expenditure (000)</u>	<u>Direct Expenditure (000)</u>	<u>Total (000)</u>	<u>Percent Tax Expenditure</u>
Agriculture	\$336,259	\$60,977	\$397,236	84.6%
Commerce (DELEG)	10,148,857	397,454	10,546,311	96.2%
Higher Education	455,717	1,573,779	2,029,495	22.5%
Income Distribution (DHS)	9,497,410	984,452	10,481,862	90.6%
Military Affairs	102,200	64,658	166,859	61.2%
Natural Resources	59,213	440,322	499,535	11.9%
Public (Community) Health	3,797,995	4,272,831	8,070,826	47.1%
Transportation	52,260	1,950,974	2,003,234	2.6%
TOTAL	\$24,449,911	\$9,745,446	\$34,195,357	71.5%

Note: FY 2011 expenditure figures from *FY 2010-2011 Appropriations Report*, Senate Fiscal Agency.

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>Budget Category</u>	<u>FY 2011</u> <u>(000)</u>	<u>FY 2012</u> <u>(000)</u>
Agriculture	\$676,959	\$668,717
Commerce	11,673,187	11,763,395
Education	940,717	979,601
Government and Nonprofit Organizations	1,918,521	1,965,922
Income Distribution	13,847,410	13,900,443
Military Affairs	102,200	120,353
Natural Resources	195,169	194,621
Public Health	3,797,995	3,933,874
Transportation	<u>52,260</u>	<u>52,890</u>
TOTAL	\$33,204,418	\$33,579,816

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**

Tax/Tax Expenditure	FY 2011 (000)	FY 2012 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	\$33,200	\$33,700
Homestead Exemption for Farm Property	150,000	160,000
Taxable Value Cap	157,500	122,400
Income Tax		
Farmland Development Credit (PA 116)	41,459	43,117
Michigan Business Tax		
Agricultural Producers	45,600	47,800
Corporate Farm Preservation Credit	1,500	1,600
Sales and Use Taxes		
Horticultural or Agricultural Products	247,700	260,100
TOTAL	\$676,959	\$668,717
Commerce		
Alcoholic Beverage Taxes		
Small Brewer's Credit	\$90	\$90
Tobacco Products Tax		
Bad Debt Deduction	400	400
Licensee Expenses	14,300	13,990
Income Tax		
Accelerated Depreciation	14,437	39,365
Renaissance Zone Credit	1,400	1,400
Insurance Company Retaliatory Tax		
Disability Insurance Exclusion	5,000	5,200
Michigan Association and Facilities Credit	30,500	32,000
Michigan Examination Fees Credit	2,900	3,000
Supplemental Workers' Compensation Credits	1,100	1,200
Michigan Business Tax		
Bad Debts Gross Receipts Exclusion	6,900	8,000
Biodiesel Infrastructure Credit	250	250
Bonus Depreciation Credit	11,200	1,100
Bottle Deposit Administration Credit	9,600	9,800
Bottle Deposit Gross Receipts Exclusion	4,600	4,700
Brownfield Redevelopment Credit	73,200	76,800
Business Loss Deduction	107,400	118,200
Certain Taxes/Fees Gross Receipts Exclusion	64,100	83,700

Tax/Tax Expenditure	FY 2011 (000)	FY 2012 (000)
Commerce (Continued)		
Compensation Credit	\$266,700	\$278,600
Construction Subcontractor Payments Exemption	18,900	18,900
Entrepreneurial Credit	240	260
Film Credits	105,000	75,000
Floor Plan Interest Deduction	3,000	3,400
Flow-Through Entity Business Income Deduction	112,900	117,900
Food Retailer Credits	8,800	9,200
Foreign Dividends Gross Receipts Exclusion	150,500	162,800
Foreign Persons	6,100	6,100
Government Securities' Income Exclusion	3,800	3,900
Gross Receipts Filing Threshold	33,200	27,300
Gross Receipts Filing Threshold Credit	35,000	28,800
Health Care Consulting Gross Receipts Exclusion	1,000	1,000
International Auto Show Credit	250	250
Investment Tax Credit	214,200	223,700
Low-Grade Hematite Credit	1,100	1,100
Michigan Economic Growth Authority (MEGA)	104,200	109,400
MEGA Photovoltaic Technology Credit	1,500	7,500
MEGA Vehicle Battery Credit	0	40,000
Motion Picture Gross Receipts Exclusion	2,100	2,100
Multiple Employer Welfare Arrangement	30	30
NASCAR Safety Credit	6,200	6,200
NASCAR Speedway Credit	1,200	1,800
New Motor Vehicle Dealer Inventory Credit	23,800	25,000
Pass-Through Entity Gross Receipts Exclusion	12,700	12,900
Personal Property Tax Credit	137,300	123,600
Renaissance Zone Credit	21,200	22,300
Research and Development Credit	23,100	24,200
Self-Employment Net Earnings Deduction	150,700	157,300
Small Business Alternate Tax Credit	413,100	431,500
Stadium Credit	2,800	1,700
Staffing Company/PEO Gross Receipts Reduction	44,300	44,300
Tobacco Taxes Tax Credit	3,400	2,100
Workers' Disability Supplemental Benefit Credit	2,700	2,800
Oil and Gas Severance Tax		
Marginal Wells	6,000	6,800
Property Tax		
Broadband Investment Credit	24,100	24,500
Enterprise Zone	0	0
Industrial Facilities Development	225,000	221,000

Tax/Tax Expenditure	FY 2011 (000)	FY 2012 (000)
Commerce (Continued)		
Mobile Homes	\$50,600	\$52,100
Neighborhood Enterprise Zones	20,500	21,500
Next Energy Exemption	3,000	3,200
Obsolete Property Rehabilitation	10,500	11,000
Personal Property - Indust./Commercial Ad Valorem	369,000	356,000
Personal Property - Industrial Facilities	66,000	65,000
Renaissance Zones	83,500	84,900
Tax Increment Financing	275,000	280,000
Taxable Value Cap	420,000	326,400
Water Softeners	1,230	1,250
Sales and Use Taxes		
Aircraft Parts	6,700	6,600
Bad Debts	58,800	60,900
Cargo Aircraft	24,000	23,640
Collection Fee	41,700	42,600
Commercial Domestic Aircraft	4,000	4,000
Communication and Telephone Exemption	37,000	37,000
Employee Meals	17,160	17,550
Gratuities and Tips	60,260	61,620
Imported Property from Other States	1,600	1,600
Industrial Processing	860,000	920,000
Interstate Telecommunications	11,000	10,000
Interstate Trucks and Trailers	24,110	24,950
Investment Coins	5,100	5,220
Newspapers, Periodicals, and Films	94,040	95,100
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Water	59,000	59,600
Services (except education, health, and nonprofits)	6,482,600	6,492,600
Telephone Services	12,860	13,310
Vehicle and Aircraft Transfers	34,730	35,420
Vending Machines	21,300	21,500
TOTAL	\$11,674,287	\$11,764,495
Education		
Income Tax		
College Savings Account	\$13,234	\$10,884
Fellowships and Scholarships	9,116	14,717

Tax/Tax Expenditure	FY 2011 (000)	FY 2012 (000)
Education (Continued)		
Higher Education/Public Contribution Credit	\$23,542	\$23,455
Tuition Credit	3,175	8,275
Michigan Business Tax		
Community/Education Foundation Credit	350	370
Public Contribution Credit	1,100	1,200
Property Tax		
Exempt Public Education Property	485,000	492,000
Sales Tax		
Services	405,200	428,700
TOTAL	\$940,717	\$979,601
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	\$295	\$305
Income Tax		
Community Foundation	3,441	3,493
Historic Preservation Credit	1,301	1,362
Michigan Business Tax		
Arts and Culture Credit	1,300	1,400
Government Utilities Exemption	30,000	31,200
Historic Preservation Credit	9,500	13,300
Nonprofit Organizations	157,500	165,400
Motor Fuel Taxes		
Public Vehicles	13,480	13,350
Motor Vehicle Weight Tax		
Public and Nonprofit Vehicles	10,750	10,847
Oil and Gas Severance Tax		
Public Land	3,200	3,200
Property Tax		
Tax Exempt Property	1,174,000	1,192,000
Sales and Use Taxes		
Church Cars	3,070	3,180
Church Construction	3,600	3,600
Government or Red Cross	176,670	182,870
Nonprofit Organizations	232,700	238,000
Services	97,701	102,401
Watercraft Registration Fee		
Publicly Owned Watercraft	13	14
TOTAL	\$1,918,521	\$1,965,922

Tax/Tax Expenditure	FY 2011 (000)	FY 2012 (000)
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	\$151,300	\$152,000
Personal Exemption	12,600	12,700
General Property Tax		
Homestead Exemption	3,170,000	3,110,000
Poverty Exemption	7,500	7,800
Taxable Value Cap	1,172,500	911,200
Income Tax		
Adjustments to Income (except military)	3,137,164	3,296,162
Adjustments to Income (federal)	48,316	52,388
Adoption Credit	692	717
Child Deduction	51,587	52,103
City Income Tax Credit	29,335	29,629
Dependent Exemption	15,827	15,985
Donated Vehicle Credit	108	112
Earned Income Tax Credit	340,000	360,000
Employer Contributions to Health and Life Insurance	870,230	902,896
Employer Pension Plans	541,595	545,052
Gain on Sale of Primary Residence	198,170	236,758
Home Heating Assistance Credit	228	232
Homeless Credit	19,848	20,460
Homestead Property Tax Credit (excluding veterans)	864,691	830,103
Income Maintenance Benefits	5,618	7,190
Individual Retirement Account	199,017	230,992
Interest on Life Insurance Savings	97,848	109,509
Other State Tax Credit	42,058	43,232
Personal Exemption	1,162,069	1,173,690
Railroad Retirement Benefits	1,350	1,489
Social Security Benefits	231,602	276,747
Special Exemption	60,792	63,224
Stillbirth Credit	62	62
Student Loan Deduction	4,578	4,232
Workers' Compensation	37,573	50,274
Michigan Business Tax		
Affordable Housing	4,100	5,400
Homeless Shelter Food Bank Credit	560	590
Sales and Use Taxes		
Donated Vehicles	125	125

Tax/Tax Expenditure	FY 2011 (000)	FY 2012 (000)
Income Distribution (Continued)		
Food	\$1,193,130	\$1,220,210
Food for Students	19,750	20,200
Inmate Purchases	487	480
Residential Utilities	155,000	156,500
TOTAL	\$13,847,410	\$13,900,443
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	\$9,550	\$9,360
Income Tax		
Military Pay and Pension	52,044	55,533
Veterans' Benefits	38,486	53,299
Veterans' Property Tax Credit	1,000	960
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	450	506
Sales and Use Taxes		
Military Post-Exchange Sales	670	694
TOTAL	\$102,200	\$120,353
Natural Resources		
Income Tax		
Energy Efficient Home Improvement Credit	\$15,796	\$16,428
Renewable Energy Surcharge Credit	4,213	1,064
Property Tax		
Air and Water Pollution	120,000	120,000
Energy Conservation Devices	160	130
Sales and Use Taxes		
Air and Water Pollution	55,000	57,000
TOTAL	\$195,169	\$194,621
Public Health		
Income Tax		
Medical Care Savings	\$9,365	\$8,834
Sales and Use Taxes		
Medical Services	3,222,899	3,333,499
Nonprofit Hospital Construction	1,220	1,260
Ophthalmic and Orthopedic Products	52,410	53,980

Tax/Tax Expenditure	FY 2011 (000)	FY 2012 (000)
Public Health (Continued)		
Prescription Drugs	\$512,100	\$536,300
TOTAL	\$3,797,995	\$3,933,874
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	\$3,350	\$3,350
Michigan Business Tax		
Hybrid Technology R & D Credit	1,400	1,500
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,210	5,290
Evaporation and Loss Allowance	12,810	12,780
Fuel for Off-Road Use	1,000	1,050
Marine Vessel Fuel	740	740
Municipal Franchise Vehicles	450	430
Sales and Use Taxes		
Driver Training	370	360
Rail Rolling Stock	1,630	1,690
Utility Property Tax		
Railroad Right-of-Way	25,300	25,700
TOTAL	\$52,260	\$52,890

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and MBT expenditures. Business privilege tax expenditures are projected to increase from \$2,489.9 million in FY 2011 to \$2,596.7 million in FY 2012.

- Estimate Reliability**
- (1) Arts and Culture Credit
 - Farmland Preservation Credit
 - Homeless/Food Bank & Public Contribution Credits
 - Low-Grade Hematite Credit
 - NASCAR Speedway Credit
 - Workers' Disability Supplemental Benefit Credit
 - (2) Affordable Housing
 - Bottle Deposit Administration Credit
 - Bottle Deposit Gross Receipts Exclusion
 - Brownfield Redevelopment Credit
 - Business Loss Deduction
 - Community or Education Foundation Credit
 - Compensation Credit
 - Disability Insurance Exclusion
 - Flow-Through Entity Business Income Deduction
 - Food Retailer Credits
 - Foreign Dividends Gross Receipts Exclusion
 - Gross Receipts Filing Threshold
 - Gross Receipts Filing Threshold Credit
 - Historic Preservation Credit
 - Insurers' Examination Fee Credit
 - Investment Tax Credit
 - Michigan Association and Facilities Credit
 - Michigan Economic Growth Authority (MEGA)
 - Oil and Gas Severance Tax
 - Personal Property Tax Credit
 - Research and Development Credit
 - Small Business Alternative Tax Rate Credit
 - Stadium Credit
 - (3) Other MBT Tax Expenditures

This year's report includes tax expenditures for the MBT. The MBT will be replaced by a corporate income tax effective January 1, 2012. Other tax expenditure estimates from business privilege taxes were based on 2009 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 5 of 2010 amended the Renaissance Zone Act to authorize the designation of up to 25 additional renaissance zones specifically for border crossing facilities in qualified border local governmental units. Businesses in a renaissance zone are exempt from the Michigan business tax, the state education tax, local real and personal property taxes, and specific taxes levied in lieu of property taxes while individuals are exempt from state and local income taxes. The Act would apply to the Port Huron area.

Public Act 38 of 2010 amended the Revenue Act to direct the Department of Treasury to accept Single Business Tax returns that included an entity disregarded for income tax purposes and prohibit an SBT refund based on a disregarded entity's filing a separate return as a distinct entity.

Public Act 103 of 2010 amended the Michigan Business Tax Act to revise the credit for capital expenditures on a motorsports entertainment complex to increase the amount of the credit for tax year 2012, extend the credit through 2016, and require the taxpayer to spend an additional \$32 million in capital expenditures before 2017, including at least \$10 million during 2011 and 2012, to be eligible for the extended credit.

Public Act 114 of 2010 amended the Michigan Business Tax Act to revise the financing requirements for a taxpayer to receive a tax credit for constructing a facility to produce large-scale batteries and manufacture integrated power management, smart control and storage systems from 500 kilowatts to 100 megawatts. The credit was initially created by Public Act 110 of 2009.

Public Act 133 of 2010 amended the Michigan Business Tax Act to exclude from the definition of gross receipts amounts received from a client that is subsequently returned to the client as a reimbursement for labor and non-labor services pursuant to a services agreement. The exclusion only applies to a taxpayer that provides health care management consulting services. This Act limits the tax liability to the amount due on the actual revenue of the taxpayer, net of amounts paid on behalf of its clients.

Public Act 156 of 2010 amended the Michigan Business Tax Act to include a federally chartered farm credit system institution in the definition of financial institution. Financial institutions are not subject to the income and modified gross receipts taxes levied under the MBT, but rather pay a franchise tax on net capital.

Public Act 198 of 2010 amended the Revenue Act to create a tax amnesty period between May 15, 2011, and June 30, 2011. The amnesty would apply for taxes due before January 1, 2010. Taxpayers would be required to make full payment of the tax and interest due before the end of the amnesty period, but all penalties would be waived.

Public Act 200 of 2010 amended the Michigan Business Tax Act to allow taxpayers with sales of tobacco products to claim a credit against their gross receipts tax liability equal to the amount of

excise tax paid on tobacco products for tax years 2008 and 2009. The amount of tax paid on tobacco products was already partially excluded from gross receipts under prior law for tax years 2008 and 2009, and completely excluded for tax year 2010 and subsequent tax years.

Public Acts 272 through 277 of 2010 were part of a package of legislation designed to facilitate new economic development in the area close to Detroit Metropolitan Wayne County Airport, and up to four other areas in the state. The package included business tax credits, real and personal property tax abatements, tax increment finance plans, and renaissance zones.

Public Act 310 of 2010 amended the Michigan Business Tax Act to allow the approval of a combined rehabilitation plan for the rehabilitation of several historic resources within the same geographic district that would have a greater impact on the community than the approval of a single rehabilitation plan. For 2011, 2012, and 2013, the Michigan State Housing Development Authority would be authorized to approve a combined rehabilitation plan and qualified taxpayers would receive larger credits for historic rehabilitation.

Public Acts 312 and 313 of 2010 amended the Michigan Business Tax and Revenue Acts, respectively, to require additional reporting and disclosure for film production tax credits.

Insurance Company Tax

Effective January 1, 2008, the SBT tax on insurance company gross receipts was replaced by the MBT 1.25 percent tax on Michigan insurance premiums. 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 MBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is \$277.5 million for FY 2012; revenue goes to the State General Fund. Effective January 1, 2012, the insurance company tax is moved from the MBT Act to the Income Tax Act.

FY 2012 Estimate

Captive Insurance Companies

Exempts companies authorized under the Insurance Code as captive insurance companies or special purpose financial captives from the MBT and its gross premiums tax. n.a.

Disability Insurance Exclusion

Exempts the first \$190,000,000 of disability insurance premiums written in Michigan. \$5,200,000

FY 2012 Estimate

Michigan Association and Facilities Credit \$32,000,000

Provides a credit for payments made to the Michigan workers' compensation placement facility, the Michigan basic property insurance association, the Michigan automobile insurance placement facility, the property and casualty guaranty association, and the life and health guaranty association.

Michigan Examination Fees Credit \$3,000,000

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.

Workers' Disability Supplemental Benefit (WDSB) Credit \$1,200,000

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 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 and marginal properties. The projected yield is \$71.6 million for FY 2012; revenue goes to the State General Fund.

FY 2012 Estimate

Marginal Wells \$6,800,000

Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.

Public Land \$3,200,000

Exempts oil and gas severed from publicly-owned lands from taxation.

MBT Tax Expenditures

Public Act 36 of 2007 created the Michigan Business Tax Act, which took effect on January 1, 2008. The MBT levies a tax on the privilege of doing business in Michigan using two separate tax calculations. The first tax is levied on business income at a rate of 4.95 percent, while the second tax is levied on modified gross receipts at a rate of 0.80 percent. A taxpayer's overall tax liability is the sum of the two taxes. Several tax credits from the SBT were retained with the new tax, in addition to the creation of several new credits. Among the new credits is a tax credit for

personal property taxes paid on industrial, telephone, or natural gas pipeline personal property. Financial institutions are not taxed on business income or gross receipts, but are subject to a tax of 0.235 percent on their net capital.

Public Act 145 of 2007 amended the Michigan Business Tax Act to impose a surcharge on a taxpayer's liability. The surcharge rate for most taxpayers is 21.99 percent. Financial institutions paid a surcharge rate of 27.7 percent for tax year 2008, and will pay 23.4 percent for tax years after 2008. The maximum surcharge any taxpayer will pay is \$6.0 million. The revenue from the surcharge was designed to replace the revenue projected to be raised by the expanded list of services subject to the use tax under Public Act 93 of 2007. Public Act 145 repealed the expansion to the use tax and also made numerous changes to the MBT.

Revenues from the MBT were estimated at the May 2011 Consensus Conference to be \$2,060.0 million in FY 2011 and \$2,159.0 million in FY 2012. Public Act 38 of 2011 replaced the MBT with a corporate income tax for all taxpayers except those with certificated credits allowed under the MBT.

MBT tax expenditure estimates should be viewed with particular caution. There is a high degree of interaction between certain tax expenditures, such as the compensation, investment, research and development, and alternate tax credits. The estimates for these credits were derived assuming an interaction between tax expenditures, and may be interpreted as the tax revenue that would be realized if one of these four credits were eliminated. This is not the case for the deductions and other credits.

FY 2012 Estimate

Advertising Gross Receipts Exclusions	n.a.
Excluded from gross receipts: (a) Amounts received by an advertising agency used to acquire advertising media time, space, production, or talent on behalf of another person; (b) Amounts received by a newspaper to acquire advertising space not owned by that newspaper in another newspaper on behalf of another person.	
Affordable Housing	\$5,400,000
Allows eligible taxpayers deductions from their MBT tax bases for certain affordable housing projects.	
Agricultural Producers	\$47,800,000
Exempts agricultural production from the MBT.	
Anchor Company Credit	n.a.
Provides credits to a qualified taxpayer that was designated by the Michigan Economic Growth Authority (MEGA) as an "anchor company" within the past five years and that has influenced a new qualified supplier or customer to open, locate, or expand in this state.	

	<u>FY 2012 Estimate</u>
Arts and Culture Credit Provides a partial credit for donations made to a municipality (or a non-profit corporation affiliated with a municipality) for the purpose of benefiting the art institute, historical institute or zoo.	\$1,400,000
Bad Debts Gross Receipts Exclusion Provides a gross receipts exclusion for amounts deducted as bad debt for federal income tax purposes.	\$8,000,000
Biodiesel Infrastructure Credit Provides a credit to service station owners to cover a portion of the costs of converting to or creating new fuel delivery systems to provide E85 fuel or qualified biodiesel blends.	\$250,000
Bonus Depreciation Credit Provides a credit equal to 0.42 percent of apportioned amount claimed by a taxpayer other than a regulated utility for bonus depreciation under the Internal Revenue Code for tax year 2008. The credit is available for tax years beginning after December 31, 2008, and ending before January 1, 2011.	\$1,100,000
Bottle Deposit Administration Credit Provides a credit equal to 30.5 percent of a taxpayer's expenses incurred to comply with the Michigan bottle deposit program statute.	\$9,800,000
Bottle Deposit Gross Receipts Exclusion Excludes any deposit required under the bottle deposit program from the gross receipts tax base.	\$4,700,000
Brownfield Redevelopment Credit 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.	\$76,800,000
Business Loss Deduction Beginning with the 2009 tax year, permits a business that had a negative business income tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted business income tax bases may be carried forward for up to 10 years. The MBT also allows for taxpayers to claim 65 percent of their remaining SBT business loss deduction against the gross receipts tax base in tax year 2008.	\$118,200,000

FY 2012 Estimate

Certain Financial Activities Gross Receipts Exclusions	n.a.
<p>In addition to the financial activities gross receipts exclusions listed elsewhere, the MBT also provides for reductions to (modified) gross receipts for the following: payments by a licensed real estate broker; proceeds from equity issued by a regulated investment company; investment activity receipts of an individual that exclusively conducts investment for a person related to that individual; receipts of an individual, estate, or partnership or trust organized exclusively for estate or gift planning purposes.</p>	
Certain Taxes and Fees Gross Receipts Exclusions	\$83,700,000
<p>Excludes a portion of certain taxes and fees from the gross receipts tax base including: sales and use taxes; motor fuel excise taxes; beer, wine and liquor excise taxes; and cigarette and tobacco taxes; airport parking tax along with certain taxes and fees from the sale of communication, video, internet access and certain taxes and fees on the sale of energy sources.</p>	
Community or Education Foundation Credit	\$370,000
<p>Provides a 50 percent credit for contributions made to a qualified community or education foundation as certified by the Department of Treasury. The maximum credit is equal to 5 percent of tax liability before credits or \$5,000, whichever is less.</p>	
Compensation Credit	\$278,600,000
<p>Provides a credit for the taxpayer's compensation in Michigan. The credit percentage is equal to 0.296 percent of Michigan compensation in 2008 and to 0.370 percent of Michigan compensation in following years. For 2008, the sum of the credit and the Investment Tax Credit cannot exceed 50 percent of MBT liability (before the MBT surcharge). For 2009 and following, the combined credit cannot exceed 52 percent of MBT liability (before the MBT surcharge).</p>	
Construction Subcontractor Payments Exemption	\$18,900,000
<p>Excludes payments to a subcontractor from the gross receipts tax base for a construction contractor not eligible for the alternate tax credit.</p>	
Deferred Liability Business Income Deduction	\$0
<p>Deducts an increasing percentage of the total book-tax difference for each qualifying asset, for each of the successive 15 tax years beginning with the 2015 tax year.</p>	

FY 2012 Estimate

Entrepreneurial Credit	\$260,000
For 2008, 2009 and 2010 tax years, an eligible taxpayer may claim a credit equal to the entire portion of its MBT liability attributable to increased employment. The taxpayer must have less than \$25 million in gross receipts the year before claiming the credit; created or transferred into Michigan at least 20 new jobs in the prior year, and made at least \$1.25 million in new capital investment in Michigan.	
Estate Planning Gross Receipts Exclusion	n.a.
For an individual, estate, or other person organized for estate or gift planning purposes, excludes from gross receipts, amounts received other than those from transactions, activities, and sources in the regular course of the taxpayer's trade or business.	
Farmland Preservation Credit	\$1,600,000
Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Public Act 451 of 1994.	
Film Credits	\$75,000,000
Provides credits for film production expenditures made after February 2008. To be eligible for the credit, companies must enter into an agreement with the Michigan film office. The MBT provides a 40 to 42 percent direct production expenditure and 30 percent qualified personnel expenditures film production credit; a 25 percent investment film infrastructure credit and 50 percent qualified job training expenditures credit.	
Floor Plan Assistance Gross Receipts Exclusion	n.a.
Excludes from gross receipts any invoiced items used to provide more favorable floor plan assistance to a person subject to the tax imposed under this act than to a person not subject to this tax and paid by a manufacturer, distributor, or supplier.	
Floor Plan Interest Deduction	\$3,400,000
Allows a taxpayer to include as inventory, floor plan interest expenses for new motor vehicles. Purchases from other firms (which are excluded from the modified gross receipts tax base) include inventories.	
Flow-Through Entity Business Income Deduction	\$117,900,000
Subtracts from the business income tax base income attributable to other entities whose business activities are taxable under the MBT or would be subject to the MBT if the business activities were in Michigan.	

FY 2012 Estimate

Food Retailer Credits	\$9,200,000
Provides for two size and sales-line based Michigan-headquartered food retailer credits. The first credit is limited to firms that operate in Michigan at least 17 million square feet of enclosed retail space and 2 million square feet of enclosed warehouse space. The second credit is limited to firms that operate in Michigan at least 2.5 million square feet of enclosed retail space and 1.4 million square feet of enclosed warehouse, headquarters and transportation services.	
Foreign Dividends Gross Receipts Exclusion	\$162,800,000
Excludes dividends and royalties received from a foreign entity or person from gross receipts.	
Foreign Persons	\$6,100,000
Exempts a foreign person domiciled in a subnational jurisdiction that does not impose an income tax on a similarly situated person domiciled in Michigan.	
Government Obligations and Securities Gross Receipts Exclusion	\$3,900,000
Excludes interest income and dividends of obligations or securities of the federal government, State of Michigan or Michigan governmental unit from gross receipts.	
Government Utilities Exemption	\$31,200,000
Exempts the receipts of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.	
Gross Receipts Filing Threshold	\$27,300,000
Exempts from the MBT firms with adjusted (apportioned) gross receipts less than \$350,000.	
Gross Receipts Filing Threshold Credit	\$28,800,000
Provides a credit for firms with adjusted (apportioned) gross receipts between \$350,000 and \$700,000. The credit provides for a gradual phase-out of the gross receipts filing threshold -- rather than a cliff.	
Health Care Consulting Gross Receipts Exclusion	\$1,000,000
For a taxpayer that provides health care management consulting services, excludes from gross receipts, client fee amounts to reimburse those clients for services that are paid by the client and reimbursed to the client pursuant to a services agreement.	

FY 2012 Estimate

Historic Preservation Credit	\$13,300,000
Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site.	
Homeless Shelter/Food Bank Credit	\$590,000
Provides a 50 percent credit for contributions made to a qualified homeless shelter, food bank, or food kitchen. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less.	
Hybrid Technology Research and Development Credit	\$1,500,000
A taxpayer that is engaged in research and development of motor vehicle hybrid systems at a qualified facility may claim a credit against the MBT equal to 3.9 percent of the compensation for work at the facility.	
Individual or Family Development Account Credit	n.a.
Allows a qualified financial institution or taxpayer to claim a credit equal to 75 percent of an entity's contributions to the reserve fund of a fiduciary organization to the Individual or Family Development Account Program Act.	
Insurance Policy/Judgment Proceeds Gross Receipts Exclusion	n.a.
Excludes from gross receipts, a portion of the proceeds from a policy of insurance, a settlement of a claim, or a judgment in a civil action.	
International Aircraft Operations Gross Receipts Exclusion	n.a.
Excludes from gross receipts, amounts that are excluded from gross income of a foreign corporation engaged in the international operation of aircraft under the internal revenue code.	
International Auto Show Credit	\$250,000
Provides a credit for an owner or operator of certain qualifying exhibitions. The qualifying exhibition must exhibit products made in Michigan for sale to the general public, use more than 100,000 square feet, run for at least seven consecutive days, have attendance exceeding 500,000 and have more than 3,000 journalists attending the exhibition.	
Investment Tax Credit	\$223,700,000
Provides a credit for Michigan investment. The credit is equal to 2.32 percent of Michigan investment in 2008 and 2.90 percent of Michigan investment in following years. The taxpayer cannot claim an ITC and a research and development credit on the same expenses.	

	<u>FY 2012 Estimate</u>
<p>Low-Grade Hematite Credit Provides a credit for taxpayers that consume qualified low-grade hematite (iron ore) in an industrial or manufacturing process.</p>	\$1,100,000
<p>Medicaid Reimbursements and Premiums Gross Receipts Exclusion Excludes from gross receipts amounts received from Medicaid premiums or Medicaid reimbursements.</p>	n.a.
<p>Michigan Early Stage Venture Capital Voucher Taxpayers issued a voucher certificate under the Michigan early state venture investment act, may use the voucher to pay their MBT liability. Vouchers may be transferred.</p>	n.a.
<p>Michigan Economic Growth Authority (MEGA) Credits 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.</p>	\$109,400,000
<p>MEGA Federal Government Credit Provides for a credit up to 100 percent of a taxpayer’s payroll for new jobs that result from a federal contract by the United States departments of defense, energy, or homeland security.</p>	n.a.
<p>MEGA Photovoltaic Technology Credit Provides for MEGA credits for the construction and operation of a new facility in Michigan for the development and manufacturing of photovoltaic energy, photovoltaic systems, or other photovoltaic technology. The total amount of credits under this provision, for all years, may not exceed \$75,000,000.</p>	\$7,500,000
<p>MEGA Polycrystalline Silicon Manufacturing Credit 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 into by December 31, 2008.</p>	n.a.
<p>MEGA Vehicle Battery Credit Provides for MEGA credits for the mass production of certain plug-in traction battery packs for electrical motor vehicles that qualify for a federal tax credit. The maximum amount of these credits that may be claimed in calendar 2011 (impact seen in fiscal year 2012) is \$40 million. The credit is refundable, but may also be carried forward for up to 10 years.</p>	\$40,000,000

	<u>FY 2012 Estimate</u>
Michigan Education Trust Contribution Business Income Deduction Deducts from business income a charitable contribution made to the Michigan Education Trust tuition payment fund.	n.a.
Mortgage Company Proceeds Gross Receipts Exclusion Excludes the principal balance of loans transferred or sold in the tax year for a mortgage company whose residential mortgage loan business accounts for more than 90 percent of its revenues.	n.a.
Motion Picture Gross Receipts Exclusion Excludes film rental or royalty payments paid by a theater owner to a film distributor, a film producer, or a film distributor and producer.	\$2,100,000
Motor Vehicle Sales Finance Company Gross Receipts Exclusion For a motor vehicle sales finance company directly or indirectly owned in whole or in part by a motor vehicle manufacturer as of January 1, 2008, excludes from gross receipts (a) amounts realized from the repayment, maturity, sale, or redemption of certain marketable instruments and (b) the principal amount received under a repurchase agreement or loan.	n.a.
Multiple Employer Welfare Arrangement For tax years beginning after 2000, the portion of the MBT tax base attributable to a Multiple Employer Welfare Arrangement that provides only dental benefits and that is registered at the Michigan Office of Financial and Insurance Services is exempt from the MBT.	\$30,000
NASCAR Safety Credit Provides a credit for traffic control costs for a motorsports event at an eligible motorsports stadium (50 percent for 2009 and 100 percent thereafter).	\$6,200,000
NASCAR Speedway Credit Provides a credit for tax years 2008 through 2012 for capital expenditures on an eligible motorsports stadium and its grounds.	\$1,800,000
New Motor Vehicle Dealer Inventory Credit Provides for a credit to a new Michigan licensed motor vehicle dealer equal to 0.25 percent of the amount paid to acquire new motor vehicle inventory in the tax year.	\$25,000,000
Nonprofit Organizations Exempts the gross receipts of most firms exempt from the federal corporate income tax.	\$165,400,000

FY 2012 Estimate

Pass-Through Entity Gross Receipts Exclusion	\$12,900,000
Excludes from gross receipts amounts attributable to an ownership interest in a pass-through entity, regulated investment company, real estate investment trust, or cooperative corporation whose business activities are or would be taxable under section 203.	
Personal Property Tax Credit	\$123,600,000
Provides three credits for personal property taxes paid in the tax year: The first is equal to 35 percent of industrial personal property taxes. The second is equal to 23 percent of State Utility Tax Act taxes paid on telephone equipment in 2008 with a 13.5 percent credit in subsequent years. The third provides a 10 percent credit for natural gas pipeline personal property taxes paid.	
Private Equity Fund Credit	n.a.
Provides a credit for private equity fund activities in Michigan.	
Public Contribution Credit	\$1,200,000
Provides a 50 percent credit for contributions made to Michigan colleges, libraries, public broadcasting stations, and other educational institutions. The maximum credit equals 5 percent of tax liability before credits or \$5,000, whichever is less.	
Related Persons Interest Gross Receipts Exclusion	n.a.
Excludes from gross receipts, receipts derived from investment activity by a person that conducts investment activity only for a person related to that individual or by a common trust fund established under the collective investment funds act.	
Renaissance Zone Credit	\$22,300,000
Provides a credit for the portion of tax attributable to business activity in a renaissance zone.	
Research and Development Credit	\$24,200,000
Provides a credit for research and development in Michigan. In 2008, the credit is equal to 1.52 percent of the taxpayer's research and development expenses in Michigan. In following years, the credit percentage is 1.90 percent. The sum of the credit, the compensation credit, and the ITC cannot exceed 65 percent of the taxpayer's MBT liability (before the MBT surcharge).	
Self Employment Net Earnings Deduction	\$157,300,000
Net earnings from self-employment as defined in IRC section 1402 are deducted from the MBT business income tax base.	

FY 2012 Estimate

Small Business Alternative Tax Credit	\$431,500,000
<p>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).</p>	
Stadium Credit	\$1,700,000
<p>Provides two credits to owners, operators, licensees and tenants of more than one stadium with an occupancy of at least 14,000 people that meet certain criteria.</p>	
Staffing Company/ PEO Gross Receipts Reduction	\$44,300,000
<p>For staffing companies and professional employer organizations, excludes from their gross receipts tax base, the compensation of personnel supplied to their customers.</p>	
Start-Up Business Credit	n.a.
<p>Provides a credit equal to the MBT liability for certain new businesses for up to five years if the business has no business income.</p>	
Tribal Tax Agreements	n.a.
<p>Agreements between the State of Michigan and American Indian tribes clarify how the MBT will be applied to tribes, and resident tribal members.</p>	
Tobacco Taxes Tax Credit	\$2,100,000
<p>A taxpayer with receipts from the sales of tobacco products may claim a credit equal to the difference between the modified gross receipts tax liability for tax years 2008 and 2009 with the tax on tobacco products completely excluded from modified gross receipts and the actual tax liability. The credit is available for the first tax year beginning after December 31, 2010.</p>	
Workers' Disability Supplemental Benefit (WDSB) Credit	\$2,800,000
<p>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 SBT credit, firms were reimbursed through the appropriations process for these payments.</p>	

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 \$14,563.7 million in FY 2012, a 2.1 percent increase over the FY 2011 level of \$14,267.2 million. The growth in sales and use tax expenditures associated with health care and professional, scientific, and technical services account for most of the growth between FY 2011 and FY 2012. Sales and use tax expenditure estimates are based on FY 2006 through FY 2010 data. Alcohol and cigarette tax expenditure estimates were based on FY 2010 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 Act 82 of 2010 amended the Community Convention or Tourism Marketing Act to allow a convention or tourism bureau to levy a special assessment on hotel and motel rooms in a special charter, fourth class city. This would apply to Mackinac Island, which is a special charter city. The revenue from the assessment would go to the bureau to fund activities designed to increase convention and tourism business in the area.

Public Acts 115 and 116 of 2010 amended the Use Tax Act and the General Sales Tax Act, respectively, to include equipment used to unload logs and load lumber at sawmills in the list of items that qualify for an industrial processing exemption.

Public Act 198 of 2010 amended the Revenue Act to create a tax amnesty period between May 15, 2011, and June 30, 2011. The amnesty would apply for taxes due before January 1, 2010. Taxpayers would be required to make full payment of the tax and interest due before the end of the amnesty period, but all penalties would be waived.

Public Act 254 of 2010 created the Regional Convention and Tourism Promotion Act which would allow an eligible non-profit convention and tourism bureau to levy an assessment on hotel and motel rooms of up to 5 percent. This Act applies to Bay and Midland counties.

Public Act 283 of 2010 amended the Community Convention or Tourism Marketing Act to allow an increase in the maximum assessment that may be collected within a convention and tourism bureau’s assessment district from 2 percent to 5 percent of the charge for hotel and motel rooms. Convention and tourism bureaus are also required to submit financial reports to the Michigan Strategic Fund for public dissemination.

Public Act 333 of 2010 amended the Streamlined Sales and Use Tax Revenue Equalization Act to allow a refund of the sales tax paid on a “core charge” for heavy earthmoving equipment. A refund could be obtained for the sales tax on a recycling fee, deposit, or disposal fee for a component, part, or battery used on the covered equipment.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2012 (millions of dollars).

Alcoholic Beverage Taxes (millions)		
<u>Tax</u>	<u>Location of Deposit</u>	<u>FY 2012 Revenue</u>
Beer and Wine Excise	General Fund	\$53.0
4.0 Percent Liquor Excise	School Aid Fund	\$39.8
4.0 Percent Liquor Specific	General Fund	\$39.8
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	\$14.4
4.0 Percent Liquor Tourism	Convention Facility Development Fund	\$39.8
		<u>FY 2012 Estimate</u>
Beer Shipped Out-of-State		n.a.
Exempts beer manufactured in Michigan or imported into this state and shipped for sale and consumption outside the state.		
Damaged Beer		n.a.
Exempts beer from the sales tax when consumed on the manufacturer’s property or not offered for sale.		

FY 2012 Estimate

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 2012, the tax on cigarettes will yield an estimated \$874.5 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield \$66.3 million.

FY 2012 Estimate

Bad Debt Deduction

\$400,000

Allows cigarette wholesalers to deduct any losses from bad debts.

Licensee Expenses

\$13,990,000

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

\$9,360,000

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

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 tax rates are 3 and 6 percent. The Act became effective October 1, 1985. Revenue is dedicated to pay for qualified convention facilities, with excess revenue returned to Michigan counties.

FY 2012 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 \$6,646.1 million in FY 2012. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 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 \$1,269.9 million in FY 2012. Due to their complementary nature, sales and use tax expenditures are reported together.

FY 2012 Estimate

Air and Water Pollution

\$57,000,000

Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.

Aircraft Parts

\$6,600,000

Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.

	<u>FY 2012 Estimate</u>
Bad Debts 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.	\$60,900,000
Cargo Aircraft 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.	\$23,640,000
Church Construction Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	\$3,600,000
Church Cars Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	\$3,180,000
Collection Fee 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.	\$42,600,000
Commercial Domestic Aircraft Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.	\$4,000,000
Commercial Vessels 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.	n.a.
Communication and Telephone Exemption 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.	\$37,000,000

	<u>FY 2012 Estimate</u>
Donated Vehicles Exempts certain vehicle transfers from the sales or use taxes when the vehicle is transferred from a qualifying organization to certain low-income families.	\$125,000
Driver Training Exempts property used for demonstration or driver training programs.	\$366,000
Employee Meals Exempts meals provided by employers to their employees starting in 2002.	\$17,550,000
Food Exempts food for human consumption, except prepared food intended for immediate consumption.	\$1,220,210,000
Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students.	\$20,200,000
Government or Red Cross 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.	\$182,870,000
Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	\$61,620,000
Horticultural and Agricultural Products Exempts sales of property used or consumed in connection with production of horticultural or agricultural products to persons engaged in business.	\$260,100,000
Imported Property 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. Property purchased by a resident and brought into the state more than 360 days after purchase receives a similar exemption.	\$1,600,000

	<u>FY 2012 Estimate</u>
Industrial Processing	\$920,000,000
Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate only includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	
Inmate Purchases	\$480,000
Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	
International Telecommunications	\$10,000,000
Exempts international and WATS calls from the use tax.	
Interstate Trucks and Trailers	\$24,950,000
Exempts purchases of qualified trucks and their trailers (and parts affixed to them) by interstate motor carriers from sales and use tax. An exemption based on out-of-state usage would lower the tax expenditure to \$12,000,000.	
Investment Coins	\$5,220,000
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.	
Isolated Sales	n.a.
Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	
Military PX Sales	\$694,000
Exempts military post-exchange sales.	
Military Vehicle Sales	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.	
Newspapers, Periodicals, and Films	\$95,100,000
Exempts sales of copyrighted films, newspapers, and periodicals.	
Nonprofit Ambulance and Fire Service	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.	

	<u>FY 2012 Estimate</u>
Nonprofit Hospital or Housing Construction	\$1,260,000
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.	
Nonprofit Organizations	\$238,000,000
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.	
Nonprofit Sales Under \$5,000	n.a.
Exempts aggregate sales under \$5,000 for qualified nonprofit organizations.	
Nonresident Merchandise Transfer	n.a.
Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	
Nonresident Property	n.a.
Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	
Ophthalmic and Orthopedic Products	\$53,980,000
Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	
Prescription Drugs	\$536,300,000
Exempts prescription drugs for human consumption.	
Radio and TV	\$4,400,000
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.	
Rail Rolling Stock	\$1,690,000
Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	
Residential Utilities	\$156,500,000
Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	

FY 2012 Estimate

Returned Vehicles	\$1,100,000
Exempts from gross proceeds “a refund less an allowance” for motor vehicle buybacks by manufacturers under provisions of the lemon law.	
Sale of Business	n.a.
Excludes from the use tax non-inventoried property purchased as part of a business.	
Sale of Water	\$59,600,000
Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	
Services	\$10,357,200,000
Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately \$3.38 billion of the total represents services purchased by consumers.	

Service Tax Expenditures, FY 2012
(millions)

<u>Category</u>	<u>For Profit</u>	<u>Nonprofit</u>	<u>Total</u>
Accommodations and Food Service	\$10.3	\$0.0	\$10.3
Admin., Support, and Waste Mgmt.	768.0	20.9	788.9
Arts, Entertainment, and Recreation	168.4	33.0	201.4
Construction	937.2	0.0	937.2
Educational Services	70.7	358.0	428.7
Health Care and Social Assistance	1,394.1	1,939.4	3,333.5
Information	290.3	0.0	290.3
Other Services (except Public Admin.)	486.0	125.7	611.7
Professional, Scientific, and Technical	2,065.9	14.8	2,080.7
Real Estate and Rental and Leasing	589.7	0.0	589.7
Transportation and Warehousing	973.9	8.5	982.4
Utilities	<u>0.0</u>	<u>102.4</u>	<u>102.4</u>
TOTAL	\$7,754.5	\$2,602.6	\$10,357.1

Source: Calculations by the Office of Revenue and Tax Analysis using the *2002 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 2012 Estimate

Small Out-of-State Purchases	n.a.
Exempts property purchased outside Michigan where the purchase price or actual value does not exceed \$10 per calendar month.	
Telephone Services	\$13,310,000
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.	
Textbooks Sold by Schools	n.a.
Exempts sales of textbooks sold by a public or nonpublic school to students enrolled in a K-12 program.	
Tribal Tax Agreements	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.	
Vehicle and Aircraft Transfers	\$35,420,000
Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft.	
Vehicles Purchased for Use in Another State	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.	
Vending Machines and Mobile Facilities	\$21,500,000
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 2.8 percent from \$5,885.1 million in FY 2011 to \$6,051.7 million in FY 2012. Federal income tax expenditures are projected to increase 9.8 percent from \$2,307.3 million in FY 2011 to \$2,533.7 million in FY 2012. Individual income tax expenditure estimates were based on tax year 2009 data.

- Estimate Reliability**
- (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 2009. 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 198 of 2010 amended the Revenue Act to create a tax amnesty period between May 15, 2011, and June 30, 2011. The amnesty would apply for taxes due before January 1, 2010. Taxpayers would be required to make full payment of the tax and interest due before the end of the amnesty period, but all penalties would be waived.

Public Act 214 of 2010 amended the Income Tax Act to allow taxpayers who are customers of a municipally-owned electric utility to claim a credit for any surcharge levied to cover the cost of complying with the renewable energy standard. The credit, originally created by P.A. 287 of 2008, had previously excluded customers of municipally-owned utilities.

Public Act 235 of 2010 amended the Income Tax Act to create the Venture Investment Credit, a credit for investments in smaller firms early in the business development process. A taxpayer may claim a credit equal to 25 percent of the amount of a qualified investment in a qualified business, as defined in the Act. The Michigan Strategic Fund will certify qualifying taxpayers, and the amount of new credits is limited to \$9 million per calendar year.

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 2012, the State of Michigan will collect an estimated \$6,238.4 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 2009, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.35 percent to an average effective rate of 2.05 percent. Public Act 38 of 2011 made significant changes to the Michigan income tax, effective January 1, 2012. The impact of those changes is not included in the estimates below. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.

FY 2012 Estimate

Adjustments to Income

\$3,296,162,000

The net amount of additions and subtractions reduced taxable income by \$67.6 billion in calendar year 2009. This reduced 2009 income taxes by \$2,940.0 million. The largest subtractions for 2009 were income attributable to another state (\$41.1 billion), retirement and pension benefits (\$20.5 billion), and Social Security benefits included in AGI (\$6.0 billion). Additional detail on the adjustments to income is reported in the Treasury report *Michigan's Individual Income Tax 2009*, available on the Treasury Web site, www.michigan.gov/treasury.

Adoption Credit

\$717,000

Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. The federal credit is equal to 100 percent of the first \$13,170 dollars of adoption expenses for tax year 2011. The Michigan adoption credit applies to the first \$1,200 in adoption expenses over the \$13,170 federal credit.

Child Deduction

\$52,103,000

The child deduction, which was expanded by Public Act 42 of 2000, provides a deduction from AGI of \$600 for each dependent child 18 years or younger.

City Income Tax Credit

\$29,629,000

Provides a credit to individuals for income taxes paid to cities. For tax year 2009, city income tax credits totaled \$28.8 million (see Exhibit 13).

	<u>FY 2012 Estimate</u>
College Savings Account	\$10,884,000
Provides a deduction of up to \$10,000 for contributions to a Michigan Education Savings Program account. Earnings on an account and withdrawals made to pay qualified educational expenses are also exempt from taxation.	
Community Foundation Credit	\$3,493,000
Provides a credit for 50 percent of the contribution made to a qualified community foundation. The maximum credit is equal to \$100 for a single return or \$200 for a joint return.	
Dependent Exemption	\$15,985,000
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.	
Disabled Veterans Exemption	n.a.
Allows a taxpayer to claim an additional exemption of \$300 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.	
Donated Vehicle Credit	\$112,000
Provides a credit to individuals equal to 50 percent of the fair market value of automobiles donated to qualified organizations. The credit is limited to \$50 on a single return or \$100 on a joint return.	
Earned Income Tax Credit	\$360,000,000
Provides a refundable income tax credit equal to 20 percent of any federal earned income tax credit for which a taxpayer is eligible.	
Energy Efficient Home Improvement Credit	\$16,428,000
Public Act 287 of 2008 provides a refundable credit equal to 10 percent of the purchase price of certain energy efficient home improvements, or \$75 (\$150 if a joint return) per item, whichever is less. The credit available to taxpayers with AGI less than or equal to \$37,500 single (\$75,000 if a joint return).	
Farmland Development Credit	\$43,117,000
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 17). This credit was expanded by Public Act 421 of 2000.	

FY 2012 Estimate

Higher Education/Public Contributions Tax Credit

\$23,455,000

Provides a credit against income tax liability for contributions to Michigan colleges and universities, public libraries, public broadcasting stations, the State Art in Public Places Fund, municipal art institutes, and the State of Michigan Museum. The credit is equal to 50 percent of these contributions, not to exceed \$100 for a single return or \$200 on a joint return. Credit for resident estates or trusts cannot exceed 10 percent of tax liability or \$5,000, whichever is less. For tax year 2009, the higher education/public contributions tax credit totaled \$23.7 million (see Exhibit 13).

Historic Preservation Credit

\$1,362,000

Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.

Holocaust Survivor Asset Recovery Deduction

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.

Home Heating Assistance Credit

\$232,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2010, these credits totaled an estimated \$85.5 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was \$223,000 in FY 2010.

Homestead Property Tax Credit

\$831,063,000

Provides a refundable credit against income tax liability for property tax paid. In most cases, this credit is 60 percent of the amount by which property taxes exceed 3.5 percent of household income. Renters may use 20 percent of the rent paid to approximate their property tax, and then calculate their credit as above.

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2009, homestead credits, excluding the farmland credit itemized separately, totaled \$956.6 million (Exhibit 17). Of the homestead credits, 54.9 percent went to general taxpayers, 39.2 percent went to senior citizens, and the remaining 5.9 percent went to veterans and blind and disabled persons.

Exhibit 13
Selected Individual Income Tax Expenditures, CY 2009

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Higher Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than \$2,000*	413,365	9.0%	9,545	\$96,323	2,784	\$205,251
2,001 - 4,000	164,374	3.6%	15,675	120,493	1,656	86,528
4,001 - 6,000	163,731	3.6%	18,244	194,816	2,095	116,623
6,001 - 8,000	163,576	3.6%	20,469	288,326	2,425	141,246
8,001 - 10,000	169,029	3.7%	23,169	379,889	2,859	178,718
10,001 - 12,000	163,457	3.6%	23,329	436,453	2,832	179,744
12,001 - 14,000	166,156	3.6%	24,918	521,687	3,355	218,870
14,001 - 16,000	152,800	3.3%	23,711	534,437	3,173	208,090
16,001 - 18,000	145,973	3.2%	22,885	548,340	3,384	228,389
18,001 - 20,000	131,207	2.9%	21,930	570,775	3,264	220,448
20,001 - 25,000	284,504	6.2%	51,488	1,474,948	8,133	556,705
25,001 - 30,000	245,969	5.4%	47,042	1,530,247	8,193	577,302
30,001 - 35,000	213,709	4.7%	41,159	1,431,420	8,388	601,406
35,001 - 40,000	192,858	4.2%	36,637	1,351,123	8,736	631,968
40,001 - 45,000	168,423	3.7%	32,964	1,267,349	8,732	648,038
45,001 - 50,000	152,049	3.3%	31,316	1,221,019	9,000	673,274
50,001 - 55,000	143,177	3.1%	30,037	1,236,300	9,510	731,836
55,001 - 60,000	132,992	2.9%	28,614	1,205,219	9,528	736,107
60,001 - 70,000	232,465	5.1%	50,453	2,193,987	18,976	1,513,773
70,001 - 80,000	193,803	4.2%	42,019	1,867,148	18,534	1,563,078
80,001 - 90,000	157,492	3.4%	34,173	1,551,321	17,542	1,549,910
90,001 - 100,000	124,586	2.7%	28,412	1,380,194	15,664	1,449,685
Over 100,000	499,559	10.9%	113,940	7,426,902	94,886	10,677,853
TOTAL	4,575,254	100.0%	772,129	\$28,828,715	263,649	\$23,694,842

*Includes 179,275 credit-only returns (zero income).

Prepared by Office of Revenue and Tax Analysis, Michigan Department of Treasury

FY 2012 Estimate

Homeless/Food Bank Credit \$20,460,000

Provides a credit for 50 percent of the donations made to homeless shelters, food banks, and food kitchens. The credit is limited to \$100 for a single return or \$200 for a joint return.

Military Pay and Pensions \$55,533,000

Exempts compensation received while on active duty in the U.S. Armed Forces and military retirement pay from taxable income.

Other State Tax Credit \$43,232,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2009, taxpayers claimed \$40.1 million in credits.

Personal Exemption \$1,173,690,000

Exempts \$3,600 (tax year 2009) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption increases in \$100 increments based on the rate of inflation. For tax year 2011, the personal exemption is \$3,700. The personal exemption reduced tax year 2009 revenue by approximately \$1,114.0 million.

The distribution of effective exemptions across AGI classes is outlined in Exhibit 14. Effective exemptions are exemptions that offset actual income.

Renaissance Zones \$1,400,000

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.

Renewable Energy Surcharge Credit \$1,064,000

Allows a taxpayer to claim a credit equal to 20 percent of the surcharge that is levied by the taxpayer's electrical utility to cover the cost of renewable electricity generation. Only taxpayers with AGI less than or equal to \$65,000 single (\$130,000 if a joint return) are eligible. The credit will sunset after tax year 2011.

FY 2012 Estimate

Special Exemption

\$63,224,000

Allows a taxpayer and his or her spouse to each claim a \$2,400 exemption for tax year 2011 if they are seniors or disabled. Taxpayers who are both a senior and a disabled person may claim two exemptions. Taxpayers may also claim an exemption for disabled or senior dependents. These exemptions are adjusted periodically for inflation.

Stillbirth Credit

\$62,000

Allows a taxpayer who has been issued a Certificate of Stillbirth to claim an income tax credit equal to 4.5 percent of the personal exemption amount, rounded up to the nearest \$10 increment.

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.

Tuition Credit

\$8,275,000

Provides a credit equal to eight percent of college tuition costs for residents who earn less than \$200,000 annually provided the host college or university increases tuition and fees no more than the rate of inflation. The maximum credit is \$375 per student.

Exhibit 14
Selected Individual Income Tax Expenditures by Income Class, CY 2009

Adjusted Gross Income	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions ⁽¹⁾	
	Number	Percent	Number	Amount	Number	Amount
Zero Income ⁽²⁾	259,123	5.7%	30,479	\$22,748,911	0	\$0
\$0 - 2,000	154,242	3.4%	14,830	8,322,128	16,867	2,494,592
2,001 - 4,000	164,374	3.6%	17,726	8,581,220	53,992	7,985,357
4,001 - 6,000	163,731	3.6%	24,433	11,615,534	81,301	12,024,379
6,001 - 8,000	163,576	3.6%	31,884	15,190,052	110,040	16,274,925
8,001 - 10,000	169,029	3.7%	42,504	20,805,954	150,322	22,232,598
10,001 - 12,000	163,457	3.6%	44,641	22,203,006	167,685	24,800,641
12,001 - 14,000	166,156	3.6%	51,801	25,988,190	206,239	30,502,776
14,001 - 16,000	152,800	3.3%	48,199	24,032,057	195,750	28,951,378
16,001 - 18,000	145,973	3.2%	49,180	24,436,706	199,248	29,468,815
18,001 - 20,000	131,207	2.9%	45,529	22,520,153	186,806	27,628,608
20,001 - 25,000	284,504	6.2%	102,337	49,622,466	436,372	64,539,472
25,001 - 30,000	245,969	5.4%	90,647	43,409,695	397,463	58,784,747
30,001 - 35,000	213,709	4.7%	79,051	38,070,888	358,780	53,063,523
35,001 - 40,000	192,858	4.2%	71,264	34,907,003	328,638	48,605,493
40,001 - 45,000	168,423	3.7%	59,911	29,409,927	306,392	45,315,325
45,001 - 50,000	152,049	3.3%	51,340	25,592,415	290,279	42,932,250
50,001 - 55,000	143,177	3.1%	45,925	22,973,206	286,421	42,361,730
55,001 - 60,000	132,992	2.9%	39,766	19,894,070	266,893	39,473,540
60,001 - 70,000	232,465	5.1%	64,149	32,750,614	521,164	77,080,170
70,001 - 80,000	193,803	4.2%	46,038	19,907,104	463,993	68,624,570
80,001 - 90,000	157,492	3.4%	10,448	1,860,731	395,839	58,544,597
90,001 - 100,000	124,586	2.7%	258	147,050	328,785	48,627,308
Over 100,000	<u>499,559</u>	<u>10.9%</u>	<u>517</u>	<u>407,279</u>	<u>1,363,337</u>	<u>201,637,597</u>
TOTAL	4,575,254	100.0%	1,062,857	\$525,396,359	7,112,606	\$1,051,954,389

⁽¹⁾ Effective exemptions in this exhibit are personal exemptions that offset exemptions. This number does not include disabled and other special exemptions.

⁽²⁾ Includes 179,275 credit-only returns.

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 15
Effective Income Tax Rates by Income Class, CY 2009⁽¹⁾

<u>Adjusted Gross Income</u>	<u>Total Adjusted Gross Income</u>	<u>Total Income Tax Paid</u>	<u>Effective Tax Rate</u>
Zero Income ⁽²⁾	(\$7,476,705,112)	(\$124,800,100)	
\$0 - 2,000	154,095,985	(47,967,243)	-31.13%
2,001 - 4,000	493,003,176	(36,193,224)	-7.34%
4,001 - 6,000	818,967,288	(39,042,019)	-4.77%
6,001 - 8,000	1,145,889,412	(45,223,034)	-3.95%
8,001 - 10,000	1,522,321,968	(56,889,271)	-3.74%
10,001 - 12,000	1,797,832,062	(55,971,046)	-3.11%
12,001 - 14,000	2,158,868,609	(60,940,532)	-2.82%
14,001 - 16,000	2,290,674,968	(42,393,806)	-1.85%
16,001 - 18,000	2,481,466,077	(28,846,420)	-1.16%
18,001 - 20,000	2,490,135,475	(15,945,298)	-0.64%
20,001 - 25,000	6,382,168,627	1,858,190	0.03%
25,001 - 30,000	6,750,288,423	55,543,001	0.82%
30,001 - 35,000	6,934,476,685	95,090,109	1.37%
35,001 - 40,000	7,226,493,954	121,951,381	1.69%
40,001 - 45,000	7,149,419,868	142,182,223	1.99%
45,001 - 50,000	7,218,331,272	157,599,106	2.18%
50,001 - 55,000	7,514,542,101	174,673,121	2.32%
55,001 - 60,000	7,641,464,495	185,344,715	2.43%
60,001 - 70,000	15,077,524,890	385,685,976	2.56%
70,001 - 80,000	14,502,331,223	396,598,563	2.73%
80,001 - 90,000	13,359,617,812	394,671,458	2.95%
90,001 - 100,000	11,810,062,959	360,142,559	3.05%
Over 100,000	<u>121,298,503,049</u>	<u>3,022,503,372</u>	<u>2.49%</u>
TOTAL	\$240,741,775,266	\$4,939,631,781	2.05%

Effective rate excluding zero income AGI and Taxes Paid 2.04%

Effective rate excluding zero income AGI 1.99%

(1) Values in this table are based on a sample of the 4,395,979 MI-1040 and MI-1040CR returns.

(2) Includes 179,275 credit-only returns (zero income).

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 16
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2009

Adjusted Gross Income	Effective Exemptions⁽¹⁾	Adjustments to Income	Nonrefundable Credits⁽²⁾	Prop. Tax Credits
Less Than \$2,000	446.2%	34.2%	-1.0%	582.5%
2,001 - 4,000	142.2%	20.4%	0.4%	140.1%
4,001 - 6,000	97.2%	20.4%	1.2%	94.9%
6,001 - 8,000	79.8%	22.2%	1.4%	77.5%
8,001 - 10,000	70.1%	21.7%	1.5%	66.8%
10,001 - 12,000	62.9%	23.8%	1.4%	58.3%
12,001 - 14,000	58.5%	22.2%	1.4%	50.6%
14,001 - 16,000	51.0%	23.1%	1.4%	43.5%
16,001 - 18,000	46.2%	21.9%	1.4%	38.2%
18,001 - 20,000	41.7%	21.6%	1.4%	33.7%
20,001 - 25,000	36.1%	20.8%	1.4%	27.9%
25,001 - 30,000	29.8%	20.6%	1.3%	22.4%
30,001 - 35,000	25.6%	21.0%	1.2%	18.4%
35,001 - 40,000	22.2%	23.1%	1.2%	15.5%
40,001 - 45,000	20.1%	21.5%	1.2%	13.2%
45,001 - 50,000	18.5%	20.9%	1.2%	11.4%
50,001 - 55,000	17.2%	20.2%	1.2%	9.8%
55,001 - 60,000	16.3%	20.7%	1.2%	8.4%
60,001 - 70,000	15.2%	19.4%	1.2%	6.8%
70,001 - 80,000	13.9%	19.1%	1.2%	4.1%
80,001 - 90,000	12.8%	18.7%	1.2%	0.4%
90,001 - 100,000	11.9%	17.6%	1.2%	0.0%
Over 100,000	4.9%	37.3%	1.0%	0.0%

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

(2) Income tax credits were divided by the tax rate (4.35%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, the homeless food bank credit, the vehicle donation credit, and the energy cost recovery surcharge credit.

Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 17
Property Tax Credits by County, CY 2009

<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	600	\$216,000	600	\$328,400	100	\$4,400
ALGER	500	175,500	300	162,700	< 50	4,400
ALLEGAN	9,700	4,358,100	4,300	3,161,800	100	10,600
ALPENA	2,100	680,000	1,700	1,012,200	100	10,900
ANTRIM	1,900	796,500	1,400	1,070,800	100	4,800
ARENAC	1,100	407,600	800	529,400	< 50	5,200
BARAGA	400	118,600	300	141,100	< 50	6,000
BARRY	4,300	1,935,300	2,200	1,573,700	100	6,100
BAY	9,500	3,457,400	6,400	4,157,200	200	28,000
BENZIE	1,300	542,200	900	564,500	100	5,300
BERRIEN	13,800	5,209,000	7,800	5,129,100	100	14,100
BRANCH	3,200	1,248,100	1,800	1,138,400	100	7,400
CALHOUN	11,700	5,237,400	6,500	4,917,500	200	22,300
CASS	3,000	1,165,300	1,800	1,204,900	100	5,000
CHARLEVOIX	2,600	1,190,700	1,600	1,217,300	< 50	2,400
CHEBOYGAN	1,800	612,100	1,100	704,800	100	9,600
CHIPPEWA	2,000	626,200	1,200	692,800	200	16,500
CLARE	2,000	658,700	1,200	615,000	100	7,700
CLINTON	5,400	2,743,200	2,700	2,121,900	< 50	2,300
CRAWFORD	900	270,200	500	281,100	< 50	5,200
DELTA	2,500	869,400	1,700	954,400	200	24,100
DICKINSON	1,800	639,600	1,400	913,500	100	14,200
EATON	13,000	6,129,000	6,100	4,734,900	100	14,400
EMMET	3,600	1,591,600	1,800	1,362,000	100	4,600
GENESEE	43,800	17,746,900	18,900	12,426,600	400	51,900
GLADWIN	1,700	632,200	1,500	884,800	100	7,300
GOGEBIC	800	251,800	700	335,700	100	14,600
GRAND TRAVERSE	10,900	5,107,600	5,000	3,996,800	100	13,000
GRATIOT	2,900	1,024,200	1,600	988,500	100	8,000
HILLSDALE	3,500	1,348,700	1,900	1,199,900	100	9,200
HOUGHTON	1,700	576,900	1,000	544,200	100	16,300
HURON	2,900	1,376,900	2,700	1,989,000	100	6,600
INGHAM	36,200	18,533,200	12,000	10,029,900	100	21,100
IONIA	5,000	2,038,400	2,100	1,404,900	100	5,300
IOSCO	1,700	564,900	1,400	750,800	200	15,000
IRON	600	206,400	600	286,600	100	12,100
ISABELLA	6,500	2,769,700	2,500	1,822,000	100	6,600
JACKSON	13,900	5,595,700	6,800	4,493,700	200	18,000
KALAMAZOO	28,400	12,618,800	11,200	8,917,300	200	24,300
KALKASKA	1,200	415,700	700	386,700	< 50	3,500
KENT	69,700	30,322,800	25,400	19,244,000	300	40,100
KEWEENAW	100	18,700	100	40,800	< 50	1,400

Exhibit 17 (Continued)

County	General		Seniors		Veterans	
	Number	Amount	Number	Amount	Number	Amount
LAKE	600	\$211,600	400	\$233,700	< 50	\$5,200
LAPEER	6,700	3,000,100	3,300	2,156,300	100	6,600
LEELANAU	1,400	732,200	1,200	1,043,800	< 50	1,200
LENAWEE	9,400	4,135,400	5,000	3,761,600	100	11,400
LIVINGSTON	600	211,600	400	233,700	< 50	5,200
LUCE	200	56,000	100	26,500	< 50	3,400
MACKINAC	800	278,800	500	330,600	< 50	2,800
MACOMB	108,500	61,115,300	54,700	48,302,900	400	54,000
MANISTEE	1,800	702,000	1,500	942,300	100	7,900
MARQUETTE	4,300	1,384,300	2,000	1,159,500	300	33,800
MASON	2,700	994,900	1,700	1,201,000	< 50	4,600
MECOSTA	2,500	978,700	1,600	943,700	100	6,400
MENOMINEE	1,400	471,900	900	450,600	100	11,700
MIDLAND	6,200	2,421,800	3,500	2,451,000	100	13,200
MISSAUKEE	900	355,200	600	348,600	< 50	3,600
MONROE	11,400	5,060,200	6,400	4,454,000	100	12,100
MONTCALM	5,400	2,099,700	2,700	1,767,400	100	8,800
MONTMORENCY	600	195,700	500	223,800	100	5,100
MUSKEGON	16,800	6,551,100	8,200	5,630,300	200	26,300
NEWAYGO	3,600	1,559,000	2,100	1,423,200	100	7,000
OAKLAND	127,400	78,168,100	57,800	52,859,500	300	43,300
OCEANA	2,100	846,900	1,400	933,500	100	6,000
OGEMAW	1,400	514,000	1,100	631,100	100	7,800
ONTONAGON	300	97,500	200	117,300	100	6,700
OSCEOLA	1,500	554,200	1,100	650,900	100	7,300
OSCODA	300	110,900	200	88,400	< 50	2,000
OTSEGO	1,600	534,100	800	434,500	100	4,200
OTTAWA	26,400	11,695,700	12,300	9,314,000	100	14,500
PRESQUE ISLE	800	280,500	800	451,300	100	5,900
ROSCOMMON	1,800	639,300	1,700	973,200	100	9,600
SAGINAW	15,500	5,279,600	7,900	4,819,200	300	37,400
ST. CLAIR	17,000	7,690,600	8,700	6,507,300	200	22,700
ST. JOSEPH	5,000	1,921,200	2,500	1,609,000	100	7,500
SANILAC	3,500	1,476,900	2,200	1,511,800	100	9,100
SCHOOLCRAFT	400	111,800	200	123,700	100	6,400
SHIAWASSEE	7,000	2,735,500	3,600	2,294,800	100	13,600
TUSCOLA	4,700	1,818,200	2,800	1,835,500	100	16,100
VAN BUREN	7,600	3,304,100	3,700	2,745,900	100	10,700
WASHTENAW	39,300	23,246,500	12,400	11,595,600	100	12,900
WAYNE LESS DETROIT	123,600	70,532,500	58,600	53,324,500	400	57,100
WEXFORD	3,300	1,287,500	1,700	1,093,300	100	8,200
OUTSIDE OF MICHIGAN	22,400	12,025,500	9,900	8,593,100	100	14,500
DETROIT	122,900	60,310,100	30,300	23,041,200	300	74,700
TOTAL	1,062,900	\$525,396,400	476,500	\$374,894,900	9,300	\$1,141,700

Exhibit 17 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
ALCONA	100	\$34,700	< 50	\$17,500	1,300	\$601,000
ALGER	100	31,500	< 50	300	900	374,500
ALLEGAN	800	458,200	100	721,900	15,000	8,710,500
ALPENA	400	164,300	< 50	22,800	4,300	1,890,400
ANTRIM	200	105,900	< 50	47,500	3,600	2,025,500
ARENAC	200	91,000	100	262,500	2,200	1,295,700
BARAGA	< 50	19,700	< 50	0	700	285,300
BARRY	300	155,500	100	314,800	6,900	3,985,300
BAY	1,300	651,800	300	1,283,700	17,700	9,578,200
BENZIE	100	57,200	< 50	2,800	2,400	1,171,900
BERRIEN	1,500	812,900	100	357,800	23,300	11,522,900
BRANCH	300	132,000	200	831,800	5,600	3,357,800
CALHOUN	1,400	838,000	200	825,000	19,800	11,840,300
CASS	300	130,200	100	791,300	5,200	3,296,800
CHARLEVOIX	200	88,200	< 50	35,400	4,500	2,534,000
CHEBOYGAN	200	87,000	< 50	9,400	3,200	1,422,800
CHIPPEWA	200	109,100	< 50	25,700	3,700	1,470,400
CLARE	400	142,300	< 50	95,500	3,700	1,519,200
CLINTON	300	194,500	200	869,000	8,700	5,930,900
CRAWFORD	100	54,900	< 50	0	1,500	611,400
DELTA	400	172,200	< 50	69,200	4,800	2,089,300
DICKINSON	200	95,100	< 50	21,500	3,600	1,684,000
EATON	800	532,900	100	618,800	20,200	12,030,100
EMMET	200	110,600	< 50	5,100	5,600	3,073,900
GENESEE	5,100	2,861,600	100	311,200	68,200	33,398,200
GLADWIN	300	130,200	< 50	60,600	3,600	1,715,100
GOGEBIC	100	45,600	< 50	0	1,700	647,700
GRAND TRAVERSE	600	343,300	< 50	61,300	16,600	9,521,900
GRATIOT	300	146,200	400	1,931,300	5,200	4,098,200
HILLSDALE	400	189,800	200	665,700	6,100	3,413,300
HOUGHTON	200	75,400	< 50	0	3,000	1,212,700
HURON	300	150,400	1,000	5,961,300	7,000	9,484,200
INGHAM	2,700	1,766,500	100	1,146,500	51,300	31,497,300
IONIA	400	230,400	100	788,500	7,800	4,467,400
IOSCO	300	119,800	< 50	46,200	3,600	1,496,700
IRON	100	42,200	< 50	1,800	1,400	549,200
ISABELLA	400	233,200	100	493,800	9,700	5,325,300
JACKSON	1,500	863,100	100	367,600	22,400	11,338,200
KALAMAZOO	2,200	1,326,000	100	650,700	42,100	23,537,000
KALKASKA	100	52,400	< 50	7,800	2,000	866,100
KENT	4,700	2,967,000	100	580,000	100,200	53,154,000
KEWEENAW	< 50	4,800	< 50	0	100	65,700

Exhibit 17 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	200	\$76,100	< 50	\$2,100	1,200	\$528,700
LAPEER	500	291,200	100	206,700	10,600	5,660,700
LEELANAU	100	41,000	< 50	42,100	2,700	1,860,200
LENAWEE	900	546,600	400	2,140,900	15,900	10,595,900
LIVINGSTON	500	376,100	< 50	2,100	17,400	10,561,400
LUCE	< 50	10,600	< 50	0	400	96,500
MACKINAC	100	26,600	< 50	6,600	1,400	645,400
MACOMB	6,700	5,163,000	< 50	70,600	170,400	114,705,800
MANISTEE	200	121,800	< 50	4,100	3,600	1,778,100
MARQUETTE	400	177,300	< 50	3,200	6,900	2,758,100
MASON	300	142,100	100	242,200	4,700	2,584,800
MECOSTA	300	138,000	< 50	172,400	4,500	2,239,300
MENOMINEE	100	48,700	< 50	91,200	2,500	1,074,100
MIDLAND	600	284,800	< 50	226,200	10,400	5,397,000
MISSAUKEE	100	42,700	100	453,800	1,700	1,203,900
MONROE	1,100	634,600	200	651,200	19,200	10,812,200
MONTCALM	600	301,000	200	913,500	9,000	5,090,400
MONTMORENCY	100	41,300	< 50	14,500	1,200	480,400
MUSKEGON	2,400	1,350,400	< 50	296,400	27,700	13,854,500
NEWAYGO	400	239,000	100	291,400	6,300	3,519,600
OAKLAND	6,400	4,985,200	< 50	92,000	191,900	136,148,000
OCEANA	200	121,000	100	283,800	3,900	2,191,300
OGEMAW	200	107,300	< 50	85,700	2,900	1,345,900
ONTONAGON	< 50	17,300	< 50	1,700	700	240,600
OSCEOLA	200	105,900	100	282,400	3,000	1,600,700
OSCODA	100	33,100	< 50	0	600	234,500
OTSEGO	200	63,400	< 50	0	2,600	1,036,200
OTTAWA	1,500	903,100	200	1,506,300	40,500	23,433,700
PRESQUE ISLE	100	53,500	< 50	37,800	1,800	828,900
ROSCOMMON	300	156,900	< 50	15,900	4,000	1,794,900
SAGINAW	2,400	1,255,200	500	2,150,100	26,600	13,541,500
ST. CLAIR	1,500	917,200	< 50	153,500	27,400	15,291,300
ST. JOSEPH	500	236,700	100	814,300	8,300	4,588,700
SANILAC	400	180,700	500	1,864,000	6,700	5,042,600
SCHOOLCRAFT	< 50	16,100	< 50	6,600	700	264,600
SHIAWASSEE	700	388,000	200	764,000	11,600	6,195,800
TUSCOLA	500	266,600	600	3,493,200	8,800	7,429,600
VAN BUREN	800	445,900	100	535,700	12,300	7,042,300
WASHTENAW	1,800	1,373,000	200	1,055,000	53,800	37,283,000
WAYNE LESS DETROIT	9,000	7,123,000	< 50	77,700	191,500	131,114,800
WEXFORD	400	211,400	< 50	34,900	5,400	2,635,400
OUTSIDE OF MICHIGAN	1,500	1,119,800	100	230,300	34,000	21,983,300
DETROIT	11,500	8,181,000	< 50	17,100	165,000	91,624,100
TOTAL	85,600	\$55,131,600	8,100	\$39,864,100	1,642,400	\$996,428,800

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 2012 Estimate

Accelerated Depreciation

\$39,365,000

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.

Employer Contributions to Health and Life Insurance

\$902,896,000

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.

	<u>FY 2012 Estimate</u>
Employer Pension Plans	\$545,052,000
Exempts employer payments into qualified employee pension plans from taxation.	
Federal Adjustments to Income	\$52,388,000
Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	
Fellowships and Scholarships	\$14,717,000
Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	
Gain on Sale of Primary Residence	\$236,758,000
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 a similar exclusion in the previous two years. The maximum exclusion is \$250,000 for a single return and \$500,000 for a joint return.	
Income Maintenance Benefits	\$7,190,000
Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	
Individual Retirement Accounts	\$230,992,000
Since 1982, taxpayers could establish an IRA and deduct from taxable income contributions up to \$2,000 per year. In 1987, this deduction was reduced or eliminated for some taxpayers. Federal tax legislation enacted in 2001 increased the maximum contribution limit to \$5,000 for 2009. Only persons with an AGI below \$89,000 on a joint return (\$55,000 on a single return) or not covered by an employer retirement plan can take the full \$5,000 deduction. A partial deduction, phased out according to income, is available between \$89,000-\$109,000 for joint filers and \$55,000-\$65,000 for single filers.	
Interest on Life Insurance Savings	\$109,509,000
Exempts interest earned from life insurance from tax if used to buy additional life insurance.	
Medical Care Savings Account	\$8,834,000
Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	

FY 2012 Estimate

Railroad Retirement Benefits

\$1,489,000

Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).

Social Security Benefits

\$276,747,000

Exempts most social security benefits. Federal social security benefits are not taxable under federal law 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 a part of the tax expenditure estimate for Michigan adjustments to income.

Student Loan Deduction

\$4,232,000

Allows a deduction for interest paid on qualified education loans. The Federal Taxpayer Relief Act of 1997 provides a maximum deduction of \$2,500 for tax year 2001 and following.

Veterans' Benefits

\$53,299,000

Excludes veterans' benefits administered by the Veterans' Administration from AGI.

Workers' Compensation

\$50,274,000

Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 0.2 percent from \$48.5 million in FY 2011 to \$48.7 million in FY 2012. Transportation tax expenditure estimates were based on FY 2009 and FY 2010 data.

Estimate Reliability	(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

No changes in 2010.

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 \$322,000 to the state's Aeronautics Fund in FY 2012.

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 2012, the aviation fuel tax is projected to yield \$5.5 million, which is deposited into the state's Aeronautics Fund.

FY 2012 Estimate

Federally-Owned Aircraft	\$305,000
Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.	

FY 2012 Estimate

Interstate Flight Refund

\$3,350,000

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 2012 Estimate

Marine Vessel Exemption

\$740,000

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 is 19 cents per gallon. The diesel fuel tax rate is 15 cents per gallon. 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 2012, motor fuel taxes will yield an estimated \$965.4 million.

	<u>FY 2012 Estimate</u>
<p>Diesel Fuel for Railroads Exempts diesel fuel used by railroad locomotives from motor fuel taxes.</p>	n.a.
<p>Evaporation and Loss Allowance The 2 percent evaporation and loss allowance was replaced in 1997 by a 1.5 percent allowance for the collection of fuel taxes.</p>	\$12,780,000
<p>Fuel for Job Sites and Charter Firms Exempts fuel consumed on job sites or by private and public charter bus trips from the gasoline and diesel fuel taxes.</p>	\$5,290,000
<p>Fuel for Off-Road Use Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.</p>	\$1,050,000
<p>Municipal Franchise Vehicles Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.</p>	\$430,000
<p>Public Vehicles Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.</p>	\$13,350,000
<p>Tribal Tax Agreements 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.</p>	n.a.

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 2012, the motor vehicle registration fee is projected to yield \$844.0 million.

FY 2012 Estimate

Disabled Veterans' Vehicles	\$506,000
Provides totally disabled veterans free vehicle license plates.	
Handicapper Vans	n.a.
Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	
Intercity Commercial Buses	n.a.
Intercity commercial buses pay a registration fee of \$25 rather than a tax based on weight.	
Public and Nonprofit Vehicles	\$10,847,000
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 2012 Estimate

Publicly-Owned Watercraft	\$14,000
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 decrease 5.1 percent from \$8,207.5 million in FY 2011 to \$7,786.5 million in FY 2012. The significant decline from estimates published in recent years is due to the decline in property values throughout the state. Estimates were based on FY 2009 and FY 2010 data.

Estimate Reliability

- (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 Act 5 of 2010 amended the Renaissance Zone Act to authorize the designation of up to 25 additional renaissance zones specifically for border crossing facilities in qualified border local governmental units. Businesses in a renaissance zone are exempt from the Michigan business tax, the state education tax, local real and personal property taxes, and specific taxes levied in lieu of property taxes while individuals are exempt from state and local income taxes. The Act would apply to the Port Huron area.

Public Act 8 of 2010 amended the General Property Tax Act to allow the Department of Treasury to deny an exemption under MCL 211.7d approved previously by a local assessor for nonprofit housing for the elderly or disabled. Payments to local governments to offset the revenue loss from the property tax exemption for nonprofit housing for the elderly or disabled

could be reduced by the state treasurer if appropriations were insufficient to make the full payment.

Public Act 9 of 2010 amended the Neighborhood Enterprise Zone Act to include in the definition of a homestead facility structures in the city of Flint that have the primary purpose of providing residential housing platted after January 1, 1999. The housing may consist of one or two units, with one of the units used by an owner as a principal residence. The designation would allow for reduced property taxes on the homestead facility.

Public Act 17 of 2010 amended the General Property Tax Act to extend the principal residence exemption to timber-cutover property adjoining a dwelling and allow property owners to claim a retroactive exemption for tax years 2008 and 2009.

Public Act 64 of 2010 amended the Michigan Renaissance Zone Act to expand the definition of renewable energy facility to include a facility that focuses on the research, development, or manufacturing of systems or components of systems involving the conversion of chemical energy for advance battery technology. The Act also adds a facility that creates chemicals from renewable sources in addition to those facilities creating energy or fuel from renewable sources, as allowed under current law. Expanding the definition would allow more facilities to qualify for the tax benefits of renaissance zones, including facilities currently operating in Holland and Adrian.

Public Act 65 of 2010 amended the Neighborhood Enterprise Zone Act to extend the deadline for transferring a qualified historic building to an owner who will occupy the building as a principal residence from 6 years to 12 years after a neighborhood enterprise zone certificate takes effect.

Public Act 109 of 2010 amended the General Property Tax Act to provide a tax exemption for property used in the retail store of a charitable nonprofit housing organization. The Act applies to eight ReStores operated by local affiliates of Habitat for Humanity. The exemption is similar to an exemption in place for the retail stores operated by Goodwill and Salvation Army.

Public Act 122 of 2010 amended the Plant Rehabilitation and Industrial Development Districts Act to allow an exemption certificate that has been revoked to be reinstated and transferred to a new owner of an industrial facility, and to allow a new certificate to be granted for an existing facility. Previously exemption certificates were only allowed for new and speculative buildings and replacement facilities. These two changes addressed specific situations in Oakland and Otsego Counties.

Public Act 127 of 2010 amended the Local Development Financing Act to extend the deadline for authorities created under the Act have to apply to the Department of Treasury for approval to have state education tax retained and paid to those authorities as reimbursement for the 2008 school operating tax exemptions for industrial personal and commercial personal property.

Public Act 136 of 2010 amended the Neighborhood Enterprise Zone Act to create a specific exception to the general requirement that an application for a certificate be filed before a

building permit is issued for the new construction or rehabilitation. This Act would also allow a subsequent owner to request and be granted a certificate if a new facility were completed in a neighborhood enterprise zone but the original owner did not apply for a certificate.

Public Act 137 of 2010 amended the Obsolete Property Rehabilitation Act to extend the deadline for local governmental units to grant a new exemption under the Act to December 31, 2016. Previously, the deadline was December 31, 2010. This Act would also grant a specific exception to the usual effective date provisions in current law.

Public Acts 236 through 246 of 2010 amended various statutes regulating economic development programs, including the Brownfield Redevelopment Financing, Tax Increment Finance Authority, Transportation Economic Development Fund, and the Local Development Financing Acts to include transit-oriented development and transit-oriented facilities in the activities allowed under those laws.

Public Act 249 of 2010 amended the General Property Tax Act of 2010 to revise the definition of new personal property that may be granted an exemption by an eligible local assessing district. The revised definition would potentially include personal property that was previously subject to the tax but is newly owned by an eligible business.

Public Act 250 of 2010 created the Private Investment Infrastructure Funding Act to allow municipalities to enter into agreements for developing and financing public facilities. The public facilities could solicit private investors for funding and repay the investors with revenue from a tax increment arrangement.

Public Act 288 of 2010 amended the Brownfield Redevelopment Financing Act to modify the requirements for beginning to capture tax increment revenue and the duration of a brownfield plan.

Public Act 311 of 2010 amended the General Property Tax Act to allow certain taxpayers who filed for a homestead property tax credit in the previous year to receive a deferral of the due date for paying property taxes without penalty or interest until May 1. Only taxpayers who filed for the homestead credit prior to February 15 of the current year were previously eligible for the deferral.

Public Act 328 of 2010 amended the Zoological Authorities Act to increase with voter approval the maximum property tax rate that may be levied by an authority to support a zoo. The maximum rate was increased from 0.1 mill to 0.2 mill.

Public Act 335 of 2010 amended the Property Tax Limitation Act to allow that, if a county tax allocation vote is taken on August 3, 2010, the limitations adopted at that vote take effect in 2010. Votes taken after April 1 generally apply to the following year.

Public Act 340 of 2010 amended the General Property Tax Act to set the purchase price paid in a sale of eligible non-profit housing from Habitat for Humanity to a low-income person is the presumptive true cash value of the property transferred after December 31, 2010. This would

establish the true cash value below market value if the home were sold at a discount by Habitat for Humanity.

Public Act 368 of 2010 amended the Michigan Renaissance Zone Act to make a technical correction to apply an increase in the maximum number of tool and die renaissance recovery zones allowed to provisions that permit the Michigan Strategic Fund to combine existing zones and designate additional zones.

Public Act 376 of 2010 amended the Local Development Financing Act to include transit-oriented facility and transit-oriented development in the definitions of eligible property and public facility. The Local Development Financing Act allows local governments to finance improvements in public facilities through capturing increases in tax revenue due to the increase in value of eligible property.

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 2012 collections are projected to total \$61.0 million.

FY 2012 Estimate

Broadband Investment Credit	\$24,500,000
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	\$25,700,000
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.

Average Statewide Millage Rates

Calendar Year	Homestead Property	Nonhomestead Property	All Property
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	31.52	50.06	39.00
2004	32.70	51.20	40.00
2005	32.60	51.38	39.88
2006	32.65	50.96	39.96
2007	32.72	51.49	39.89
2008	32.35	51.06	38.94
2009	n.a.	n.a.	39.13
2010	n.a.	n.a.	39.70

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Nonhomestead millage rates from the Tax Analysis Division, Michigan Department of Treasury.

FY 2012 Estimate

Agricultural Transfers

\$33,700,000

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.

FY 2012 Estimate

Air and Water Pollution Control

\$120,000,000

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. The cost of this provision has not been estimated due to lack of data.

Energy Conservation Devices

\$130,000

Exempts energy conservation devices from property tax. This exemption must be approved and certified by the State Tax Commission.

Fairground Property

n.a.

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

Homestead Exemption

\$3,110,000,000

Exempts most owner-occupied housing that is the primary residence of the owner from local school operating mills. For most school districts 18 mills are assessed locally for school operations.

Homestead Exemption for Farm Property

\$160,000,000

Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses.

Industrial Facilities Development

\$221,000,000

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).

FY 2012 Estimate

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, except that the full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 19 displays a partial estimate of the taxable value of property subject to the industrial facilities development program. Public Act 39 of 2007 reduced the tax on new facility personal property on land classified as industrial real property.

Neighborhood Enterprise Zones	\$21,500,000
<p>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, 19 cities participate in this program.</p>	
Next Energy Exemption	\$3,200,000
<p>Provides an exemption for alternative energy personal property certified by the Michigan Next Energy Authority from personal property taxes. The exemption is intended to help promote the research, development, and manufacturing of alternative energy technologies in Michigan.</p>	
Obsolete Property Rehabilitation Exemption	\$11,000,000
<p>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.</p>	
Personal Property Ad Valorem Exemptions	\$356,000,000
<p>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.</p>	
Personal Property Industrial Facilities	\$65,000,000
<p>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.</p>	

FY 2012 Estimate

Poverty Exemption \$7,800,000

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 \$84,900,000

Exempts individuals who are residents of a Renaissance Zone or a business that is located and conducts business activity within a Renaissance Zone from most property taxes.

Tax-Exempt Property \$1,684,000,000

Exhibit 19 reports the results from the 2009 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 18 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 \$31.1 billion. If taxed at the 2008 average nonhomestead statewide rate of 51.06 mills, tax-exempt property would have yielded \$1.59 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.

Tax-Exempt Acreage n.a.

Exhibit 20 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 380,867 acres in 2009.

Tax-Exempt County and Municipal Property \$258,000,000

Exempts real property owned by counties, townships, cities, villages, and school districts.

Tax-Exempt Federal Property \$172,000,000

Exempts real property belonging to the United States government.

	<u>FY 2012 Estimate</u>
Tax-Exempt Other Real Tax Exempt Property	\$189,000,000
<p>Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.</p>	
Tax-Exempt Personal Property	\$402,000,000
<p>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.</p> <p>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.</p>	
Tax-Exempt Public Education Property	\$492,000,000
<p>Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.</p>	
Tax-Exempt Specifically-Taxed Property	n.a.
<p>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.</p>	
Tax-Exempt State Property	\$171,000,000
<p>Exempts real property owned by the State of Michigan.</p>	

FY 2012 Estimate

Tax Increment Financing

\$280,000,000

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

\$1,360,000,000

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 are currently on the tax rolls.

Water Softeners and Water Coolers

\$1,250,000

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 is estimated to yield a total of \$9.7 million in FY 2011. The state's share of the iron ore specific tax is deposited into the School Aid Fund. The state received no net revenue in FY 2010 and \$5.2 million in FY 2011. Revenue for the two years was affected by the timing of payments from Marquette County.

Exhibit 18 Counties of Michigan

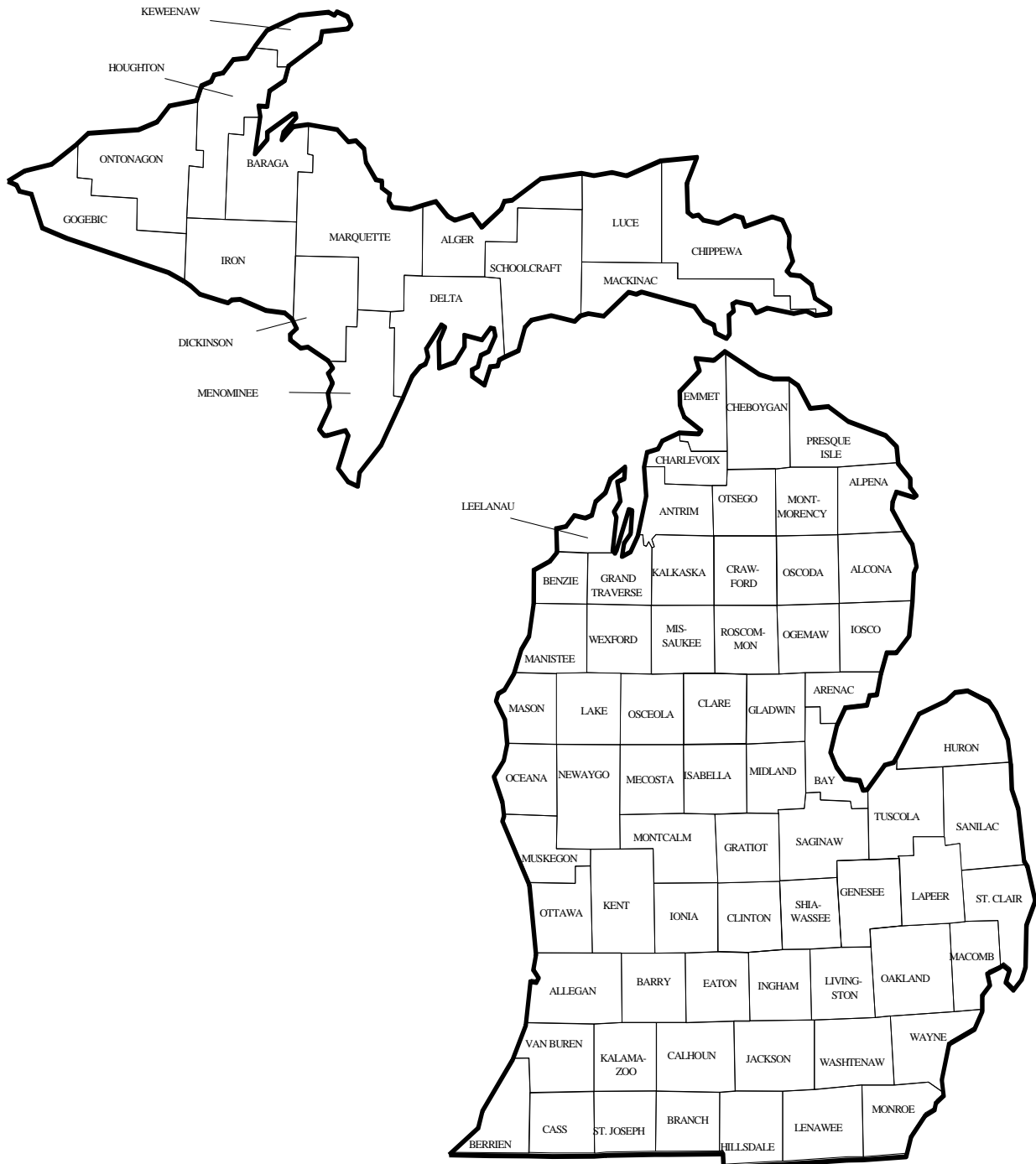


Exhibit 19
Estimated Taxable Value of Exempt Real and Personal Property by County, 2010
(Taxable Value in Thousands)

<u>County</u>	Industrial	County			Public
	Facilities	Federal	State	and	Education
	<u>Tax</u>	<u>Federal</u>	<u>State</u>	<u>Municipal</u>	
ALCONA	\$0	\$89,028	\$13,869	\$22,075	\$14,335
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN*	205,645	0	0	0	0
ALPENA	9,496	8,831	67,144	100,661	66,456
ANTRIM*	0	0	0	0	0
ARENAC	2,053	517	1,434	1,437	1,150
BARAGA*	0	20,100	39,143	20,860	24,515
BARRY *	7,707	0	6,389	20,684	48,976
BAY*	144,357	15,669	13,958	19,377	212,856
BENZIE*	0	33,116	85,394	20,320	5,463
BERRIEN *	70,842	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN*	225,049	n.a	n.a	n.a	n.a
CASS *	23,121	0	46,075	116,775	116,813
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 *	18,343	15	3,200	15,000	25,000
CRAWFORD *	2,775	28,545	230,000	6,233	21,150
DELTA *	20,090	56,950	14,051	12,450	27,608
DICKINSON *	12,921	8,300	9,500	8,300	45,000
EATON	158,647	306	20,252	124,882	44,160
EMMET *	3,762	0	9,333	349	7
GENESEE	96,580	17,187	57,470	491,809	573,510
GLADWIN	5,555	50,000	25,000	13,000	31,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	21,435	611	254	85,000	66,800
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	58,517	269	640	20,200	70,000
HOUGHTON	4,011	13,470	84,766	8,941	108,473
HURON*	56,841	39,400	10,542	85,700	0
INGHAM *	186,082	n.a.	n.a	n.a.	n.a.
IONIA	19,389	0	175,582	17,255	21,800
IOSCO*	121	121,832	39,299	32,477	29,240
IRON*	165	21,800	13,500	6,500	526
ISABELLA	11,023	0	0	0	0
JACKSON*	166,939	2,000	201,000	38,000	98,000
KALAMAZOO	125,772	36,121	367,204	775,540	1,446,599
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	543,538	24,450	23,766	174,895	484,900
KEWEENAW *	0	67,495	7,610	10,594	1,629

Exhibit 19 (Continued)

<u>County</u>	Industrial	County			Public
	Facilities	Tax	Federal	State	and
				Municipal	
LAKE	\$118	\$90,061	\$51,365	\$8,110	\$9,429
LAPEER*	57,151	3,272	16,794	140,854	98,456
LEELANAU	0	1,252	208	2,072	14,000
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON *	18,138	429	1,803	167,284	168,312
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB	1,139,351	3,037	79,300	545,330	991,228
MANISTEE	16,405	156,000	38,300	34,000	36,500
MARQUETTE	1,103	61,500	43,500	22,000	205,000
MASON *	57,172	138,873	33,956	91,258	174,391
MECOSTA *	73,367	9,953	2,361	9,300	350,000
MENOMINEE *	3,679	0	74,966	94	705
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	5,590	79	2,065	4,577	19,783
MONROE	162,108	138	10,341	77,981	171,762
MONTCALM	32,131	n.a.	0	n.a.	n.a.
MONTMORENCY *	360	120,000	36,000	20,000	13,000
MUSKEGON	119,366	17,203	85,847	144,474	261,309
NEWAYGO	4,982	n.a.	n.a.	n.a.	n.a.
OAKLAND	292,334	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	1,299	226,205	28,658	4,589	13,132
OSCEOLA	27,116	0	4,317	5,137	21,459
OSCODA *	734	279,766	96,109	21,910	33,483
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	665,113	21,759	32,403	216,497	909,675
PRESQUE ISLE	373,177	0	40,315	108,911	n.a.
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW	152,139	25,611	154,500	210,120	683,000
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH	140,525	n.a.	n.a.	n.a.	n.a.
SANILAC	12,781	n.a.	n.a.	n.a.	n.a.
SCHOOLCRAFT	11,562	n.a.	n.a.	n.a.	48,568
SHIAWASSEE	7,292	700	19,000	69,800	96,800
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
WEXFORD	20,593	n.a.	n.a.	n.a.	0
TOTAL	\$6,328,762	\$3,175,604	\$3,163,431	\$4,774,004	\$9,092,603

Exhibit 19 (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	\$779	\$140,086	\$776,048	15.3%
ALGER*	55,000	0	88,568	339,929	20.7%
ALLEGAN*	0	0	0	4,197,982	0.0%
ALPENA	170,174	0	413,266	935,663	30.6%
ANTRIM*	0	0	0	1,716,700	0.0%
ARENAC	896	0	5,434	549,009	1.0%
BARAGA*	53,017	125,669	283,304	228,593	55.3%
BARRY *	63,780	34,396	174,225	1,907,221	8.4%
BAY*	255,154	2,593	519,607	2,958,617	14.9%
BENZIE*	0	15,503	159,796	1,097,565	12.7%
BERRIEN *	0	0	0	6,886,322	0.0%
BRANCH *	0	6,500	22,304	1,294,494	1.7%
CALHOUN*	n.a	n.a	0	3,710,380	0.0%
CASS *	253,589	0	533,252	1,792,949	22.9%
CHARLEVOIX*	3,526	13	95,653	2,032,072	4.5%
CHEBOYGAN *	28,393	9,494	171,493	1,337,678	11.4%
CHIPPEWA *	21,200	3,500	1,374,928	1,036,453	57.0%
CLARE *	72,638	0	139,129	1,032,132	11.9%
CLINTON *	0	0	43,215	2,499,739	1.7%
CRAWFORD *	89,130	20,000	395,058	573,700	40.8%
DELTA *	0	0	111,059	1,119,775	9.0%
DICKINSON *	11,100	0	82,200	917,030	8.2%
EATON	113,844	151,610	455,054	3,374,455	11.9%
EMMET *	0	0	9,689	2,743,655	0.4%
GENESEE	212,452	0	1,352,428	10,135,719	11.8%
GLADWIN	2,900	2,460	124,360	944,939	11.6%
GOGEBIC *	330	302	44,759	485,894	8.4%
GRAND TRAVERSE *	169,600	51,400	373,665	4,392,057	7.8%
GRATIOT *	135,000	10,000	349,600	925,651	27.4%
HILLSDALE	42,919	42,500	176,528	1,322,430	11.8%
HOUGHTON	2,329	9,898	227,877	737,243	23.6%
HURON*	0	0	135,642	1,659,939	7.6%
INGHAM *	n.a.	n.a.	n.a.	7,585,806	n.a.
IONIA	3,900	0	218,537	1,502,761	12.7%
IOSCO*	3,621	12,356	238,825	1,152,186	17.2%
IRON*	0	0	42,326	464,767	8.3%
ISABELLA	0	0	0	1,617,447	0.0%
JACKSON*	200,000	5,000	544,000	4,373,177	11.1%
KALAMAZOO	131,908	105,100	2,862,472	8,109,538	26.1%
KALKASKA *	100,000	55,000	451,000	730,839	38.2%
KENT *	1,840,872	158,010	2,706,893	21,007,923	11.4%
KEWEENAW *	361	60,227	147,916	124,325	54.3%

Exhibit 19 (Continued)

<u>County</u>	<u>Personal</u>		<u>Exempt</u>	<u>Total Taxable</u>	<u>Exempt</u>
	<u>Property</u>	<u>Other</u>	<u>Total</u>	<u>Value Real and</u> <u>Personal Property</u>	<u>as a Percent</u> <u>of Taxable</u>
LAKE	\$725	\$5,677	\$165,367	\$514,584	24.3%
LAPEER*	184,151	0	443,527	2,845,482	13.5%
LEELANAU	0	2,092	19,624	2,351,626	0.8%
LENAWEE *	0	21,000	362,400	3,340,339	9.8%
LIVINGSTON *	0	14,596	352,424	7,953,593	4.2%
LUCE *	650	1,749	17,321	186,764	8.5%
MACKINAC *	7,817	2,164	131,295	901,002	12.7%
MACOMB	190,003	489,417	2,298,315	27,895,119	7.6%
MANISTEE	47,900	52,700	365,400	1,100,322	24.9%
MARQUETTE	0	240,000	572,000	1,927,442	22.9%
MASON *	28,897	51,789	519,164	1,529,908	25.3%
MECOSTA *	25,000	22,590	419,204	1,276,433	24.7%
MENOMINEE *	0	4,431	80,196	653,693	10.9%
MIDLAND *	154,540	110,240	439,605	3,534,155	11.1%
MISSAUKEE	0	0	26,504	520,374	4.8%
MONROE	0	8,398	268,620	5,785,534	4.4%
MONTCALM	89,554	0	89,554	1,696,996	5.0%
MONTMORENCY *	0	175,000	364,000	490,878	42.6%
MUSKEGON	567,395	0	1,076,228	4,564,761	19.1%
NEWAYGO	n.a.	n.a.	0	1,401,545	0.0%
OAKLAND	84,580	n.a.	84,580	55,081,708	0.2%
OCEANA *	4,100	0	43,900	1,077,794	3.9%
OGEMAW *	0	2,844	36,331	821,988	4.2%
ONTONAGON	32,647	134,297	439,528	253,310	63.4%
OSCEOLA	173,266	6,104	210,283	688,813	23.4%
OSCODA *	7,365	7,552	446,185	363,858	55.1%
OTSEGO *	45,800	3,665	160,066	1,201,805	11.8%
OTTAWA	0	827,885	2,008,219	9,612,698	17.3%
PRESQUE ISLE	n.a.	n.a.	149,226	656,124	18.5%
ROSCOMMON*	8,400	9,514	285,832	1,354,398	17.4%
SAGINAW	1,594,571	245,000	2,912,802	5,096,743	36.4%
SAINT CLAIR*	129,346	178,053	850,371	5,893,316	12.6%
SAINT JOSEPH	n.a.	n.a.	0	1,868,080	0.0%
SANILAC	n.a.	n.a.	0	1,394,763	0.0%
SCHOOLCRAFT	n.a.	n.a.	48,568	341,070	12.5%
SHIAWASSEE	12,000	0	198,300	1,783,944	10.0%
TUSCOLA*	0	0	0	1,436,954	0.0%
VAN BUREN	1,500	0	22,500	2,961,421	0.8%
WASHTENAW *	774	647	12,384	14,496,599	0.1%
WEXFORD	n.a.	n.a.	0	975,045	0.0%
TOTAL	\$7,428,614	\$3,499,713	\$31,133,970	\$282,575,978	9.9%

Note: Wayne and Ingham Counties are not in totals. 2010 taxable value for Wayne County was \$46.6 billion.

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

** Numbers are for a subset of the local units in the county.

Exhibit 20
General Property Tax – Estimated Exempt Acreage by County, 2010

<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	3,202
ALPENA	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	1,326
ARENAC	240	LUCE *	2,300
BARAGA*	7,740	MACKINAC *	240
BARRY *	7,000	MACOMB	5,234
BAY*	3,650	MANISTEE	4,400
BENZIE *	554	MARQUETTE	410
BERRIEN *	6,812	MASON*	620
BRANCH *	425	MECOSTA *	2,015
CALHOUN *	5,670	MENOMINEE *	141
CASS *	60	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	1,440
CHEBOYGAN *	10,950	MONROE	3,200
CHIPPEWA *	1,500	MONTCALM	7,000
CLARE *	172	MONTMORENCY *	200
CLINTON *	100	MUSKEGON	2,100
CRAWFORD *	1,619	NEWAYGO *	6,800
DELTA *	700	OAKLAND	4,210
DICKINSON *	400	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 *	4,278	OTTAWA	5,900
GRATIOT *	300	PRESQUE ISLE *	92,659
HILLSDALE	1,975	ROSCOMMON *	1,398
HOUGHTON	2,944	SAGINAW	4,400
HURON*	341	SAINT CLAIR *	11,972
INGHAM	n.a.	SAINT JOSEPH	8,712
IONIA	544	SANILAC *	0
IOSCO *	33,847	SCHOOLCRAFT *	n.a.
IRON *	580	SHIAWASSEE	300
ISABELLA *	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN	4,530
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA *	340	WEXFORD *	800
KENT *	3,200		
KEWEENAW*	3,670	TOTAL	384,199

* Based on a previous year's survey.

** Numbers are for a subset of the local units in the county.

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 2010 state share of this tax totaled \$2.8 million indicating \$4.2 million in total state and local collections. Exhibit 21 only shows the county share of the tax.

FY 2012 Estimate

Mobile Home Tax Expenditure

\$52,100,000

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.

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 \$23.0 million in 2009 (see Exhibit 21).

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 \$138.0 million in FY 2012.

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 \$15.3 million in 2009 (see Exhibit 21).

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 2009, city income taxes totaled \$395.5 million (see Exhibit 23). Currently, 22 cities levy a city income tax. 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 2012 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.

Exhibit 21
Miscellaneous Local Taxes Kept by Local Units, 2009

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
ALCONA	\$0	\$84	\$22,814
ALGER	0	0	16,457
ALLEGAN*	0	25,902	316,678
ALPENA	0	672	43,869
ANTRIM	0	258	93,295
ARENAC	0	1,241	23,375
BARAGA	0	0	12,665
BARRY	0	5,178	115,985
BAY	0	11,349	134,004
BENZIE	0	127	74,640
BERRIEN	0	18,145	477,387
BRANCH	0	4,602	93,194
CALHOUN	90,220	15,564	326,283
CASS	0	4,648	118,888
CHARLEVOIX	0	6,298	132,576
CHEBOYGAN	0	974	66,175
CHIPPEWA	0	3,293	64,447
CLARE	0	2,202	53,343
CLINTON	0	8,959	159,861
CRAWFORD	0	0	30,867
DELTA	0	3,750	55,755
DICKINSON	0	2,044	36,372
EATON	0	10,072	346,854
EMMET	0	2,517	213,061
GENESEE	1,017,920	57,094	724,748
GLADWIN	0	354	46,213
GOGEBIC	0	0	55,303
GRAND TRAVERSE	0	9,525	333,484
GRATIOT	0	4,206	76,206
HILLSDALE*	0	2,048	100,739
HOUGHTON	0	216	58,667
HURON	0	2,705	71,951
INGHAM	1,851,375	15,119	623,274
IONIA	0	7,885	93,977
IOSCO	0	459	41,985
IRON	0	255	21,336
ISABELLA	0	4,288	98,048
JACKSON	0	21,235	235,611
KALAMAZOO	1,806,650	24,795	573,040
KALKASKA	0	308	34,486
KENT	4,684,675	52,322	1,567,786
KEWEENAW	0	0	8,059

Exhibit 21 (Continued)

<u>County</u>	<u>Accommodations</u>	<u>Mobile Home (County Share)</u>	<u>Real Estate Prop. Trans.</u>
LAKE	\$0	\$0	\$24,458
LAPEER	0	11,637	175,765
LEELANAU*	0	536	256,811
LENAWEE	0	10,874	171,141
LIVINGSTON	0	18,058	613,729
LUCE	0	0	12,785
MACKINAC	0	0	34,170
MACOMB	0	74,315	2,285,210
MANISTEE*	0	441	61,876
MARQUETTE	0	2,854	141,788
MASON	0	2,499	86,994
MECOSTA	0	2,008	70,991
MENOMINEE	0	942	35,430
MIDLAND	0	5,007	223,444
MISSAUKEE	0	104	23,894
MONROE	0	31,246	270,310
MONTCALM	0	4,811	93,029
MONTMORENCY	0	80	18,565
MUSKEGON	842,439	19,549	282,153
NEWAYGO	0	4,314	81,680
OAKLAND	0	85,363	3,948,897
OCEANA	0	1,755	68,440
OGEMAW*	0	288	4,073
ONTONAGON	0	0	75,948
OSCEOLA	0	381	28,657
OSCODA	0	44	15,679
OTSEGO	0	1,704	56,985
OTTAWA	0	29,990	619,800
PRESQUE ISLE	0	354	24,588
ROSCOMMON	0	1,493	73,077
SAGINAW	2,013,676	13,493	240,215
SAINT CLAIR	0	25,729	389,382
SAINT JOSEPH	0	6,412	109,400
SANILAC	0	6,224	86,179
SCHOOLCRAFT	0	26	24,091
SHIAWASSEE	0	10,878	86,517
TUSCOLA	0	3,354	70,731
VAN BUREN	0	5,385	161,294
WASHTENAW	3,039,774	47,904	1,084,417
WAYNE	0	66,683	2,994,747
WEXFORD	0	8,115	63,212
TOTAL	\$15,346,729	\$835,533	\$22,984,306

* Figures carried forward from a previous year.

FY 2012 Estimate

Nonresident Reduced Rate

\$152,000,000

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

\$12,700,000

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 one million or more. Currently, Detroit is the only Michigan city 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 \$46.7 million in 2009.

Exhibit 22
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2009

<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	3,631	\$21,786	3,518	\$10,554
Battle Creek	34,098	\$255,735	41,383	\$155,186
Big Rapids	3,122	\$18,732	14,291	\$42,873
Detroit*	240,145	\$3,602,175	290,010	\$2,175,075
Flint*	44,670	\$268,020	81,266	\$243,798
Grand Rapids	137,863	\$1,344,164	157,771	\$769,134
Grayling	885	\$26,550	4,353	\$65,295
Hamtramck	20,052	\$120,312	6,600	\$19,800
Highland Park	5,952	\$71,424	5,300	\$31,800
Hudson	1,141	\$11,410	1,387	\$6,935
Ionia*	4,822	\$33,754	13,301	\$46,554
Jackson	49,709	\$298,254	29,485	\$88,455
Lansing	65,704	\$394,224	97,256	\$291,768
Lapeer	6,397	\$38,382	16,564	\$49,692
Muskegon	14,453	\$86,718	31,176	\$93,528
Muskegon Heights	1,783	\$10,698	5,010	\$15,030
Pontiac*	15,579	\$93,474	55,880	\$167,640
Port Huron	20,342	\$122,052	25,168	\$75,504
Portland	4,332	\$43,320	2,156	\$10,780
Saginaw	26,047	\$293,029	40,762	\$229,286
Springfield*	2,961	\$22,208	3,988	\$14,955
Walker	18,675	\$140,063	34,731	\$130,241
TOTAL	722,363	\$7,316,483	961,356	\$4,733,883

* Based on a previous year's survey.

**Exhibit 23
City Tax Rates and Exemption Allowances, 2009**

<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	\$974
Battle Creek	1.00%	0.50%	1.00%	750	11,606
Big Rapids	1.00%	0.50%	1.00%	600	1,717
Detroit	2.50%	1.25%	2.50%	600	227,770
Flint	1.00%	0.50%	1.00%	600	14,512
Grand Rapids	1.30%	0.65%	1.30%	750	51,279
Grayling	1.00%	0.50%	1.00%	3,000	331
Hamtramck	1.00%	0.50%	1.00%	600	2,189
Highland Park	2.00%	1.00%	2.00%	600	2,019
Hudson	1.00%	0.50%	1.00%	1,000	128
Ionia	1.00%	0.50%	1.00%	700	1,325
Jackson	1.00%	0.50%	1.00%	600	6,943
Lansing	1.00%	0.50%	1.00%	600	28,743
Lapeer	1.00%	0.50%	1.00%	600	2,268
Muskegon	1.00%	0.50%	1.00%	600	6,655
Muskegon Heights	1.00%	0.50%	1.00%	600	720
Pontiac	1.00%	0.50%	1.00%	600	9,624
Port Huron	1.00%	0.50%	1.00%	600	5,508
Portland	1.00%	0.50%	1.00%	1,000	739
Saginaw	1.50%	0.75%	1.50%	750	12,175
Springfield	1.00%	0.50%	1.00%	750	674
Walker	1.00%	0.50%	1.00%	750	7,551
TOTAL					\$395,450