Executive Budget Appendix on Tax Credits, Deductions, and Exemptions

Fiscal Years 2014 and 2015

State of Michigan
Rick Snyder, Governor

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The public act summaries in this report are intended to be brief overviews of the legislation enacted in 2012. They are not intended to provide any tax guidance and may not be relied upon as the official interpretation or position of the Michigan Department of Treasury.

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

Andy Dillon
State Treasurer
Department of Treasury

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

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

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

EXECUTIVE SUMMARY

Fiscal Years 2014 and 2015

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 2.8 percent between fiscal year (FY) 2014 and FY 2015, from $32.07 billion to $32.97 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 $927.9 million to $940.3 million from FY 2014 to FY 2015. The estimates under the business privilege tax category reflect the credits, deductions, and exemptions in place under the corporate income tax and the most significant certificated credits which may be claimed under the Michigan business tax.

Consumption tax expenditures are predicted to increase 3.6 percent between FY 2014 and FY 2015, from $15,616.1 million to $16,178.1 million. Growth in tax expenditures related to health care services, food for home use, and industrial processing 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 $8,038.5 million in FY 2014 to $8,276.0 million in FY 2015, a 3.0 percent increase. In recent tax years the income tax adjustment for income attributable to another state has been volatile, resulting in volatility of the estimated income tax expenditure.

Local tax expenditures are predicted to increase 1.1 percent between FY 2014 and FY 2015, rising from $7,440.1 million to $7,525.4 million. The value of local tax exemptions will rise as property values stabilize and begin to increase.

Transportation tax expenditures are predicted to decrease by a very small amount between FY 2014 and FY 2015, from $48.4 million to $48.3 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 the corporate income tax credit for small firms all shift the relative tax burden. These tax expenditures are designed to reduce the tax burden on low-income individuals and businesses. Second, tax expenditures create an incentive for individuals or firms to change their behavior. The earned income tax credit, at both the federal and state levels, is intended to increase work effort and attachment to the labor force and is a good example of a tax expenditure designed to influence taxpayer behavior.

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

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

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

Technical Issues

State Versus Federal Tax Expenditures

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

State Versus Local Tax Expenditures

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

Income Tax Personal Exemption

For tax year 2012, individual Michigan taxpayers could claim a $3,763 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.

<u>Industrial Processing Exemption From Sales Tax</u>

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) 2014 and FY 2015 are based on the most recent data available. Tax year 2011 income tax data (returns processed in the spring of 2012) are used, as are 2011 property and sales tax data, and tax year 2011 Michigan Business Tax (MBT) data. Most estimates of the cost (in terms of foregone revenue) of credits, deductions, exemptions, and other reductions are based on actual tax return data. However, many exemptions are not reported on tax returns. In these instances, tax expenditure estimates were derived from other sources.

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

> **Assumption 1: The elimination of a particular tax expenditure does not alter economic behavior.**
>
> In many instances, tax expenditures are specifically designed to provide incentives for people and businesses to behave in a certain manner. Elimination of tax expenditures would most likely alter their behavior. For example, if the sales tax exemption for food were eliminated, the final price that consumers pay for food would increase and food purchases would decline. In this case, the elimination of the tax expenditure would be similar to a price increase. This drop in food purchases offsets some of the revenue gain from eliminating the exemption.
>
> **Assumption 2: Each tax expenditure is independent.**
>
> The repeal of certain tax expenditure provisions can increase or decrease the revenue losses associated with other provisions that are kept in place. For example, reducing or

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

Total tax expenditures are projected to increase from $32.071 billion in FY 2014 to $32.968 billion in FY 2015, a 2.8 percent increase (see Exhibit 1). The overall increase in tax expenditures was concentrate in consumption and individual income tax expenditures.

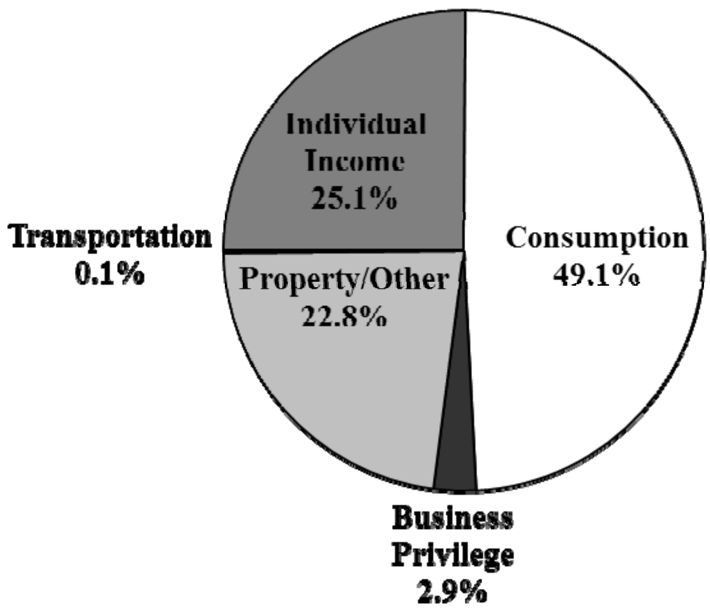
Exhibit 1
Total Tax Expenditures, FY 2014 and FY 2015

Tax Category	FY 2014 (000)	FY 2015 (000)	Change FY 2014 - FY 2015 (000)
Business Privilege	$927,900	$940,300	$12,400
Consumption	15,616,053	16,178,144	562,091
Individual Income	8,038,463	8,276,033	237,570
Property	7,264,060	7,347,650	83,590
Other Local (City Income)	176,022	177,756	1,734
Transportation	48,359	48,349	-10
TOTAL	$32,070,857	$32,968,232	$897,375

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 2015, consumption tax expenditures comprise 49.1 percent of total tax expenditures, while income tax expenditures comprise 25.1 percent and property and other local taxes comprise 22.8 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 2015 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2015 Tax Expenditures and Projected Revenue
(millions of dollars)

Tax Category	Tax Expenditure	Projected Revenues*	Percent of Revenues
Business Privilege			
Oil and Gas Severance	$7.6	$57.0	13.3%
Corporate Income/MBT	888.8	445.8	199.4%
Consumption			
Total Alcohol	0.1	186.8	0.0%
Cigarette and Tobacco	19.5	920.8	2.1%
Sales and Use	16,158.6	8,977.1	180.0%
Individual Income Tax	5,479.1	8,572.6	63.9%
Transportation			
Aviation Fuel	3.6	5.4	66.0%
Gasoline	26.9	809.0	3.3%
Diesel Fuel	5.5	131.5	4.2%
Motor Vehicle Registration	11.6	920.0	1.3%
City Income Tax	177.8	445.0	39.9%
TOTAL	$22,779.0	$21,471.0	106.1%

*From Consensus Revenue Estimating Conference, May 2013. City income taxes are not a consensus estimate.

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

Exhibit 4
Business Privilege Tax Expenditures

Tax or Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Insurance Company		
Disability Insurance Exclusion	$9,600	$10,100
Michigan Association and Facilities Credit	28,000	$29,400
Michigan Examination Fees Credit	3,000	3,200
Supplemental Workers' Compensation	1,200	1,200
SUBTOTAL	$41,800	$43,900
Oil and Gas Severance Tax		
Marginal Wells	$5,000	$5,300
Public Land	2,200	2,300
SUBTOTAL	$7,200	$7,600
Corporate Income Tax		
Foreign Dividends Income Exclusion	$229,000	$238,400
Government Securities' Income Exclusion	900	900
Small Business Alternate Tax Credit	11,000	11,500
SUBTOTAL	$240,900	$250,800
Michigan Business Tax Certificated Credits		
Brownfield Redevelopment Credit	40,000	32,000
Film Credits	5,000	0
Michigan Economic Growth Authority (MEGA)	245,000	296,000
MEGA Photovoltaic Technology Credit	21,000	14,000
MEGA Polycrystaline Silicon Manufacturing	26,000	29,000
MEGA Vehicle Battery Credit	285,000	251,000
Other Certificated Credits	16,000	16,000
SUBTOTAL	$638,000	$638,000
TOTAL	$927,900	$940,300

Exhibit 5
Consumption Tax Expenditures

Tax or Tax Expenditure	FY 2014 (000)	FY 2015 (000)
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	13,800	13,510
Sales on Military Bases and Reservations	5,601	5,545
SUBTOTAL	$19,801	$19,455
Sales and Use Tax Expenditures		
Air and Water Pollution	$55,000	$57,000
Aircraft Parts	7,110	7,320
Bad Debts	39,100	40,500
Cargo Aircraft	22,940	22,600
Church Construction	1,977	2,017
Church Cars	2,590	2,680
Collection Fee	47,400	49,100
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	201	201
Employee Meals	19,010	19,700
Enterprise Zone Credit	n.a.	n.a.
Food	1,256,760	1,302,130
Food for Students	17,100	17,700
Government or Red Cross	206,940	214,340
Gratuity and Tips	73,450	76,100
Horticultural and Agricultural Products	329,810	356,190
Imported Property from Other States	1,660	1,690

Exhibit 5 (Continued)

Tax or Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Industrial Processing	$1,213,000	$1,274,000
Interstate Communications	7,000	6,800
Interstate Trucks and Trailers	29,290	30,340
Investment Coins	4,790	5,030
Isolated Sales	n.a.	n.a.
Military PX Sales	612	581
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Newspapers, Periodicals, and Films	103,240	105,100
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	1,720	1,770
Nonprofit Organizations	263,780	273,300
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	69,500	71,590
Prescription Drugs	555,660	589,140
Radio and TV	4,400	4,400
Rail Rolling Stock	1,840	1,910
Residential Utilities	164,000	167,000
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	60,800	61,400
Services (Including Nonprofits)	10,918,960	11,278,950
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	14,810	15,340
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	37,650	38,400
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	21,837	22,055
SUBTOTAL	$15,596,162	$16,158,599
TOTAL	$15,616,053	$16,178,144

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

Exhibit 6
Individual Income Tax Expenditures

Tax or Tax Expenditure	FY 2014 (000)	FY 2015 (000)
State Income Tax		
Adjustments to Income (except military)	$214,107	$218,569
College Savings Accounts	11,259	12,070
Dependent Exemption	17,165	17,336
Disabled Veteran Exemption	200	200
Earned Income Credit	115,500	118,900
Farmland Credit	44,152	45,918
Historic Preservation Credit	1,390	1,544
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	147	150
Homestead Property Tax Credit	566,006	566,346
Income Attributable to Another State	2,209,991	2,298,390
Income Tax Paid to Other State Credit	55,897	58,329
Military Pay	29,307	30,728
Pension and Retirement Benefits Deduction	483,129	484,184
Personal Exemption	1,241,047	1,277,787
Renaissance Zones	2,538	2,411
Senior Investment Income Deduction	14,596	14,606
Senior Standard Deduction	7,300	14,700
Social Security Benefits	266,126	276,771
Special Exemption	9,752	9,791
State and Local Income Tax Refunds	20,411	20,615
Tribal Tax Agreements	n.a.	n.a.
U.S. Government Bond Interest Deduction	9,689	9,786
TOTAL STATE	$5,319,709	$5,479,131
Federal Adjustments		
Accelerated Depreciation	$104,905	$108,052
Employer Contributions to Insurance	890,811	917,535
Employer Pension Plans	638,188	657,334
Federal Adjustments to Income	54,338	55,968
Fellowships and Scholarships	15,543	16,009
Gain on Sale of Primary Residence	$170,624	$172,330
Income Maintenance Benefits	3,648	3,757
Individual Retirement Accounts	263,279	271,177
Interest on Life Insurance Savings	119,972	123,571

Exhibit 6 (Continued)

Tax or Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Federal Adjustments (continued)		
Medical Savings Account	9,559	9,846
Railroad Retirement Benefits	1,222	1,259
Social Security Benefits	331,414	341,356
Student Loan Deduction	4,376	4,507
Veterans' Benefits	61,771	63,624
Workers' Compensation	49,104	50,577
TOTAL FEDERAL	$2,718,754	$2,796,902
TOTAL STATE AND FEDERAL	$8,038,463	$8,276,033

Exhibit 7
Transportation Tax Expenditures

Tax or Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	$315	$317
Interstate Flight Refund	3,200	3,248
Marine Vessel Exemption	740	740
SUBTOTAL	$4,255	$4,305
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	$5,450	$5,530
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	12,520	12,460
Fuel for Off-Road Use	1,100	1,100
Municipal Franchise Vehicles	430	420
Public Vehicles	13,090	12,960
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	$32,590	$32,470
Motor Vehicles Registration Fee		
Disabled Veterans' Vehicles	$550	$560
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	10,950	11,000
SUBTOTAL	$11,500	$11,560
Watercraft Registration Fee		
Publicly-Owned Vehicle	$14	$14
TOTAL	$48,359	$48,349

Exhibit 8
Local Property and Other Local Tax Expenditures

Tax or Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Property and Other Local Tax Expenditures		
Agriculture Transfers	$34,300	$34,600
Air and Water Pollution Control	130,000	130,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	90	70
Enterprise Zone Credit	0	0
Fairground Property	n.a.	n.a.
Homestead Exemption	3,070,000	3,100,700
Homestead Exemption for Farm Property	160,000	161,600
Industrial Facilities Development	228,800	233,400
Mobile Homes	54,200	55,300
Neighborhood Enterprise Zones	22,500	23,000
Next Energy Exemption	3,600	3,800
Obsolete Property Rehabilitation	11,500	11,500
Personal Property - Indust./Commercial Ad Valorem	368,000	373,500
Personal Property - Industrial Facilities	68,500	69,900
Poverty Exemption	8,300	8,500
Railroad Right-of-Way/Broadband Credit	51,000	51,600
Renaissance Zones	86,000	87,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,796,000	1,823,000
Tax Increment Financing	280,000	280,000
Taxable Value Cap	890,000	898,900
Water Softeners	1,270	1,280
SUBTOTAL	$7,264,060	$7,347,650
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	$163,422	$165,056
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	12,600	12,700
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	$176,022	$177,756
TOTAL	$7,440,082	$7,525,406

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 2015

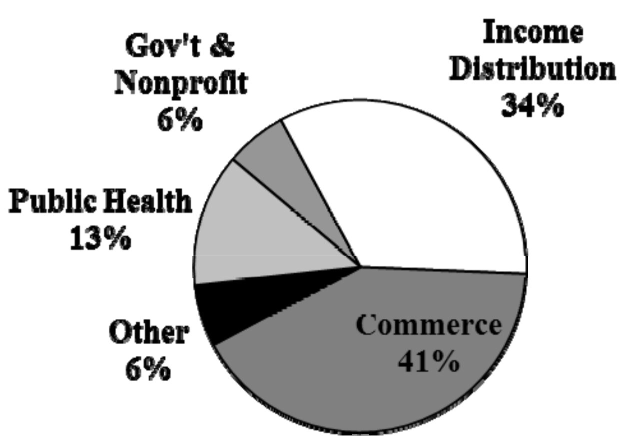


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources) for Selected Spending Categories, FY 2013

Spending Category	FY 2014 Tax Expenditure (000)	FY 2013 Direct Expenditure (000)	Total (000)	Percent Tax Expenditure
Agriculture	$373,962	$65,058	$439,020	85.2%
Commerce (LARA)	11,963,271	376,203	12,339,474	97.0%
Higher Education	521,142	1,302,194	1,823,336	28.6%
Income Distribution (DHS)	7,151,766	1,097,045	8,248,811	86.7%
Military Affairs	98,441	68,660	167,101	58.9%
Natural Resources	55,000	522,580	577,580	9.5%
Public (Community) Health	4,033,708	4,974,796	9,008,505	44.8%
Transportation	51,481	2,188,645	2,240,126	2.3%
TOTAL	$24,248,771	$10,595,182	$34,843,953	69.6%

Note: FY 2013 expenditure figures from *FY 2012-2013 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

Budget Category	FY 2014 (000)	FY 2015 (000)
Agriculture	$648,362	$679,209
Commerce	13,301,241	13,689,954
Education	985,142	1,008,259
Government and Nonprofit Organizations	1,941,026	1,981,249
Income Distribution	10,826,366	11,053,219
Military Affairs	98,441	101,648
Natural Resources	185,090	187,070
Public Health	4,033,708	4,215,715
Transportation	51,481	51,909
TOTAL	$32,070,857	$32,968,232

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 2014 (000)	FY 2015 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	$34,300	$34,600
Homestead Exemption for Farm Property	160,000	161,600
Taxable Value Cap	80,100	80,901
Income Tax		
Farmland Development Credit (PA 116)	44,152	45,918
Sales and Use Taxes		
Horticultural or Agricultural Products	329,810	356,190
TOTAL	$648,362	$679,209
Commerce		
Alcoholic Beverage Taxes		
Small Brewer's Credit	$90	$90
Tobacco Products Tax		
Bad Debt Deduction	400	400
Licensee Expenses	13,800	13,510
Income Tax		
Accelerated Depreciation	104,905	108,052
Income Attributable to Another State	2,209,991	2,298,390
Renaissance Zone Credit	2,538	2,411
Insurance Company Retaliatory Tax		
Disability Insurance Exclusion	9,600	10,100
Michigan Association and Facilities Credit	28,000	29,400
Michigan Examination Fees Credit	3,000	3,200
Supplemental Workers' Compensation Credits	1,200	1,200
Corporate Income Tax		
Foreign Dividends Income Exclusion	229,000	238,400
Government Securities' Income Exclusion	900	900
Small Business Alternate Tax Credit	11,000	11,500
Michigan Business Tax		
Brownfield Redevelopment Credit	40,000	32,000
Film Credits	5,000	0
Michigan Economic Growth Authority (MEGA)	245,000	296,000
MEGA Photovoltaic Technology Credit	21,000	14,000
MEGA Polycrystaline Silicon Manufacturing	26,000	29,000

Tax/Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Commerce (Continued)		
MEGA Vehicle Battery Credit	$285,000	$251,000
Other Certificated Credits	16,000	16,000
Oil and Gas Severance Tax		
Marginal Wells	5,000	5,300
Property Tax		
Broadband Investment Credit	25,000	25,300
Enterprise Zone	0	0
Industrial Facilities Development	228,800	233,400
Mobile Homes	54,200	55,300
Neighborhood Enterprise Zones	22,500	23,000
Next Energy Exemption	3,600	3,800
Obsolete Property Rehabilitation	11,500	11,500
Personal Property - Indust./Commercial Ad Valorem	368,000	373,500
Personal Property - Industrial Facilities	68,500	69,900
Renaissance Zones	86,000	87,000
Tax Increment Financing	280,000	280,000
Taxable Value Cap	213,600	215,736
Water Softeners	1,270	1,280
Sales and Use Taxes		
Aircraft Parts	7,110	7,320
Bad Debts	39,100	40,500
Cargo Aircraft	22,940	22,600
Collection Fee	47,400	49,100
Commercial Domestic Aircraft	4,000	4,000
Communication and Telephone Exemption	37,000	37,000
Employee Meals	19,010	19,700
Gratuities and Tips	73,450	76,100
Imported Property from Other States	1,660	1,690
Industrial Processing	1,213,000	1,274,000
Interstate Telecommunications	7,000	6,800
Interstate Trucks and Trailers	29,290	30,340
Investment Coins	4,790	5,030
Newspapers, Periodicals, and Films	103,240	105,100
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Water	60,800	61,400
Services (except education, health, and nonprofits)	6,931,260	7,127,410
Telephone Services	14,810	15,340

Tax/Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Commerce (Continued)		
Vehicle and Aircraft Transfers	$37,650	$38,400
Vending Machines	21,837	22,055
TOTAL	$13,301,241	$13,689,954
Education		
Income Tax		
College Savings Account	$11,259	$12,070
Fellowships and Scholarships	15,543	16,009
Higher Education/Public Contribution Credit	$0	$0
Property Tax		
Exempt Public Education Property	464,000	471,000
Sales Tax		
Services	494,340	509,180
TOTAL	$985,142	$1,008,259
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	$315	$317
Income Tax		
Historic Preservation Credit	1,390	1,544
U.S. Government Bond Interest Deduction	9,689	9,786
Motor Fuel Taxes		
Public Vehicles	13,090	12,960
Motor Vehicle Weight Tax		
Public and Nonprofit Vehicles	10,950	11,000
Oil and Gas Severance Tax		
Public Land	2,200	2,300
Property Tax		
Tax Exempt Property	1,332,000	1,352,000
Sales and Use Taxes		
Church Cars	2,590	2,680
Church Construction	1,977	2,017
Government or Red Cross	206,940	214,340
Nonprofit Organizations	263,780	273,300
Services	96,091	98,991
Watercraft Registration Fee		
Publicly Owned Watercraft	14	14
TOTAL	$1,941,026	$1,981,249

Tax/Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	$163,422	$165,056
Personal Exemption	12,600	12,700
General Property Tax		
Homestead Exemption	3,070,000	3,100,700
Poverty Exemption	8,300	8,500
Taxable Value Cap	596,300	602,263
Income Tax		
Adjustments to Income (gains/losses and other)	214,107	218,569
Adjustments to Income (federal)	54,338	55,968
Dependent Exemption	17,165	17,336
Earned Income Tax Credit	115,500	118,900
Employer Contributions to Health and Life Insurance	890,811	917,535
Employer Pension Plans	638,188	657,334
Gain on Sale of Primary Residence	170,624	172,330
Home Heating Assistance Credit	147	150
Homestead Property Tax Credit (excluding veterans)	565,606	565,936
Income Maintenance Benefits	3,648	3,757
Individual Retirement Account	263,279	271,177
Interest on Life Insurance Savings	119,972	123,571
Other State Tax Credit	55,897	58,329
Pension and Retirement Benefits Deduction	483,129	484,184
Personal Exemption	1,241,047	1,277,787
Railroad Retirement Benefits	1,222	1,259
Senior Investment Income Deduction	14,596	14,606
Senior Special Deduction	7,300	14,700
Social Security Benefits (federal exclusion)	331,414	341,356
Social Security Benefits (in federal AGI)	266,126	276,771
Special Exemption	9,752	9,791
State and Local Income Tax Refunds	20,411	20,615
Student Loan Deduction	4,376	4,507
Workers' Compensation	49,104	50,577
Sales and Use Taxes		
Donated Vehicles	125	125
Food	1,256,760	1,302,130
Food for Students	17,100	17,700
Residential Utilities	164,000	167,000
TOTAL	$10,826,366	$11,053,219

Tax/Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	$5,601	$5,545
Income Tax		
Disabled Veteran Exemption	200	200
Military Pay	29,307	30,728
Veterans' Benefits	61,771	63,624
Veterans' Property Tax Credit	400	410
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	550	560
Sales and Use Taxes		
Military Post-Exchange Sales	612	581
TOTAL	$98,441	$101,648
Natural Resources		
Property Tax		
Air and Water Pollution	$130,000	$130,000
Energy Conservation Devices	90	70
Sales and Use Taxes		
Air and Water Pollution	55,000	57,000
TOTAL	$185,090	$187,070
Public Health		
Income Tax		
Medical Care Savings	$9,559	$9,846
Sales and Use Taxes		
Medical Services	3,397,269	3,543,369
Nonprofit Hospital Construction	1,720	1,770
Ophthalmic and Orthopedic Products	69,500	71,590
Prescription Drugs	$555,660	$589,140
TOTAL	$4,033,708	$4,215,715
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	$3,200	$3,248
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,450	5,530
Evaporation and Loss Allowance	12,520	12,460
Fuel for Off-Road Use	1,100	1,100

Tax/Tax Expenditure	FY 2014 (000)	FY 2015 (000)
Transportation (Continued)		
Marine Vessel Fuel	$740	$740
Municipal Franchise Vehicles	430	420
Sales and Use Taxes		
Driver Training	201	201
Rail Rolling Stock	1,840	1,910
Utility Property Tax		
Railroad Right-of-Way	26,000	26,300
TOTAL	$51,481	$51,909

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and corporate income expenditures. Business privilege tax expenditures are projected to increase from $927.9 million in FY 2014 to $940.3 million in FY 2015. The reduction of tax credits and deductions under the corporate income tax results in much smaller tax expenditures than under the Michigan Business Tax (MBT).

Estimate Reliability	(2)	Small Business Alternative Tax Rate Credit
	(3)	Other Corporate Income Tax and MBT Tax Expenditures

This year's report includes tax expenditures for the corporate income tax, which replaced the MBT for most corporate taxpayers effective January 1, 2012. A big difference between the corporate income tax and the MBT is that business entities other than traditional corporations (sole proprietorships, partnerships, S-corporations, and other flow-through entities) are not taxed under the corporate tax. The income from flow-through entities is taxable to the owners under the individual income tax. Other tax expenditure estimates from business privilege taxes were based on 2011 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 70 of 2012 amended the Income Tax Act to allow a member of a unitary business group that has a certificated credit available under Sections 431 (MEGA) and 434(2) (plug-in traction battery packs) and (5) (integrative cell manufacturing facility) of the Michigan Business Tax to not file a combined return but elect to file a separate return and pay the tax under MBT.

Public Act 217 of 2012 amended the Income Tax Act to allow a corporate owner of a flow-through entity to exempt that flow-through entity from the withholding requirements by filing an exemption certificate with the Department of Treasury and providing a copy to the flow-through entity. This Act also provides a withholding exemption for a flow-through entity on any member that elects to be taxed under the Michigan Business Tax.

Public Act 405 of 2012 amended the Michigan Business Tax Act to direct all money collected under the MBT to the General Fund, beginning with the fiscal year ending September 30, 2012. Previously, a portion of the revenue from the MBT was directed to the School Aid Fund.

Public Act 414 of 2012 amended the Income Tax Act to eliminate both the individual and corporate income taxes on income derived from minerals, effective for the 2013 tax year. See Public Act 410 on 2012 on page 70.

Public Act 475 of 2012 amended the Michigan Business Tax Act to extend the allowable time frame for assigning a historic preservation credit and allow for a previously assigned credit to be reassigned under certain circumstances.

Public Act 601 of 2012 amended the Michigan Business Tax Act to allow construction contractors to claim an expanded deduction for purchases from other firms when determining the gross receipts tax base under the MBT, if the contractor did not claim the alternate tax credit, whether or not the construction contractor was eligible for the credit.

Public Act 605 of 2012 amended the Michigan Business Tax Act to make changes to the definitions of a corporate officer and earnings from self-employment, allow a taxpayer that acquires assets from another corporation to deduct business losses from the selling corporation, and refine the definition of a sale of tangible personal property when the property is stored in Michigan for a limited period of time prior to the property leaving the state. The Public Act also amended the historic preservation credit to provide that a qualified assignment of a credit includes an assignment made within the 12 months immediately succeeding the tax year in which the certificate of completed rehabilitation is issued.

Insurance Company Tax

Effective January 1, 2012, the MBT tax on Michigan insurance premiums was replaced by a 1.25 percent tax in the Income Tax Act. Foreign companies are also subject to a retaliatory tax, which requires them to pay the same tax that a Michigan-based insurer would have to pay in the firm's home state. Foreign insurers pay the premiums tax or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is $401.5 million for FY 2015; revenue goes to the State General Fund.

	FY 2015 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.	$10,100,000
Michigan Association and Facilities Credit 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.	$29,400,000

FY 2015 Estimate

Michigan Examination Fees Credit $3,200,000

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 Single Business Tax (SBT) credit, firms were reimbursed through the appropriations process for these payments.

Oil and Gas Severance Tax

Enacted in 1929, the oil and gas severance tax is levied on the privilege of producing oil and gas. The base is the gross cash market value of oil and gas that is severed from the ground. The tax rate is 6.6 percent for normal oil production, 5.0 percent for natural gas production, and 4.0 percent for stripper wells and marginal properties. The projected yield is $57.0 million for FY 2015; revenue goes to the State General Fund.

FY 2015 Estimate

Marginal Wells $5,300,000

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

Public Land $2,300,000

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

Corporate Income Tax Expenditures

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

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

Revenues from the corporate income tax were estimated at the May 2013 Consensus Conference to be $957.0 million in FY 2014 and $993.0 million in FY 2015. The certificated credits remaining under the MBT were estimated at -$638.0 million in both FY 2014 and FY 2015.

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

	FY 2015 Estimate
Anchor Company Credit (MBT Certificated Credit) 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.	n.a.
Brownfield Redevelopment Credit (MBT Certificated 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.	$32,000,000
Farmland Preservation Credit (MBT Certificated Credit) Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Public Act 451 of 1994. This credit is included in "Other Certificated Credits" in Exhibits 4 and 12.	$1,000,000

	FY 2015 Estimate
Film Credits (MBT Certificated Credit) 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.	$0
Foreign Dividends Exemption (Corporate Income) Excludes dividends and royalties received from a foreign entity or person from taxable income.	$238,400,000
Government Securities Interest Exemption (Corporate Income) Excludes interest income from obligations or securities of the federal government, State of Michigan or Michigan governmental unit.	$900,000
Historic Preservation Credit (MBT Certificated Credit) Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site. This credit is included in "Other Certificated Credits" in Exhibits 4 and 12.	$2,000,000
Michigan Economic Growth Authority (MEGA) Credits (MBT Certificated Credit) 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.	$296,000,000
MEGA Photovoltaic Technology Credit (MBT Certificated 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.	$14,000,000
MEGA Polycrystalline Silicon Manufacturing Credit (MBT Certificated 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.	$29,000,000

	FY 2015 Estimate
MEGA Vehicle Battery Credit (MBT Certificated 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.	$251,000,000
Renaissance Zone Credit (MBT Certificated Credit) Provides a credit for the portion of tax attributable to business activity in a renaissance zone designated based on a development or qualified collaboration agreement. This credit is included in "Other Certificated Credits" in Exhibits 4 and 12.	$10,000,000
Small Business Alternative Tax Credit (Corporate Income) 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).	$11,500,000
Workers' Disability Supplemental Benefit (WDSB) Credit (MBT Certificated Credit) 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. This credit is included in "Other Certificated Credits" in Exhibits 4 and 12.	$3,000,000

CHAPTER 5

CONSUMPTION TAX EXPENDITURES

Consumption tax expenditures include tax expenditures associated with alcohol, cigarette, and sales and use taxes. Total consumption tax expenditures are projected to increase to $16,178.1 million in FY 2015, a 3.6 percent increase over the FY 2014 level of $15,616.1 million. The growth in sales and use tax expenditures associated with industrial processing, food for home preparation and consumption, and exempt services such as health care and professional, scientific, and technical services account for most of the growth between FY 2014 and FY 2015. Sales and use tax expenditure estimates are based on FY 2007 through FY 2012 data. Alcohol and cigarette tax expenditure estimates were based on FY 2012 data.

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

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

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

Consumption Tax Expenditure Changes

Public Acts 117 and 118 of 2012 amended the Use Tax Act and the General Sales Tax Act, respectively, to change the timing of payments for taxpayers required to pay on an accelerated schedule, effective January 1, 2014. These Public Acts do not change the amount of tax due.

Public Act 126 of 2012 amended the General Sales Tax Act to eliminate the exemption for purchases of tangible personal property made by an inmate of a penal or correctional institution with scrip or an equivalent issued and redeemed by the institution. The new Act took effect for sales made on or after October 1, 2012.

Public Act 188 of 2012 amended the Tobacco Products Tax Act (TPTA) to classify a person who uses or allows another to use a commercial-grade roll-your-own machine to produce cigarettes as a nonparticipating manufacturer under the TPTA and to enhance enforcement of the TPTA through the use of digital cigarette stamps and additional reporting. The Public Act also provides for additional compensation of tobacco tax licensees to reimburse the licensees for the cost of digital stamping machines and technology.

Public Act 211 of 2012 amended the Revenue Act to provide that filing a return includes filing a combined, consolidated, composite return regardless of whether any tax was paid or the taxpayer reported any amount in the tax line including zero. Once the return is filed the 4-year period of review under the general statute of limitations begins. The Public Act was applied retroactively and took effect for all tax years open under the statute of limitations.

Public Act 225 of 2012 amended the General Sales Tax Act to dedicate 18 percent of the sales tax at 4 percent levied on the sale of motor fuel to the State Trunkline Fund to match available federal highway funds, and then any remaining funds to county and local road funding. The overall amount of sales tax earmarked is limited to $100 million and this earmarking only applies for fiscal year 2013.

Public Act 226 of 2012 amended the General Sales Tax Act to dedicate the sales tax at 4 percent collected on the sale of aviation fuel and aviation products to the State Aeronautics Fund for fiscal year 2013 only. The earmarking is limited to $10 million.

Public Act 325 of 2012 amended the Tobacco Products Act to limit the tax on premium cigars to 50 cents per cigar. Previously the tax was 32 percent of the wholesale price without any limit.

Public Act 408 of 2012 amended the Use Tax Act to divide the 6 percent tax levied under the Act into a state component tax levied by the state and a metropolitan areas component tax levied by a Metropolitan Areas Metropolitan Authority, beginning October 1, 2015. The rate of the metropolitan areas component tax would be set at a rate sufficient to generate specific revenue amounts in fiscal years 2016 through 2023 with annual adjustments for years after 2023, used to reimburse local governments for the cost of the personal property tax exemptions discussed below. Of the remaining state component tax, a portion of would be earmarked equal to any reduction in tax revenues under the state education tax or basic school operating mills due to the exemptions for personal property discussed on page 69. The changes in the use tax composition and earmarking is subject to a statewide referendum to be held in August 2014.

Public Act 412 and 413 of 2012 amended the General Sales Tax Act and the Use Tax Act, respectively, to exempt the sale of tangible personal property for use as or at mineral-producing property. For property with both exempt and non-exempt uses, the exemption is proportional to the share of use that is exempt. See Public Act 410 on page 70.

Public Acts 429 and 467 of 2012 amended the Use Tax Act and the General Sales Tax Act, respectively, to expand the definition of rolling stock to include property to be affixed to and directly used in the operation of a truck or trailer. Rolling stock, including large trucks, trailers, and parts, used in interstate commerce is already exempt from tax under the sales and use taxes.

Public Acts 458 and 585 of 2012 amended the General Sales Tax Act and the Use Tax Act, respectively, to allow taxpayers required to file and pay sales and use taxes on an accelerated basis to pay the lesser of 75 percent of the tax due for the previous month or 75 percent of the tax due for same month in the previous year. These Public Acts do not affect the amount of tax liability due, but only the timing of payments.

Public Act 509 of 2012 amended the General Sales Tax Act to extend to diesel fuel the prepayment requirement applied to gasoline. The Department of Treasury would determine the prepayment rate monthly based on the average retail price.

Public Act 573 of 2012 amended the General Sales Tax Act to extend the exemption for purchases by a non-profit charitable organization to property used in fundraising. The exemption has a limit of $5,000 on the sales price of any single item of property or vehicle.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2015 (millions of dollars).

Alcoholic Beverage Taxes
(millions)

Tax	Location of Deposit	FY 2015 Revenue
Beer and Wine Excise	General Fund	$53.0
4.0 Percent Liquor Excise	School Aid Fund	$44.6
4.0 Percent Liquor Specific	General Fund	$44.6
4.0 Percent Liquor Tourism	Convention Facility Development Fund	$44.6

	FY 2015 Estimate
Beer Shipped Out-of-State Exempts beer manufactured in Michigan, or imported into this state, and then shipped for sale and consumption outside the state.	n.a.
Damaged Beer Exempts beer from the beer tax when consumed on the manufacturer's property or not offered for sale.	n.a.
Homemade Wine Exempts homemade wine or alcoholic cider from the wine tax when made on the premises by an owner for family use.	n.a.
Small Brewer's Credit 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.	$90,000

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 2015, the tax on cigarettes will yield an estimated $847.5 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield $73.3 million.

	FY 2015 Estimate
Bad Debt Deduction Allows cigarette wholesalers to deduct any losses from bad debts.	$400,000
Licensee Expenses 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.	$13,510,000
Sales on Military Bases and Reservations Exempts the sale of cigarettes on U.S. military bases and to tribal members living within their own tribe's Indian country.	$5,545,000
Tribal Tax Agreements 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.	n.a.

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 2015 Estimate
Small Hotel Exemption Excludes hotels and motels with fewer than 81 rooms from the state convention facility development tax.	n.a.

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 $7,594.1 million in FY 2015. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; up to 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. State law earmarks 4.65 percent of the sales tax on transportation-related items to the Comprehensive Transportation Fund (CTF). The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total $1,383.0 million in FY 2015. Due to their complementary nature, sales and use tax expenditures are reported together.

	FY 2015 Estimate
Air and Water Pollution Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	$57,000,000
Aircraft Parts Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	$7,320,000
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.	$40,500,000
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.	$22,600,000
Church Construction Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.	$2,017,000
Church Cars Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.	$2,680,000

	FY 2015 Estimate
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.	$49,100,000
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
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.	$201,000
Employee Meals Exempts meals provided by employers to their employees starting in 2002.	$19,700,000
Food Exempts food for human consumption, except prepared food intended for immediate consumption.	$1,302,130,000
Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students.	$17,700,000

	FY 2015 Estimate
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.	$214,340,000
Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	$76,100,000
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.	$356,190,000
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. A similar exemption applies to property purchased by a resident and brought into the state more than 360 days after purchase.	$1,690,000
Industrial Processing Exempts sales to persons for use or consumption in industrial processing. This tax expenditure estimate excludes raw materials used in production. This estimate includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	$1,274,000,000
International Telecommunications Exempts international and WATS calls from the use tax.	$6,800,000
Interstate Trucks and Trailers 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.	$30,340,000
Investment Coins 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.	$5,030,000
Isolated Sales Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	n.a.

	FY 2015 Estimate
Military PX Sales Exempts military post-exchange sales.	$581,000
Military Vehicle Sales 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.	n.a.
Newspapers, Periodicals, and Films Exempts sales of copyrighted films, newspapers, and periodicals.	$105,100,000
Nonprofit Ambulance and Fire Service Exempts sales of vehicles not for resale to Michigan nonprofit corporations organized exclusively to provide a community with ambulance or fire department services.	n.a.
Nonprofit Hospital or Housing Construction 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.	$1,770,000
Nonprofit Organizations 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.	$273,300,000
Nonprofit Sales Under $5,000 Exempts aggregate sales under $5,000 for qualified nonprofit organizations.	n.a.
Nonresident Merchandise Transfer Exempts promotional merchandise that is transferred pursuant to a redemption offer to a person located outside the state.	n.a.
Nonresident Property Exempts the storage, use, or consumption of property brought into Michigan by a nonresident living temporarily within this state.	n.a.
Ophthalmic and Orthopedic Products Exempts sales to individuals of artificial limbs or eyes, ophthalmic products, or orthopedic appliances.	$71,590,000

	FY 2015 Estimate
Prescription Drugs Exempts prescription drugs for human consumption.	$589,140,000
Radio and TV 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.	$4,400,000
Rail Rolling Stock Exempts rail rolling stock and selected other related equipment, material, and supplies from sales and use taxes.	$1,910,000
Residential Utilities Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	$167,000,000
Returned Vehicles Exempts from gross proceeds "a refund less an allowance" for motor vehicle buybacks by manufacturers under provisions of the lemon law.	$1,100,000
Sale of Business Excludes from the use tax non-inventoried property purchased as part of a business.	n.a.
Sale of Water Exempts the sale of water through water mains or delivered in bulk tanks in quantities over 500 gallons.	$61,400,000
Services Exempts services for categories listed in the table below. The estimates include services consumed by businesses, consumers, and government/non-profit entities. Approximately $3.70 billion of the total represents services purchased by consumers.	$11,278,950,000

Service Tax Expenditures, FY 2015
(millions)

Category	For Profit	Nonprofit	Total
Accommodations and Food Service	$9.6	$0.0	$9.6
Admin., Support, and Waste Mgmt.	883.4	11.5	894.9
Arts, Entertainment, and Recreation	163.7	37.5	201.2
Construction	1,107.9	0.0	1,107.9
Educational Services	73.1	436.1	509.2
Health Care and Social Assistance	1,416.0	2,127.4	3,543.4
Information	292.7	0.0	292.7
Other Services (except Public Admin.)	566.0	112.9	678.9
Professional, Scientific, and Technical	2,154.0	15.6	2,169.6
Real Estate and Rental and Leasing	645.7	0.0	645.7
Transportation and Warehousing	1,115.6	11.4	1,127.0
Utilities	0.0	99.0	99.0
TOTAL	$8,427.7	$2,851.3	$11,279.0

Source: Calculations by the Office of Revenue and Tax Analysis using the *2007 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 2015 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 $15,340,000

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.

	FY 2015 Estimate
Vehicle and Aircraft Transfers Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft.	$38,400,000
Vehicles Purchased for Use in Another State 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.	n.a.
Vending Machines and Mobile Facilities 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.	$22,055,000

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 3.0 percent from $5,319.7 million in FY 2014 to $5,479.1 million in FY 2015. Federal income tax expenditures are projected to increase 2.9 percent from $2,718.8 million in FY 2014 to $2,796.9 million in FY 2015. Individual income tax expenditure estimates were based on tax year 2011 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 2011. 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 223 of 2012 amended the Income Tax Act to reduce the income tax rate for individuals and trusts to 4.25 percent, effective October 1, 2012. The income tax rate for individuals and trusts was previously scheduled to be reduced to 4.25 percent on January 1, 2013.

Public Act 224 of 2012 amended the Income Tax Act to create an alternative calculation of the personal exemption amount. The taxpayer would be allowed the greater of the new calculation or the personal exemption in existing law. The new exemption amount would be $3,950, beginning October 1, 2012, and before January 1, 2014. On and after January 1, 2014, the alternative exemption amount is $4,000. The Public Act allows for the exemption for tax year 2012 to be annualized, resulting in an exemption amount of $3,763 for calendar-year filers. This is greater than the $3,700 exemption allowed under law prior to P.A. 224.

Public Act 414 of 2012 amended the Income Tax Act to eliminate both the individual and corporate income taxes on income derived from minerals, effective for the 2013 tax year. See Public Act 410 on page 70.

Public Act 597 of 2012 amended the Income Tax Act to exempt retirement or pension benefits received for services in the Michigan National Guard, effective January 1, 2012. The Public Act also increased the allowable deduction for retirement or pension benefits received by taxpayers through employment with a governmental agency that was not covered by the Social Security Act. The allowable deduction for taxpayers born in 1946 through 1952 was increased by up to $15,000 for each taxpayer receiving such benefits, effective January 1, 2013. Beginning in 2015, taxpayers who were born after 1952, have reached 62 years of age, and are receiving benefits from employment with governmental agency that was not covered under the Social Security Act would be eligible to deduct up to $15,000 of those benefits.

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 2015, the State of Michigan will collect an estimated $8,572.6 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 2011, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 4.35 percent to an average effective rate of 2.11 percent. Public Act 38 of 2011 made significant changes to the Michigan income tax, effective January 1, 2012. The impact of those changes is included in the estimates below. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.

	FY 2015 Estimate
Adjustments to Income	$218,569,000
New data allow for many subtractions from income to be reported separately. The estimate here represents the net difference between the remaining subtractions and additions to income. The remaining subtractions include gains and losses from other states, net operating losses, and net income from gas and oil royalty or working interests.	
College Savings Account	$12,070,000
A deduction is allowed for contributions to purchase contracts under the Michigan Education Trust or to fund accounts in the Michigan Education Savings Program. Investment earnings are also exempt.	
Dependent Exemption	$17,336,000
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.	

	FY 2015 Estimate
Disabled Veterans Exemption Allows a taxpayer to claim an additional exemption of $300 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.	$200,000
Earned Income Tax Credit Provides a refundable income tax credit equal to 6 percent of any federal earned income tax credit for which a taxpayer is eligible. Approximately 66 percent of the credit exceeded the claimant's income tax liability for tax year 2011.	$118,900,000
Farmland Development Credit 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.	$45,918,000
Historic Preservation Credit Provides a credit against qualified expenditures made to rehabilitate a historic resource. The rehabilitation plan must be certified by the Michigan Historical Center.	$1,045,000
Holocaust Survivor Asset Recovery Deduction 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.	n.a.
Home Heating Assistance Credit Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2012, these credits totaled an estimated $58.1 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was $141,000 in FY 2012.	$144,000

	FY 2015 Estimate
Homestead Property Tax Credit	$566,346,000

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 low-income senior citizens, veterans, and blind and disabled persons. For tax year 2011, homestead credits, excluding the farmland credit itemized separately, totaled $817.6 million (Exhibit 17). Of the homestead credits, 52.3 percent went to general taxpayers, 40.7 percent went to senior citizens, and the remaining 7.0 percent went to veterans and blind and disabled persons.

Income Attributable to Another State — $2,298,390,000

Provides a deduction to Michigan residents for business income earned in another state or gains from the sale of property located in another state. In addition, non-residents may deduct income not allocated to Michigan.

Income Tax Paid to Another State Credit — $58,329,000

Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2011, taxpayers claimed $49.7 million in credits.

Military Pay — $30,728,000

Exempts compensation received while on active duty in the U.S. Armed Forces.

Pension and Retirement Benefits Deduction — $484,184,000

Provides a deduction for pension and retirement benefits based on the age of the taxpayer and, if married, the taxpayer's spouse. For those born prior to 1946, all benefits from public sources are deductible and benefits from private sector plans are deductible up to $48,302 for singles and $96,605 for married couples filing a joint return (2013 limits). Taxpayers born between 1946 and 1952, inclusive, may deduct from all retirement benefits up to $20,000 for singles and $40,000 for married couples. There is no deduction allowed for taxpayers born after 1953 until they turn age 67.

Exhibit 13
Selected Individual Income Tax Expenditures, CY 2011

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Higher Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than $2,000*	389,476	8.4%	9,266	$89,844	2,372	$170,668
2,001 - 4,000	164,264	3.5%	15,737	115,668	1,441	71,743
4,001 - 6,000	160,292	3.5%	18,294	193,522	1,872	102,128
6,001 - 8,000	160,310	3.5%	20,190	268,893	2,159	128,465
8,001 - 10,000	173,877	3.7%	24,136	377,294	2,776	183,450
10,001 - 12,000	166,199	3.6%	24,093	437,373	2,808	180,144
12,001 - 14,000	169,439	3.7%	25,689	517,062	3,073	207,085
14,001 - 16,000	157,872	3.4%	25,266	556,462	2,972	197,499
16,001 - 18,000	145,499	3.1%	24,660	582,484	3,163	215,963
18,001 - 20,000	133,758	2.9%	22,945	581,537	3,151	216,881
20,001 - 25,000	286,506	6.2%	52,271	1,530,055	7,665	537,046
25,001 - 30,000	246,328	5.3%	46,548	1,545,407	7,736	552,732
30,001 - 35,000	214,687	4.6%	40,900	1,425,731	7,916	575,001
35,001 - 40,000	192,560	4.2%	35,981	1,310,443	7,933	575,098
40,001 - 45,000	166,497	3.6%	32,452	1,219,345	7,963	593,514
45,001 - 50,000	149,868	3.2%	30,271	1,191,636	8,060	608,029
50,001 - 55,000	139,115	3.0%	28,181	1,163,997	8,448	659,216
55,001 - 60,000	127,996	2.8%	26,178	1,089,120	8,601	681,056
60,001 - 70,000	227,999	4.9%	47,724	2,052,992	17,284	1,402,550
70,001 - 80,000	196,163	4.2%	41,522	1,854,967	17,141	1,458,796
80,001 - 90,000	163,519	3.5%	34,976	1,606,438	16,462	1,482,673
90,001 - 100,000	131,694	2.8%	28,510	1,346,327	15,131	1,410,871
Over 100,000	575,158	12.4%	125,197	8,380,312	101,621	11,634,426
TOTAL	4,639,076	100.0%	780,987	$29,436,908	257,748	$23,845,034

*Includes 147,335 credit-only returns (zero income).

	FY 2015 Estimate
Personal Exemption	$1,277,787,000

Exempts $3,950 (tax year 2013) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption will increase to $4,000 in 2014, and then increase in $100 increments based on the rate of inflation. The personal exemption reduced tax year 2011 revenue by approximately $1,085.8 million.

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

Renaissance Zones — $2,411,000

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.

Senior Investment Income Deduction — $14,606,000

Allows a taxpayer who was born prior to 1946 to deduct dividends, interest, and capital gains included in AGI up to limits which are adjusted for inflation annually. The limits for tax year 2013 are $10,767 for singles and $21,534 for couples filing a joint return. The limits are reduced by the amount deducted for pension and retirement benefits.

Senior Standard Deduction — $14,700,000

Beginning in tax year 2013, taxpayers born after 1945 and before 1953 who have reached age 67 are eligible for a deduction against all income in lieu of a deduction for retirement benefits. The deduction is $20,000 for singles and $40,000 for couples filing a joint return.

Social Security Benefits — $276,771,000

Provides a deduction for Social Security benefits included in AGI. Depending on income, benefit recipients may have to include some Social Security benefits in AGI for federal tax purposes.

Special Exemption — $9,791,000

Allows a taxpayer and his or her spouse to each claim a $2,500 exemption for tax year 2013 if they or a dependent are disabled. These exemptions are adjusted periodically for inflation.

	FY 2015 Estimate
State and Local Income Tax Refunds	$20,615,000

Provides a deduction of a state and local income tax refund if the refund is included in AGI. For federal tax purposes, payments of state and local taxes that are reported as an itemized deduction but subsequently returned as a refund are included in AGI for the year in which the refund was received. For example, income tax withholding for tax year 2013 may be claimed as an itemized deduction on the 2013 federal income tax return. If a portion of that withholding is returned to a taxpayer as a refund in early 2014, the taxpayer would report the refund as income on the 2014 federal income tax return, but subtract the refund amount on the 2014 Michigan return.

Tribal Tax Agreements	n.a.

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

U.S. Government Bond Interest Deduction	$9,786,000

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

Exhibit 14
Selected Individual Income Tax Expenditures by Income Class, CY 2011

Adjusted Gross Income	MI-1040s Number	MI-1040s Percent	Gen. Prop Tax Credit Number	Gen. Prop Tax Credit Amount	Effective Exemptions[1] Number	Effective Exemptions[1] Amount
Zero Income[2]	219,255	4.7%	23,697	$17,091,208	0	$0
$0 - 2,000	170,221	3.7%	15,205	8,205,606	17,370	2,720,119
2,001 - 4,000	164,264	3.5%	16,412	7,690,686	52,146	8,166,078
4,001 - 6,000	160,292	3.5%	21,753	9,915,088	77,482	12,133,648
6,001 - 8,000	160,310	3.5%	28,582	13,124,793	102,960	16,123,461
8,001 - 10,000	173,877	3.7%	42,687	20,398,793	155,637	24,372,683
10,001 - 12,000	166,199	3.6%	42,811	20,618,027	164,221	25,717,007
12,001 - 14,000	169,439	3.7%	50,769	24,622,199	207,165	32,442,016
14,001 - 16,000	157,872	3.4%	48,941	23,616,198	203,954	31,939,185
16,001 - 18,000	145,499	3.1%	47,335	22,312,849	198,798	31,131,798
18,001 - 20,000	133,758	2.9%	44,616	20,623,666	186,182	29,156,134
20,001 - 25,000	286,506	6.2%	97,258	43,527,837	423,731	66,356,199
25,001 - 30,000	246,328	5.3%	84,716	36,624,508	381,115	59,682,543
30,001 - 35,000	214,687	4.6%	72,543	30,519,467	345,195	54,057,577
35,001 - 40,000	192,560	4.2%	62,877	26,432,840	313,420	49,081,577
40,001 - 45,000	166,497	3.6%	50,370	21,410,347	288,138	45,122,333
45,001 - 50,000	149,868	3.2%	41,611	17,853,732	270,670	42,387,000
50,001 - 55,000	139,115	3.0%	34,520	15,048,762	262,361	41,085,768
55,001 - 60,000	127,996	2.8%	28,561	12,798,049	253,309	39,668,265
60,001 - 70,000	227,999	4.9%	43,983	20,713,992	482,883	75,619,419
70,001 - 80,000	196,163	4.2%	31,104	12,798,273	444,071	69,541,451
80,001 - 90,000	163,519	3.5%	8,108	1,476,052	389,212	60,950,664
90,001 - 100,000	131,694	2.8%	278	125,500	329,507	51,600,850
Over 100,000	575,158	12.4%	410	300,101	1,384,243	216,772,485
TOTAL	4,639,076	100.0%	939,147	$427,848,573	6,933,769	$1,085,828,260

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

(2) Includes 147,335 credit-only returns.

Exhibit 15
Effective Income Tax Rates by Income Class, CY 2011[1]

Adjusted Gross Income	Total Adjusted Gross Income	Total Income Tax Paid	Effective Tax Rate
Zero Income[2]	($6,971,528,672)	($98,275,282)	
$0 - 2,000	156,536,358	(52,614,886)	-33.61%
2,001 - 4,000	492,799,615	(32,272,707)	-6.55%
4,001 - 6,000	800,796,588	(32,955,425)	-4.12%
6,001 - 8,000	1,122,707,447	(37,472,378)	-3.34%
8,001 - 10,000	1,570,280,201	(53,669,720)	-3.42%
10,001 - 12,000	1,827,722,710	(48,636,816)	-2.66%
12,001 - 14,000	2,202,581,995	(56,880,625)	-2.58%
14,001 - 16,000	2,367,296,478	(42,121,979)	-1.78%
16,001 - 18,000	2,469,622,349	(28,398,384)	-1.15%
18,001 - 20,000	2,538,991,652	(10,595,139)	-0.42%
20,001 - 25,000	6,426,968,276	14,689,875	0.23%
25,001 - 30,000	6,761,972,819	66,903,102	0.99%
30,001 - 35,000	6,965,982,996	106,230,180	1.52%
35,001 - 40,000	7,212,751,870	132,204,799	1.83%
40,001 - 45,000	7,067,796,570	149,797,306	2.12%
45,001 - 50,000	7,113,681,895	163,028,245	2.29%
50,001 - 55,000	7,299,845,768	173,351,131	2.37%
55,001 - 60,000	7,355,333,831	180,106,473	2.45%
60,001 - 70,000	14,791,125,554	379,334,476	2.56%
70,001 - 80,000	14,682,404,622	400,022,805	2.72%
80,001 - 90,000	13,873,086,765	401,067,237	2.89%
90,001 - 100,000	12,486,010,681	371,819,495	2.98%
Over 100,000	144,162,257,823	3,602,226,772	2.50%
TOTAL	$264,777,026,191	$5,646,888,555	2.13%

Effective rate excluding zero income AGI and Taxes Paid	2.11%
Effective rate excluding zero income AGI	2.08%

(1) Values in this table are based on a sample of the 4,491,741 MI-1040 and MI-1040CR returns.

(2) Includes 147,335 credit-only returns (zero income).

Exhibit 16
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2011

Adjusted Gross Income	Effective Exemptions[1]	Adjustments to Income	Nonrefundable Credits[2]	Prop. Tax Credits
Less Than $2,000	503.9%	30.7%	-1.2%	652.4%
2,001 - 4,000	140.9%	19.6%	0.0%	132.5%
4,001 - 6,000	96.1%	19.9%	0.8%	87.9%
6,001 - 8,000	78.1%	21.8%	0.9%	71.0%
8,001 - 10,000	69.4%	20.1%	1.0%	60.8%
10,001 - 12,000	61.7%	22.9%	1.0%	52.5%
12,001 - 14,000	58.3%	21.3%	1.0%	45.6%
14,001 - 16,000	51.6%	21.8%	1.1%	39.0%
16,001 - 18,000	46.5%	21.2%	1.1%	34.0%
18,001 - 20,000	41.5%	20.8%	1.2%	29.6%
20,001 - 25,000	35.9%	20.8%	1.1%	24.1%
25,001 - 30,000	29.8%	21.0%	1.1%	18.9%
30,001 - 35,000	25.6%	21.2%	1.1%	15.0%
35,001 - 40,000	22.3%	23.4%	1.0%	12.2%
40,001 - 45,000	20.2%	21.9%	1.0%	10.2%
45,001 - 50,000	18.4%	21.8%	1.0%	8.5%
50,001 - 55,000	17.2%	22.2%	1.0%	7.3%
55,001 - 60,000	16.3%	22.2%	1.0%	6.2%
60,001 - 70,000	15.1%	21.7%	1.0%	4.9%
70,001 - 80,000	13.8%	21.0%	1.0%	2.9%
80,001 - 90,000	12.8%	20.6%	1.1%	0.3%
90,001 - 100,000	11.9%	19.6%	1.1%	0.0%
Over 100,000	4.8%	37.7%	0.9%	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.

Exhibit 17
Property Tax Credits by County, CY 2011

	General		Seniors		Veterans	
County	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
ALCONA	500	$173,000	600	$328,200	100	$4,500
ALGER	400	153,100	300	165,500	100	5,500
ALLEGAN	8,100	3,260,800	4,200	2,951,700	100	10,300
ALPENA	1,900	597,900	1,700	950,000	100	10,700
ANTRIM	1,600	632,100	1,300	994,100	100	6,000
ARENAC	900	329,600	800	478,300	< 50	3,600
BARAGA	300	90,100	200	125,200	< 50	3,900
BARRY	3,600	1,487,600	2,100	1,521,000	100	5,800
BAY	8,400	2,870,800	5,900	3,666,100	200	31,400
BENZIE	1,200	453,200	800	538,600	< 50	4,100
BERRIEN	12,700	4,789,500	7,600	5,046,900	200	15,900
BRANCH	2,800	1,012,900	1,700	1,075,000	100	7,400
CALHOUN	10,100	4,265,500	6,100	4,542,300	200	21,400
CASS	2,600	994,100	1,800	1,139,800	< 50	5,200
CHARLEVOIX	2,300	952,400	1,600	1,159,500	< 50	2,600
CHEBOYGAN	1,600	523,400	1,100	690,000	100	8,700
CHIPPEWA	2,100	653,400	1,200	715,300	200	16,200
CLARE	1,900	599,700	1,200	616,300	100	8,200
CLINTON	4,900	2,295,700	2,800	2,048,600	< 50	3,100
CRAWFORD	700	200,500	500	262,100	100	7,600
DELTA	2,400	801,700	1,700	981,200	200	25,900
DICKINSON	1,800	614,900	1,300	858,300	100	14,600
EATON	11,600	5,087,500	6,200	4,550,400	100	13,300
EMMET	3,100	1,274,200	1,700	1,257,800	< 50	4,200
GENESEE	37,200	13,596,600	16,500	9,820,900	400	55,500
GLADWIN	1,400	500,100	1,400	799,600	100	8,600
GOGEBIC	800	259,500	700	384,500	100	14,500
GRAND TRAVERSE	9,600	4,306,100	4,700	3,665,900	100	11,500
GRATIOT	2,600	956,400	1,600	985,300	100	7,500
HILLSDALE	3,000	1,135,800	1,900	1,176,800	100	9,700
HOUGHTON	1,800	602,900	1,000	565,400	100	17,700
HURON	2,400	1,085,100	2,500	1,743,900	100	8,600
INGHAM	33,700	16,012,600	11,900	9,732,000	100	23,800
IONIA	4,400	1,654,200	2,200	1,434,500	100	7,600
IOSCO	1,500	430,600	1,300	681,700	200	15,400
IRON	600	190,100	600	295,700	100	11,200
ISABELLA	6,000	2,445,200	2,400	1,705,200	100	7,700
JACKSON	12,100	4,534,500	6,500	4,111,600	200	21,600
KALAMAZOO	26,900	11,430,800	10,900	8,443,100	100	20,500
KALKASKA	1,100	379,900	600	376,500	< 50	4,000
KENT	64,400	26,435,600	24,300	17,631,700	400	50,400
KEWEENAW	100	23,300	100	43,100	< 50	1,900

Exhibit 17 (Continued)

	General		Seniors		Veterans	
County	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
LAKE	600	$199,700	400	$244,100	< 50	$4,200
LAPEER	5,500	2,183,900	3,000	1,886,300	100	9,000
LEELANAU	1,300	633,100	1,200	978,400	< 50	1,600
LENAWEE	8,000	3,266,800	4,900	3,448,300	100	11,700
LIVINGSTON	600	199,700	400	244,100	< 50	4,200
LUCE	200	56,000	100	25,000	< 50	3,600
MACKINAC	700	229,500	500	317,300	< 50	2,900
MACOMB	91,300	46,038,100	50,300	39,476,900	500	68,900
MANISTEE	1,600	612,400	1,500	929,400	100	9,900
MARQUETTE	4,400	1,490,200	2,000	1,176,100	300	35,400
MASON	2,500	900,100	1,700	1,175,800	100	6,300
MECOSTA	2,300	821,900	1,400	807,500	100	6,000
MENOMINEE	1,200	383,000	800	441,500	100	11,000
MIDLAND	5,800	2,183,700	3,400	2,305,800	100	14,700
MISSAUKEE	800	298,300	600	320,400	< 50	2,700
MONROE	9,100	3,622,700	5,900	3,823,100	100	14,800
MONTCALM	4,700	1,689,200	2,700	1,700,600	100	10,300
MONTMORENCY	500	174,400	400	217,200	100	4,600
MUSKEGON	15,000	5,531,600	7,900	5,230,000	200	28,600
NEWAYGO	3,100	1,217,400	2,000	1,367,400	100	10,600
OAKLAND	108,800	60,152,500	53,300	45,180,500	400	50,900
OCEANA	1,900	713,800	1,400	891,000	100	7,700
OGEMAW	1,300	422,200	1,000	574,100	100	7,600
ONTONAGON	300	97,200	300	133,600	100	8,000
OSCEOLA	1,400	479,500	1,100	627,700	100	6,300
OSCODA	300	82,700	200	75,700	< 50	2,800
OTSEGO	1,400	474,500	800	421,100	100	4,500
OTTAWA	23,300	9,505,900	11,800	8,506,600	100	15,200
PRESQUE ISLE	700	232,400	700	421,000	100	6,600
ROSCOMMON	1,600	527,300	1,600	889,000	100	11,700
SAGINAW	13,800	4,613,400	7,500	4,380,200	300	42,500
ST. CLAIR	13,600	5,383,500	8,000	5,499,600	200	27,700
ST. JOSEPH	4,500	1,613,200	2,400	1,522,700	100	7,800
SANILAC	2,900	1,160,900	2,100	1,333,500	100	8,500
SCHOOLCRAFT	300	107,200	200	115,000	100	6,500
SHIAWASSEE	6,100	2,251,100	3,500	2,160,900	100	13,500
TUSCOLA	3,800	1,381,400	2,600	1,615,900	100	15,600
VAN BUREN	6,800	2,759,200	3,700	2,704,400	100	9,200
WASHTENAW	36,600	20,515,800	12,300	11,141,900	100	9,800
WAYNE LESS DETROIT	106,400	54,823,500	54,000	44,504,900	400	63,900
WEXFORD	2,700	975,500	1,600	999,900	100	9,700
OUTSIDE OF MICHIGAN	20,900	10,056,700	9,800	7,854,900	200	27,400
DETROIT	114,500	53,584,600	28,700	21,223,200	300	70,500
TOTAL	939,100	$427,848,600	450,100	$332,509,000	10,100	$1,234,400

Exhibit 17 (Continued)

County	Blind and Disabled Number	Blind and Disabled Amount	Farmland Number	Farmland Amount	Total Credits Number	Total Credits Amount
ALCONA	100	$28,100	< 50	$19,600	1,200	$553,400
ALGER	100	28,900	< 50	200	900	353,300
ALLEGAN	800	441,300	100	792,800	13,400	7,456,900
ALPENA	400	159,500	< 50	18,800	4,000	1,736,800
ANTRIM	200	98,800	< 50	48,100	3,200	1,779,200
ARENAC	200	72,800	100	261,700	2,000	1,146,000
BARAGA	100	22,900	< 50	0	600	242,100
BARRY	300	169,800	100	557,900	6,200	3,742,000
BAY	1,400	674,000	300	1,359,300	16,200	8,601,600
BENZIE	100	63,000	< 50	2,700	2,200	1,061,600
BERRIEN	1,500	851,600	100	419,100	22,000	11,123,000
BRANCH	300	132,600	200	859,000	5,000	3,086,900
CALHOUN	1,400	837,800	200	876,100	18,000	10,543,100
CASS	300	133,700	100	878,100	4,800	3,150,800
CHARLEVOIX	200	87,500	< 50	40,400	4,200	2,242,400
CHEBOYGAN	200	100,700	< 50	23,600	3,100	1,346,400
CHIPPEWA	200	107,100	< 50	21,700	3,700	1,513,700
CLARE	300	132,300	< 50	99,300	3,600	1,455,700
CLINTON	300	214,600	200	788,200	8,200	5,350,300
CRAWFORD	100	46,600	< 50	0	1,300	516,800
DELTA	400	183,900	< 50	63,700	4,700	2,056,400
DICKINSON	200	104,600	< 50	21,000	3,500	1,613,400
EATON	900	535,300	100	578,500	18,900	10,765,100
EMMET	200	97,900	< 50	5,200	5,100	2,639,300
GENESEE	5,300	2,854,300	100	337,800	59,500	26,665,200
GLADWIN	200	114,000	< 50	32,300	3,200	1,454,600
GOGEBIC	100	55,900	< 50	0	1,700	714,400
GRAND TRAVERSE	600	361,700	< 50	64,100	15,100	8,409,300
GRATIOT	300	145,600	400	1,887,000	5,000	3,981,700
HILLSDALE	400	184,600	200	772,700	5,600	3,279,500
HOUGHTON	200	79,100	< 50	0	3,100	1,265,100
HURON	300	137,300	1,000	5,942,900	6,300	8,917,800
INGHAM	2,800	1,848,100	100	1,260,900	48,800	28,877,300
IONIA	500	235,300	100	826,600	7,200	4,158,000
IOSCO	300	121,200	< 50	50,500	3,300	1,299,400
IRON	100	36,100	< 50	8,500	1,300	541,500
ISABELLA	500	254,300	100	508,300	9,200	4,920,600
JACKSON	1,700	926,800	100	373,000	20,600	9,967,400
KALAMAZOO	2,300	1,375,900	100	570,800	40,300	21,841,000
KALKASKA	100	50,300	< 50	1,800	1,900	812,500
KENT	5,200	3,182,000	100	600,800	94,500	47,900,600
KEWEENAW	< 50	5,300	< 50	0	200	73,600

Exhibit 17 (Continued)

County	Blind and Disabled Number	Blind and Disabled Amount	Farmland Number	Farmland Amount	Total Credits Number	Total Credits Amount
LAKE	200	$69,200	< 50	$6,700	1,200	$524,000
LAPEER	600	310,500	100	196,000	9,300	4,585,600
LEELANAU	100	42,100	< 50	38,900	2,500	1,694,100
LENAWEE	1,000	566,800	400	2,165,100	14,500	9,458,600
LIVINGSTON	600	374,100	< 50	6,700	14,800	8,509,200
LUCE	< 50	11,700	< 50	0	400	96,300
MACKINAC	100	26,100	< 50	0	1,300	575,800
MACOMB	7,300	5,285,300	< 50	133,500	149,500	91,002,700
MANISTEE	200	114,200	< 50	2,000	3,400	1,668,000
MARQUETTE	400	189,800	< 50	3,300	7,100	2,894,700
MASON	300	144,600	100	240,200	4,600	2,466,900
MECOSTA	300	126,500	< 50	128,200	4,100	1,890,000
MENOMINEE	100	48,000	< 50	69,800	2,200	953,300
MIDLAND	600	304,900	< 50	194,700	10,000	5,003,700
MISSAUKEE	100	51,200	100	482,900	1,600	1,155,600
MONROE	1,000	556,500	100	603,000	16,300	8,620,100
MONTCALM	600	304,900	200	803,800	8,300	4,508,800
MONTMORENCY	100	34,200	< 50	13,000	1,100	443,500
MUSKEGON	2,500	1,402,100	< 50	265,900	25,800	12,458,300
NEWAYGO	500	246,900	100	258,300	5,700	3,100,600
OAKLAND	6,800	4,928,700	< 50	115,900	169,400	110,428,500
OCEANA	200	126,400	100	288,900	3,700	2,027,800
OGEMAW	200	101,800	< 50	83,400	2,600	1,189,100
ONTONAGON	100	27,200	< 50	2,200	700	268,200
OSCEOLA	200	93,300	100	239,900	2,800	1,446,700
OSCODA	100	27,300	< 50	0	600	188,600
OTSEGO	100	66,300	< 50	0	2,400	966,300
OTTAWA	1,600	963,900	200	1,403,600	37,000	20,395,100
PRESQUE ISLE	100	54,400	< 50	23,400	1,700	737,800
ROSCOMMON	300	129,400	< 50	35,500	3,600	1,593,000
SAGINAW	2,300	1,219,900	500	2,248,900	24,500	12,504,800
ST. CLAIR	1,500	883,700	< 50	188,100	23,400	11,982,600
ST. JOSEPH	500	250,800	100	843,800	7,700	4,238,300
SANILAC	300	161,200	500	1,972,900	5,900	4,637,000
SCHOOLCRAFT	< 50	17,700	< 50	3,200	700	249,600
SHIAWASSEE	800	420,400	200	763,600	10,700	5,609,500
TUSCOLA	600	261,800	600	3,700,400	7,800	6,975,200
VAN BUREN	800	436,500	100	493,100	11,400	6,402,400
WASHTENAW	2,000	1,465,800	200	1,200,700	51,200	34,334,100
WAYNE LESS DETROIT	9,300	6,915,000	< 50	141,100	170,200	106,448,400
WEXFORD	400	182,800	< 50	39,300	4,800	2,207,100
OUTSIDE OF MICHIGAN	1,700	1,178,300	< 50	229,400	32,600	19,346,600
DETROIT	12,100	8,565,400	< 50	8,000	155,700	83,451,700
TOTAL	90,000	$55,980,500	7,900	$40,821,300	1,497,400	$858,393,700

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 2015 Estimate
Accelerated Depreciation 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.	$108,052,000
Employer Contributions to Health and Life Insurance 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.	$917,535,000

	FY 2015 Estimate
Employer Pension Plans Exempts employer payments into qualified employee pension plans from taxation.	$657,334,000
Federal Adjustments to Income Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	$55,968,000
Fellowships and Scholarships Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	$16,009,000
Gain on Sale of Primary Residence 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.	$172,330,000
Income Maintenance Benefits Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	$3,757,000
Individual Retirement Accounts 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 2011. Only persons with an AGI below $92,000 on a joint return ($58,000 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 $92,000-$112,000 for joint filers and $58,000-$68,000 for single filers.	$271,177,000
Interest on Life Insurance Savings Exempts interest earned from life insurance from tax if used to buy additional life insurance.	$123,571,000
Medical Care Savings Account Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	$9,846,000

	FY 2015 Estimate
Railroad Retirement Benefits Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).	$1,259,000
Social Security Benefits 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 reported separately above.	$341,356,000
Student Loan Deduction 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.	$4,507,000
Veterans' Benefits Excludes veterans' benefits administered by the Veterans' Administration from AGI.	$63,624,000
Workers' Compensation Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.	$50,577,000

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to essentially remain unchanged, decreasing from $48.4 million in FY 2014 to $48.3 million in FY 2015. Transportation tax expenditure estimates were based on FY 2011 and FY 2012 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 2012.

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 $365,000 to the state's Aeronautics Fund in FY 2015.

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 2015, the aviation fuel tax is projected to yield $5.4 million, which is deposited into the state's Aeronautics Fund.

	FY 2015 Estimate
Federally-Owned Aircraft Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.	$317,000

	FY 2015 Estimate
Interstate Flight Refund Airlines that operate scheduled interstate flights receive a refund of 1.5 cents per gallon of aviation fuel used.	$3,248,000

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 2015 Estimate
Marine Vessel Exemption 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.	$740,000

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 2015, motor fuel taxes will yield an estimated $940.9 million.

	FY 2015 Estimate
Diesel Fuel for Railroads Exempts diesel fuel used by railroad locomotives from motor fuel taxes.	n.a.
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.	$12,460,000
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.	$5,530,000
Fuel for Off-Road Use Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	$1,100,000
Municipal Franchise Vehicles Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	$420,000
Public Vehicles Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	$12,960,000
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.	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 2015, the motor vehicle registration fee is projected to yield $920.0 million.

	FY 2015 Estimate
Disabled Veterans' Vehicles Provides totally disabled veterans free vehicle license plates.	$560,000
Handicapper Vans Reduces the tax by 50 percent for vans that are owned by persons using a wheelchair.	n.a.
Intercity Commercial Buses Intercity commercial buses pay a registration fee of $25 rather than a tax based on weight.	n.a.
Public and Nonprofit Vehicles 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.	$11,000,000

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 2015 Estimate
Publicly-Owned Watercraft Levies a special fee of $1.50 for publicly-owned vessels if the vessels are not used for recreational, commercial, or rental purposes.	$14,000

CHAPTER 8

PROPERTY AND OTHER LOCAL TAX EXPENDITURES

Property tax expenditures include expenditures associated with general property, iron ore specific, mobile home, real estate property transfer, and city income taxes. Local property and other local tax expenditures are projected to increase 1.1 percent from $7,440.1 million in FY 2014 to $7,525.4 million in FY 2015. Estimates related to property taxes have stopped decreasing due to the stabilization of property values in many parts of the state. Estimates were based on FY 2011 and FY 2012 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 47 of 2012 amended the General Property Tax Act to provide that a transfer of stock of a summer resort corporation would be a transfer of ownership only with respect to the real property that was assessed to the transferor lessee stockholder. Also, a transfer of more than 50 percent of the corporation's stock would not constitute a transfer of ownership of the corporation's real property.

Public Act 57 of 2012 amended the General Property Tax Act to allow for summer property taxes to be deferred on agricultural property owned by a partnership. To qualify, the individual partners had to qualify for the deferment prior to forming the partnership.

Public Act 66 of 2012 amended the General Property Tax Act to allow the Department of Treasury to grant a property tax exemption for 2012 and the immediately preceding three years for property that would have qualified for the exemption for nonprofit housing for the elderly or disabled except that the exemption claim was not filed timely. This Public Act was designed to address a specific property eligible for the exemption in 2010.

Public Act 114 of 2012 amended the General Property Tax Act to extend the deadline for filing a principal residence exemption to June 1 and create a second deadline of November 1. The June 1 deadline would first apply to the next summer tax levy and the November 1 deadline would first apply to the next winter tax levy. P.A. 114 also allowed a lending institution to retain a principal residence exemption on foreclosed property if the lending institution pays the tax savings to the School Aid Fund.

Public Act 135 of 2012 amended the General Property Tax Act to allow a person to file an affidavit in lieu of federal and state income tax returns to claim a poverty exemption on his or her principal residence if the resident was not required to file a federal or state income tax return.

Public Acts 184 and 185 amended the General Property Tax Act to allow mills previously billed as part of a winter tax levy to be collected as a summer tax levy, if the aggregate amount of revenue from all individual millages that would be collected in the winter totals $100 or less per individual tax bill, and if the summer collection receives the necessary approvals. The revenue collected in the summer levy that was previously collected with the winter levy would be placed in a restricted fund and dispersed to the local taxing authorities on December 1.

Public Act 220 of 2012 amended the Tax Tribunal Act to increase the interest rate used to determine interest due on underpayments or overpayments of tax as decided by the Tax Tribunal, effective July 1, 2012. The new interest rate is calculated as the average prime rate charged by at least three commercial banks plus 1 percent.

Public Act 229 of 2012 amended the Corridor Improvement Authority Act to allow two or more cities, villages, or townships to create a joint corridor improvement authority under certain conditions. To be eligible, the local governments must be in a county with a population of more than 335,000 and less than 415,000, and that has at least two public universities within its boundaries. The only county currently satisfying these conditions is Washtenaw County.

Public Act 234 of 2012 amended the General Property Tax Act to provide that a person who sells property with delinquent taxes to a Native American entity resulting in the property becoming exempt under federal law from forfeiture, foreclosure, or sale for delinquent taxes is personally liable for the delinquent taxes.

Public Act 248 of 2012 amended Part 511 of the Natural Resources and Environmental Protection Act to allow a forest owner to withdraw property from the commercial forest program if the property otherwise qualified for a property tax exemption. The owner is required to reimburse the state for the specific payment of $1.25 per acre made on commercial forest property but would not have to pay the withdrawal fee and penalty normally imposed upon withdrawal.

Public Act 290 of 2012 amended the Local Development Financing Act to allow the Michigan Economic Development Authority to designate an additional three certified technology parks before March 31, 2013. These parks, commonly referred to SmartZones, would be able to capture school taxes for additional periods under certain circumstances. The Public Act would also allow a closed military installation to be designated as a certified alternative energy park.

Public Act 324 of 2012 amended the General Property Tax Act to allow a homeowner to retain the principal residence exemption after moving into a nursing home or assisted living facility under certain circumstances. The Public Act also adds a boundary between local tax collecting units as an item that does not break continuity when determining what property qualifies for a principal residence exemption.

Public Act 368 of 2012 amended the General Property Tax Act to classify a vacant parcel, wooded parcel, or a parcel which has one or more agricultural outbuildings that comprise more than 50 percent of the taxable value of all buildings on that parcel as agricultural real property if the parcel is contiguous to a parcel of real property that is classified as agricultural real property, engaged in agricultural operations, and owned by the same owner.

Public Act 382 of 2012 amended the General Property Tax Act to increase the penalty for failing to notify the local assessor of a transfer of ownership of industrial or commercial property.

Public Act 393 of 2012 amended the City Utility Users Tax Act to require a city levying the tax that formed a lighting authority to pay $12.5 million annually to that authority from the proceeds of the tax. The city utility users tax is only levied in Detroit. The Public Act would impose additional restrictions on the use of revenue if the lighting authority issued bonds according to a contract with the city that pledged revenue from the tax.

Public Act 394 of 2012 amended the City Income Tax Act to set the tax rates for a city of more than 600,000 at 2.4 percent on residents and 1.2 percent on non-residents beginning January 1, 2013. The rates would remain at those levels until the January 1 after all bonds, obligations, and other evidence of indebtedness issued by a lighting authority have been fully paid at which time the rates would be reduced to 2.2 percent on residents and 1.1 percent on non-residents.

Public Act 396 of 2012 amended the Downtown Development Authority Act to create a catalyst development project designated by a downtown development authority in a city with a population of more than 600,000 (Detroit) that is expected to result in at least $300 million of capital investment. A catalyst development project would be able to capture tax increment revenue to pay or repay the costs of land acquisition, site work, project construction or debt issued to develop or construct a project.

Public Act 397 of 2012 amended the Plant Rehabilitation and Industrial Development Districts Act to continue to subject manufacturing personal property covered by an industrial facilities exemption certificate on December 31, 2012, to the industrial facilities tax until the personal property would be exempt under the General Property Tax Act revisions to be discussed below.

Public Act 398 of 2012 amended the Technology Park Development Act to continue to subject manufacturing personal property covered by a technology park facilities exemption certificate on December 31, 2012, to the technology park facilities tax until the personal property would be exempt under the General Property Tax Act revisions to be discussed below.

Public Act 399 of 2012 amended section 9f of the General Property Tax Act to continue to exempt new manufacturing personal property from property taxes if the property was exempt under section 9f on December 31, 2012, until the later of the expiration of the personal property's current exemption or the date the personal property would become exempt under the General Property Tax Act revisions to be discussed below.

Public Act 400 of 2012 amended the Enterprise Zone Act to continue to subject manufacturing personal property subject to the specific tax levied in lieu of ad valorem property taxes on a qualified business under the Act on December 31, 2012, until the personal property would be exempt under the General Property Tax Act revisions to be discussed below.

Public Act 401 of 2012 amended the General Property Tax Act to exempt new eligible manufacturing personal property from the collection of taxes under the Act. New eligible manufacturing personal property is personal property that is located on a parcel of real property, used more than 50 percent of the time in industrial processing or in direct integrated support, was not placed in service or subject to tax under the Act before January 1, 2013, and was initially purchased after December 31, 2012. The exemption is subject to a referendum to be held in August 2014, and if the referendum is approved by the voters, the exemption takes effect beginning December 31, 2015.

Public Act 402 of 2012 amended the General Property Tax Act to exempt eligible personal property from the collection of taxes under the Act, beginning December 31, 2013. Eligible personal property under the Public Act is industrial or commercial personal property with a combined taxable value in a single local tax collecting unit of less than $40,000 that is owned by or under the control of the owner claiming the exemption. The exemption is subject to a referendum to be held in August 2014.

Public Act 403 of 2012 amended the General Property Tax Act to exempt previously existing eligible manufacturing personal property from the collection of taxes under the Act, beginning December 31, 2015. Under the Public Act, previously existing eligible manufacturing personal property is personal property that is located on a parcel of real property, used more than 50 percent of the time in industrial processing or in direct integrated support, and was either subject to or exempt from the collection of ad valorem property taxes for the immediately preceding 10 years or, for personal property that was outside Michigan for some or all of the preceding 10 years, would have been subject to ad valorem property taxes over the immediately preceding 10 years if that personal property had been located within Michigan. In 2016, property initially purchased before 2006 would be exempt under P.A. 403. In 2017, property initially purchased in 2006 would also be exempt. In 2018, property initially purchased in 2007 would also be exempt, and so on, until 2023 when all eligible manufacturing property would be exempt under either P.A. 401 or 403. The exemption is subject to a referendum to be held in August 2014.

Public Act 404 of 2012 amended the Metropolitan Extension Telecommunications Rights-of-Way Oversight (METRO) Act to eliminate the METRO authority and transfer its responsibilities to the Metropolitan Areas Metropolitan Authority, effective October 1, 2014.

Public Act 406 of 2012 created the Local Unit of Government Essential Services Special Assessment Act to allow the legislative body of a local unit of government to create a special assessment district to cover some or all of the costs of essential service equipment, maintenance of essential service equipment, and the provision of essential services lost under P.A. 401 or P.A. 403. The special assessment would be levied on industrial and commercial real property located in that local unit on which is located exempt eligible manufacturing personal property. The new Act defines essential services as ambulance, fire, and police services as well as jail operations. The amount of the special assessment would be determined and limited by a formula in the Act. The Act is subject to a referendum to be held in August 2014.

Public Act 407 of 2012, the Michigan Metropolitan Areas Metropolitan Authority Act, created the Metropolitan Areas Metropolitan Authority as a metropolitan government. The Authority would be governed by the Metropolitan Areas Council. The Authority would levy the metropolitan areas component tax under the use tax (see P. A. 408 on page 35) to reimburse local governments for the personal property tax exemptions described above, beginning in 2016. The Authority would distribute the metropolitan areas component tax funds according to the priority structure established in the Act. The Act also directs the Legislature to appropriate an amount equal to all 2014 and 2015 debt loss (as further defined) for municipalities that are not a local school district or intermediate school district and an amount equal to all school debt loss (as further defined) for a local school district or intermediate school district. The Act is subject to a referendum to be held in August 2014.

Public Act 409 of 2012 amended the General Property Tax Act to exempt from the collection of taxes under the Act any mineral located at an open mine, mineral-producing property subject to the mineral severance tax created by Public Act 410, and low-grade iron ore and low-grade iron ore mining property subject to a specific tax on low-grade iron ore or mining property (P.A. 77 of 1951 or P.A. 68 of 1963).

Public Act 410 of 2012, the Nonferrous Metallic Minerals Extraction Severance Tax Act, levied a specific tax on the extraction of minerals in lieu of general property taxes, the corporate income tax, the general sales tax, and the use tax. The tax is equal to 2.75 percent of the taxable mineral value.

Public Act 411 of 2012, the Rural Development Fund Act, established the rural development fund funded through revenues raised by the nonferrous metallic minerals extraction severance tax. The Act also created the rural development fund board to oversee the fund by, among other duties, evaluating project proposals to use resources from the rural development fund to support the expansion and sustainability of land-based industries, worker training related to land-based industries, and energy, transportation, communications, water, and wastewater infrastructures to benefit rural communities and micropolitan statistical areas. Actual expenditures from the fund would require legislative appropriations.

Public Act 463 of 2012 amended the Tax Tribunal Act to establish procedures to allow either a petitioner or a local tax collecting unit to request an informal settlement conference after a petition was filed in the Residential Property and Small Claims Division of the Tax Tribunal.

Public Act 482 of 2012 amended the General Property Tax Act to require a tax statement for the year in which property was returned to the county for delinquent taxes to include notice that as of March 1 there were delinquent taxes on the property, and that those taxes were returned to the county treasurer for collection.

Public Act 490 of 2012 amended the Plant Rehabilitation and Industrial Development Districts Act to allow an exception to the requirements for a tax abatement otherwise mandated under the Act. Under the Act, property is taxed under a lower specific tax for a period of time instead of being subject to property taxes.

Public Act 494 of 2012 amended the General Property Tax Act to exempt new construction on development property from the collection of local school operating taxes for 3 years or until the new construction ceases to be development property, whichever comes first. The Public Act defines development property as real property on which a residential structure is located and the residential structure is not currently occupied and has never been occupied, is available for sale, is not leased, and is not used for any business or commercial purpose.

Public Act 497 of 2012 amended the General Property Tax Act to exempt a transfer of residential real property between parents and children and between siblings from the “pop up” in taxable value if the state equalized value of the property exceeds the taxable value at the time of the transfer. To be eligible, the use of the property may not change following the transfer.

Public Act 502 of 2012 amended the Brownfield Redevelopment Financing Act to remove the December 31, 2012, deadline for the approval of a work plan and make other changes to increase the flexibility of the brownfield program by allowing for some revenue capture prior to approval of the work plan and certain activities to begin prior to plan approval.

Public Act 510 of 2012 amended the Downtown Development Authority Act to revise the 2011 deadline for an authority to apply to have revenue from the state education tax retained and paid to the authority.

Public Act 524 of 2012 amended the General Property Tax Act to revise provisions under which a bank, land contract vendor, credit union, or other lending institution may retain the principal residence exemption on foreclosed property. P.A. 524 made changes to P.A. 114 to resolve technical issues with the original legislation.

Public Acts 603 and 604 of 2012 amended the Natural Resources and Environmental Protection Act to increase the state’s payments to local governments in lieu of other taxes on land owned by the state.

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 2015 collections are projected to total $54.0 million.

	FY 2015 Estimate
Broadband Investment Credit 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.	$25,300,000
Railroad Right-of-Way Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan.	$26,300,000

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	31.81	49.74	39.00
2004	32.71	50.81	40.00
2005	32.60	51.38	39.88
2006	32.66	51.38	39.96
2007	32.72	51.49	39.89
2008	33.14	50.94	38.94
2009	32.86	51.09	39.13
2010	33.13	50.40	39.70
2011	n.a.	n.a.	40.00
2012	n.a.	n.a.	40.40

Source: All Property Millage Rates from State Tax Commission except 1994; CY 1994 All Property Rate and Homestead and Nonhomestead millage rates.

FY 2015 Estimate

Agricultural Transfers $34,600,000

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 2015 Estimate
Air and Water Pollution Control Exempts air and water pollution control equipment from the property tax after approval and certification by the State Tax Commission.	$130,000,000
Cultural Organizations 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.	n.a.
Energy Conservation Devices Exempts energy conservation devices from property tax. This exemption must be approved and certified by the State Tax Commission.	$70,000
Fairground Property Exempts property owned by an agricultural society and used primarily for fair purposes.	n.a.
Homestead Exemption 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.	$3,100,700,000
Homestead Exemption for Farm Property Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses.	$161,600,000
Industrial Facilities Development 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).	$233,400,000

For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility. The full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 19 displays a partial estimate of the taxable value of property subject to the industrial facilities development program. Public Act 39 of 2007 and Public Act 457 of 2008 reduced the tax on new facility personal property on land classified as industrial or commercial real property.

Neighborhood Enterprise Zones $23,000,000

Allows local units of government that participate in this program to grant property tax abatements. For new housing, the property tax rate is equal to one-half the statewide average millage rate. For rehabilitated housing, assessments are frozen so that the value of improvements is not taxed. Currently, 19 cities participate in this program.

Next Energy Exemption $3,800,000

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.

Obsolete Property Rehabilitation Exemption $11,500,000

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

Personal Property Ad Valorem Exemptions $373,500,000

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

	FY 2015 Estimate
Personal Property Industrial Facilities 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.	$69,900,000
Poverty Exemption 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.	$8,500,000
Renaissance Zones 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.	$87,000,000
Tax-Exempt Property Exhibit 19 reports the results from the 2012 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 $34.6 billion. If taxed at the 2010 average nonhomestead statewide rate of 50.67 mills, tax-exempt property would have yielded $1.75 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.	$1,823,000,000
Tax-Exempt Acreage 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 432,489 acres in 2012.	n.a.
Tax-Exempt County and Municipal Property Exempts real property owned by counties, townships, cities, villages, and school districts.	$248,000,000

	FY 2015 Estimate
Tax-Exempt Federal Property Exempts real property belonging to the United States government.	$313,000,000
Tax-Exempt Other Real Tax Exempt Property Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.	$201,000,000
Tax-Exempt Personal Property Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment. Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.	$421,000,000
Tax-Exempt Public Education Property Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.	$471,000,000
Tax-Exempt Specifically-Taxed Property 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.	n.a.
Tax-Exempt State Property Exempts real property owned by the State of Michigan.	$169,000,000

	FY 2015 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 — $898,000,000

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 — $1,280,000

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

Iron Ore Specific Tax

The iron ore tax is levied on iron ore mines in lieu of property tax. The tax was enacted in 1951 to encourage commercial development of mineral resources in Michigan. The rate is 1.1 percent of the value per gross ton of iron ore pellets, and it is levied only in Marquette County. The iron ore tax yielded $12.0 million in FY 2012. The state's share of the iron ore specific tax is deposited into the School Aid Fund. The state received $6.5 million in FY 2012.

Exhibit 18
Counties of Michigan

Exhibit 19
Estimated Taxable Value of Exempt Real and Personal Property by County, 2012
(Taxable Value in Thousands)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
ALCONA	$0	$93,880	$6,900	$23,277	$15,116
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN	107,105	0	0	0	0
ALPENA	8,372	9,094	68,954	103,000	68,200
ANTRIM*	0	0	0	0	0
ARENAC *	1,192	517	1,434	1,437	1,150
BARAGA*	0	20,100	39,143	20,860	24,515
BARRY	6,155	776	42,000	23,214	48,976
BAY*	144,357	15,669	13,958	19,377	212,856
BENZIE*	0	33,116	85,394	20,320	5,463
BERRIEN	56,197	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN	197,092	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 *	18,536	15	3,200	15,000	25,000
CRAWFORD	915	28,545	330,000	6,233	21,150
DELTA *	20,090	56,950	14,051	12,450	27,608
DICKINSON	11,469	8,300	9,500	8,300	45,000
EATON	137,560	291	19,248	118,688	41,970
EMMET	4,244	0	9,333	349	7
GENESEE	76,551	18,075	60,439	517,210	603,131
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	55,247	269	640	20,200	70,000
HOUGHTON	0	14,031	85,971	9,802	115,132
HURON*	56,841	39,400	10,542	85,700	0
INGHAM *	186,082	n.a.	n.a	n.a.	n.a.
IONIA	16,624	0	3,297	17,255	21,800
IOSCO	0	7,893	1,111	8,818	743
IRON *	3,111	23,000	15,000	7,000	525
ISABELLA	11,562	n.a.	n.a.	n.a.	n.a.
JACKSON *	94,089	2,000	201,000	38,000	98,000
KALAMAZOO	147,120	37,986	386,169	815,595	1,521,313
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)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
ALCONA	$0	$821	$139,994	$756,698	15.6%
ALGER*	55,000	0	88,568	$352,290	20.1%
ALLEGAN	113,900	0	113,900	$4,126,260	2.7%
ALPENA	174,760	0	424,008	$896,303	32.1%
ANTRIM*	0	0	0	$1,674,140	0.0%
ARENAC *	33,551	516,698	554,787	$551,728	50.1%
BARAGA*	53,017	125,669	283,304	$235,041	54.7%
BARRY	61,780	34,396	211,142	$1,860,294	10.2%
BAY*	255,154	2,593	519,607	$2,901,968	15.2%
BENZIE*	0	15,503	159,796	$1,099,299	12.7%
BERRIEN	0	0	0	$6,947,740	0.0%
BRANCH *	0	6,500	22,304	$1,283,554	1.7%
CALHOUN	n.a	n.a	0	$3,604,972	0.0%
CASS *	253,589	0	533,252	$1,819,494	22.7%
CHARLEVOIX*	3,526	13	95,653	$2,018,513	4.5%
CHEBOYGAN *	28,393	9,494	171,493	$1,313,094	11.6%
CHIPPEWA *	21,200	3,500	1,374,928	$1,062,568	56.4%
CLARE *	72,638	0	139,129	$1,021,115	12.0%
CLINTON *	43,215	0	86,430	$2,411,598	3.5%
CRAWFORD	53,403	20,000	459,331	$525,685	46.6%
DELTA *	0	0	111,059	$1,148,458	8.8%
DICKINSON	11,100	0	82,200	$964,442	7.9%
EATON	138,671	144,091	462,959	$3,255,105	12.5%
EMMET	0	0	9,689	$2,608,674	0.4%
GENESEE	405,824	0	1,604,679	$8,805,230	15.4%
GLADWIN *	2,900	2,460	124,360	$938,646	11.7%
GOGEBIC *	330	302	44,759	$507,110	8.1%
GRAND TRAVERSE *	169,600	51,400	373,665	$4,286,131	8.0%
GRATIOT *	135,000	10,000	349,600	$1,108,100	24.0%
HILLSDALE	45,071	42,500	178,680	$1,263,046	12.4%
HOUGHTON	2,371	9,969	237,276	$772,289	23.5%
HURON*	0	0	135,642	$1,651,025	7.6%
INGHAM *	n.a.	n.a.	n.a.	$7,026,714	n.a.
IONIA	3,900	0	46,252	$1,468,635	3.1%
IOSCO	1,000	4,855	24,420	$1,120,844	2.1%
IRON *	0	0	45,525	$483,408	8.6%
ISABELLA	n.a.	n.a.	0	$1,622,754	0.0%
JACKSON *	200,000	5,000	544,000	$4,176,792	11.5%
KALAMAZOO	138,721	110,541	3,010,325	$7,902,295	27.6%
KALKASKA *	100,000	55,000	451,000	$718,082	38.6%
KENT *	1,840,872	158,010	2,706,893	$20,039,366	11.9%
KEWEENAW	361	60,227	147,916	$129,266	53.4%

Exhibit 19 (Continued)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
LAKE	$118	$73,422	$41,768	$8,266	$9,252
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	795,737	2,939,414	82,904	461,687	880,193
MANISTEE	15,755	129,853	39,950	35,534	38,122
MARQUETTE	89	61,500	43,500	22,000	205,000
MASON	9,109	131,900	32,300	86,700	165,700
MECOSTA	51,689	9,953	2,361	11,000	350,000
MENOMINEE *	3,679	0	74,966	94	705
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	4,360	72	109,533	4,577	19,780
MONROE	169,752	142	10,652	80,335	176,948
MONTCALM *	32,131	n.a.	0	n.a.	n.a.
MONTMORENCY *	360	120,000	36,000	20,000	13,000
MUSKEGON	72,318	17,203	85,847	144,474	261,309
NEWAYGO	3,172	n.a.	n.a.	n.a.	n.a.
OAKLAND	262,639	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	1,083	216,806	27,468	4,398	11,803
OSCEOLA	15,026	0	4,508	5,365	22,412
OSCODA *	734	279,766	96,109	21,910	33,483
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA	679,528	18,907	28,152	188,098	790,346
PRESQUE ISLE *	373,177	0	40,315	108,911	n.a.
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW	135,672	25,620	154,500	210,120	683,000
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH	104,296	n.a.	n.a.	n.a.	n.a.
SANILAC	10,958	n.a.	n.a.	n.a.	n.a.
SCHOOLCRAFT *	10,491	n.a.	n.a.	n.a.	46,828
SHIAWASSEE *	6,074	675	18,500	68,000	93,000
TUSCOLA*	13,292	0	0	0	0
VAN BUREN *	97,974	0	1,000	12,500	7,500
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD *	20,593	n.a.	n.a.	n.a.	0
TOTAL	$5,540,289	$5,946,404	$3,203,075	$4,704,419	$8,937,091

Note: Wayne and Ingham Counties are not in totals. 2012 taxable value for Wayne County was $41.4 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 19 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
LAKE	$680	$5,462	$138,850	$560,868	19.8%
LAPEER*	184,151	0	443,527	$2,603,370	14.6%
LEELANAU *	0	2,092	19,624	$2,376,171	0.8%
LENAWEE *	0	21,000	362,400	$3,167,296	10.3%
LIVINGSTON *	0	14,596	352,424	$7,482,442	4.5%
LUCE *	650	1,749	17,321	$184,265	8.6%
MACKINAC *	7,817	2,164	131,295	$904,203	12.7%
MACOMB	159,121	415,808	4,939,127	$24,386,777	16.8%
MANISTEE	50,015	55,047	348,521	$1,090,060	24.2%
MARQUETTE	0	240,000	572,000	$2,162,876	20.9%
MASON	28,900	49,200	494,700	$1,538,605	24.3%
MECOSTA	72,932	22,590	468,836	$1,235,025	27.5%
MENOMINEE *	0	4,431	80,196	$686,669	10.5%
MIDLAND *	154,540	110,240	439,605	$3,473,172	11.2%
MISSAUKEE	0	0	133,962	$551,032	19.6%
MONROE	0	8,650	276,727	$5,601,047	4.7%
MONTCALM *	89,554	0	89,554	$1,710,812	5.0%
MONTMORENCY *	0	175,000	364,000	$493,999	42.4%
MUSKEGON	567,395	0	1,076,228	$4,340,016	19.9%
NEWAYGO	n.a.	n.a.	0	$1,372,864	0.0%
OAKLAND	116,068	n.a.	116,068	$49,235,954	0.2%
OCEANA *	4,100	0	43,900	$1,130,576	3.7%
OGEMAW *	0	2,844	36,331	$805,971	4.3%
ONTONAGON	29,341	120,699	410,515	$247,694	62.4%
OSCEOLA	180,968	6,374	219,627	$686,269	24.2%
OSCODA *	7,365	7,552	446,185	$375,805	54.3%
OTSEGO *	45,800	3,665	160,066	$1,155,364	12.2%
OTTAWA	0	719,285	1,744,788	$9,316,154	15.8%
PRESQUE ISLE *	n.a.	n.a.	149,226	$646,965	18.7%
ROSCOMMON*	8,400	9,514	285,832	$1,250,289	18.6%
SAGINAW	1,718,281	245,000	3,036,521	$4,984,975	37.9%
SAINT CLAIR*	129,346	178,053	850,371	5,482,500	13.4%
SAINT JOSEPH	n.a.	n.a.	0	1,854,817	0.0%
SANILAC	n.a.	n.a.	0	1,473,260	0.0%
SCHOOLCRAFT *	n.a.	n.a.	46,828	355,683	11.6%
SHIAWASSEE *	12,000	0	192,175	1,701,680	10.1%
TUSCOLA*	0	0	0	1,392,443	0.0%
VAN BUREN *	1,500	0	22,500	2,978,487	0.7%
WASHTENAW *	774	647	12,384	13,976,297	0.1%
WEXFORD *	n.a.	n.a.	0	927,637	0.0%
TOTAL	$7,988,546	$3,811,203	$34,590,738	$267,332,442	11.5%

Note: Wayne and Ingham Counties are not in totals. 2012 taxable value for Wayne County was $41.4 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, 2012

County	Estimated Acreage	County	Estimated Acreage
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 *	5,434	LUCE *	2,300
BARAGA	24,993	MACKINAC *	240
BARRY	31,219	MACOMB	5,467
BAY*	3,650	MANISTEE	4,400
BENZIE *	554	MARQUETTE	180
BERRIEN	6,812	MASON	620
BRANCH *	425	MECOSTA	2,700
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	1,519	NEWAYGO *	6,800
DELTA *	700	OAKLAND	4,280
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	6,300
GRATIOT *	300	PRESQUE ISLE *	92,659
HILLSDALE	2,900	ROSCOMMON *	1,398
HOUGHTON	3,386	SAGINAW	4,500
HURON*	341	SAINT CLAIR *	11,972
INGHAM	n.a.	SAINT JOSEPH	8,712
IONIA	544	SANILAC *	0
IOSCO	32,857	SCHOOLCRAFT *	n.a.
IRON *	645	SHIAWASSEE *	325
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	432,489

* 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 2012 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 2015 Estimate
Mobile Home Tax Expenditure 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.	$55,300,000
Out-of-State Coaches 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.	n.a.

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 $23.3 million in 2011 (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 $212.2 million in FY 2015.

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 $18.9 million in 2011 (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 2011, city income taxes totaled $412.6 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 2015 Estimate
Federal Deductions 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.	n.a.
Net Profits of Financial Institutions Exempts net profits of financial institutions and insurance companies from the city income tax. No statewide estimate is available.	n.a.

Exhibit 21
Miscellaneous Local Taxes Kept by Counties, 2011

County	Accommodations	Mobile Home (County Share)	Real Estate Prop. Trans.
ALCONA	$0	$0	$30,891
ALGER	0	186	21,019
ALLEGAN	0	28,156	375,424
ALPENA	0	771	40,619
ANTRIM	0	250	119,242
ARENAC	0	1,959	26,920
BARAGA	0	0	12,896
BARRY	0	5,103	123,508
BAY	0	9,741	181,858
BENZIE	0	796	68,202
BERRIEN	0	19,992	481,647
BRANCH	0	3,176	98,028
CALHOUN	131,648	13,412	267,581
CASS	0	4,306	132,996
CHARLEVOIX	0	2,976	95,629
CHEBOYGAN	0	951	68,845
CHIPPEWA	0	2,495	76,294
CLARE	0	2,112	49,841
CLINTON	0	10,486	153,566
CRAWFORD	0	0	24,732
DELTA	0	3,628	62,669
DICKINSON	0	2,255	42,819
EATON	0	9,684	218,794
EMMET	0	2,969	238,167
GENESEE	1,139,806	49,672	619,447
GLADWIN	0	3,726	54,791
GOGEBIC	0	18	24,095
GRAND TRAVERSE	0	10,495	378,953
GRATIOT	0	3,926	72,307
HILLSDALE*	0	2,115	81,168
HOUGHTON	0	216	51,253
HURON	0	2,707	81,645
INGHAM	2,466,267	13,189	528,714
IONIA	0	5,993	82,018
IOSCO	0	315	63,310
IRON	0	304	89,632
ISABELLA	0	4,552	97,941
JACKSON	0	22,677	210,375
KALAMAZOO	2,118,979	78,420	563,476
KALKASKA	0	128	35,279
KENT	5,803,776	45,849	1,640,338
KEWEENAW	0	0	7,758

Exhibit 21 (Continued)

County	Accommodations	Mobile Home (County Share)	Real Estate Prop. Trans.
LAKE	$0	$0	$25,450
LAPEER	0	11,351	160,185
LEELANAU	0	544	154,176
LENAWEE	0	10,875	195,618
LIVINGSTON	0	17,273	571,737
LUCE	0	0	8,594
MACKINAC	0	0	47,278
MACOMB	0	72,548	1,940,680
MANISTEE	0	633	63,459
MARQUETTE	0	2,696	139,446
MASON	0	2,553	59,333
MECOSTA	0	2,738	94,530
MENOMINEE	0	944	37,321
MIDLAND	0	5,381	213,310
MISSAUKEE	0	62	28,364
MONROE	0	30,967	305,034
MONTCALM	0	4,133	91,284
MONTMORENCY	0	78	21,545
MUSKEGON	909,294	21,344	281,274
NEWAYGO	0	8,251	71,667
OAKLAND	0	77,953	4,455,959
OCEANA	0	2,657	56,343
OGEMAW	0	457	38,328
ONTONAGON	0	0	17,268
OSCEOLA	0	303	29,154
OSCODA	0	0	20,341
OTSEGO	0	1,947	72,822
OTTAWA	0	31,608	670,067
PRESQUE ISLE	0	354	32,736
ROSCOMMON	0	1,347	71,425
SAGINAW	2,335,208	10,039	319,832
SAINT CLAIR	0	21,420	324,818
SAINT JOSEPH	0	5,287	111,307
SANILAC	0	5,704	91,551
SCHOOLCRAFT	0	30	18,525
SHIAWASSEE	0	10,463	79,663
TUSCOLA	0	3,220	75,546
VAN BUREN	0	6,587	148,857
WASHTENAW	3,993,639	32,601	1,133,999
WAYNE *	0	80,101	3,272,066
WEXFORD	0	1,953	63,676
TOTAL	$18,898,617	$856,099	$23,309,254

* Figures carried forward from a previous year.

	FY 2015 Estimate
Nonresident Reduced Rate Nonresidents' income is taxed at half the rate paid by residents.	$165,056,000
Pensions, Annuities, and Retirement Plans 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.	n.a.
Personal Exemption 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.	$12,700,000
Supplemental Unemployment Benefits Exempts supplemental unemployment benefits from the city income tax. A statewide estimate is not available.	n.a.

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 city in Michigan eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled $44.9 million in 2011.

Exhibit 22
Estimated Tax Expenditures From
City Income Tax Personal Exemptions, 2011

City	Resident Quantity	Resident Amount	Nonresident and Partial-Year Resident Quantity	Nonresident and Partial-Year Resident Amount
Albion	3,881	$23,286	3,310	$11,467
Battle Creek	33,288	249,660	39,710	148,913
Big Rapids	2,766	16,596	13,646	40,938
Detroit	205,610	3,084,150	297,485	2,231,138
Flint	24,265	145,590	58,037	174,111
Grand Rapids	217,800	1,960,200	291,923	1,313,654
Grayling	837	25,110	3,826	57,390
Hamtramck *	20,156	120,936	6,629	19,887
Highland Park *	8,591	103,092	3,620	21,720
Hudson	1,642	16,420	1,194	5,970
Ionia	4,820	33,740	12,975	45,413
Jackson	19,361	116,166	31,235	93,705
Lansing	52,961	317,766	90,784	272,352
Lapeer	7,564	45,384	16,921	50,763
Muskegon	12,630	75,780	29,233	87,699
Muskegon Heights *	1,783	10,698	5,010	15,030
Pontiac	13,016	78,096	47,085	141,255
Port Huron	19,308	115,848	22,862	68,586
Portland	3,795	37,950	2,295	11,475
Saginaw	28,853	324,596	41,952	235,980
Springfield	3,735	28,013	7,149	26,809
Walker	19,503	117,018	33,303	99,909
TOTAL	706,165	$7,046,095	1,060,184	$5,174,162

* Based on a previous year's survey.

Exhibit 23
City Tax Rates and Exemption Allowances, 2011

	City Income Tax Rate				
City	Resident	Non-Resident	Corporation	Personal Exemption	Collections (000s)
Albion	1.00%	0.50%	1.00%	$600	$1,017
Battle Creek	1.00%	0.50%	1.00%	750	12,953
Big Rapids	1.00%	0.50%	1.00%	600	1,893
Detroit	2.50%	1.25%	1.00%	600	226,586
Flint	1.00%	0.50%	1.00%	600	13,831
Grand Rapids	1.50%	0.75%	1.50%	600	66,204
Grayling	1.00%	0.50%	1.00%	3,000	405
Hamtramck	1.00%	0.50%	1.00%	600	1,705
Highland Park	2.00%	1.00%	2.00%	600	3,161
Hudson	1.00%	0.50%	1.00%	1,000	327
Ionia	1.00%	0.50%	1.00%	700	2,065
Jackson	1.00%	0.50%	1.00%	600	7,323
Lansing	1.00%	0.50%	1.00%	600	27,618
Lapeer	1.00%	0.50%	1.00%	600	2,268
Muskegon	1.00%	0.50%	1.00%	600	7,041
Muskegon Heights	1.00%	0.50%	1.00%	600	906
Pontiac	1.00%	0.50%	1.00%	600	9,853
Port Huron	1.00%	0.50%	1.00%	600	5,768
Portland	1.00%	0.50%	1.00%	1,000	649
Saginaw	1.50%	0.75%	1.50%	750	12,478
Springfield	1.00%	0.50%	1.00%	750	697
Walker	1.00%	0.50%	1.00%	600	7,828
TOTAL					$412,576