Executive Budget Appendix on Tax Credits, Deductions, and Exemptions

Fiscal Year 2009

State of Michigan
Jennifer M. Granholm, Governor

Executive Budget
Appendix on Tax Credits, Deductions, and Exemptions
Fiscal Year 2009

State of Michigan
Michigan Department of Treasury
Jennifer M. Granholm, Governor

ACKNOWLEDGMENTS

Scott Darragh compiled this report under the direction of Howard Heideman, Director of the Tax Analysis Division, Office of Revenue and Tax Analysis (ORTA). ORTA economists Denise Heidt, Andrew Lockwood, and Thomas Patchak-Schuster prepared significant contributions. Jeffrey Guilfoyle, director of ORTA, also provided assistance. Tim Densmore of the Department of Treasury's Motor Fuel Section, Sandy Konieczny of the Department of Labor and Economic Growth, and Steve Bendele and Michael Bjorne of the Department of State provided data for various tax credits, deductions, and exemptions.

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

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

Robert J. Kleine
State Treasurer
Department of Treasury

TABLE OF CONTENTS

Page

LIST OF EXHIBITS

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

APPENDIX ON TAX CREDITS, DEDUCTIONS, AND EXEMPTIONS

EXECUTIVE SUMMARY

FY 2009

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 6.7 percent between fiscal year (FY) 2008 and FY 2009, from $33.6 billion to $35.8 billion. The overall growth in tax expenditures is overstated due to the partial-year impact of tax expenditure related to the Michigan Business Tax. Tax expenditures are divided into five broad categories: business privilege, consumption, individual income, local property, and transportation.

Business privilege tax expenditures are predicted to increase from $1,170.7 million to $1,943.3 million from FY 2008 to FY 2009. The estimates under the business privilege tax category reflect the implementation of the new Michigan Business Tax.

Consumption tax expenditures are predicted to increase 3.6 percent between FY 2008 and FY 2009, from $13,693.3 million to $14,184.8 million. Growth in tax expenditures related to health care, professional, scientific, and technical services, and food for home use 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 $8,167.5 million in FY 2008 to $8,768.6 million in FY 2009, a 7.4 percent increase. The estimates for income tax expenditures are higher than in recent years due to the higher income tax rate enacted in 2007. A higher tax rate increases the tax value of deductions and exemptions.

Local tax expenditures are predicted to increase 3.6 percent between FY 2008 and FY 2009, rising from $10,519.4 million to $10,893.1 million. The significant increase for 2009 is due to new exemptions for industrial and commercial personal property.

Transportation tax expenditures are predicted to increase 2.1 percent between FY 2008 and FY 2009, from $48.6 million to $48.9 million.

CHAPTER 1

INTRODUCTION TO TAX EXPENDITURES

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

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

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

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

Defining Tax Expenditures

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

Classifying items as tax expenditures is a subjective process. Some argue that the tax expenditure definition should be as broad as possible, encompassing all deductions or credits that reduce the taxable base from 100 percent of income or wealth. Others recommend a more narrow definition that includes only those tax deductions or credits that are adjustments to the "normal" or appropriate tax structure. The narrow tax expenditure definition reserves the term tax expenditure for items that are true substitutes for direct spending. This report does not make any assumptions regarding the correct definition of the term tax expenditure but rather reports all exemptions, deductions, and credits that are explicitly outlined in statute.

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

Traditionally, tax expenditures have served two purposes. First, they redistribute the tax burden. Tax expenditures such as personal income tax exemptions, sales tax exemptions for food and prescription drug purchases, and Michigan business tax (MBT) credits for small, low-profit firms all shift the relative tax burden. These tax expenditures are designed to reduce the tax burden on low-income individuals and businesses. Second, tax expenditures create an incentive for individuals or firms to change their behavior. The college contribution credit, intended to increase contributions to colleges and universities, is an example of a tax expenditure designed to influence taxpayer behavior.

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

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

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

Technical Issues

State Versus Federal Tax Expenditures

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

State Versus Local Tax Expenditures

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

Income Tax Personal Exemption

For tax year 2007, individual Michigan taxpayers could claim a $3,400 personal exemption for themselves and each of their dependents. The personal exemption is classified as a tax expenditure in this report. Some contend that the exemption is essential for determining an appropriate income tax base and should not be considered a tax expenditure. Yet even using a narrow definition of tax expenditures, the personal exemption would be considered a tax expenditure because it changes the distribution of the tax burden based on family size.

Industrial Processing Exemption From Sales Tax

The levy of a “pure” retail sales tax takes place only at the retail level, that is, sales to the final consumer. Goods or services used in the production of consumer goods are exempt from this pure retail sales tax. States differ as to the business purchases they exempt from the sales tax. In Michigan, sales of goods used in industrial processing are exempt, although sales of goods used in business, but not in the actual manufacturing process, are subject to taxation. In this sense, the exclusion of non-retail sales from a pure retail sales tax base is not a tax expenditure. However, Michigan’s sales tax is not a pure retail sales tax because many final consumer goods, such as services, are not subject to taxation. Hence, this report includes the business purchase exemption as a tax expenditure for the state sales tax.

Measuring Tax Expenditures

The estimates in this report for fiscal year (FY) 2008 and FY 2009 are based on the most recent data available. Tax year 2006 income tax data (returns processed in the spring of 2007) are used, as are 2006 property and sales tax data, and tax year 2003-2004 SBT 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 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 SBT deduction or credit may allow firms to take greater advantage of other deductions or credits, offsetting at least some of the original revenue impact.

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

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

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

Cautionary Notes and the Reliability of Estimates

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

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

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

1. High reliability level.

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

2. Average reliability level.

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

3. Low reliability level.

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

Why Report Tax Expenditures?

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

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

1. Tax Equity.

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

2. Fiscal Discipline.

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

3. Political Accountability.

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

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

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

CHAPTER 2

SUMMARY OF TAX EXPENDITURES

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

Total tax expenditures are projected to increase from $33.599 billion in FY 2008 to $35.839 billion in FY 2009, a 6.7 percent increase (see Exhibit 1). Most of the increase in total tax expenditures is due to growth in consumption tax expenditures, specifically the exemption of most service industries from the sales and use taxes, and using a partial-year estimate for the MBT for FY 2008 which causes the growth to appear larger than it would be with full-year implementation.

Exhibit 1
Total Tax Expenditures, FY 2008 and FY 2009

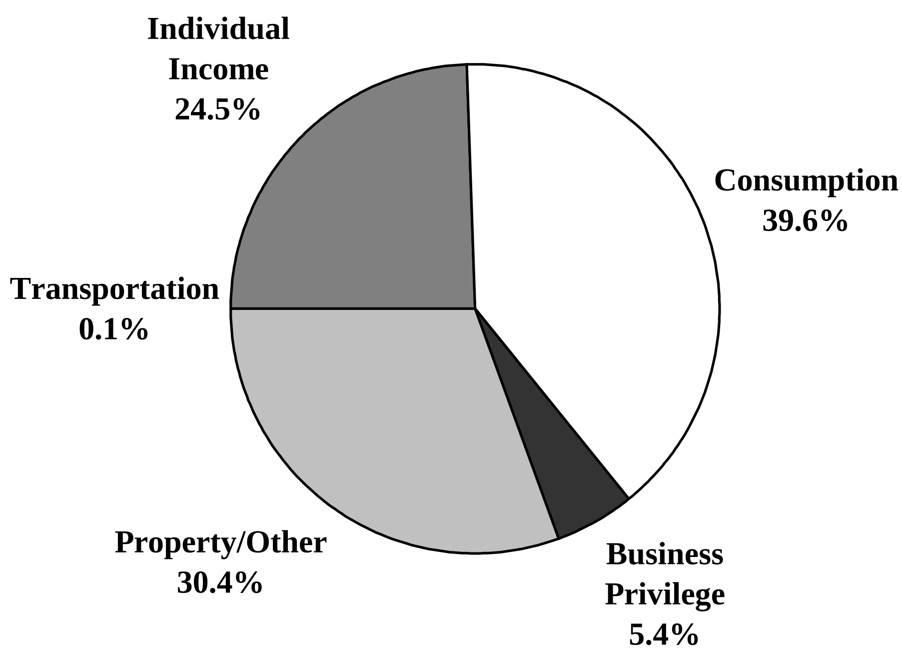
Tax Category	FY 2008 (000)	FY 2009 (000)	Change (000)
Business Privilege *	$1,170,695	$1,943,330	$772,635
Consumption	13,693,293	14,184,812	491,519
Individual Income	8,167,493	8,768,567	601,074
Property	10,345,150	10,718,000	372,850
Other Local (City Income)	174,200	175,100	900
Transportation	48,606	48,943	337
TOTAL	$33,599,437	$35,838,752	$2,239,315

* FY 2008 includes a partial-year estimate for tax expenditures associated with the Michigan Business Tax.

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 2009, consumption tax expenditures comprise 39.6 percent of total tax expenditures, while income tax expenditures comprise 24.5 percent and property and other local taxes comprise 30.4 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 2009 Distribution of Tax Expenditures



Total may not equal 100 percent due to rounding.

Exhibit 3
FY 2009 Tax Expenditures and Projected Revenue
(millions of dollars)

Tax Category	Tax Expenditure	Projected Revenues*	Percent of Revenues
Business Privilege			
Oil and Gas Severance	$12.1	$83.0	14.6%
Michigan Business	1,930.7	2,660.7	72.6%
Consumption			
Total Alcohol	0.1	176.1	0.1%
Cigarette and Tobacco	27.0	1,058.7	2.6%
Sales and Use	14,157.7	7,961.0	177.8%
Individual Income Tax	6,092.5	7,009.6	86.9%
Transportation			
Aviation Fuel	3.1	6.1	51.2%
Gasoline	28.6	830.1	3.4%
Diesel Fuel	5.6	143.5	3.9%
Motor Vehicle Registration	10.9	870.0	1.2%
City Income Tax	175.1	480.0	36.5%
TOTAL	$22,443.4	$21,278.8	105.5%

*From Consensus Revenue Estimating Conference, May 2008.

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.

There were significant revisions to the Michigan tax expenditure estimates presented in Exhibit 6. The higher income tax rate enacted in 2007 increased the value of income tax deductions and exemptions. For example, a $3,500 exemption would reduce a taxpayer's income tax liability by $137 with a tax rate of 3.9 percent. However, that $3,500 exemption reduces the tax liability by $152 with a tax rate of 4.35 percent. In addition, there has been significant growth in deductions for income attributable to another state.

Exhibit 4
Business Privilege Tax Expenditures

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Insurance Company		
Disability Insurance Exclusion	n.a.	$12,500
Supplemental Workers' Compensation	$605	500
SUBTOTAL	$605	$13,000
Oil and Gas Severance Tax		
Marginal Wells	$4,433	$7,500
Public Land	3,237	4,600
SUBTOTAL	$7,670	$12,100
Michigan Business Tax Expenditure		
Affordable Housing	$2,100	$3,300
Agricultural Producers	22,000	35,200
Anchor Company Credit	0	0
Arts and Culture Credit	8,900	14,200
Bottle Deposit Administration Credit	3,100	4,900
Brownfield Redevelopment Credit	45,300	72,500
Business Loss Deduction	0	69,600
Community/Education Foundation Credit	2,600	4,100
Compensation Credit	137,700	220,300
Construction Subcontractor Payments Exemption	14,400	23,000
Entrepreneurial Credit	6,300	10,100
Farmland Preservation Credit	800	1,200
Federal Government Contracting Credit	0	0
Floor Plan Interest Deduction	2,200	3,500
Government Utilities Exemption	14,200	22,700
Gross Receipts Filing Threshold	26,300	42,100
Gross Receipts Filing Threshold Credit	33,800	54,100
Historic Preservation Credit	1,400	2,300
Homeless Shelter/Food Bank Credit	300	500
Hybrid Technology R & D Credit	1,200	1,900
Insurers' Facility Assessment Credit	7,400	11,800
Investment Tax Credit	79,900	127,900
Low-Grade Hematite Credit	1,900	3,000
Michigan Early Stage Venture Capital Voucher	0	0

Exhibit 4 (Continued)

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Michigan Economic Growth Authority (MEGA)	$59,100	$94,600
Motion Picture Credits	72,900	116,600
Motion Picture Gross Receipts Exclusion	400	600
Multiple Employer Welfare Arrangement	20	30
NASCAR Safety Credit	0	1,900
NASCAR Speedway Credit	1,100	1,700
New Motor Vehicle Dealer Inventory Credit	5,700	9,100
Next Energy Credit	12,600	20,100
Nonprofit Organizations	84,100	134,600
Personal Property Tax Credit	97,300	155,600
Private Equity Fund Credit	0	0
Public Contribution Credit	1,300	2,000
Renaissance Zone Credit	22,300	35,700
Research and Development Credit	39,400	63,000
Retailer Credits	5,900	9,500
Self-Employment Net Earnings Deduction	79,400	127,100
Single Business Tax Credit Carryforwards	26,300	42,000
Small Business Alternate Tax Credit	229,300	366,900
Stadium Credit	1,100	1,700
Staffing Company Gross Receipts Exclusion	10,600	16,900
Start-up Business Credit	0	0
Tribal Tax Agreements	0	0
Workers' Disability Supplemental Benefit Credit	1,800	2,900
SUBTOTAL	$1,162,420	$1,930,730
TOTAL	$1,170,695	$1,943,330

* Estimates reflect the partial-year implementation of the MBT for FY 2008.

Exhibit 5
Consumption Tax Expenditures

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (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	$800	$800
Licensee Expenses	16,612	16,267
Sales on Military Bases and Reservations	10,147	9,944
SUBTOTAL	$27,559	$27,011
Sales and Use Tax Expenditures		
Air and Water Pollution	$45,000	$48,000
Aircraft Parts	8,209	8,251
Bad Debts	59,269	59,728
Cargo Aircraft	30,000	30,000
Church Construction	3,200	3,200
Church Cars	3,859	3,889
Collection Fee	15,529	15,649
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Donated Property	n.a.	n.a.
Donated Vehicles	500	500
Driver Training	473	463
Employee Meals	12,193	12,288
Enterprise Zone Credit	n.a.	n.a.
Food	1,112,172	1,120,770
Food for Students	20,205	20,361
Government or Red Cross	154,416	155,609
Gratuity and Tips	60,912	61,383
Horticultural and Agricultural Products	147,507	149,720
Imported Property from Other States	3,200	3,200

Exhibit 5 (Continued)

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Industrial Processing	$835,779	$842,240
Inmate Purchases	560	560
Interstate Communications	14,833	14,536
Interstate Trucks and Trailers	37,810	38,102
Investment Coins	400	400
Isolated Sales	n.a.	n.a.
Military PX Sales	1,559	1,572
Military Vehicles Sales	n.a.	n.a.
Military Vehicles Sales (Residents Out-of-State)	n.a.	n.a.
Motion Picture Credit *	3,000	1,000
Newspapers, Periodicals, and Films	95,490	96,228
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital or Housing Construction	10,219	10,298
Nonprofit Organizations	165,441	166,720
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	51,737	53,289
Prescription Drugs	519,960	563,430
Radio and TV	4,400	4,400
Rail Rolling Stock	1,586	1,598
Residential Utilities	142,500	143,500
Returned Vehicles	1,100	1,100
Sales of Business	n.a.	n.a.
Sale of Water	66,623	67,657
Services (Including Nonprofits)	9,914,343	10,334,754
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	12,311	12,558
Textbooks Sold by Schools	n.a.	n.a.
Tribal Tax Agreement	n.a.	n.a.
Vehicles and Aircraft Transfers	39,947	40,256
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines and Mobile Facilities	27,400	28,500
SUBTOTAL	$13,665,642	$14,157,709
TOTAL	$13,693,291	$14,184,810

* Indicates tax expenditure was created, expanded, or otherwise modified.

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

Exhibit 6
Individual Income Tax Expenditures

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (000)
State Income Tax		
Adjustments to Income (except military)	$3,311,368	$3,472,403
Adoption Credit	1,045	1,083
Child Deduction	54,076	55,697
City Income Tax Credit	34,074	34,415
College Savings Accounts	17,360	18,718
Community Foundation Credit	3,669	3,872
Dependent Exemption	20,048	20,649
Donated Vehicle Credit	116	121
Earned Income Credit	0	133,553
Farmland Credit	33,862	35,217
Higher Education/Public Contributions Credit	26,500	26,775
Historic Preservation Credit	831	946
Holocaust Survivor Subtraction	n.a.	n.a.
Home Heating Assistance Credit	315	321
Homeless/Food Bank Credit	19,875	20,758
Homestead Property Tax Credit	889,451	933,923
Income Tax Paid to Other State Credit	44,746	47,191
Military Pay and Pensions	27,701	33,145
Personal Exemption	1,157,281	1,191,972
Renaissance Zones	300	300
Special Exemption	50,908	53,968
Stillbirth Credit	20	20
Tribal Tax Agreements	n.a.	n.a.
Tuition Credit	7,133	7,418
TOTAL STATE	$5,700,679	$6,092,465
Federal Adjustments		
Accelerated Depreciation	$139,800	$148,508
Employer Contributions to Insurance	910,769	1,029,705
Employer Pension Plans *	561,490	582,012
Federal Adjustments to Income	26,227	29,550
Fellowships and Scholarships	11,649	12,427
Gain on Sale of Primary Residence	180,269	193,096
Income Maintenance Benefits	5,643	5,990

Exhibit 6 (Continued)

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Federal Adjustments (continued)		
Individual Retirement Accounts	$167,694	$185,289
Interest on Life Insurance Savings	131,028	143,995
Medical Savings Account	5,969	7,904
Railroad Retirement Benefits	1,840	1,876
Social Security Benefits	241,106	249,367
Student Loan Deduction	4,874	5,031
Veterans' Benefits	28,600	29,717
Workers' Compensation	49,856	51,635
TOTAL FEDERAL	$2,466,814	$2,676,102
TOTAL STATE AND FEDERAL	$8,167,493	$8,768,567

* Indicates a tax expenditure was created, expanded, or otherwise modified.

Exhibit 7
Transportation Tax Expenditures

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Aviation Gasoline and Marine Fuel		
Federally Owned Aircraft	$277	$283
Interstate Flight Refund	2,800	2,840
Marine Vessel Exemption	740	740
SUBTOTAL	$3,817	$3,863
Motor Fuel Taxes		
Diesel Fuel for Jobsites and Charter Firms	$5,480	$5,590
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	13,200	13,070
Fuel for Off-Road Use	1,000	1,000
Municipal Franchise Vehicles	430	450
Public Vehicles	13,900	14,100
Tribal Tax Agreements	n.a.	n.a.
SUBTOTAL	$34,010	$34,210
Motor Vehicles Registration Fee		
Disabled Veterans’ Vehicles	$315	$340
Handicapper Vans	n.a.	n.a.
Intercity Commercial Buses	n.a.	n.a.
Public and Nonprofit Vehicles	10,450	10,517
SUBTOTAL	$10,765	$10,857
Watercraft Registration Fee		
Publicly-Owned Vehicle	$14	$13
TOTAL	$48,606	$48,943

Exhibit 8
Local Property and Other Local Tax Expenditures

Tax or Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Property and Other Local Tax Expenditures		
Agriculture Transfers	$29,200	$31,200
Air and Water Pollution Control	150,000	160,000
Church Transfers	n.a.	n.a.
Cultural Organizations	n.a.	n.a.
Energy Conservation Devices	310	240
Enterprise Zone Credit	1,000	900
Fairground Property	n.a.	n.a.
Homestead Exemption	3,620,000	3,680,000
Homestead Exemption for Farm Property	150,000	150,000
Industrial Facilities Development	245,000	245,000
Mobile Homes	58,000	59,900
Neighborhood Enterprise Zones	16,200	17,800
Next Energy Exemption	750	900
Obsolete Property Rehabilitation	3,500	4,300
Personal Property Tax Exemption	68,800	410,700
Poverty Exemption *	5,500	6,000
Railroad Right-of-Way/Broadband Credit	45,700	46,850
Renaissance Zones *	120,000	75,000
Specifically-Taxed Property	n.a.	n.a.
Tax-Exempt Property	1,960,000	1,998,000
Tax Increment Financing	300,000	310,000
Taxable Value Cap	3,570,000	3,520,000
Water Softeners	1,190	1,210
SUBTOTAL	$10,345,150	$10,718,000
City Income Tax		
Federal Deductions	n.a.	n.a.
Net Profits of Financial Institutions	n.a.	n.a.
Nonresident Reduced Rate	$158,300	$159,100
Pensions, Annuities, and Retirement	n.a.	n.a.
Personal Exemption	15,900	16,000
Supplemental Unemployment Benefits	n.a.	n.a.
SUBTOTAL	$174,200	$175,100
TOTAL	$10,519,350	$10,893,100

* Indicates a tax expenditure was created, expanded, or otherwise modified.

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 2009

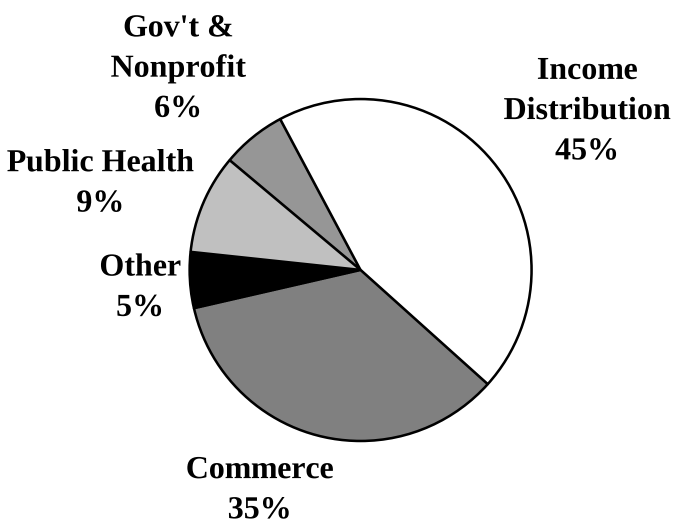


Exhibit 10
Comparison of State Tax and Direct Expenditures (From State Resources)
for Selected Spending Categories, FY 2008

Spending Category	Tax Expenditure (000)	Direct Expenditure (000)	Total (000)	Percent Tax Expenditure
Agriculture	$204,169	$77,280	$281,449	72.5%
Commerce (DLEG)	9,425,930	424,846	9,850,776	95.7%
Higher Education	471,626	1,888,976	2,360,602	20.0%
Income Distribution (DHS)	9,315,456	1,368,109	10,683,565	87.2%
Military Affairs	69,522	68,815	138,337	50.3%
Natural Resources	45,000	233,252	278,252	16.2%
Public (Community) Health	3,169,254	4,987,648	8,156,902	38.9%
Transportation	50,609	2,116,605	2,167,214	2.3%
TOTAL	$22,751,566	$11,165,530	$33,917,097	67.1%

Note: FY 2008 expenditure figures from *FY 2007-2008 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 2008 (000)	FY 2009 (000)
Agriculture	$704,669	$719,337
Commerce	11,097,170	12,370,381
Education	872,626	911,165
Government and Nonprofit Organizations	2,107,421	2,210,775
Income Distribution	15,332,856	15,951,411
Military Affairs	69,522	75,918
Natural Resources	195,310	208,240
Public Health	3,169,254	3,339,574
Transportation	50,609	51,951
TOTAL	$33,599,437	$35,838,752

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 2008 (000)	FY 2009 (000)
Agriculture		
General Property Tax		
Agriculture Transfer	$29,200	$31,200
Homestead Exemption for Farm Property	150,000	150,000
Taxable Value Cap	321,300	316,800
Income Tax		
Farmland Development Credit (PA 116)	33,862	35,217
Michigan Business Tax		
Agricultural Producers	22,000	35,200
Corporate Farm Preservation Credit	800	1,200
Sales and Use Taxes		
Horticultural or Agricultural Products	147,507	149,720
TOTAL	$704,669	$719,337
Commerce		
Alcoholic Beverage Taxes		
Beer Shipped Out-of-State	n.a.	n.a.
Small Brewer's Credit	$90	$90
Tobacco Products Tax		
Bad Debt Deduction	800	800
Licensee Expenses	16,612	16,267
Income Tax		
Accelerated Depreciation	139,800	148,508
Renaissance Zone Credit	300	300
Insurance Company Retaliatory Tax		
Supplemental Workers' Compensation Credits	605	500
Michigan Business Tax		
Bottle Deposit Administration Credit	3,100	4,900
Brownfield Redevelopment Credit	45,300	72,500
Business Loss Deduction	0	69,600
Compensation Credit	137,700	220,300
Construction Subcontractor Payments Exemption	14,400	23,000
Entrepreneurial Credit	6,300	10,100
Floor Plan Interest Deduction	2,200	3,500
Gross Receipts Filing Threshold	26,300	42,100
Gross Receipts Filing Threshold Credit	33,800	54,100

Tax/Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Commerce (Continued)		
Insurers' Facility Assessment Credit	$7,400	$11,800
Investment Tax Credit	79,900	127,900
Low-Grade Hematite Credit	1,900	3,000
Michigan Economic Growth Authority (MEGA)	59,100	94,600
Motion Picture Credits	72,900	116,600
Motion Picture Gross Receipts Exclusion	400	600
Multiple Employer Welfare Arrangement	20	30
NASCAR Safety Credit	0	1,900
NASCAR Speedway Credit	1,100	1,700
New Motor Vehicle Dealer Inventory Credit	5,700	9,100
Next Energy Credit	12,600	20,100
Personal Property Tax Credit	97,300	155,600
Renaissance Zone Credit	22,300	35,700
Research and Development Credit	39,400	63,000
Retailer Credits	5,900	9,500
Self-Employment Net Earnings Deduction	79,400	127,100
Single Business Tax Credit Carryforwards	26,300	42,000
Small Business Alternate Tax Credit	229,300	366,900
Stadium Credit	1,100	1,700
Staffing Company Gross Receipts Exclusion	10,600	16,900
Workers' Disability Supplemental Benefit Credit	1,800	2,900
Motor Vehicle Registration Tax		
Intercity Commercial Buses	n.a.	n.a.
Oil and Gas Severance Tax		
Marginal Wells	4,433	7,500
Property Tax		
Broadband Investment Credit	22,000	22,550
Enterprise Zone	1,000	900
Industrial Facilities Development	245,000	245,000
Mobile Homes	58,000	59,900
Neighborhood Enterprise Zones	16,200	17,800
Next Energy Exemption	750	900
Obsolete Property Rehabilitation	3,500	4,300
Personal Property Tax Exemption	68,800	410,700
Renaissance Zones	120,000	75,000
Tax Increment Financing	300,000	310,000
Taxable Value Cap	856,800	844,800
Water Softeners	1,190	1,210

Tax/Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Commerce (Continued)		
Sales and Use Taxes		
Aircraft Parts	$8,209	$8,251
Bad Debts	59,269	59,728
Cargo Aircraft	30,000	30,000
Collection Fee	15,529	15,649
Commercial Domestic Aircraft	5,000	5,000
Commercial Vessels	n.a.	n.a.
Communication and Telephone Exemption	37,000	37,000
Employee Meals	12,193	12,288
Enterprise Zone	n.a.	n.a.
Gratuities and Tips	60,912	61,383
Imported Property from Other States	3,200	3,200
Industrial Processing	835,779	842,240
Interstate Telecommunications	14,833	14,536
Interstate Trucks and Trailers	37,810	38,102
Investment Coins	400	400
Motion Picture Credit	3,000	1,000
Newspapers, Periodicals, and Films	95,490	96,228
Nonresident Merchandise Transfer	n.a.	n.a.
Radio and TV	4,400	4,400
Returned Vehicles	1,100	1,100
Sale of Business	n.a.	n.a.
Sale of Water	66,623	67,657
Services (except education, health, and nonprofits)	6,847,365	7,115,150
Small Out-of-State Purchases	n.a.	n.a.
Telephone Services	12,311	12,558
Vehicle and Aircraft Transfers	39,947	40,256
Vehicles Purchased for Use in Another State	n.a.	n.a.
Vending Machines	27,400	28,500
TOTAL	$11,097,170	$12,370,381
Education		
Income Tax		
College Savings Account	$17,360	$18,718
Fellowships and Scholarships	11,649	12,427
Higher Education/Public Contribution Credit	26,500	26,775
Tuition Credit	7,133	7,418

Tax/Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Education (Continued)		
Michigan Business Tax		
Community/Education Foundation Credit	$2,600	$4,100
Public Contribution Credit	1,300	2,000
Property Tax		
Exempt Public Education Property	401,000	409,000
Sales Tax		
Services	405,084	430,727
Textbooks Sold by Schools	n.a.	n.a.
TOTAL	$872,626	$911,165
Government and Nonprofit Organizations		
Aviation Gasoline Tax		
Federally Owned Aircraft	$277	$283
Income Tax		
Community Foundation	3,669	3,872
Historic Preservation Credit	831	946
Michigan Business Tax		
Arts and Culture Credit	8,900	14,200
Government Utilities Exemption	14,200	22,700
Historic Preservation Credit	1,400	2,300
Nonprofit Organizations	84,100	134,600
Motor Fuel Taxes		
Public Vehicles	13,900	14,100
Motor Vehicle Weight Tax		
Handicapper Vans	n.a.	n.a.
Public and Nonprofit Vehicles	10,450	10,517
Oil and Gas Severance Tax		
Public Land	3,237	4,600
Property Tax		
Church Transfers	n.a.	n.a.
Tax Exempt Property	1,559,000	1,589,000
Sales and Use Taxes		
Church Cars	3,859	3,889
Church Construction	3,200	3,200
Donated Property	n.a.	n.a.
Government or Red Cross	154,416	155,609
Nonprofit Organizations	165,441	166,720
Nonprofit Sales	n.a.	n.a.
Services	80,527	84,226

Tax/Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Government and Nonprofit Organizations (Continued)		
Watercraft Registration Fee		
Publicly Owned Watercraft	$14	$13
TOTAL	$2,107,421	$2,210,775
Income Distribution		
City Income Tax		
Nonresident Reduced Rate	$158,300	$159,100
Personal Exemption	15,900	16,000
General Property Tax		
Homestead Exemption	3,620,000	3,680,000
Poverty Exemption	5,500	6,000
Taxable Value Cap	2,391,900	2,358,400
Income Tax		
Adjustments to Income (except military)	3,311,368	3,472,403
Adjustments to Income (federal)	26,227	29,550
Adoption Credit	1,045	1,083
Child Deduction	54,076	55,697
City Income Tax Credit	34,074	34,415
Dependent Exemption	20,048	20,649
Donated Vehicle Credit	116	121
Earned Income Tax Credit	0	133,553
Employer Contributions to Health and Life Insurance	910,769	1,029,705
Employer Pension Plans	561,490	582,012
Gain on Sale of Primary Residence	180,269	193,096
Holocaust Survivor	n.a.	n.a.
Home Heating Assistance Credit	315	321
Homeless Credit	19,875	20,758
Homestead Property Tax Credit (excluding veterans)	888,251	932,723
Income Maintenance Benefits	5,643	5,990
Individual Retirement Account	167,694	185,289
Interest on Life Insurance Savings	131,028	143,995
Other State Tax Credit	44,746	47,191
Personal Exemption	1,157,281	1,191,972
Railroad Retirement Benefits	1,840	1,876
Social Security Benefits	241,106	249,367
Special Exemption	50,908	53,968

Tax/Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Income Distribution (Continued)		
Stillbirth Credit	$20	$20
Student Loan Deduction	4,874	5,031
Workers' Compensation	49,856	51,635
Michigan Business Tax		
Affordable Housing	2,100	3,300
Homeless Shelter Food Bank Credit	300	500
Sales and Use Taxes		
Donated Vehicles	500	500
Food	1,112,172	1,120,770
Food for Students	20,205	20,361
Inmate Purchases	560	560
Residential Utilities	142,500	143,500
TOTAL	$15,332,856	$15,951,411
Military Affairs		
Cigarette Tax		
Sales on Military Bases and Reservations	$10,147	$9,944
Income Tax		
Military Pay and Pension	27,701	33,145
Veterans' Benefits	28,600	29,717
Veterans' Property Tax Credit	1,200	1,200
Motor Vehicle Weight Tax		
Disabled Veteran Vehicles	315	340
Sales and Use Taxes		
Military Post-Exchange Sales	1,559	1,572
Military Vehicle Sales (nonresident)	n.a.	n.a.
Military Vehicle Sales (resident out-of-state)	n.a.	n.a.
TOTAL	$69,522	$75,918
Natural Resources		
Property Tax		
Air and Water Pollution	$150,000	$160,000
Energy Conservation Devices	310	240
Sales and Use Taxes		
Air and Water Pollution	45,000	48,000
TOTAL	$195,310	$208,240

Tax/Tax Expenditure	FY 2008 (000)	FY 2009 (000)
Public Health		
Income Tax		
Medical Care Savings	$5,969	$7,904
Sales and Use Taxes		
Medical Services	2,581,369	2,704,653
Nonprofit Ambulance and Fire Services	n.a.	n.a.
Nonprofit Hospital Construction	10,219	10,298
Ophthalmic and Orthopedic Products	51,737	53,289
Prescription Drugs	519,960	563,430
TOTAL	$3,169,254	$3,339,574
Transportation		
Aviation Gasoline Tax		
Interstate Flight Refund	$2,800	$2,840
Michigan Business Tax		
Hybrid Technology R & D Credit	1,200	1,900
Motor Fuel Taxes		
Diesel Fuel for Jobsites	5,480	5,590
Diesel Fuel for Railroads	n.a.	n.a.
Evaporation and Loss Allowance	13,200	13,070
Fuel for Off-Road Use	1,000	1,000
Marine Vessel Fuel	740	740
Municipal Franchise Vehicles	430	450
Sales and Use Taxes		
Driver Training	473	463
Rail Rolling Stock	1,586	1,598
Utility Property Tax		
Railroad Right-of-Way	23,700	24,300

CHAPTER 4

BUSINESS PRIVILEGE TAX EXPENDITURES

Business privilege tax expenditures include insurance company retaliatory, oil and gas severance, and MBT expenditures. Business privilege tax expenditures are projected to increase from $1,170.7 million in FY 2008 to $1,943.3 million in FY 2009. These estimates are based on the MBT being in place ¾ of FY 2008, since the MBT took effect on January 1, 2008.

Estimate Reliability	(1)	Farmland Preservation Credit
		Homeless/Food Bank Credit
		Low-Grade Hematite Credit
		NASCAR Speedway Credit
		Public Contribution Credit
		Stadium Credit
		Workers' Disability Supplemental Benefit Credit
	(2)	Business Loss Deduction
		Compensation Credit
		Construction Subcontractor Payments Exemption
		Disability Insurance Exclusion
		Gross Receipts Filing Threshold
		Gross Receipts Filing Threshold Credit
		Historic Preservation Credit
		Insurers' Facility Assessment Credit
		Investment Tax Credit
		Oil and Gas Severance Tax
		Personal Property Tax Credit
		Research and Development Credit
		Single Business Tax Unused Credit Carryforwards
		Small Business Credit/Alternate Tax Rate
	(3)	Other MBT Tax Expenditures

The introduction of the MBT creates some uncertainty about the precision of the tax expenditure estimates. The tax applies to a broader group of businesses, and the tax will affect some business sectors differently than the previous tax. Many MBT expenditure estimates were based on similar provisions from the Single Business Tax, and reliable return data are available. New provisions in the MBT were estimated using information from other sources, including federal tax information and other business statistics. Other tax expenditure estimates from business privilege taxes were based on 2006 data. Insurance company retaliatory 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 36 of 2007 created the Michigan Business Tax Act, which took effect on January 1, 2008. Public Act 36 was designed to replace the single business tax, which was repealed after 2007.

Public Act 90 of 2007 amended the Michigan Business Tax Act to allow a deduction for businesses that incur an increase in their deferred tax liability due to the creation of the Michigan business tax (MBT). The deduction would first be available in the 2015 tax year.

Public Act 145 of 2007 amended the Michigan Business Tax Act to impose a surcharge on a taxpayer's liability under the MBT. The surcharge rate for most taxpayers is 21.99 percent. Certain financial institutions will pay a surcharge rate of 27.7 percent for tax year 2008, and 23.4 percent for tax years after 2008. The maximum surcharge any taxpayer will pay is $6.0 million. The MBT Act also made numerous changes to credits available under the SBT, created several new tax credits, modified the tax base through changes to the definitions of business income and gross receipts, imposed a limit on the revenue that could be raised by the MBT, and repealed the expanded list of services subject to the use tax.

Public Act 205 of 2007 amended the Michigan Business Tax Act to clarify the taxability of businesses whose activities included live radio or television broadcasts and change how these firms apportion their tax base to Michigan.

Public Act 206 of 2007 amended the Michigan Business Tax Act to create a credit against the Michigan Business Tax equal to the tax liability due to activities as a private equity fund. The credit would be apportioned to Michigan based on the proportion of days the manager of the private equity fund conducted activity in Michigan relative to all activity conducted during the year.

Public Act 207 of 2007 amended the Michigan Business Tax Act to narrow the definition of gross receipts. The exclusions generally apply to financial transactions involving the return of principal and would apply exclusions to a broader group of industries.

Public Act 208 of 2007 amended the Michigan Business Tax Act to allow taxpayers who were eligible to claim a credit against the Single Business Tax for research and development expenses of a hybrid vehicle propulsion system to now claim the credit against the MBT. The carryover provisions would expire on January 1, 2016.

Public Act 214 of 2007 amended the Michigan Business Tax Act to create a credit against the MBT equal to 3.9 percent of the compensation paid to employees at a qualified facility where the taxpayer is engaged in research and development of hybrid motor vehicle propulsion technology. In order to qualify, the taxpayer was required to have entered into a previous agreement with MEGA, and the qualified facility was required to be located in a city with a population, as reported in the 2000 Census, between 80,000 and 82,000, and in a county with a population between 1,000,000 and 1,300,000. The only city meeting both thresholds was the City of Troy in Oakland County.

Public Acts 215 and 216 of 2007 amended the Michigan Business Tax Act to extend the eligibility for the historic preservation and renaissance zone credits to banks and insurance companies.

Insurance Company Retaliatory Tax

Effective August 3, 1987, the Michigan tax on insurance premiums was replaced with a tax on all insurers' gross receipts under the SBT. The MBT imposes a 1.25 percent tax on Michigan insurance premiums. Foreign companies are also subject to a retaliatory tax, which requires them to pay the same tax that a Michigan-based insurer would have to pay in the firm's home state. Foreign insurers pay the MBT or the retaliatory tax, whichever is greater. The estimated yield from taxes on insurers is $260.0 million for FY 2009; revenue goes to the State General Fund.

	FY 2009 Estimate
Disability Insurance Exclusion Exempts the first $190,000,000 of disability insurance premiums written in Michigan.	$12,500,000
Supplemental Workers Compensation Credit Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Previously, firms were reimbursed through the appropriations process for these payments.	$500,000

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 estimated yield is $83.0 million for FY 2009; revenue goes to the State General Fund.

	FY 2009 Estimate
Marginal Wells Taxes oil from marginal or stripper wells at 4.0 percent, rather than the 6.6 percent rate on other oil production.	$7,500,000
Public Land Exempts oil and gas severed from publicly-owned lands from taxation.	$4,600,000

MBT Expenditures

Enacted in 1976, the SBT was enacted as a consumption-type, value-added tax that had numerous adjustments to provide tax relief to businesses. Public Act 325 of 2006 repealed the SBT after December 31, 2007. Much of the legislative activity for the first six months of 2007 was devoted to adopting a replacement business tax. Public Act 36 of 2007 created the Michigan Business Tax Act, which took effect on January 1, 2008.

The MBT levies a broad tax on the privilege of doing business in Michigan using two separate tax calculations. The first tax is levied on business income at a rate of 4.95 percent, while the second tax is levied on modified gross receipts at a rate of 0.80 percent. A taxpayer's overall tax liability is the sum of the two taxes. Several tax credits from the SBT were retained with the new tax, in addition to the creation of several new credits. Among the new credits is a tax credit for personal property taxes paid on industrial, telephone, or natural gas pipeline personal property. Financial institutions are not taxed on business income or gross receipts, but are subject to a tax of 0.235 percent on their net capital.

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

Revenues from the MBT are estimated to be $1,816.3 million in FY 2008 and $2,660.7 million in FY 2009, the first full year for the tax. The School Aid Fund receives $341.0 million from the MBT in FY 2008 and $729.0 in FY 2009 to cover the cost of new personal property tax exemptions tied to the MBT. The remaining revenues are earmarked to the State General Fund.

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

	FY 2009 Estimate
Affordable Housing Allows eligible taxpayers deductions from their MBT tax bases for certain affordable housing projects.	$3,300,000
Agricultural Producers Exempts agricultural production from the MBT.	$35,200,000

	FY 2009 Estimate
Anchor Company 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. There are two credits: one based on the anchor company's supplier's/customer's taxable value and one based on a supplier's/customer's payroll.	$0
Arts and Culture Credit Provides a partial credit for donations made to a municipality (or a non-profit corporation affiliated with a municipality) for the purpose of benefiting the art institute, historical institute or zoo.	$14,200,000
Bottle Deposit Administration Credit Provides a credit equal to 30.5 percent of a taxpayer's expenses incurred to comply with the Michigan bottle deposit program statute.	$4,900,000
Brownfield Redevelopment Credit Provides an MBT 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.	$72,500,000
Business Loss Deduction Beginning with the 2009 tax year, permits a business that had a negative business income tax base in a prior tax year to take a business loss deduction in order to reduce its current tax liability. Negative adjusted business income tax bases may be carried forward for up to 10 years. The MBT also allows for taxpayers to claim 65 percent of their remaining SBT business loss deduction against the gross receipts tax base in tax year 2008.	$69,600,000
Community/Education Foundation Credit Provides a 50 percent credit for contributions made to a qualified community or education foundation as certified by the Department of Treasury. The maximum credit is equal to 5 percent of tax liability before credits or $5,000, whichever is less.	$4,100,000

	FY 2009 Estimate
Compensation Credit Provides a credit for the taxpayer's compensation in Michigan. The credit percentage is equal to 0.296 percent of Michigan compensation in 2008 and to 0.370 percent of Michigan compensation in following years. For 2008, the sum of the credit and the Investment Tax Credit cannot exceed 50 percent of MBT liability (before the MBT surcharge). For 2009 and following, the combined credit cannot exceed 52 percent of MBT liability (before the MBT surcharge).	$220,300,000
Construction Subcontractor Payments Exemption For a construction contractor not eligible for the alternate tax credit, excludes from its gross receipts tax base, payments to a subcontractor.	$23,000,000
Entrepreneurial Credit For 2008, 2009 and 2010 tax years, an eligible taxpayer may claim a credit equal to the entire portion of its MBT liability attributable to increased employment. The taxpayer must have less than $25 million in gross receipts the year before claiming the credit (the amount will be adjusted for inflation); created or transferred into Michigan at least 20 new jobs in the prior year, and made at least $1.25 million in new capital investment in Michigan.	$10,100,000
Farmland Preservation Credit Provides property tax relief for corporate farms eligible under former Public Act 116 of 1974 and reenacted by Part 361 of Public Act 451 of 1994.	$1,200,000
Federal Government Contracting Credit Provides for a credit up to 100 percent of a taxpayer's payroll attributable to new jobs that result from a federal procurement contract by the United States department of defense, department of energy, or department of homeland security.	$0
Floor Plan Interest Deduction Provides a deduction for interest payments on credits made by a motor vehicle manufacturer to a retailer to defray the retailer's expense of maintaining an inventory of cars.	$3,500,000
Government Utilities Exemption Exempts the receipts of government utilities. This category includes government-owned water and sewer works, municipal electric or gas utilities, and municipally-owned public transit.	$22,700,000

	FY 2009 Estimate
Gross Receipts Filing Threshold Exempts from the MBT firms with adjusted (apportioned) gross receipts less than $350,000.	$42,100,000
Gross Receipts Filing Threshold Credit Provides a credit for firms with adjusted (apportioned) gross receipts between $350,000 and $700,000. The credit effectively provides for a gradual phase-out of the gross receipts filing threshold -- rather than a cliff.	$54,100,000
Historic Preservation Credit Provides for a credit of up to 25 percent of expenditures for the restoration of a qualified historic site.	$2,300,000
Homeless Shelter/Food Bank Credit Provides a 50 percent credit for contributions made to a qualified homeless shelter, food bank, or food kitchen. The maximum credit equals 5 percent of tax liability before credits or $5,000, whichever is less.	$500,000
Hybrid Technology Research and Development Credit A taxpayer that is engaged in research and development of motor vehicle hybrid systems at a qualified facility may claim a credit against the MBT equal to 3.9 percent of the compensation for work at the facility.	$1,900,000
Insurers' Facility Assessment 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.	$11,800,000
Investment Tax Credit Provides a credit for Michigan investment. The credit is equal to 2.32 percent of Michigan investment in 2008 and 2.90 percent of Michigan investment in following years. The taxpayer cannot claim an ITC and a research and development credit on the same expenses.	$127,900,000
Low Grade Hematite Credit Provides a credit for taxpayers that consume qualified low-grade hematite (iron ore) in an industrial or manufacturing process.	$3,000,000

	FY 2009 Estimate
Michigan Early Stage Venture Capital Voucher Taxpayers issued a voucher certificate under the Michigan early state venture investment act, may use the voucher to pay their MBT liability. Vouchers may be transferred.	n.a.
Michigan Economic Growth Authority (MEGA) Provides a credit for new or expanding firms based on additional payroll costs or additional business activity costs associated with an expansion or new location.	$94,600,000
Motion Picture Credits Provides credits for motion picture 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 credit, a 30 percent qualified personnel expenditures credit along with a 25 percent investment credit and 50 percent qualified job training expenditures credit.	$116,600,000
Motion Picture Gross Receipts Exclusion Excludes film rental or royalty payments paid by a theater owner to a film distributor, a film producer, or a film distributor and producer.	$600,000
Multiple Employer Welfare Arrangement For tax years beginning after 2000, the portion of the MBT tax base attributable to a Multiple Employer Welfare Arrangement (MEWA) that provides only dental benefits and that is registered at the Michigan Office of Financial and Insurance Services is exempt from the MBT.	$30,000
NASCAR Safety Credit Provides a credit for traffic control costs for a motorsports event at an eligible motorsports stadium (50 percent for 2009 and 100 percent thereafter).	$1,900,000
NASCAR Speedway Credit Provides a credit for tax years 2008 through 2012 for capital expenditures on an eligible motorsports stadium and its grounds.	$1,700,000
New Motor Vehicle Dealer Inventory Credit Provides for a credit to a new Michigan licensed motor vehicle dealer to claim a credit equal to 0.25 percent of the amount paid to acquire new motor vehicle inventory in the tax year.	$9,100,000

	FY 2009 Estimate
Next Energy Credit Allows an eligible taxpayer certified under the Michigan Next Energy Authority Act to claim both a nonrefundable and a refundable MBT credit. The nonrefundable credit is based on the increase in qualified business activity realized since tax year 2001. The refundable credit is based on the taxpayer's qualified payroll amount.	$20,100,000
Nonprofit Organizations Exempts the gross receipts of most firms exempt from the federal corporate income tax.	$134,600,000
Personal Property Tax Credit Provides three credits for personal property taxes paid in the tax year: The first is equal to 35 percent of industrial personal property taxes. The second is equal to 23 percent of State Utility Tax Act taxes paid on telephone equipment in 2008 with a 13.5 percent credit in subsequent years. The third provides a 10 percent credit for natural gas pipeline personal property taxes paid.	$155,600,000
Private Equity Fund Credit Provides for a credit to a private equity fund for private equity fund activities conducted in Michigan.	n.a.
Public Contribution Credit Provides a 50 percent credit for contributions made to Michigan colleges, libraries, public broadcasting stations, and other educational institutions. The maximum credit equals 5 percent of tax liability before credits or $5,000, whichever is less.	$2,000,000
Renaissance Zone Credit Provides a credit for the portion of tax attributable to business activity in a renaissance zone.	$35,700,000
Research and Development Credit Provides a credit for research and development in Michigan. In 2008, the credit is equal to 1.52 percent of the taxpayer's research and development expenses in Michigan. In following years, the credit percentage is 1.90 percent. The sum of the credit, the compensation credit, and the ITC cannot exceed 65 percent of the taxpayer's MBT liability (before the MBT surcharge).	$63,000,000

	FY 2009 Estimate
Retailer Credits Provides for two size and sales-line based Michigan-headquartered retailer credits. The first credit is limited to firms that operate in Michigan at least 17 million square feet of enclosed retail space and 2 million square feet of enclosed warehouse space. The second credit is limited to firms that operate in Michigan at least 2.5 million square feet of enclosed retail space and 1.4 million square feet of enclosed warehouse, headquarters and transportation services.	$9,500,000
Self Employment Net Earnings Deduction Net earnings from self-employment as defined in IRC section 1402 are deducted from the MBT business income tax base.	$127,100,000
Single Business Tax Unused Credit Carryforwards Under the MBT, for the 2008 and 2009 tax years only, taxpayers are allowed to claim unused SBT credit carryforwards for some SBT credits: Investment Tax Credit, Historic Preservation Credit, Low-Grade Hematite Pellet Credit, Pharmaceutical Credit, Created Jobs Credit, Brownfield Credits and the MEGA Business Activity Credit.	$42,000,000
Small Business Alternate Tax Credit 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. Adjusted business income limit for any one owner may not exceed $180,000 (with a credit phase-out between $160,000 and $180,000).	$366,900,000
Stadium Credit Provides a credit to owners, operators, licensees and tenants of more than one stadium with an occupancy of at least 14,000 people.	$1,700,000
Staffing Company Gross Receipts Exclusion For staffing companies, excludes from their gross receipts tax base, the compensation of personnel supplied to their customers.	$16,900,000
Start-Up Business Credit Provides a credit equal to the MBT liability for certain new businesses for up to five years if the business has no business income.	$0

	FY 2009 Estimate
Tribal Tax Agreements Agreements between the State of Michigan and seven American Indian tribes clarify how the MBT will be applied to tribes, and resident tribal members within the specific areas of the state that are covered by the agreements.	n.a.
Workers' Disability Supplemental Benefit Credit Provides a credit for 100 percent of the supplemental cost of living payments made to persons injured between September 1965 and December 1979. Previously, firms were reimbursed through the appropriations process for these payments.	$2,900,000

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 $14,184.8 million in FY 2009, a 3.6 percent increase over the FY 2008 level of $13,693.3 million. The growth in sales and use tax expenditures associated with health care; professional, scientific, and technical services; and food for home use account for most of the growth between FY 2008 and FY 2009. Readers are cautioned that changes in the estimation methodology make comparisons between this version and previous versions of this report impossible. Additional information has been included in the estimates for services, so these estimates are not comparable to estimates from prior years. Sales and use tax expenditure estimates are based on FY 2003 through FY 2007 data. Alcohol and cigarette tax expenditure estimates were based on FY 2007 data.

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

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

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

Consumption Tax Expenditure Changes

Public Act 93 of 2007 amended the Use Tax Act to expand the list of services subject to the tax in the same manner as the use, storage, or consumption of tangible personal property, effective December 1, 2007. The list of services subject to tax included many services consumed by businesses. The list of additional services subject to the use tax was repealed on December 1, 2007, by Public Act 145.

Public Act 103 of 2007 amended the Use Tax Act to clarify the tax treatment of tangible personal property when that property is converted from a tax-exempt use to a taxable use. Public Act 103 was in response to court rulings that ran counter to the historical interpretation and administration of the use tax. The Public Act also revised the use tax treatment of motor vehicles held for resale by a new vehicle dealer.

Public Acts 104 and 105 of 2007 amended the Use Tax Act and the General Sales Tax Act, respectively, to allow, for sales occurring after September 30, 2009, a taxpayer who holds an account receivable on which either use tax or sales tax has previously been paid to claim a deduction if the account receivable is subsequently found worthless and written off. The Public Acts also express the original intent of the Legislature was that the bad debt deduction would be available only for taxpayers with a legal liability to collect and remit tax.

Public Act 145 of 2007 amended the Michigan Business Tax Act to impose a surcharge on a taxpayer's liability under the MBT. Included in the provisions of the Public Act was the repeal of the expanded use tax on services imposed by Public Act 93.

Public Act 148 of 2007 amended the Use Tax Act to exempt taxpayers from any tax liability associated with services that were newly subject to the use tax under Public Act 93. Any tax actually collected on services performed must be submitted to the Department of Treasury by the service provider.

Alcoholic Beverage Taxes

The following table lists specific alcoholic beverage taxes and their expected yields for FY 2009 (millions of dollars).

Alcoholic Beverage Taxes
(millions)

Tax	Location of Deposit	FY 2009 Revenue
Beer and Wine Excise	General Fund	$51.5
4.0 Percent Liquor Excise	School Aid Fund	$37.0
4.0 Percent Liquor Specific	General Fund	$37.0
1.85 Percent Liquor Specific	Liquor Purchase Revolving Fund	$13.6
4.0 Percent Liquor Tourism	Convention Facility Development Fund	$37.0

FY 2009 Estimate

Beer Shipped Out-of-State n.a.

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

Damaged Beer n.a.

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

FY 2009 Estimate

Homemade Wine n.a.

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

Small Brewer's Credit $90,000

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

Tobacco Products Tax

In 1947, the State of Michigan enacted an excise tax on the sale and distribution of cigarettes to consumers. The tax rate is currently $2.00 per pack of 20 cigarettes. Cigarette tax revenues are mainly distributed to the School Aid Fund, the Medicaid Benefits Trust Fund, and the General Fund-General Purpose account. In FY 2009, the tax on cigarettes will yield an estimated $1,012.7 million. Taxes on other tobacco products (smokeless tobacco and cigars) are projected to yield $46.0 million.

FY 2009 Estimate

Bad Debt Deduction $800,000

Allows cigarette wholesalers to deduct any losses from bad debts.

Licensee Expenses $16,267,000

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

Sales on Military Bases and Reservations $9,944,000

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

Tribal Tax Agreements n.a.

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

State Convention Facility Development Tax

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

	FY 2009 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 $6,645.0 million in FY 2009. Sales tax revenues are distributed as follows: 73.3 percent to the School Aid Fund; 24.3 percent to cities, villages, and townships; and the remainder to the General Fund. State law earmarks 4.65 percent of the sales tax on transportation-related items to the Comprehensive Transportation Fund (CTF). The use tax is levied on the privilege of use, storage, and consumption of certain tangible personal property that is not subject to the sales tax. It is also levied on the services of telephone, telegraph, and other leased wire communications; sales of used autos between individuals; and transient hotel and motel charges. Most services are exempt. The use tax was enacted in 1937 as a complement to the sales tax; the rate is 6 percent of the purchase or rental price. Two-thirds of the revenue goes to the General Fund while the remainder is deposited into the School Aid Fund. Use tax collections are projected to total $1,316.0 million in FY 2009. Due to their complementary nature, sales and use tax expenditures are reported together.

	FY 2009 Estimate
Air and Water Pollution Exempts the sale of personal property purchased or installed as part of air or water pollution control facilities.	$48,000,000
Aircraft Parts Exempts sales of parts and materials affixed in Michigan to passenger, cartage, and certain other aircraft from tax.	$8,251,000

FY 2009 Estimate

Bad Debts $59,728,000

Effective January 1, 1984, a retailer is allowed to deduct the amount of bad debts related to previously reported, taxable retail sales at the time that these debts become worthless or uncollectible.

Cargo Aircraft $30,000,000

Exempts from use tax aircraft owned by an air carrier certified by the United States Department of Transportation and used solely for the transport of air cargo.

Church Construction $3,200,000

Exempts materials used in the construction of a church sanctuary. This exemption was created by Public Act 274 of 1998.

Church Cars $3,889,000

Exempts sales of most cars and trucks to regularly organized churches or houses of religious worship.

Collection Fee $15,649,000

Sales and use tax returns are due by the 20th of the month for sales made the previous month. A seller may retain 0.75 percent of the tax (not to exceed $20,000) if proceeds are remitted by the 12th of the month, or 0.50 percent of the tax (not to exceed $15,000) if proceeds are remitted from the 13th through the 20th of the month.

Commercial Domestic Aircraft $5,000,000

Exempts from use tax aircraft owned by domestic passenger carriers if the aircraft is used primarily in regular commercial passenger transportation.

Commercial Vessels n.a.

Exempts sales of commercial vessels of 500 tons or more when purchased on special order. Also exempts bunker and galley fuel, provisions, supplies, maintenance and repairs for the exclusive use of such vessels engaged in interstate commerce.

Communication and Telephone Exemption $37,000,000

Exempts communications and telephone service from coin-operated installations, switchboards, concentrator identifiers, and interoffice circuitry and their accessories for telephone answering services and directory advertising proceeds.

	FY 2009 Estimate
Donated Property Exempts real or personal property that a manufacturer, wholesaler, or retailer donates to exempt organizations.	n.a.
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.	$500,000
Driver Training Exempts property used for demonstration or driver training programs.	$463,000
Employee Meals Exempts meals provided by employers to their employees starting in 2002.	$12,288,000
Enterprise Zone Credit Upon certification by the Enterprise Zone Authority, exempts qualified businesses from sales and use tax on property used in a qualified business activity in an enterprise zone.	n.a.
Food Exempts food for human consumption, except prepared food intended for immediate consumption.	$1,120,770,000
Food for Students Exempts sales of food by nonprofit schools or other similar educational institutions to students.	$20,361,000
Government or Red Cross Exempts sales to the United States or agencies or instrumentalities wholly owned by the U.S.; the American Red Cross; and the State of Michigan, its departments, institutions, and political subdivisions.	$155,609,000
Gratuity and Tips Excludes a separately billed and itemized gratuity or tip from a retailer's gross proceeds.	$61,383,000
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.	$149,720,000

	FY 2009 Estimate
Imported Property Exempts property that is not an aircraft purchased by a nonresident and brought into Michigan more than 90 days after purchase from the use tax. Property purchased by a resident and brought into the state more than 360 days after purchase receives a similar exemption.	$3,200,000
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 only includes exemptions for durable and non-durable manufacturing equipment and utility expenses.	$842,240,000
Inmate Purchases Exempts sales purchased with scrip issued or redeemed by an institution to inmates in a penal or correctional institution.	$560,000
International Telecommunications Exempts international and WATS calls from the use tax.	$14,536,000
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 $17,000,000.	$38,102,000
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.	$400,000
Isolated Sales Exempts an isolated sale or transfer transaction by a property owner not required to possess a sales tax license.	n.a.
Military PX Sales Exempts military post-exchange sales.	$1,572,000
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.

	FY 2009 Estimate
Motion Picture Credit Provides a credit for expenditures on a motion picture. The credit is equal to a percentage of eligible expenditures, and the percentage rises as expenditures rise.	$1,000,000
Newspapers, Periodicals, and Films Exempts sales of copyrighted films, newspapers, and periodicals.	$96,228,000
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.	$10,298,000
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.	$166,720,000
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.	$53,289,000
Prescription Drugs Exempts prescription drugs for human consumption.	$563,430,000

	FY 2009 Estimate
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.	$1,598,000
Residential Utilities Exempts the residential use of electricity, natural gas, and home heating fuels from the additional two percent sales and use tax rate.	$143,500,000
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.	$67,657,000
Services Exempts services for items listed in the following table:	$10,334,754,000

Service Tax Expenditures, FY 2009
(millions)

Category	For Profit	Nonprofit	Total
Accommodations and Food Service	$12.5	$0.0	$12.5
Admin., Support, and Waste Mgmt.	955.0	14.0	969.0
Arts, Entertainment, and Recreation	218.8	33.2	252.0
Construction	1,127.6	0.0	1,127.6
Educational Services	65.9	364.8	430.7
Health Care and Social Assistance	1,178.8	1,525.9	2,704.7
Information	416.5	0.0	416.5
Other Services (except Public Admin.)	619.1	110.3	729.4
Professional, Scientific, and Technical	2,330.4	15.4	2,345.8
Real Estate and Rental and Leasing	900.9	0.0	900.9
Transportation and Warehousing	352.6	8.9	361.5
Utilities	0.0	84.2	84.2
TOTAL	$8,178.1	$2,156.7	$10,334.8

Source: Calculations by the Tax Analysis Division using the *2002 Economic Census: Geographic Area Series, Michigan*, U.S. Department of Commerce. Totals may differ from other exhibits and may not add due to rounding.

FY 2009 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 $12,558,000

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 2009 Estimate
Vehicle and Aircraft Transfers Exempts certain isolated transfers of vehicles, aircraft, snowmobiles, or watercraft.	$40,256,000
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.	$28,500,000

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 6.9 percent from $5,700.7 million in FY 2008 to $6,092.5 million in FY 2009. Federal income tax expenditures are projected to increase 8.5 percent from $2,466.8 million in FY 2008 to $2,676.1 million in FY 2009. Individual income tax expenditure estimates were based on tax year 2006 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 2006. 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 94 of 2007 amended the Income Tax Act to increase the tax rate to 4.35 percent, effective October 1, 2007. The tax rate is scheduled to be reduced incrementally to 3.9 percent by October 1, 2015, beginning on October 1, 2011. The Public Act also created a new deduction for qualified disabled veterans. An unintended amendment in Public Act 94 reduced the maximum deduction for private pension and retirement benefits.

Public Act 154 of 2007 amended the Income Tax Act to allow that the calculation of a deduction for contributions to education savings accounts established under the Michigan Education Savings Program be performed on an individual account basis. Previously a deduction may not have been allowed if taxpayers were contributing to an account for one student while withdrawing funds from an account established for a second student. The Public Act also reinstated the income limits that were inadvertently reduced by Public Act 94 for the deductions for pension and retirement benefits and investment income received by seniors.

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 2009, the State of Michigan will collect an estimated $7,009.6 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 2006, these tax expenditures reduced Michigan's effective income tax rate from a nominal rate of 3.9 percent to an average effective rate of 2.0 percent. Detailed information on income tax expenditures is presented in Exhibits 14 through 18.

	FY 2009 Estimate
Adjustments to Income	$3,472,403,000

Subtractions from income include interest on U.S. Government bonds and obligations, military pay and retirement benefits, income attributable to another state, most retirement and pension benefits, the portion of Social Security benefits included in AGI, income eligible for the federal elderly and disabled credit, and a portion of interest and dividend income of senior citizens not claiming a pension subtraction. Additions to income include interest on bonds or obligations issued by states other than Michigan and their political subdivisions. The net amount of additions and subtractions reduced taxable income by $78.9 billion in calendar year 2006. This reduced 2006 income taxes by $3,078.2 million.

Adoption Credit — $1,083,000

Provides a refundable credit for qualified adoption expenses exceeding the limits on the similar federal income tax credit. The federal credit is equal to 100 percent of the first $11,650 dollars of adoption expenses for tax year 2008. The Michigan adoption credit applies to the first $1,200 in adoption expenses over the $11,650 federal credit.

Child Deduction — $55,697,000

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

City Income Tax Credit — $34,415,000

Provides a credit to individuals for income taxes paid to cities. For tax year 2006, city income tax credits totaled $33.5 million (see Exhibit 13).

	FY 2009 Estimate
College Savings Account Provides a deduction of up to $10,000 for contributions to a Michigan Education Savings Program account. Earnings on an account and withdrawals made to pay qualified educational expenses are also exempt from taxation.	$18,718,000
Community Foundation Credit Provides a credit for 50 percent of the contribution made to a qualified community foundation as certified by the Department of Treasury. The maximum credit is equal to $100 for a single return or $200 for a joint return.	$3,872,000
Dependent Exemption Taxpayers claimed as a dependent on another taxpayer's return may not claim the full personal exemption for themselves when filing their own tax return. However, they may claim a dependent exemption equal to $1,500.	$20,649,000
Disabled Veterans Exemption Allows a taxpayer to claim an additional exemption of $250 if the taxpayer or a dependent of the taxpayer is a qualified disabled veteran.	n.a.
Donated Vehicle Credit Provides a credit to individuals equal to 50 percent of the fair market value of automobiles donated during the tax year to qualified organizations. The credit is limited to $50 on a single return or $100 on a joint return.	$121,000
Earned Income Tax Credit Provides a refundable income tax credit equal to 10 percent of any federal earned income tax credit for which a taxpayer is eligible. For tax years after 2008 a taxpayer may claim a credit equal to 20 percent of the federal earned income credit for which the taxpayer is eligible.	$133,553,000
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.	$35,217,000

FY 2009 Estimate

Higher Education/Public Contributions Tax Credit $26,775,000

Provides a credit against income tax liability for contributions to Michigan colleges and universities, public libraries, public broadcasting stations, the State Art in Public Places Fund, municipal art institutes, and the State of Michigan Museum. The credit is equal to 50 percent of these contributions, not to exceed $100 for a single return or $200 on a joint return. Credit for resident estates or trusts cannot exceed 10 percent of tax liability or $5,000, whichever is less. For tax year 2006, the higher education/public contributions tax credit totaled $26.0 million (see Exhibit 13).

Historic Preservation Credit $946,000

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

Holocaust Survivor Asset Recovery Deduction n.a.

Public Act 181 of 1999 allows Holocaust survivors to subtract any income received as a result of a settlement of claims against any entity or individual for any recovered asset pursuant to the German act regulating unresolved property claims.

Home Heating Assistance Credit $321,000

Provides a refundable credit to assist low-income households with the cost of home heating. For FY 2007, these credits totaled an estimated $81.5 million. The program is primarily funded with a block grant from the federal government. The credit's net cost to the state was $309,000 in FY 2007.

Homestead Property Tax Credit $933,923,000

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

Special credits are available for senior citizens, veterans, and blind and disabled persons. For tax year 2006, homestead credits, excluding the farmland credit itemized separately, totaled $847.1 million (Exhibit 17). Of the homestead credits, 58.4 percent went to general taxpayers, 36.4 percent went to senior citizens, and the remaining 5.2 percent went to veterans and blind and disabled persons.

Exhibit 13
Selected Individual Income Tax Expenditures, CY 2006

Adjusted Gross Income	MI - 1040s		City Income Tax Credit		Higher Education Tax Credit	
	Number	Percent	Number	Amount	Number	Amount
Less Than $2,000*	362,551	7.8%	11,316	$106,162	2,246	$140,888
2,001 - 4,000	181,125	3.9%	21,398	161,356	1,902	77,493
4,001 - 6,000	173,250	3.8%	24,699	268,370	2,352	113,253
6,001 - 8,000	164,990	3.6%	25,790	346,715	2,560	132,467
8,001 - 10,000	158,383	3.4%	26,112	429,286	2,744	153,067
10,001 - 12,000	154,747	3.4%	26,347	494,496	2,869	166,222
12,001 - 14,000	147,078	3.2%	26,382	537,338	3,010	180,785
14,001 - 16,000	140,890	3.1%	26,285	594,680	3,294	203,086
16,001 - 18,000	132,760	2.9%	25,290	614,803	3,301	209,991
18,001 - 20,000	123,951	2.7%	24,593	645,996	3,252	210,078
20,001 - 25,000	282,117	6.1%	59,990	1,832,908	8,460	561,036
25,001 - 30,000	254,551	5.5%	55,961	1,873,144	9,169	633,992
30,001 - 35,000	223,844	4.8%	48,266	1,693,946	9,497	657,139
35,001 - 40,000	198,362	4.3%	42,662	1,570,130	9,589	679,541
40,001 - 45,000	175,720	3.8%	38,687	1,491,155	9,640	699,806
45,001 - 50,000	161,672	3.5%	36,870	1,487,603	10,199	748,567
50,001 - 55,000	149,285	3.2%	34,278	1,440,164	10,447	777,921
55,001 - 60,000	140,344	3.0%	32,689	1,420,135	10,866	832,059
60,001 - 70,000	250,700	5.4%	59,406	2,623,071	21,294	1,722,887
70,001 - 80,000	210,587	4.6%	49,462	2,225,976	20,839	1,747,809
80,001 - 90,000	171,409	3.7%	41,346	1,901,073	19,813	1,755,469
90,001 - 100,000	137,281	3.0%	34,573	1,674,908	17,683	1,632,420
Over 100,000	523,289	11.3%	122,794	8,051,956	105,769	12,006,761
TOTAL	4,618,886	100.0%	895,196	$33,485,370	290,795	$26,042,737

*Includes 151,629 credit-only returns (zero income).

	FY 2009 Estimate
Homeless/Food Bank Credit Provides a credit for 50 percent of the donations made to homeless shelters, food banks, and food kitchens. The credit is limited to $100 for a single return or $200 for a joint return.	$20,758,000
Other State Tax Credit Provides a credit to Michigan taxpayers subject to income tax if the taxpayer's income is also taxed by another state. For tax year 2006, taxpayers claimed $41.8 million in credits.	$47,191,000
Personal Exemption Exempts $3,300 (tax year 2006) from AGI for each personal exemption claimed on the federal income tax return. The personal exemption increases in $100 increments based on the rate of inflation. For tax year 2008, the personal exemption is $3,500. The personal exemption reduced tax year 2006 revenue by approximately $972.5 million. The distribution of effective exemptions across AGI classes is outlined in Exhibit 14. Effective exemptions are exemptions that offset actual income.	$1,191,972,000
Renaissance Zones 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.	$300,000
Special Exemption Allows a taxpayer and his or her spouse to each claim a $2,200 exemption for tax year 2008 if they are seniors or disabled. Taxpayers who are both a senior and a disabled person may claim two exemptions. Taxpayers may also claim an exemption for disabled or senior dependents. These exemptions are adjusted periodically for inflation.	$53,968,000
Stillbirth Credit Allows a taxpayer who has been issued a Certificate of Stillbirth to claim an income tax credit equal to 4.5 percent of the personal exemption amount, rounded up to the nearest $10 increment.	$20,000

	FY 2009 Estimate
Tribal Tax Agreements 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.	n.a.
Tuition Credit Provides a credit equal to eight percent of college tuition costs for residents who earn less than $200,000 annually provided the host college or university increases tuition and fees no more than the rate of inflation. The maximum credit is $375 per student.	$7,418,000

Exhibit 14
Selected Individual Income Tax Expenditures by Income Class, CY 2006

Adjusted	MI-1040s		Gen. Prop Tax Credit		Effective Exemptions[1]	
Gross Income	**Number**	**Percent**	**Number**	**Amount**	**Number**	**Amount**
Zero Income[2]	206,519	4.5%	26,987	$18,880,506	0	$0
$0 - 2,000	156,032	3.4%	14,378	7,240,083	21,919	2,820,920
2,001 - 4,000	181,125	3.9%	20,134	8,722,372	63,803	8,211,391
4,001 - 6,000	173,250	3.8%	26,526	11,599,546	88,569	11,398,796
6,001 - 8,000	164,990	3.6%	34,117	15,501,664	114,836	14,779,391
8,001 - 10,000	158,383	3.4%	40,322	19,061,387	137,624	17,712,223
10,001 - 12,000	154,747	3.4%	43,876	21,470,764	163,721	21,070,934
12,001 - 14,000	147,078	3.2%	43,861	21,173,769	171,707	22,098,639
14,001 - 16,000	140,890	3.1%	43,261	20,859,287	174,151	22,413,175
16,001 - 18,000	132,760	2.9%	41,756	19,553,969	174,487	22,456,495
18,001 - 20,000	123,951	2.7%	41,087	18,803,852	173,278	22,300,851
20,001 - 25,000	282,117	6.1%	98,166	44,597,764	432,925	55,717,472
25,001 - 30,000	254,551	5.5%	90,011	40,806,012	416,681	53,626,790
30,001 - 35,000	223,844	4.8%	77,297	35,926,552	378,980	48,774,783
35,001 - 40,000	198,362	4.3%	67,001	32,171,249	354,904	45,676,155
40,001 - 45,000	175,720	3.8%	56,872	28,408,745	335,840	43,222,671
45,001 - 50,000	161,672	3.5%	50,472	25,935,823	328,713	42,305,399
50,001 - 55,000	149,285	3.2%	43,502	23,038,821	318,121	40,942,110
55,001 - 60,000	140,344	3.0%	38,721	20,776,276	314,721	40,504,564
60,001 - 70,000	250,700	5.4%	64,007	35,260,098	598,498	77,026,680
70,001 - 80,000	210,587	4.6%	47,422	22,420,975	533,322	68,638,525
80,001 - 90,000	171,409	3.7%	12,006	2,223,791	453,405	58,353,252
90,001 - 100,000	137,281	3.0%	397	205,258	380,040	48,911,205
Over 100,000	523,289	11.3%	636	445,023	1,425,844	183,506,176
TOTAL	4,618,886	100.0%	1,022,815	$495,083,586	7,556,089	$972,468,596

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

(2) Includes 151,629 credit-only returns.

Exhibit 15
Effective Income Tax Rates by Income Class, CY 2006[1]

Adjusted Gross Income	Total Adjusted Gross Income	Total Income Tax Paid	Effective Tax Rate
Zero Income[2]	($3,125,136,287)	($108,232,791)	
$0 - 2,000	164,752,775	(37,568,056)	-22.80%
2,001 - 4,000	542,655,913	(27,501,670)	-5.07%
4,001 - 6,000	864,942,104	(24,884,750)	-2.88%
6,001 - 8,000	1,154,927,194	(25,712,013)	-2.23%
8,001 - 10,000	1,422,054,909	(25,113,736)	-1.77%
10,001 - 12,000	1,702,681,093	(22,844,918)	-1.34%
12,001 - 14,000	1,911,016,581	(14,199,324)	-0.74%
14,001 - 16,000	2,112,270,264	(5,643,471)	-0.27%
16,001 - 18,000	2,255,431,489	3,241,849	0.14%
18,001 - 20,000	2,353,552,012	12,529,725	0.53%
20,001 - 25,000	6,334,672,641	64,383,511	1.02%
25,001 - 30,000	6,992,947,302	99,723,612	1.43%
30,001 - 35,000	7,264,923,835	122,173,763	1.68%
35,001 - 40,000	7,427,998,945	138,695,258	1.87%
40,001 - 45,000	7,460,921,376	150,672,337	2.02%
45,001 - 50,000	7,675,355,519	163,943,494	2.14%
50,001 - 55,000	7,833,224,211	173,340,812	2.21%
55,001 - 60,000	8,065,583,006	186,934,414	2.32%
60,001 - 70,000	16,262,520,863	394,901,136	2.43%
70,001 - 80,000	15,763,031,916	407,211,556	2.58%
80,001 - 90,000	14,540,393,363	407,558,919	2.80%
90,001 - 100,000	13,013,879,465	376,723,402	2.89%
Over 100,000	146,460,340,256	3,207,942,481	2.19%
TOTAL	$276,454,940,745	$5,618,275,540	2.03%

Effective rate excluding zero income AGI and Taxes Paid	2.05%
Effective rate excluding zero income AGI	2.01%

(1) Values in this table are based on a sample of the 4,487,257 MI-1040 and MI-1040CR returns.

(2) Includes 151,629 credit-only returns (zero income).

Exhibit 16
Tax Expenditures as a Percent of Adjusted Gross Income, CY 2006

Adjusted Gross Income	Effective Exemptions(1)	Adjustments to Income	Nonrefundable Credits(2)	Prop. Tax Credits
Less Than $2,000	357.2%	23.2%	-1.2%	471.4%
2,001 - 4,000	123.4%	15.7%	0.3%	123.5%
4,001 - 6,000	84.6%	17.3%	1.0%	88.4%
6,001 - 8,000	69.9%	19.9%	1.3%	77.7%
8,001 - 10,000	61.6%	21.8%	1.3%	69.9%
10,001 - 12,000	56.4%	23.2%	1.2%	61.9%
12,001 - 14,000	49.7%	23.4%	1.4%	52.6%
14,001 - 16,000	44.5%	24.2%	1.4%	45.0%
16,001 - 18,000	40.1%	23.4%	1.4%	39.0%
18,001 - 20,000	36.5%	21.6%	1.4%	33.5%
20,001 - 25,000	31.2%	18.7%	1.5%	27.3%
25,001 - 30,000	26.0%	18.0%	1.4%	21.4%
30,001 - 35,000	22.3%	18.6%	1.3%	17.5%
35,001 - 40,000	19.8%	18.2%	1.3%	15.0%
40,001 - 45,000	18.3%	17.5%	1.2%	12.9%
45,001 - 50,000	17.0%	16.9%	1.3%	11.4%
50,001 - 55,000	16.0%	17.1%	1.2%	10.0%
55,001 - 60,000	15.2%	16.4%	1.2%	8.6%
60,001 - 70,000	14.2%	15.9%	1.2%	7.2%
70,001 - 80,000	13.0%	15.7%	1.2%	4.5%
80,001 - 90,000	11.9%	15.0%	1.3%	0.5%
90,001 - 100,000	11.0%	13.9%	1.3%	0.0%
Over 100,000	3.9%	39.4%	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 (3.9%) to determine the equivalent tax deduction. Nonrefundable credits include the city income tax, college contribution, taxes paid to other states, community foundation, and the homeless food bank credit.

Exhibit 17
Property Tax Credits by County, CY 2006

County	General Number	General Amount	Seniors Number	Seniors Amount	Veterans Number	Veterans Amount
ALCONA	500	$169,300	500	$242,700	100	$3,900
ALGER	500	160,800	300	140,100	< 50	3,200
ALLEGAN	8,600	3,501,200	3,500	2,323,300	100	10,100
ALPENA	1,900	592,700	1,600	837,200	100	11,200
ANTRIM	1,800	733,900	1,200	843,300	< 50	4,600
ARENAC	1,000	366,200	800	448,300	< 50	3,700
BARAGA	300	77,100	200	116,200	< 50	6,900
BARRY	3,900	1,596,600	1,800	1,208,200	100	5,800
BAY	8,900	3,093,000	5,800	3,499,200	200	25,600
BENZIE	1,200	438,100	600	380,300	< 50	4,200
BERRIEN	12,700	4,334,900	6,600	3,913,900	100	14,600
BRANCH	3,100	1,146,700	1,500	928,900	100	7,900
CALHOUN	12,900	5,109,100	6,100	4,146,900	200	26,100
CASS	2,600	934,600	1,500	903,900	< 50	5,100
CHARLEVOIX	2,500	1,059,400	1,300	872,300	< 50	2,600
CHEBOYGAN	1,700	530,700	900	454,200	100	8,200
CHIPPEWA	3,800	1,038,200	1,000	510,900	100	16,500
CLARE	1,900	554,800	1,000	471,700	100	7,100
CLINTON	4,800	2,312,000	2,400	1,682,800	< 50	3,700
CRAWFORD	700	230,800	400	183,100	< 50	4,200
DELTA	2,400	765,200	1,500	757,900	200	23,800
DICKINSON	1,600	524,900	1,300	760,600	100	13,100
EATON	12,000	5,416,300	5,200	3,786,800	100	13,500
EMMET	3,400	1,347,400	1,400	954,900	< 50	5,200
GENESEE	43,300	17,355,500	16,000	10,231,000	300	48,600
GLADWIN	1,600	542,900	1,200	620,900	100	9,300
GOGEBIC	600	176,500	600	256,000	100	18,000
GRAND TRAVERSE	9,900	4,272,300	4,200	3,038,200	100	12,000
GRATIOT	2,600	935,300	1,500	895,500	100	7,000
HILLSDALE	3,200	1,159,600	1,600	912,300	100	9,000
HOUGHTON	1,400	450,300	800	402,300	100	16,200
HURON	2,700	1,264,600	2,600	1,777,900	100	5,900
INGHAM	35,700	17,369,800	10,300	7,986,400	100	20,300
IONIA	4,600	1,788,500	1,900	1,133,700	< 50	4,200
IOSCO	1,500	469,900	1,100	550,300	200	13,000
IRON	500	155,800	500	221,500	100	12,100
ISABELLA	5,900	2,331,200	2,000	1,331,000	100	5,100
JACKSON	13,000	5,023,000	5,600	3,423,500	200	20,400
KALAMAZOO	26,100	10,600,100	9,300	6,614,400	200	24,700
KALKASKA	1,200	413,500	500	291,600	< 50	2,800
KENT	65,300	27,003,200	21,500	15,063,400	300	40,800
KEWEENAW	100	22,500	0	24,400	< 50	1,400

Exhibit 17 (Continued)

	General		Seniors		Veterans	
County	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
LAKE	600	$190,600	400	$172,000	< 50	$5,400
LAPEER	6,400	2,883,100	2,700	1,693,300	100	6,900
LEELANAU	1,400	673,200	900	728,300	< 50	1,400
LENAWEE	8,500	3,658,600	4,400	3,105,800	100	9,500
LIVINGSTON	600	190,600	400	172,000	< 50	5,400
LUCE	300	66,300	100	23,900	< 50	3,500
MACKINAC	1,300	383,700	400	251,100	< 50	3,400
MACOMB	103,400	58,330,900	49,000	41,518,500	300	49,500
MANISTEE	1,700	632,300	1,200	645,900	100	8,700
MARQUETTE	3,600	1,030,900	1,700	856,900	300	37,000
MASON	2,400	856,500	1,500	912,500	< 50	5,500
MECOSTA	2,300	821,100	1,300	702,700	100	5,900
MENOMINEE	1,200	351,000	700	327,800	100	11,300
MIDLAND	5,700	2,014,200	2,800	1,721,300	100	11,500
MISSAUKEE	800	317,100	500	284,400	< 50	2,900
MONROE	10,500	4,606,300	5,700	3,786,300	100	12,600
MONTCALM	4,800	1,730,900	2,300	1,400,200	100	11,300
MONTMORENCY	500	155,000	300	150,900	100	4,800
MUSKEGON	15,400	5,621,100	7,100	4,499,800	200	30,100
NEWAYGO	3,100	1,228,300	1,600	1,003,300	100	8,200
OAKLAND	122,900	75,407,800	49,900	43,742,600	300	41,900
OCEANA	1,900	700,200	1,100	647,900	< 50	5,700
OGEMAW	1,400	437,800	900	467,000	100	7,800
ONTONAGON	300	81,500	200	90,900	< 50	6,200
OSCEOLA	1,500	501,900	900	458,000	100	6,400
OSCODA	300	91,100	200	70,600	< 50	1,800
OTSEGO	1,500	491,600	700	322,600	< 50	4,600
OTTAWA	22,600	9,159,900	9,800	6,724,600	100	13,400
PRESQUE ISLE	700	237,400	700	331,900	100	6,200
ROSCOMMON	1,700	567,600	1,300	636,600	100	8,300
SAGINAW	15,500	5,204,100	7,300	4,320,200	300	35,600
ST. CLAIR	16,300	7,037,700	7,500	5,274,800	200	25,000
ST. JOSEPH	4,200	1,443,300	2,100	1,184,200	100	7,500
SANILAC	3,300	1,351,500	2,100	1,374,200	100	8,900
SCHOOLCRAFT	500	119,700	200	68,900	100	5,500
SHIAWASSEE	6,400	2,378,300	3,100	1,810,900	100	13,200
TUSCOLA	4,300	1,647,600	2,500	1,619,500	100	12,700
VAN BUREN	7,000	2,799,000	3,200	2,197,900	100	10,900
WASHTENAW	38,400	23,248,300	10,300	9,299,100	100	14,700
WAYNE LESS DETROIT	120,500	69,598,900	53,800	46,968,900	400	63,700
WEXFORD	3,000	1,084,700	1,400	806,300	100	8,700
OUTSIDE OF MICHIGAN	19,000	10,111,200	7,900	6,511,600	100	12,500
DETROIT	130,500	62,906,700	29,500	21,199,800	400	93,300
TOTAL	1,022,800	$495,083,600	415,300	$308,300,200	9,000	$1,150,500

Exhibit 17 (Continued)

County	Blind and Disabled Number	Blind and Disabled Amount	Farmland Number	Farmland Amount	Total Credits Number	Total Credits Amount
ALCONA	100	$29,400	< 50	$16,600	1,100	$461,900
ALGER	< 50	13,100	< 50	1,100	900	318,400
ALLEGAN	600	331,200	100	707,400	12,900	6,873,300
ALPENA	400	138,000	< 50	18,000	4,000	1,597,100
ANTRIM	100	79,900	< 50	36,900	3,200	1,698,600
ARENAC	200	65,900	100	250,000	2,100	1,134,200
BARAGA	< 50	16,400	< 50	0	600	216,600
BARRY	200	105,300	< 50	212,700	6,100	3,128,500
BAY	1,000	465,200	300	1,119,500	16,100	8,202,400
BENZIE	100	47,200	< 50	2,600	2,000	872,300
BERRIEN	1,400	664,800	100	367,600	20,900	9,295,800
BRANCH	200	108,000	200	708,100	5,200	2,899,600
CALHOUN	1,400	776,800	200	691,300	20,800	10,750,300
CASS	300	108,400	100	694,200	4,500	2,646,200
CHARLEVOIX	100	64,300	< 50	18,200	4,000	2,016,900
CHEBOYGAN	200	69,800	< 50	9,900	2,800	1,072,800
CHIPPEWA	200	79,900	< 50	14,000	5,200	1,659,500
CLARE	300	106,300	< 50	75,600	3,300	1,215,500
CLINTON	200	139,300	200	614,000	7,700	4,751,700
CRAWFORD	100	36,700	< 50	0	1,300	454,800
DELTA	300	124,400	< 50	72,600	4,400	1,743,900
DICKINSON	200	68,100	< 50	10,200	3,200	1,376,900
EATON	700	411,900	100	555,800	18,200	10,184,300
EMMET	100	69,600	< 50	4,400	5,000	2,381,600
GENESEE	4,100	2,331,500	100	231,600	63,900	30,198,200
GLADWIN	200	96,000	< 50	48,400	3,200	1,317,600
GOGEBIC	100	39,600	< 50	0	1,500	490,000
GRAND TRAVERSE	500	253,000	< 50	50,500	14,600	7,626,000
GRATIOT	300	108,600	400	1,508,900	4,800	3,455,300
HILLSDALE	300	148,600	200	540,200	5,400	2,769,600
HOUGHTON	200	72,900	< 50	3,300	2,600	945,000
HURON	200	114,700	1,000	4,784,600	6,500	7,947,700
INGHAM	2,300	1,357,700	200	1,037,800	48,600	27,772,000
IONIA	300	168,600	100	556,800	7,000	3,651,800
IOSCO	300	91,200	< 50	35,700	3,100	1,160,100
IRON	100	34,200	< 50	1,500	1,200	425,100
ISABELLA	300	164,000	100	399,200	8,400	4,230,500
JACKSON	1,100	621,600	100	302,100	20,000	9,390,600
KALAMAZOO	1,700	950,100	100	491,400	37,400	18,680,800
KALKASKA	100	61,800	< 50	3,500	1,900	773,200
KENT	3,600	2,147,200	100	480,200	90,900	44,734,900
KEWEENAW	< 50	3,300	< 50	0	100	51,700

Exhibit 17 (Continued)

County	Blind and Disabled		Farmland		Total Credits	
	Number	Amount	Number	Amount	Number	Amount
LAKE	100	$51,200	< 50	$4,800	1,200	$424,100
LAPEER	400	231,900	100	190,000	9,700	5,005,200
LEELANAU	100	36,100	< 50	45,900	2,400	1,485,000
LENAWEE	700	397,500	400	1,748,600	14,100	8,920,000
LIVINGSTON	400	291,400	< 50	4,800	15,700	9,257,200
LUCE	< 50	10,100	< 50	0	400	103,800
MACKINAC	100	17,900	< 50	6,200	1,800	662,300
MACOMB	5,200	3,864,300	< 50	69,200	158,000	103,832,400
MANISTEE	200	100,600	< 50	9,300	3,300	1,396,700
MARQUETTE	400	154,100	< 50	4,300	5,900	2,083,300
MASON	200	111,700	100	191,300	4,200	2,077,500
MECOSTA	200	95,000	< 50	122,900	3,800	1,747,700
MENOMINEE	100	38,100	< 50	62,900	2,100	791,200
MIDLAND	500	236,500	100	181,400	9,100	4,165,000
MISSAUKEE	100	38,600	100	368,800	1,500	1,011,700
MONROE	900	509,300	200	560,800	17,300	9,475,400
MONTCALM	500	207,500	200	671,000	7,900	4,020,800
MONTMORENCY	100	29,500	< 50	17,200	1,000	357,300
MUSKEGON	1,900	982,700	100	261,100	24,700	11,394,900
NEWAYGO	300	156,900	100	248,300	5,200	2,645,000
OAKLAND	5,100	3,894,000	< 50	75,400	178,200	123,161,600
OCEANA	200	91,500	100	230,200	3,300	1,675,500
OGEMAW	200	83,300	< 50	78,500	2,600	1,074,500
ONTONAGON	< 50	13,300	< 50	1,400	600	193,400
OSCEOLA	200	67,000	100	179,100	2,600	1,212,300
OSCODA	100	25,400	< 50	0	600	188,900
OTSEGO	100	47,600	< 50	1,400	2,400	867,900
OTTAWA	1,100	659,000	200	823,300	33,900	17,380,200
PRESQUE ISLE	100	38,900	< 50	31,000	1,600	645,400
ROSCOMMON	300	115,900	< 50	12,000	3,400	1,340,300
SAGINAW	2,000	1,025,800	500	1,863,200	25,600	12,448,800
ST. CLAIR	1,200	707,400	< 50	133,000	25,300	13,177,800
ST. JOSEPH	400	160,800	200	727,100	6,800	3,522,900
SANILAC	300	164,300	500	1,519,800	6,300	4,418,800
SCHOOLCRAFT	< 50	9,100	< 50	3,800	700	207,100
SHIAWASSEE	600	292,900	200	606,000	10,400	5,101,300
TUSCOLA	400	200,200	700	3,027,300	8,000	6,507,200
VAN BUREN	600	348,000	100	481,600	11,100	5,837,500
WASHTENAW	1,400	1,073,100	200	829,200	50,400	34,464,300
WAYNE LESS DETROIT	7,000	5,431,100	< 50	85,100	181,700	122,147,700
WEXFORD	300	147,200	< 50	22,500	4,800	2,069,500
OUTSIDE OF MICHIGAN	1,000	714,900	100	224,800	28,100	17,574,900
DETROIT	10,100	6,805,500	< 50	3,200	170,400	91,008,500
TOTAL	69,300	$42,561,500	8,100	$32,560,000	1,524,500	$879,655,800

Federal Income Tax Expenditures

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

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

1. Federal (national) government tax expenditure estimate times Michigan's apportionment factor equals Michigan's share of federal government revenue loss.

2. Michigan's share of federal revenue loss divided by the average marginal tax rate for federal taxpayers equals Michigan income excluded from federal taxation.

3. Michigan income excluded from federal taxation times the state income tax rate equals Michigan's tax expenditure due to federal deductions or exemptions.

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

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

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

	FY 2009 Estimate
Accelerated Depreciation	$148,508,000

When a person buys property to be used in a business or to earn rent and the property has a useful life of more than one year, the cost of the property is typically depreciated over its expected life. For tax purposes, a person may deduct depreciation at an accelerated rate. The federal tax expenditure estimate for depreciation now compares tax law depreciation with the estimated economic depreciation adjusted for inflation.

Employer Contributions to Health and Life Insurance	$1,029,705,000

Exempts employer payments for employee medical insurance from taxation. Also exempts employer payments for life insurance premiums on the first $50,000 of life insurance.

	FY 2009 Estimate
Employer Pension Plans Exempts employer payments into qualified employee pension plans from taxation.	$582,012,000
Federal Adjustments to Income Excludes moving expenses, health insurance purchased by self-employed persons, and alimony paid from the calculation of federal AGI.	$29,550,000
Fellowships and Scholarships Excludes most fellowships and scholarships used for tuition and fees for degree-seeking candidates from the calculation of federal AGI.	$12,427,000
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.	$193,096,000
Income Maintenance Benefits Excludes public assistance benefits such as Temporary Aid to Needy Families (TANF) and general assistance from taxation.	$5,990,000
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 $4,000 for 2007. Only persons with an AGI below $83,000 on a joint return ($52,000 on a single return) or not covered by an employer retirement plan can take the full $4,000 deduction. A partial deduction, phased out according to income, is available between $83,000-$103,000 for joint filers and $52,000-$62,000 for single filers.	$185,289,000
Interest on Life Insurance Savings Exempts interest earned from life insurance from tax if used to buy additional life insurance.	$143,995,000
Medical Care Savings Account Reduces income by the amount contributed by or on behalf of a taxpayer to a qualified medical care savings account.	$7,904,000

	FY 2009 Estimate
Railroad Retirement Benefits Exempts most Type I railroad retirement benefits, which are taxed the same as social security benefits (see below).	$1,876,000
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.	$249,367,000
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.	$5,031,000
Veterans' Benefits Excludes veterans' benefits administered by the Veterans' Administration from AGI.	$29,717,000
Workers' Compensation Exempts workers' compensation received by the worker or his or her beneficiaries from taxation.	$51,635,000

CHAPTER 7

TRANSPORTATION TAX EXPENDITURES

Transportation tax expenditures are projected to increase 0.6 percent from $48.6 million in FY 2008 to $48.9 million in FY 2009. Transportation tax expenditure estimates were based on FY 2006 and FY 2007 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 were enacted in 2007.

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 $313,000 to the state's Aeronautics Fund in FY 2009.

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 2009, the aviation fuel tax is projected to yield $6.1 million, which is deposited into the state's Aeronautics Fund.

	FY 2009 Estimate
Federally-Owned Aircraft Exempts the federal government from the aviation gasoline tax for fuel used in federally-owned aircraft.	$283,000

FY 2009 Estimate

Interstate Flight Refund $2,840,000

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

Marine Vessel Fuel Tax Expenditures

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

FY 2009 Estimate

Marine Vessel Exemption $740,000

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

Motor Carrier Privilege Fee

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

Motor Fuel Taxes

Motor fuel taxes include gasoline, diesel fuel, motor carrier diesel fuel, and liquefied petroleum gas taxes. The tax rate on gasoline is 19 cents per gallon. The diesel fuel tax rate is 15 cents per gallon. Revenue is earmarked to the Michigan Transportation Fund, and distributed to the state, counties, and cities to maintain roads, and to the Comprehensive Transportation Fund to help finance public transportation. In FY 2009, motor fuel taxes will yield an estimated $973.6 million.

	FY 2009 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.	$13,070,000
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.	$5,590,000
Fuel for Off-Road Use Exempts fuel purchased for motor vehicles used exclusively on nonpublic roads.	$1,000,000
Municipal Franchise Vehicles Refunds gasoline tax to persons operating passenger vehicles under a municipal franchise, license, permit, agreement or grant, such as taxi cabs.	$450,000
Public Vehicles Exempts fuel purchased for motor vehicles owned or leased by state, federal, or local governments from motor fuel taxes.	$14,100,000
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 2009, the motor vehicle registration fee is projected to yield $870.0 million.

	FY 2009 Estimate
Disabled Veterans' Vehicles Provides totally disabled veterans free vehicle license plates.	$340,000
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.	$10,517,000

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 2009 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.	$13,000

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 3.6 percent from $10,519.4 million in FY 2008 to $10,893.1 million in FY 2009. Estimates were based on FY 2006 and FY 2007 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 Acts 12 and 13 of 2007 amended the Plant Rehabilitation and Industrial Development Act to include a motor sports entertainment complex (Michigan International Speedway) and a strategic response center in the definition of industrial property covered under the Act. Both additions targeted potential new investments in Michigan.

Public Act 37 of 2007 amended the Revised School Code to exempt industrial personal property from all of the 18-mill property tax to fund local schools, and exempt commercial personal property from 12 of the 18 mills. This Act applies to taxes levied after December 31, 2007. The exemption is reduced in 28 school districts that levy supplemental (hold-harmless) millage.

Public Act 38 of 2007 amended the State Education Tax Act to exempt all industrial personal property from the 6-mill state education tax. The exemption applies to taxes levied after December 31, 2007.

Public Act 39 of 2007 amended the Plant Rehabilitation and Industrial Development Act to exempt new facility industrial personal property subject to the industrial facilities tax from the portion of the tax attributable to the state education tax and the 18-mill property tax used to fund local schools. The exemption applies to taxes levied after December 31, 2007.

Public Act 40 of 2007 amended the General Property Tax Act to include the exemptions for personal property enacted in Public Acts 37 through 39.

Public Act 44 of 2007 amended the Corridor Improvement Authority Act to allow a qualified development area to capture, with the approval of the Michigan Economic Growth Authority (MEGA), state education taxes and taxes levied by local school districts and use those revenues to finance improvements in a qualified development area, as defined in the Act. Public Act 44 allows a development project near the State Fairgrounds in Detroit to make use of captured tax revenues to prepare the area for construction.

Public Act 61 of 2007 created the Neighborhood Improvement Authority Act to allow a neighborhood improvement authority to create a tax increment financing plan to facilitate economic development within the authority's development area. The authority would be able to capture certain tax revenues due to the increase in property tax values within the development area and use those revenues to foster economic growth within the development area.

Public Acts 115 and 116 of 2007 amended the General Property Tax Act to allow the transfer of an exemption for personal property from an eligible business to another eligible business that acquires the property. The exemption would also apply to new personal property acquired by the new eligible business. After 2007, the governing body of an eligible local assessing district needs to approve an extension of the exemption to an acquiring business for the exemption to remain in place.

Public Act 146 of 2007 amended the Plant Rehabilitation and Industrial Development Districts Act to create exceptions to the standard eligibility qualifications for tax abatements under the Act. Public Act 146 creates five new exceptions for existing Michigan businesses.

Public Act 200 of 2007 amended the Local Development Financing Act to expand the eligibility criteria for townships to be included under the Act as urban townships. This expansion applied to two townships in southern Michigan.

Public Acts 201 through 204 of 2007 amended the Brownfield Redevelopment Financing Act to extend the deadline for the approval of work plans, revise the factors to be considered when a work plan is reviewed, modify the definitions of eligible property and activities, and require the Auditor General to audit and report on the performance of the brownfield redevelopment program.

Public Act 209 of 2007 amended the City Income Tax Act to suspend the reductions in the tax rate levied by Detroit for calendar years 2008 and 2009. Detroit's tax rate for both years would remain at 2.5 percent for residents and 1.25 percent for nonresidents.

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 2009 collections are projected to total $75.0 million.

	FY 2009 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.	$22,550,000
Railroad Right-of-Way Provides a credit to railroad companies for maintaining or improving certain rolling stock and rights-of-way in Michigan.	$24,300,000

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	31.52	50.06	39.00
2004	32.70	51.20	40.00
2005	32.60	51.38	39.88
2006	32.65 (est.)	50.96 (est.)	39.96
2007	n.a.	n.a.	39.89

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

FY 2009 Estimate

Agricultural Transfers $31,200,000

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

Air and Water Pollution Control $160,000,000

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

	FY 2009 Estimate
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.	$240,000
Enterprise Zone Exempts property owned by a qualified business in an Enterprise Zone established before 1994 (Benton Harbor) from ad valorem property tax and subjects it to a specific tax for a 10-year period. The Benton Harbor Enterprise Zone program ceased enlisting new businesses into the abatement program after December 31, 1996. Property located in a federally-designated zone is eligible for a five-year, 50 percent tax abatement on any increase in value, if authorized by the local government.	$900,000
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.	$3,680,000,000
Homestead Exemption for Farm Property Exempts qualified agricultural property from local school operating mills. The estimate includes all property classified as agricultural, including houses.	$150,000,000
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).	$245,000,000

FY 2009 Estimate

For a restored facility, the industrial facilities tax is levied at the same rate as the local property tax, but only on the taxable value of the property before the exemption. Therefore, the value of restoration or replacement is exempt from the industrial facilities tax. For a new facility approved after 1993, the industrial facility tax is half the property tax rate applied to the taxable value of the new facility, except that the full 6-mill State Education Tax rate is levied unless reduced by the Director of the Strategic Fund. Exhibit 19 displays a partial estimate of the taxable value of property subject to the industrial facilities development program. Public Act 39 of 2007 reduced the tax on new facility personal property on land classified as industrial real property (see page 75).

Neighborhood Enterprise Zones $17,800,000

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, eight cities participate in this program.

Next Energy Exemption $900,000

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 $4,300,000

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.

Poverty Exemption $6,000,000

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

Personal Property Tax Exemptions $410,700,000

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 2009 Estimate
Renaissance Zones	$75,000,000

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

Tax-Exempt Property	$1,998,000,000

Exhibit 19 reports the results from the 2006 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 $32.8 billion. If taxed at the 2005 average nonhomestead statewide rate of 51.38 mills, tax-exempt property would have yielded $1.69 billion in property tax revenue.

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

Tax-Exempt Acreage	n.a.

Exhibit 20 shows exempt nonprofit religious or educational property by county. Properties are exempt under Article IX, Sec. 4, of the State Constitution. Tax-exempt acreage totaled 416,281 acres in 2006.

Tax-Exempt County and Municipal Property	$204,000,000

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

Tax-Exempt Federal Property	$297,000,000

Exempts real property belonging to the United States government.

Tax-Exempt Other Real Tax Exempt Property	$155,000,000

Exempts other real property including hospitals, charitable institutions, selected nonprofit organizations, cemeteries, and utilities.

	FY 2009 Estimate
Tax-Exempt Personal Property	$382,000,000

Exempts specific items from the property tax. Examples include hospital equipment, special tools, inventories, solar wind and water energy equipment, air and water pollution equipment, and wood and fish harvesting equipment.

Examples of personal property owners receiving the exemption include charitable institutions, libraries, banks and trusts, credit unions, parent-cooperative preschools, government units, airports, insurance companies, memorial posts, and public service organizations. The estimate does not include personal property owned by religious and nonprofit educational organizations.

Tax-Exempt Public Education Property — $409,000,000

Exempts real property owned, leased, loaned, or otherwise made available to school districts if the property is used primarily for public school purposes.

Tax-Exempt Specifically-Taxed Property — n.a.

Imposes a registration fee on motor vehicles, boats, and aircraft in lieu of property taxes. The difference between the revenue from the registration fee compared to revenue that would result from a property tax represents a tax expenditure.

Tax-Exempt State Property — $548,000,000

Exempts real property owned by the State of Michigan.

Tax Increment Financing — $310,000,000

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.

	FY 2009 Estimate
Taxable Value Cap 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.	$3,520,000,000
Veterans' Organizations 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.	n.a.
Water Softeners and Water Coolers Exempts rented or leased water softener equipment and leased bottled water coolers from the personal property tax.	$1,210,000

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 $4.9 million in FY 2007, $1.4 million of which was remitted to the state. The state's share of the iron ore specific tax is deposited into the School Aid Fund. Public Act 443 of 2002 reduced the tax rate for five years to 0.75 percent.

Exhibit 18
Counties of Michigan

Exhibit 19
Estimated Taxable Value of Exempt Real and Personal Property by County, 2007
(Taxable Value in Thousands)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
ALCONA	$0	$100,031	$15,583	$24,803	$16,130
ALGER*	113	22,328	1,757	2,230	7,253
ALLEGAN*	205,645	0	0	0	0
ALPENA	13,101	8,341	63,430	95,092	62,782
ANTRIM*	0	0	0	0	0
ARENAC*	1,540	517	32,700	2,420	1,150
BARAGA*	0	20,100	39,143	20,860	24,515
BARRY *	7,707	0	6,389	20,684	48,976
BAY*	144,357	15,669	13,958	19,377	212,856
BENZIE*	0	33,116	85,394	20,320	5,463
BERRIEN *	100,363	0	0	0	0
BRANCH *	55,737	0	854	10,450	4,500
CALHOUN*	225,049	n.a	n.a	n.a	n.a
CASS *	23,121	0	46,075	116,775	116,813
CHARLEVOIX*	101,829	979	22,066	24,426	44,643
CHEBOYGAN	0	2,598	92,793	45,044	25,353
CHIPPEWA *	1,869	1,243,228	50,000	3,000	54,000
CLARE*	5,783	827	22,313	3,071	33,102
CLINTON*	18,343	15	3,200	15,000	25,000
CRAWFORD *	2,775	28,545	230,000	6,233	21,150
DELTA	19,092	56,743	13,738	11,954	27,403
DICKINSON	15,124	8,300	9,500	8,300	40,000
EATON	0	360	20,100	117,800	45,000
EMMET	3,762	0	9,333	349	7
GENESEE	134,041	16,237	54,290	464,601	541,782
GLADWIN	6,325	50,000	25,000	13,000	31,000
GOGEBIC *	906	29,214	105	12,521	2,287
GRAND TRAVERSE *	7,909	2,750	15,000	85,000	66,800
GRATIOT *	28,137	1,650	9,250	8,700	185,000
HILLSDALE	69,367	272	650	20,505	71,500
HOUGHTON*	5,075	12,720	80,160	7,925	94,700
HURON*	56,841	39,400	10,542	85,700	0
INGHAM	167,818,373	n.a.	n.a	n.a.	n.a.
IONIA	26,364	0	173,468	16,752	21,160
IOSCO*	50	121,832	39,299	32,477	29,240
IRON*	165	21,800	13,500	6,500	526
ISABELLA	10,277	0	0	0	0
JACKSON*	166,939	2,000	201,000	38,000	98,000
KALAMAZOO	160,243	33,255	338,073	714,015	1,331,837
KALKASKA *	2,996	1,000	100,000	100,000	95,000
KENT *	614,658	24,450	23,766	174,895	484,900
KEWEENAW	0	67,495	7,610	10,594	1,629

Exhibit 19 (Continued)

County	Industrial Facilities Tax	Federal	State	County and Municipal	Public Education
LAKE	$142	$100,926	$60,951	$8,197	$8,937
LAPEER*	57,151	3,272	16,794	140,854	98,456
LEELANAU	0	1,104	84	600	14
LENAWEE *	100,337	1,500	34,800	76,300	228,800
LIVINGSTON **	2,800	0	1,972	9,655	265
LUCE *	11,500	50	8,000	2,571	4,301
MACKINAC *	n.a.	22,794	73,314	10,193	15,013
MACOMB*	20,723	0	1,677	7,500	54,485
MANISTEE	8,857	18,600	36,000	32,000	34,300
MARQUETTE *	14,988	59,000	40,100	18,750	185,000
MASON	57,172	138,873	33,956	91,258	174,391
MECOSTA	76,048	1,245	4,350	8,750	175,500
MENOMINEE *	18,390	0	74,966	94	705
MIDLAND *	132,212	335	9,130	75,210	90,150
MISSAUKEE	4,565	80	2,080	4,299	19,822
MONROE*	324,971	136	10,544	79,510	175,130
MONTCALM	29,699,579	2,617,032	6,205,003	4,092	7,672
MONTMORENCY *	360	120,000	36,000	20,000	13,000
MUSKEGON	170,337	18,746	935,550	157,437	284,755
NEWAYGO	23,561,655	n.a.	n.a.	n.a.	n.a.
OAKLAND *	663,977	0	0	0	0
OCEANA *	7,218	16,500	6,100	2,200	15,000
OGEMAW *	533	6,230	12,830	8,171	6,256
ONTONAGON	3,293	226,472	28,692	4,592	12,003
OSCEOLA	32,322	0	4,055	4,826	20,154
OSCODA*	96	123,333	109,383	2,320	6,054
OTSEGO *	2,041	2,016	22,300	6,285	80,000
OTTAWA *	643,918	14,786	30,622	126,506	859,693
PRESQUE ISLE*	1,113	0	0	0	0
ROSCOMMON*	1,485	113	230,000	5,717	32,088
SAGINAW	153,002	23,700	144,700	202,000	641,600
SAINT CLAIR*	71,092	12,699	66,192	217,989	246,092
SAINT JOSEPH *	126,315	0	7,759	14,389	38,754
SANILAC *	12,707,147	0	0	0	0
SCHOOLCRAFT	10,603	0	0	0	47,361
SHIAWASSEE *	11,594	735	19,950	73,500	101,850
TUSCOLA*	13,292	0	0	0	0
VAN BUREN*	54,876	0	0	0	0
WASHTENAW *	280,902	0	230	474	10,259
WEXFORD *	26,763,108	0	0	0	0
TOTAL	$98,045,316	$5,496,049	$10,138,122	$3,775,612	$7,559,317

Note: Wayne and Ingham Counties are not in totals. 2006 taxable value for Wayne County was $50.6 billion.

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

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

Exhibit 19 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
ALCONA	$0	$875	$157,422	$618,654	20.3 %
ALGER*	55,000	0	88,568	249,736	26.2 %
ALLEGAN*	0	0	0	3,407,614	0.0 %
ALPENA	160,761	0	390,406	791,329	33.0 %
ANTRIM*	0	0	0	1,390,866	0.0 %
ARENAC*	0	612	37,399	454,387	7.6 %
BARAGA*	53,017	125,669	283,304	176,007	61.7 %
BARRY *	63,780	34,396	174,225	1,512,668	10.3 %
BAY*	255,154	2,593	519,607	2,651,999	16.4 %
BENZIE*	0	15,503	159,796	805,938	16.5 %
BERRIEN *	0	0	0	5,091,433	0.0 %
BRANCH *	0	6,500	22,304	1,060,279	2.1 %
CALHOUN*	N/A	N/A	0	3,228,413	0.0 %
CASS *	253,589	0	533,252	1,365,560	28.1 %
CHARLEVOIX*	3,526	13	95,653	1,587,021	5.7 %
CHEBOYGAN	525	10,876	177,189	1,072,943	14.2 %
CHIPPEWA *	21,200	3,500	1,374,928	802,650	63.1 %
CLARE*	97,893	0	157,206	816,510	16.1 %
CLINTON*	0	0	43,215	1,921,281	2.2 %
CRAWFORD *	89,130	20,000	395,058	488,360	44.7 %
DELTA	0	0	109,838	915,014	10.7 %
DICKINSON	11,100	0	77,200	776,882	9.0 %
EATON	223,260	139,477	545,997	2,868,821	16.0 %
EMMET	0	0	9,689	2,259,870	0.4 %
GENESEE	440,135	0	1,517,045	10,108,084	13.0 %
GLADWIN	2,476	2,469	123,945	754,410	14.1 %
GOGEBIC *	330	302	44,759	366,069	10.9 %
GRAND TRAVERSE *	118,200	51,400	339,150	3,322,297	9.3 %
GRATIOT *	135,000	10,000	349,600	746,190	31.9 %
HILLSDALE	59,300	45,500	197,727	1,129,767	14.9 %
HOUGHTON*	2,180	9,460	207,145	533,131	28.0 %
HURON*	0	0	135,642	1,354,384	9.1 %
INGHAM	n.a.	n.a.	n.a.	6,847,863	n.a.
IONIA	3,970	0	215,350	1,209,828	15.1 %
IOSCO*	3,621	12,356	238,825	935,386	20.3 %
IRON*	0	0	42,326	339,554	11.1 %
ISABELLA	0	0	0	1,224,690	0.0 %
JACKSON*	200,000	5,000	544,000	3,790,558	12.6 %
KALAMAZOO	11,840	96,763	2,525,783	6,757,516	27.2 %
KALKASKA *	100,000	55,000	451,000	614,379	42.3 %
KENT *	1,840,872	158,010	2,706,893	18,015,374	13.1 %
KEWEENAW	361	60,227	147,916	93,967	61.2 %

Exhibit 19 (Continued)

County	Personal Property	Other	Exempt Total	Total Taxable Value Real and Personal Property	Exempt as a Percent of Taxable
LAKE	$745	$5,589	$185,345	$394,665	32.0 %
LAPEER*	184,151	0	443,527	2,632,810	14.4 %
LEELANAU	0	1,277	3,079	1,700,930	0.2 %
LENAWEE *	0	21,000	362,400	2,779,704	11.5 %
LIVINGSTON **	2,108	5,207	19,207	7,155,612	0.3 %
LUCE *	650	1,749	17,321	145,403	10.6 %
MACKINAC *	7,817	2,164	131,295	719,672	15.4 %
MACOMB*	6,428	400	70,490	26,980,530	0.3 %
MANISTEE	45,300	41,900	208,100	838,770	19.9 %
MARQUETTE *	0	230,000	532,850	1,401,609	27.5 %
MASON	28,897	51,789	519,164	1,177,623	30.6 %
MECOSTA	24,615	10,920	225,380	1,002,098	18.4 %
MENOMINEE *	0	4,431	80,196	479,202	14.3 %
MIDLAND *	154,540	110,240	439,605	3,416,287	11.4 %
MISSAUKEE	72,582	25,605	124,468	420,785	22.8 %
MONROE*	0	8,563	273,883	5,334,377	4.9 %
MONTCALM	0	0	8,833,799	1,444,154	85.9 %
MONTMORENCY *	0	175,000	364,000	400,645	47.6 %
MUSKEGON	595,988	0	1,992,476	3,795,562	34.4 %
NEWAYGO	0	0	0	1,112,019	0.0 %
OAKLAND *	0	3,107	3,107	55,986,491	0.0 %
OCEANA *	4,100	0	43,900	810,470	5.1 %
OGEMAW *	0	2,844	36,331	665,492	5.2 %
ONTONAGON	29,840	122,749	424,348	189,609	69.1 %
OSCEOLA	162,722	5,734	197,491	566,650	25.8 %
OSCODA*	1,801	5,564	248,455	301,086	45.2 %
OTSEGO *	45,800	3,665	160,066	1,083,027	12.9 %
OTTAWA *	125,529	782,392	1,939,528	8,017,867	19.5 %
PRESQUE ISLE*	0	0	0	507,034	0.0 %
ROSCOMMON*	8,400	9,514	285,832	1,090,097	20.8 %
SAGINAW	1,202,645	243,200	2,457,845	4,621,922	34.7 %
SAINT CLAIR*	129,346	178,053	850,371	5,571,093	13.2 %
SAINT JOSEPH *	4,185	4,695	69,782	1,475,311	4.5 %
SANILAC *	0	0	0	1,192,406	0.0 %
SCHOOLCRAFT	0	0	47,361	261,370	15.3 %
SHIAWASSEE *	12,000	0	208,035	1,524,102	12.0 %
TUSCOLA*	0	0	0	1,212,155	0.0 %
VAN BUREN*	0	0	0	2,296,161	0.0 %
WASHTENAW *	774	647	12,384	12,821,033	0.1 %
WEXFORD *	0	0	0	796,007	0.0 %
TOTAL	$7,057,184	$2,924,498	$36,950,782	$251,931,663	12.8 %

Note: Wayne and Ingham Counties are not in totals. 2006 taxable value for Wayne County was $50.6 billion.

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

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

Exhibit 20
General Property Tax – Estimated Exempt Acreage by County, 2007

County	Estimated Acreage	County	Estimated Acreage
ALCONA	410	LAKE	1,022
ALGER*	14,000	LAPEER*	4,600
ALLEGAN *	1,000	LEELANAU	2,507
ALPENA	5,800	LENAWEE *	9,200
ANTRIM *	1,000	LIVINGSTON **	162
ARENAC *	195	LUCE *	2,300
BARAGA*	7,740	MACKINAC *	240
BARRY *	7,000	MACOMB	176
BAY*	3,650	MANISTEE	4,400
BENZIE *	554	MARQUETTE *	390
BERRIEN *	6,812	MASON	620
BRANCH *	425	MECOSTA	2,604
CALHOUN *	5,670	MENOMINEE *	141
CASS *	60	MIDLAND *	2,000
CHARLEVOIX *	350	MISSAUKEE	1,425
CHEBOYGAN	10,945	MONROE	3,200
CHIPPEWA *	1,500	MONTCALM	6,800
CLARE *	164	MONTMORENCY *	200
CLINTON *	100	MUSKEGON	2,100
CRAWFORD *	1,619	NEWAYGO	6,800
DELTA	700	OAKLAND	12,871
DICKINSON	400	OCEANA *	500
EATON	3,134	OGEMAW *	693
EMMET	1,000	ONTONAGON	200
GENESEE	11,990	OSCEOLA	1,285
GLADWIN	1,000	OSCODA *	529
GOGEBIC *	2,300	OTSEGO *	735
GRAND TRAVERSE *	10,500	OTTAWA *	2,324
GRATIOT *	300	PRESQUE ISLE*	93,145
HILLSDALE	1,975	ROSCOMMON*	1,398
HOUGHTON*	2,215	SAGINAW	4,300
HURON*	341	SAINT CLAIR *	11,972
INGHAM	0	SAINT JOSEPH *	2,600
IONIA	544	SANILAC	0
IOSCO*	35,966	SCHOOLCRAFT	370
IRON *	580	SHIAWASSEE *	300
ISABELLA	2,882	TUSCOLA *	475
JACKSON *	3,020	VAN BUREN *	6,312
KALAMAZOO	40,000	WASHTENAW *	200
KALKASKA *	340	WEXFORD	500
KENT *	3,200		
KEWEENAW	3,670	**TOTAL**	386,648

* 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 2006 state share of this tax totaled $3.3 million indicating $5.0 million in total state and local collections. Exhibit 21 only shows the county share of the tax.

	FY 2009 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.	$59,900,000
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 $53.2 million in 2005 (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 $177.0 million in FY 2009.

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 $14.4 million in 2006 (see Exhibit 21).

City Income Tax

A city income tax is levied by adoption of a city ordinance subject to referendum upon petition by the voters. 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 2006, city income taxes totaled $458.2 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 2009 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 Local Units, 2006

County	Accommodations	Mobile Home (County Share)	Real Estate Prop. Trans.
ALCONA	$0	$84	$46,214
ALGER	0	0	34,144
ALLEGAN	0	26,102	597,607
ALPENA	0	709	77,479
ANTRIM	0	278	184,894
ARENAC	0	2,930	50,367
BARAGA	0	78	22,375
BARRY	0	6,165	226,111
BAY	0	15,372	268,425
BENZIE	0	1,296	132,122
BERRIEN	0	20,064	1,018,606
BRANCH	0	4,410	170,080
CALHOUN	90,773	15,532	425,900
CASS	0	4,380	222,817
CHARLEVOIX	0	1,984	243,289
CHEBOYGAN	0	1,081	125,970
CHIPPEWA	0	3,148	99,881
CLARE*	0	3,713	106,799
CLINTON	0	14,020	277,817
CRAWFORD	0	0	49,824
DELTA	0	3,815	111,813
DICKINSON	0	2,229	178,193
EATON	0	9,471	398,728
EMMET	0	2,660	289,587
GENESEE	1,230,258	66,250	1,564,362
GLADWIN	0	672	94,272
GOGEBIC	0	163	56,990
GRAND TRAVERSE	0	10,846	582,611
GRATIOT	0	4,249	100,306
HILLSDALE	0	2,195	154,138
HOUGHTON	0	220	87,242
HURON	0	3,006	107,894
INGHAM	1,871,484	10,183	1,047,033
IONIA	0	6,160	180,098
IOSCO	0	477	90,239
IRON	0	141	45,108
ISABELLA	0	5,379	203,477
JACKSON	0	23,449	555,760
KALAMAZOO	1,825,561	31,591	1,178,423
KALKASKA	0	460	61,872
KENT	4,735,395	52,419	3,208,173
KEWEENAW	0	0	12,345

Exhibit 21 (Continued)

County	Accommodations	Mobile Home (County Share)	Real Estate Prop. Trans.
LAKE	$0	$0	$48,146
LAPEER	0	12,021	307,630
LEELANAU	0	346	241,413
LENAWEE	0	11,748	425,218
LIVINGSTON	0	18,616	1,054,943
LUCE	0	20	20,308
MACKINAC*	0	0	79,176
MACOMB*	0	79,274	5,055,872
MANISTEE*	0	776	115,733
MARQUETTE	0	2,973	256,813
MASON	0	2,367	136,507
MECOSTA	0	1,387	119,305
MENOMINEE	0	866	14,764
MIDLAND	0	5,301	270,701
MISSAUKEE	0	58	41,268
MONROE	0	36,454	649,877
MONTCALM	0	3,457	194,931
MONTMORENCY	0	90	40,076
MUSKEGON	840,309	18,735	572,265
NEWAYGO*	0	7,184	163,368
OAKLAND	0	88,584	8,891,277
OCEANA	0	1,721	121,695
OGEMAW	0	754	60,436
ONTONAGON	0	0	30,430
OSCEOLA	0	444	61,516
OSCODA	0	0	41,659
OTSEGO	0	6,530	132,252
OTTAWA*	0	46,643	1,394,902
PRESQUE ISLE	0	354	51,841
ROSCOMMON	0	1,664	133,872
SAGINAW	2,269,660	16,456	504,093
SAINT CLAIR	0	27,044	529,956
SAINT JOSEPH	0	11,165	203,609
SANILAC	0	6,010	132,696
SCHOOLCRAFT	0	66	38,878
SHIAWASSEE	0	11,601	183,373
TUSCOLA	0	4,840	136,854
VAN BUREN	0	7,845	340,995
WASHTENAW	1,393,593	33,399	2,208,023
WAYNE	0	80,116	8,343,406
WEXFORD	144,944	3,395	111,518
TOTAL	$14,401,977	$907,674	$48,150,977

* Figures carried forward from a previous year.

	FY 2009 Estimate
Nonresident Reduced Rate Nonresidents' income is taxed at half the rate paid by residents.	$159,100,000
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.	$16,000,000
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 Michigan city eligible to levy the tax. The maximum rate is 5 percent, which is the current rate in Detroit. Revenues are earmarked for increased law enforcement. Collections totaled $59.1 million in 2006.

Exhibit 22
Estimated Tax Expenditures From City Income Tax Personal Exemptions, 2006

City	Resident Quantity	Resident Amount	Nonresident and Partial-Year Resident Quantity	Nonresident and Partial-Year Resident Amount
Albion	6,693	$40,158	4,031	$12,093
Battle Creek	34,040	255,300	44,208	165,780
Big Rapids	3,265	19,590	21,405	64,215
Detroit	410,818	6,162,270	349,988	2,624,910
Flint	46,437	278,622	83,432	250,296
Grand Rapids	138,180	1,347,255	161,654	788,063
Grayling	1,353	40,590	4,767	71,505
Hamtramck	20,299	121,794	6,993	20,979
Highland Park*	4,650	55,800	6,688	40,125
Hudson*	2,000	20,000	1,500	7,500
Ionia	4,032	28,224	13,338	46,683
Jackson	21,056	126,336	33,498	100,494
Lansing	73,562	441,372	109,840	329,520
Lapeer	6,905	41,430	17,248	51,744
Muskegon	15,985	95,910	36,070	108,210
Muskegon Heights	2,422	14,532	6,342	19,026
Pontiac*	26,500	159,000	83,000	249,000
Port Huron	18,399	220,788	27,025	162,150
Portland	3,739	37,390	2,382	11,910
Saginaw	27,286	306,968	45,059	253,457
Springfield*	4,287	64,305	4,759	35,693
Walker	18,851	141,383	36,301	136,129
TOTAL	890,759	$10,019,016	1,099,528	$5,549,481

* Based on a previous year's survey.

Exhibit 23
City Tax Rates and Exemption Allowances, 2006

	City Income Tax Rate				
City	**Resident**	**Non-Resident**	**Corporation**	**Personal Exemption**	**Collections (000s)**
Albion	1.00 %	0.50 %	1.00 %	$600	$889
Battle Creek	1.00 %	0.50 %	1.00 %	750	13,862
Big Rapids	1.00 %	0.50 %	1.00 %	600	1,728
Detroit	2.50 %	1.250 %	1.00 %	600	277,544
Flint	1.00 %	0.50 %	1.00 %	600	19,938
Grand Rapids	1.30 %	0.65 %	1.30 %	750	53,810
Grayling	1.00 %	0.50 %	1.00 %	3,000	408
Hamtramck	1.00 %	0.50 %	1.00 %	600	2,101
Highland Park	2.00 %	1.00 %	2.00 %	600	2,390
Hudson	1.00 %	0.50 %	1.00 %	1,000	269
Ionia	1.00 %	0.50 %	1.00 %	700	1,464
Jackson	1.00 %	0.50 %	1.00 %	600	5,101
Lansing	1.00 %	0.50 %	1.00 %	600	25,648
Lapeer	1.00 %	0.50 %	1.00 %	600	2,277
Muskegon	1.00 %	0.50 %	1.00 %	600	7,460
Muskegon Heights	1.00 %	0.50 %	1.00 %	600	868
Pontiac	1.00 %	0.50 %	1.00 %	600	13,046
Port Huron	1.00 %	0.50 %	1.00 %	1,200	6,139
Portland	1.00 %	0.50 %	1.00 %	1,000	672
Saginaw	1.50 %	0.75 %	1.50 %	750	14,202
Springfield	1.00 %	0.50 %	1.00 %	1,500	739
Walker	1.00 %	0.50 %	1.00 %	750	7,694
TOTAL					$458,249