



Michigan's Shrinking  
Property Tax Base

# Michigan's Shrinking Property Tax Base

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Eric Lupher, President

# Citizens Research Council

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- Statewide
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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
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# ABCs of Local Government Taxation in Michigan

# Basics of local government taxation in Michigan

- In Michigan...
  - Authority to levy local taxes is granted by the state
  - State statutes define:
    - The base upon which the tax is levied
    - The maximum tax rate that may be levied
    - Those types of local governments that may levy the tax
    - Sometimes, the permissible uses for the revenue generated

# Basics of local government taxation in Michigan

- Examples:
  - Uniform City Income Tax Act (PA284 of 1964)
  - Local Casino Gaming Tax (Initiated Law 1 of 1996)
  - County 9-1-1 Charge (PA 164 of 2007)
  - Accommodations Taxes (PA 263 of 1974 and PA 106 of 1985)
  - Convention and Tourism Marketing Fees (various)
  - Uniform City Utility Users Excise Tax (PA 100 of 1990)
  - Stadium and Convention Facilities Tax (PA 180 of 1991)
  - General Property Tax Act (PA 206 of 1893)

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100 YEARS OF UNCOMPROMISING POLICY RESEARCH

## **Outline of the Michigan Tax System** 2016 Edition

38777 Six Mile Road Suite 208 | Livonia, MI 48152 | 734.542.8001  
115 West Allegan Suite 480 | Lansing, MI 48933 | 517.485.9444 | [crcmich.org](http://crcmich.org)

## COUNTY 9-1-1 CHARGE

LEGAL CITATION:	<u>M.C.L. 484.1401b et. seq.</u> ; 2007 PA 164.
YEAR ADOPTED:	2007. Authorizing act will sunset on December 31, 2021.
BASIS OF TAX:	Communication services capable of accessing a 9-1-1 system.
MEASURE OF TAX (BASE):	All communication services capable of accessing a 9-1-1 system, including local telephones, contractual cellular telephones, wireless communications, and interconnected voice over Internet devices.
RATE:	Counties can charge up to \$0.42 per line per month by resolution of the county board of commissioners and up to a maximum of \$3.00 per line per month with the approval of the voters of the county.  Service users with multiple access points/lines are charged the full rate for the first ten access points/lines and then one charge for each additional ten access points/lines.
ADMINISTRATION:	County.
REPORT AND PAYMENT:	Due quarterly to the county.
DISPOSITION:	Service suppliers may retain 2% to cover billing and collection costs.  Remainder is distributed to the Primary 9-1-1 centers.

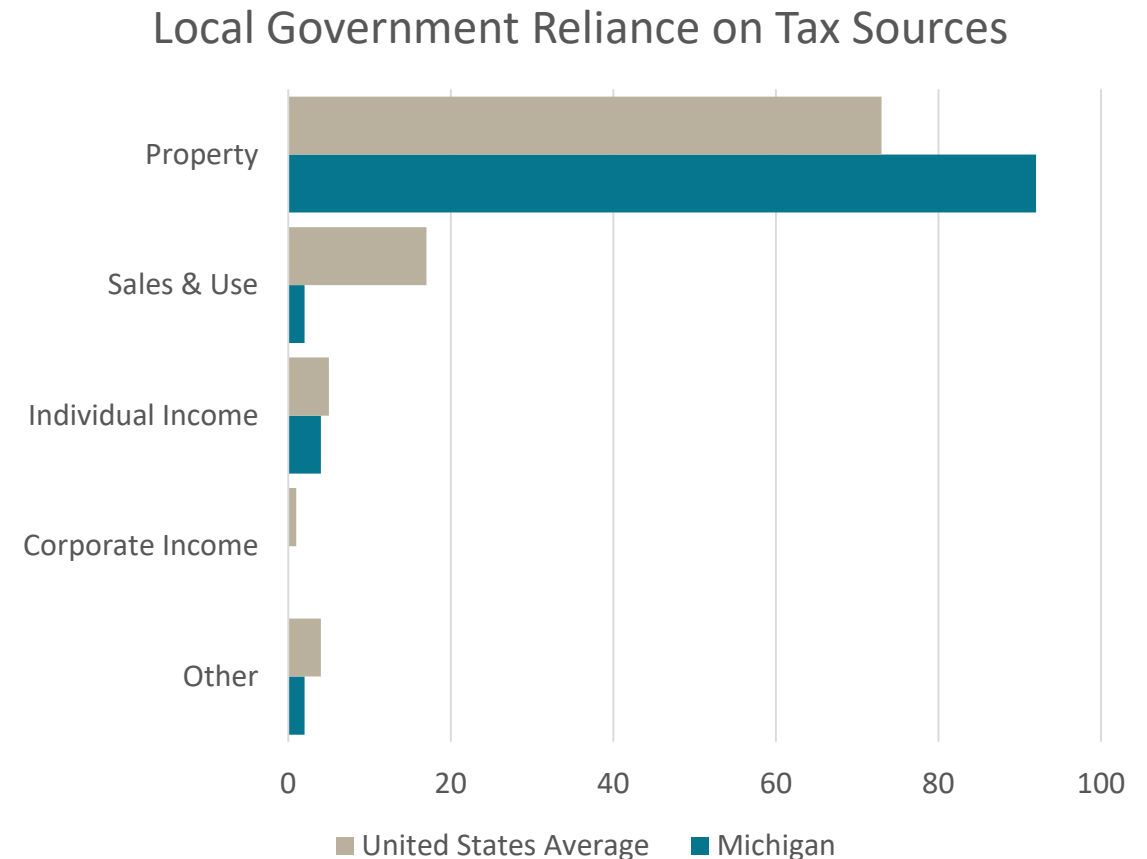


# Basics of local government taxation elsewhere

- Most other states have more diverse revenue raising options than does Michigan
  - Sales and/or income taxes
  - Sin taxes on liquor and/or tobacco
  - Transportation taxes on motor fuel and vehicle registrations
  - Public utility excise taxes
- In some other states, local governments may take unilateral action to levy new taxes

# Heavy Reliance on Property Tax in Michigan

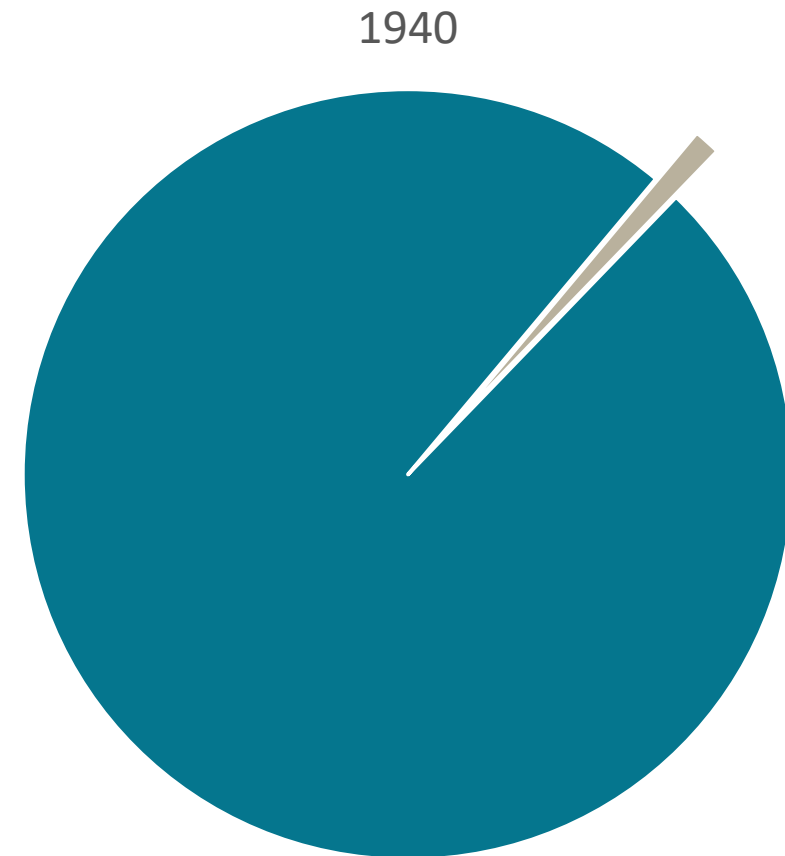
- Authorized to every type of local government in Michigan
  - Counties
  - Cities
  - Villages
  - Townships
  - School Districts
  - Intermediate School Districts
  - Community College Districts
  - Special Authorities
- Possible local governments would not be so sensitive to shrinkages of tax base if reliance was not so strong



# History of the State Exempting Major Types of Property

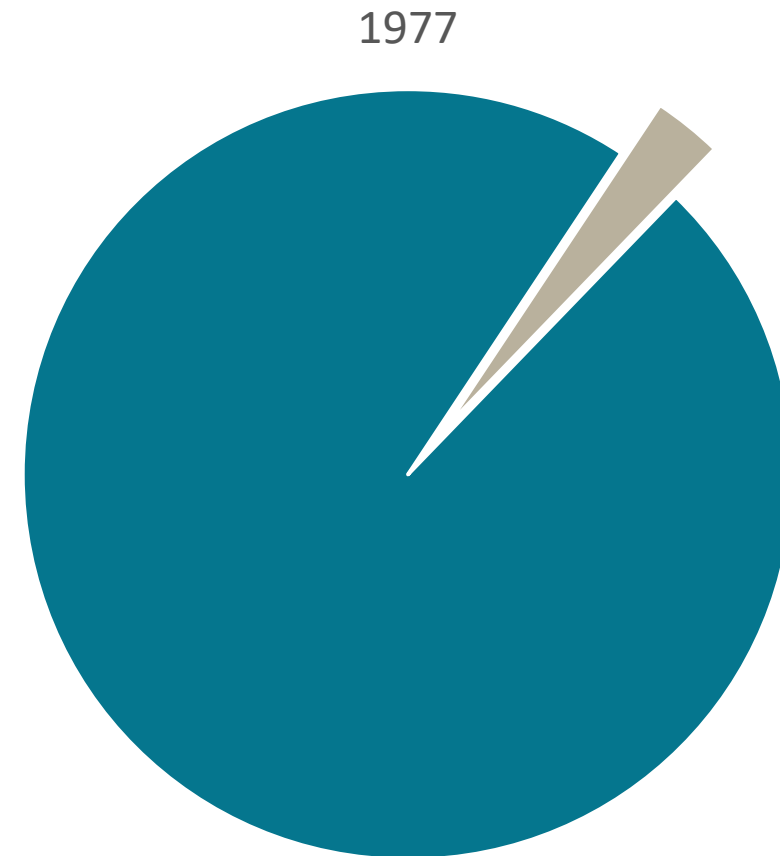
# Exemption of Intangibles Property from tax base

- Intangible property = assets that hold value only on paper (stocks, bonds, certificates)
- State better positioned to track ownership
- Exempted from local tax base in 1939
- Taxed by the state from 1940 - 1997
- Revenue shared with local governments on a per capita basis



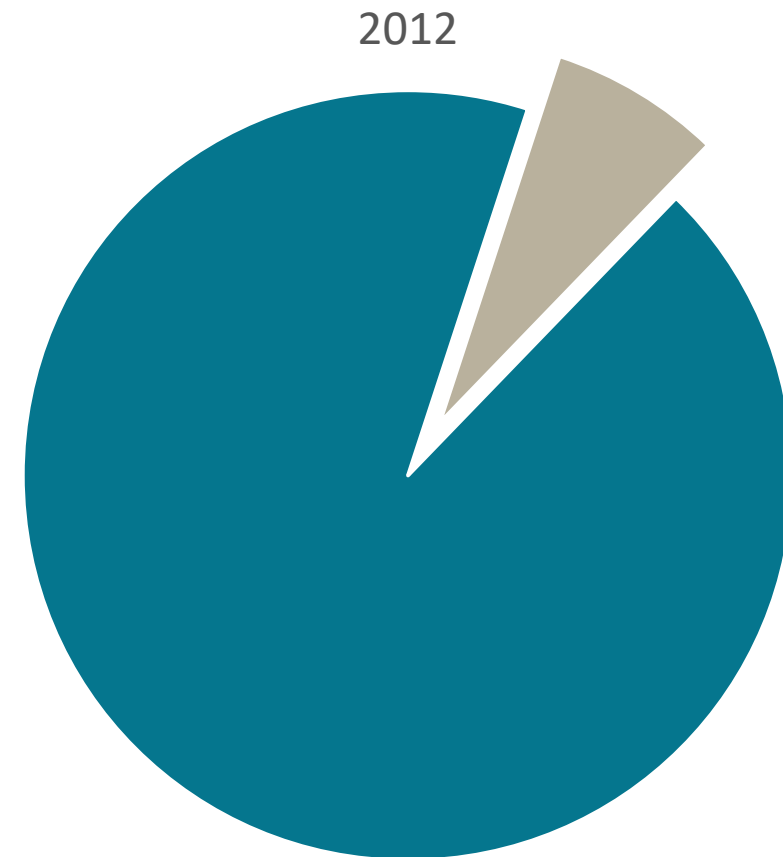
# Exemption of Inventory Property from tax base

- Inventory property is items retailers place on shelves (or backrooms)
- Disliked because accounting and tax implications
  - Remember end of year clearances?
- Exempted from local tax base as part of Single Business Tax in 1977
- State shared revenues with local governments based on current tax rate applied to 1977 value of inventory
  - Continued until 1998 reforms



# Exemption of Personal Property from tax base

- Personal property is machines, equipment, furniture, etc.
- Disliked as an extra cost of doing business in Michigan
- Exempted from local tax base in 2012
- State shared revenues with local governments based on value of personal property in each jurisdiction



# Past Practice for Tax Credits

# Existing Property Tax Exemptions

Numerous exemptions exist, notably:

1. certain property owned by nonprofit religious, charitable, or educational organizations
2. government property
3. property subject to specific state taxes (e.g., railroad and telephone property, intangibles, motor vehicles)
4. property subject to specific local taxes in lieu of property taxation, such as commercial forest land; mobile homes; low grade iron ore; certified industrial, commercial, technological, commercial housing facilities, obsolete property rehabilitation; certain nonferrous minerals and mineral-producing property; and eligible hydroponics and aquaculture production facilities.
5. certain household property, personal business property and mechanic's tools
6. personal property used in agricultural operations
7. inventory property
8. special manufacturing tools (dies, jigs, fixtures, molds, etc.)
9. solar, water or wind energy conversion devices (pre-1984);
10. property in transit located in a public warehouse, dock or port facility



# Existing Property Tax Exemptions (cont.)

11. property located in a renaissance zone, except for the portion of tax attributable to special assessments, taxes levied for the payment of general obligation bonds, intermediate school district-wide enhancement mills and local school district sinking fund millages
12. federally-qualified health centers
13. biomass gasification systems, thermal depolymerization systems, and methane digesters
14. personal property designated as industrial and commercial property for school operating millages
15. new personal property in one or more "distressed parcel", subject to local approval
16. supportive housing property for school operating millages
17. property occupied by a public school academy (charter school) and used exclusively for educational purposes for school operating millages
18. commercial and industrial personal property owned by a taxpayer with a true cash value of less than \$80,000 in a particular tax collecting unit
19. Beginning in 2016, the tax is phased out for certain personal property used primarily for, or in direct support of, industrial processing. The phase out continues until all such property is exempt in 2023
20. Real and personal property owned by a nonprofit street railway.

# Homestead Property Tax Credit

- How the state has provided property tax relief in the past
- Senior Citizens
  - 100% of taxes in excess of up to 3.5% of total household resources if total household resources are \$21,000 or less
    - 3.2% in 2018
  - phases down by 4 percentage points for each \$1,000 increment of household resources until the credit reaches 60% of taxes in excess of 3.5% of total household resources (\$30,000 total household resources)
  - reduced further for total household resources above \$41,000 (10% for each \$1,000 increment of total household resource)
  - eliminated when total household resources are \$50,000
- Veterans, surviving spouses, blind
  - credit based on TV allowance of between \$2,500 and \$4,500 depending on taxpayer's status (e.g. veteran, spouse, blind)
  - allowance divided by homestead's TV to determine percent of tax relief
  - calculated percentage is multiplied by property taxes assessed to determine credit of up to \$1,200
  - reduced further for total household resources above \$41,000 (10% for each \$1,000 increment of total household resource)
  - eliminated when total household resources are \$50,000
- Low income
  - 60% of taxes in excess of 3.5% of total household resources if total household resources are \$41,000 or less
    - 3.2% in tax year 2018
  - credit reduced by 10% for each \$1,000 increment of total household resources
  - eliminated when the total household resources is \$50,000

# Credit for City Income Taxes Paid

- Uniform City Income Tax predated State Income Tax
- Cities apprehensive about new state tax because it would crowd out local taxes
- Also a bit of social engineering
  - Most cities that levy income tax have suffered from abandonment
  - State tax credit lessens the burden to encourage residency/business location

# Citizens Research Council of Michigan

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