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CITIZENS RESEARCH COUNCIL OF MICHIGAN
CELEBRATING 100 YEARS

2013 Tax Revenue Comparisons: Michigan and the U.S. Average

Introduction

United States Census Bureau data show that Michigan has evolved from a high tax state to a below average state over the past three decades. This change can partly be attributed to economic decline as Michigan's state and local governments are, for the most part, levying the same tax rates against smaller tax bases caused by the state's "lost decade" of economic decline. It can also be attributed to policy changes, most notably Michigan's method of taxing corporate income. Where the state was formerly considered a high tax state for property, individual income, corporate income, and in total, data from 2013 show that Michigan tax revenues were below the U.S. averages for all forms of taxation except property for which Michigan's tax revenues were close to average.

Michigan's economy was on the path to recovery by 2013, but the effects of the state's "lost decade" and the Great Recession of 2007-2009 could still be felt. Diminished personal income affected two of the three primary sources of tax revenues – income and sales – and the burst of the housing bubble and resulting foreclosure crisis affected the third source – property. State income, sales, and use tax revenues each have been on a growth pattern since the depths of the recession, but have not yet rebounded to pre-2000 levels in real terms. Property tax revenues have only recently begun to rebound, but remain far below peak levels.

By 2013, the several tax policy changes enacted at the beginning of the Snyder administration's first term had begun to take effect. Those changes, mostly enacted in 2011, include elimination of the Michigan Business Tax (MBT), imposition of a six percent replacement corporate income tax, levying the state income tax on public and private pensions, and changes to the Earned Income Tax Credit.

Michigan policymakers have continued to adjust tax policy since 2013. The state's taxation of personal property was altered in 2014, 2015 tax increases will affect motor fuel and motor vehicle tax revenues, offsetting tax credits will reduce individual income tax revenues, and general sales tax collection for online purchases mandated in 2015 through "Main Street Fairness" legislation will cause sales tax receipts to increase for 2016 and beyond.

Methodology

Combined state and local government revenues provide the best comparison of taxation between states because of variations in revenue sharing and service obligations between the state and local governments. While the total tax burden imposed by a state can be measured a number of ways, this paper uses two measures of tax burden: tax revenue as a percent of personal income and tax revenue per capita.

Tax revenue expressed as a percentage of personal income measures the proportion of the income earned in the state paid in state and local taxes. This measure accounts for differences in average earnings across states. While some states may have large gross dollar amounts paid in taxes per person, earnings in that same state may be proportionately high. As such, a state with a lower amount collected in gross taxes per capita, but a smaller gross income base may face a comparatively higher tax burden per taxpayer. Therefore, tax revenue per capita measures a state's ability to generate tax revenues given its population, whereas tax revenue as a percentage of personal income measures the total tax burden.

Note: Per capita data have been adjusted to 2013 dollars using the U.S. Calendar Year Consumer Price Index for all Urban Consumers. (U.S. Department of Labor, Bureau of Labor Statistics) http://www.bls.gov/cpi/)

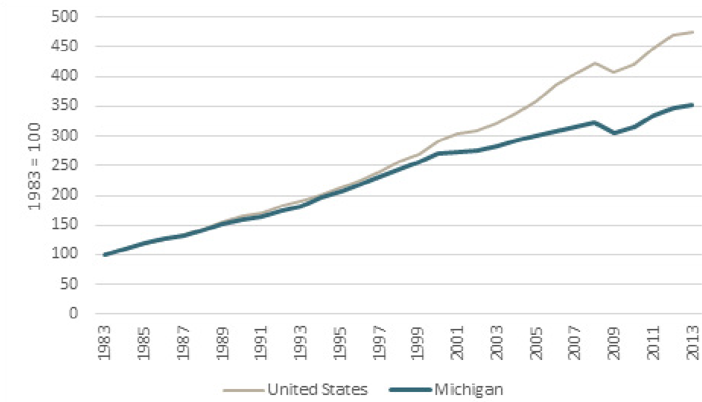
Personal Income and Population

From 2009-2013, Michigan was recovering from the sharp fall in personal incomes experienced as a result of both the Great Recession and the effects of Michigan's "single state recession" that began in the early 2000s and continued until the start of the national recession.

Since the late 1980s, the U.S. average personal income has increased faster than Michigan personal income. In the 2000s, the discrepancy became highly pronounced. From 1999 to 2009, personal income for the nation as a whole increased 51 percent compared to Michigan's 20 percent growth in personal income. The greatest separation occurred in the second half of that decade. From 2010 to 2013, growth in U.S. personal income only outpaced growth in Michigan personal income by one percentage point. (See Chart 1.)

Chart 1

Michigan and U.S. Personal Income Growth, 1983-2013

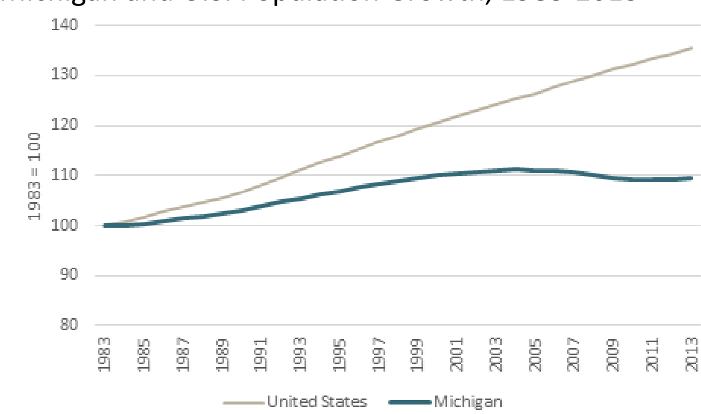


Source: U.S. Bureau of Economic Analysis.

Michigan's stagnant levels of population growth over the past three decades affected standardized comparison of the state's tax revenues against the nation or other growing states. The national population grew by 35 percent from 1983 to 2013, but Michigan's population only grew by nine percent (See Chart 2). Application of a denominator growing at a pace faster for the nation than for Michigan, everything else being equal, creates ratios implying that per capita tax revenues grew faster in Michigan than for the nation. The extent to which this was true requires deeper analysis. For instance, Michigan tax policy was not static during this period, with the adoption of both a higher individual income tax rate in 2007 and the MBT in 2008. Additionally, some of the people who left the state in this period, such as recent graduates or those displaced from work, were likely not contributing as much in tax revenue as those who stayed. So while population declined, tax revenues did not decline as substantially.

Chart 2

Michigan and U.S. Population Growth, 1983-2013



Source: U.S. Census Bureau

Total Tax

Table 1

Michigan Total State and Local Government Tax Collections as Percent of U.S. Average

	U.S. Average		Michigan					
			Per Capita			Per $1,000 Personal Income		
Year	Per Capita	Per $1,000 Personal Income	Amount	As Percent of U.S. Average	Rank	Amount	As Percent of U.S. Average	Rank
1983	$2,847.39	$96.21	$3,212.94	112.8%	12	$112.52	117.0%	9
1993	3,686.09	105.38	3,784.57	102.7	14	111.23	105.6	13
2004	4,256.42	100.57	4,106.14	96.5	25	103.73	103.1	17
2008	4,730.93	106.43	4,095.54	86.6	30	105.65	99.3	19
2012	4,483.10	99.82	3,718.91	83.0	34	94.83	95.0	32
2013	4,598.77	103.49	3,750.40	81.6	35	95.68	92.5	34

Source: U.S. Census Bureau, www.census.gov//govs/local/.

In 2013, Michigan ranked 35th highest in the U.S. with $3,750 in per capita tax revenues. Michigan was 36th highest in the nation with $96 of tax revenues per $1,000 of personal income. From 1993 to 2013, Michigan's state and local tax revenues per $1,000 of personal income fell by approximately 14 percent. Michigan's ranking against other states decreased by 21 places.

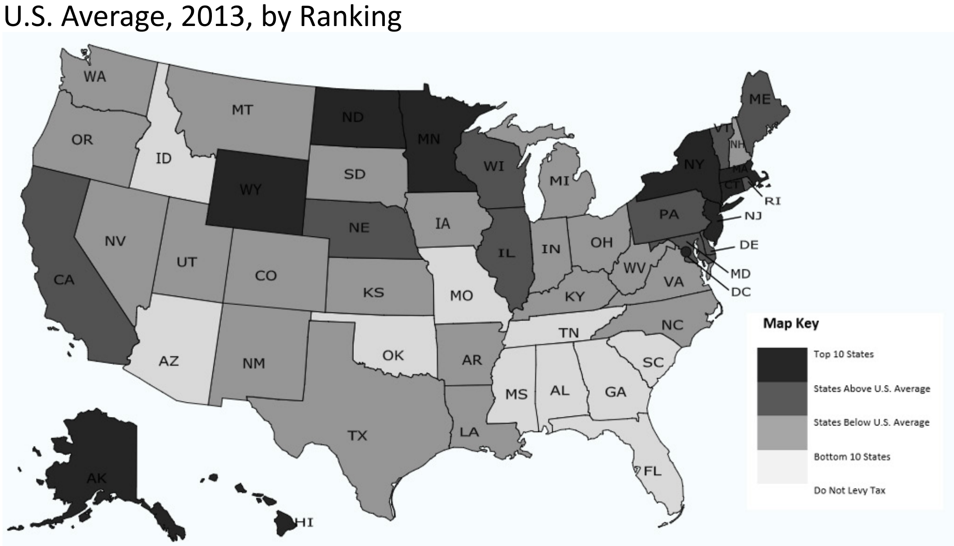
Michigan per capita tax revenues increased from $3,213 to $3,750 in the past 20 years, whereas the U.S. average amount in the same time has increased by $1,751. This increase in per capita revenues left Michigan state and local government tax revenues at 82 percent of the national average.

Comparing Michigan's per capita state and local tax revenues to the rest of the country shows Michigan was most similar to Indiana, New Mexico, Louisiana, Arkansas, Montana, and North Carolina. New England and mid-Atlantic states, as well as some of the Upper Plains states, had relatively higher tax burdens, whereas the Southeastern states tended toward lower tax burdens. (See Map 1.)

In terms of state and local government tax revenues per $1,000 of personal income, Michigan was similar to Nevada, Montana, Kentucky, Utah, North Carolina, Washington, Arizona, Louisiana, and Colorado. Again, states in New England and the Upper Plains tended to have higher tax burdens. Lower tax burdens were distributed through some parts of the Plains, South, and Southwest. North Dakota, Alaska, Louisiana, and Wyoming benefited from oil and gas extraction taxes. (See Map 2.) Michigan ranked below all other Great Lakes states in both measures of overall tax burden.

Map 1

State and Local Government Tax Revenue per Capita as Percentage of U.S. Average, 2013, by Ranking



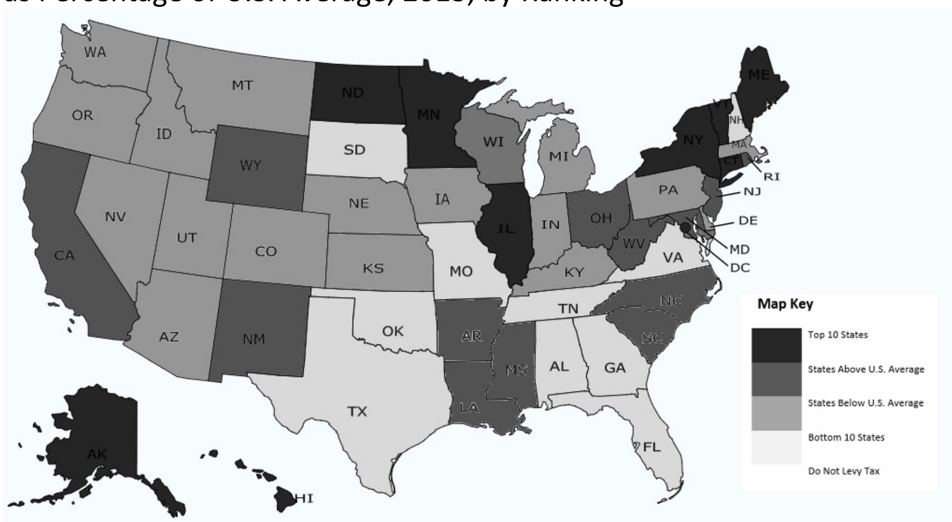
Source: U.S. Census Bureau, www.census.gov//govs/local/.

Tax Structure

In terms of volatility, income tax revenues are most responsive to changes in the business cycle, increasing significantly during economic expansions and shrinking during recessions. Sales tax revenues are slightly less responsive, while property tax revenues – being dependent on property values rather than income – are, by far, the least responsive to economic conditions. As such, property taxes can insulate a state's revenue stream from the effects of a recession better than income or sales taxes. At the same time, reliance on property tax results in a smaller increase in the amount of gross tax receipts during times of growth.

Map 2

State and Local Government Tax Revenue per $1,000 of Personal Income as Percentage of U.S. Average, 2013, by Ranking



Source: U.S. Census Bureau, www.census.gov//govs/local/.

Table 2

Michigan's Distribution of Taxes as a Percent of Total State and Local Taxes

Year	Property	Sales	Income	Other
1993	41.29%	21.82%	31.63%	5.26%
2004	35.78	33.05	24.50	6.66
2008	37.55	32.38	25.02	5.05
2012	36.65	35.69	22.50	5.17
2013	35.21	33.87	25.51	5.41
2013 U.S. Average	31.29	34.11	26.90	7.70

Source: U.S. Census Bureau, www.census.gov//govs/local/.

Tax systems are often measured against an ideal in which three tax components – property, sales, and income taxes – contribute roughly equally to the total. Economists argue that this "three-legged stool" model of taxation provides the optimal state tax system, minimizing deadweight loss from inefficient taxation and reducing distortionary effects on the economy. Several states omit or emphasize a component of this tax model in order to shore up certain parts of their economy or take advantage of certain business patterns. For instance, Florida, by relying on tourism to generate a substantial portion of its revenues, has been able to use the sales tax to export a portion of the tax burden to outsiders and thus has not needed to levy an individual income taxes. Similarly, states like Texas and Wyoming offset their lack of corporate and income taxes, designed to spur corporations and people moving to those fast-growing states, with higher sales and property taxes.

Michigan collected 95 percent of its tax revenues from the three major tax components outlined above in 2013 (See Table 2). The remaining portion of tax revenue came from other tax levies, including beverage licenses, hunting and fishing licenses, and motor vehicle licenses. The portion of tax revenue collected from outside the three major groups of taxes in Michigan has historically been at about five percent, or two to three percentage points less than the national average (7.7 percent in 2013).

The composition of the revenue collected from the three major tax groupings in Michigan has evolved over the last several decades, and continues to do so, given the large-scale changes to the Michigan tax structure in the past several years. Thirty years ago, Michigan favored lower sales taxes and greater reliance on property and income taxes. With the tax shifts associated with the school finance reforms as part of Proposal A of 1994, the move from the Single Business Tax (SBT) to the MBT in 2008, and Michigan's economic malaise, the major contributor of tax receipts shifted from property taxes to sales taxes, with the income tax share also becoming markedly reduced over the last several decades.

The decline in the share of revenue coming from the income tax was only partially the result of personal income reductions in Michigan during the 2000s. Part of the decline resulted from the methods used by the U.S. Census Bureau in reporting Michigan's business tax revenues. All of Michigan's former SBT revenue was designated as income tax revenue by the Bureau, but only 30 percent of MBT revenue was designated as corporate income tax. For this reason, the decline is overstated to a degree. Likewise, the sales tax proportion was drastically inflated, because 70 percent of MBT revenue was assigned to the general sales tax to account for the gross receipts component of the tax.[1]

Between 2012 and 2013, however, the tax composition became more balanced across the three categories, with income taxes as a proportion of receipts increasing, and the sales and property tax shares decreasing slightly. This occurred despite a reduction in personal income tax rates and increases in the personal exemption, because of tax law changes that eliminated exemptions for certain pension and retirement income and reduced a number of prominent credits in 2012. These changes became effective in 2013.[2]

Property Tax

State and local property tax revenues in 2013 were $1,320 per capita. This placed Michigan at 26th in the nation, at 92 percent of the U.S. average of $1,439 per capita. At the same time, Michigan ranked 18th in the nation with $34 of property tax revenues per $1,000 in personal income, which was 104 percent of the national average. (See Table 3.)

Table 3
State and Local Government Property Tax Revenues

	U.S. Average		Michigan					
			Per Capita			Per $1,000 of Personal Income		
Year	Per Capita	Per $1,000 Pers. Income	Amount	As Percent of U.S. Avg.	Rank	Amount	As Percent of U.S. Avg.	Rank
1983	$893.08	$30.18	$1,338.07	149.8%	10	$46.86	155.3%	5
1993	1,176.87	33.64	1,562.56	132.8	8	45.92	136.5	7
2004	1,339.17	31.64	1,469.20	109.7	15	37.12	117.3	12
2008	1,457.21	32.78	1,537.87	105.5	16	39.67	121.0	12
2012	1,444.24	32.16	1,362.91	94.4	23	34.75	108.1	17
2013	1,439.01	32.38	1,320.39	91.8	26	33.69	104.0	18

Source: U.S. Census Bureau, www.census.gov//govs/local/.

Prior to Proposal A's restructuring of state property tax rates in 1994, property tax revenues were more than 30 percent above the U.S. average and Michigan was among the top 10 states in both measures of property tax burden in 1993. Proposal A reduced property taxes in Michigan in exchange for higher sales, use, and tobacco tax revenues. As a result, Michigan property tax revenues fell closer to the U.S. average per capita, although revenues as a proportion of personal income remained above the national average and the tax remained comparatively high overall.

[1] Citizens Research Council of Michigan Memorandum 1111, 2009 *Tax Revenue Comparison: Michigan and the U.S. Average*, http://crcmich.org/tax_revenue_comparison_michigan-2012/

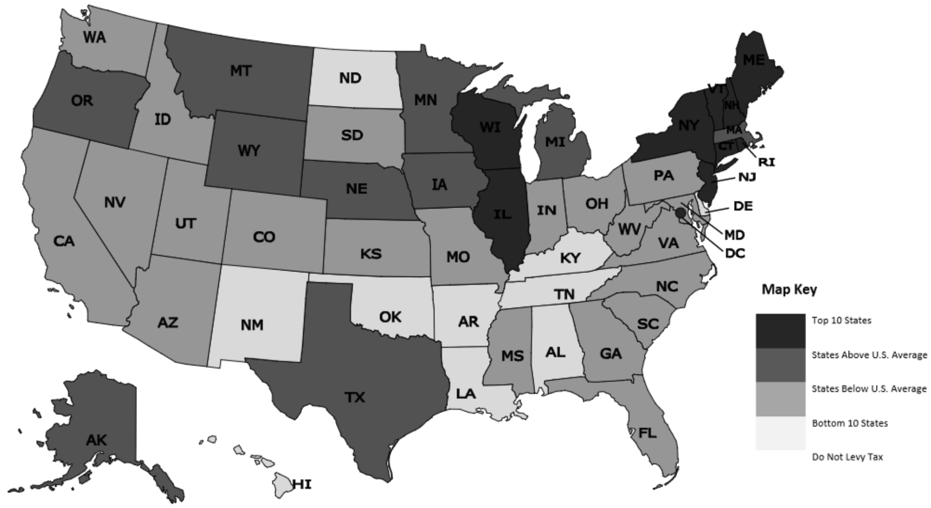
[2] Michigan Department of Treasury, *Income Tax Changes for Individuals and Trusts Effective Tax Year 2012*, https://www.michigan.gov/documents/taxes/Tax_Change_Summaries_-_Individual_Income_Tax_359807_7.pdf

The housing market collapse in 2007 affected property tax receipts as foreclosures and declining real estate values resulted in lower housing valuations and a smaller tax base.

Michigan's historically high property tax revenue reflects two long-standing factors in Michigan's property tax system. First, property taxes are the primary source of local government funding: they are almost entirely dependent on property taxes for own-source revenues. While other states allow local governments to levy other forms of taxes, Michigan allows local governments to levy only property tax, with a small number of exceptions. Additionally, the Michigan method for assessing property tax allows for annual changes to the tax base. Some other states allow several years to pass between reassessments, freezing their property tax base in the interim.

Map 3

State and Local Government Property Tax Revenue per $1,000 of Personal Income as Percentage of U.S. Average, 2013, by Ranking



Source: U.S. Census Bureau, www.census.gov//govs/local/.

Although property tax revenues typically lag changes in economic trends, property tax dependent governments in Michigan are further hampered because the combination of the Headlee Amendment to the Michigan Constitution and Proposal A's constitutional taxable value cap have ensured that property tax collections do not recover at the same rate as the economy.

Strong regional tendencies appear when comparing property tax revenues as a portion of personal income, with lower property tax burdens incurred in the South (with the exception of Texas), and most of the highest property tax burdens imposed in the Northeast. The Midwest also had areas of high property tax burden, with two states, Wisconsin and Illinois, being among the top ten states in the country. Michigan was above the national average, whereas Indiana, Ohio, and Pennsylvania were below the national average (See Map 3).

Changes that will affect future interstate comparisons

Beginning in 2014, Michigan businesses began to see their liability for taxes levied on most personal property, which includes business equipment and machinery, phased out over a number of years. Proponents of the personal property tax exemption argued that the tax on business equipment resulted in decreased returns on business investments. The phase out will result in declines in property tax collections from businesses.[3]

[3] Citizens Research Council of Michigan Memo 1128, *State-wide Ballot Issues: Proposal 2014-1: Voter Approval of a New Statewide Local Tax to Reimburse Local Governments for Personal Property Tax Reforms*, http://crcmich.org/personal_property_tax_reform_question-2014

General Sales Tax

The general sales tax revenue burden in Michigan was comparatively low relative to the national average in 2013, as has been the trend for much of Michigan's history. Michigan collected $855 per capita in general sales tax revenue, 32nd highest in the nation and 83 percent of the national average. General sales tax collections of $22 per $1,000 of personal income placed Michigan 29th in the nation at 94 percent of the national average. (See Table 4.)

Table 4
State and Local Government General Sales Tax Revenues

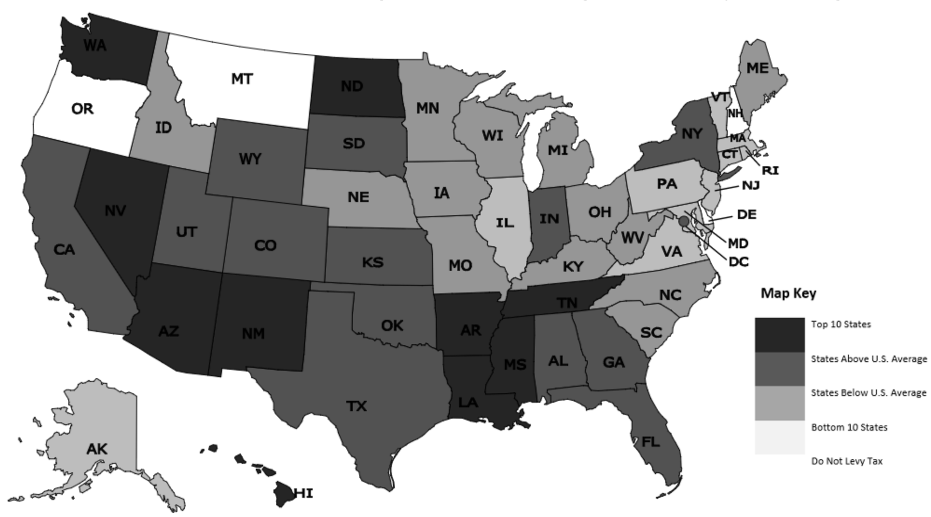
	U.S. Average		Michigan					
			Per Capita			Per $1,000 Personal Income		
Year	Per Capita	Per $1,000 Pers. Income	Amount	As Percent of U.S. Avg.	Rank	Amount	As Percent of U.S. Avg.	Rank
1983	$649.25	$21.94	$509.15	78.4%	33	$17.83	81.3%	33
1993	861.03	24.61	585.92	68.0	42	17.22	70.0	41
2004	1,033.38	24.42	968.27	93.7	27	24.46	100.2	28
2008	1,084.31	24.39	894.78	82.5	33	23.08	94.6	28
2012	1,014.69	22.59	917.01	90.4	28	23.38	103.5	24
2013	1,033.39	23.25	855.30	82.8	32	21.82	93.8	29

Source: U.S. Census Bureau, www.census.gov//govs/local/. The Michigan Business Tax consisted of two components: a gross receipts tax (type of sales tax) and an income tax. Therefore, revenue from the tax was allocated as both corporate income and general sales tax. For 2008, 70 percent of the total MBT revenue was included in general sales tax revenue and the remaining 30 percent was included in corporate income tax revenue. Per capita amounts have been adjusted to 2013 dollars using the calendar year U.S. CPI-U.

Prior to Proposal A in 1994, the Michigan general sales tax burden was well below the U.S. average. The sales and use tax increases associated with Proposal A of 1994 brought Michigan's sales tax burden closer to the national average. However, the size of the burden placed on Michigan residents by general sales taxes began to decline once again after 1999. Between 2008 and 2012, although general sales tax revenues fell as a share of personal income, Michigan's rank rose compared to other states. In 2013, the percentage burden on personal income again fell to 94 percent.

Remote sales, such as those from online retailers, have effectively eroded the national sales tax base, including that in Michigan.[4] The state is now attempting to collect taxes on remote sales through income tax returns, and recent legislation will compel the collection of sales tax on certain e-commerce transactions, which should increase future collections.

Map 4
State and Local Government General Sales Tax Revenue per $1,000 of Personal Income as Percentage of U.S. Average, 2013, by Ranking



Source: U.S. Census Bureau, www.census.gov//govs/local/.

4 Michigan Department of Treasury, *Michigan's Sales and Use Taxes: 2013*, https://www.michigan.gov/documents/treasury/Sales_Use_Tax_Report_2013_September2014_468579_7.pdf

Michigan's sales tax collections are also impacted by the repeal of the MBT and its replacement with a new corporate income tax in 2013. As noted earlier, a portion of the former MBT revenues attributable to the gross receipts component of the MBT were designated as general sales tax revenue by the Census Bureau. Michigan's new corporate income tax will be classified as an income tax.

The 2013 national general sales tax burden shows strong regional segmentation – the growing region of the Southwest as well as the South demonstrated especially high reliance on sales tax revenues as a percentage of personal income. Generally, the Midwest states (except Indiana) were below the U.S. average (See Map 4). Since 2009, the general sales tax burden across the nation has normalized somewhat from its previous skewedness, where 32 states were below the U.S. average. Delaware, Montana, Oregon, and New Hampshire do not levy general sales taxes.

Changes that will affect future interstate comparisons

Prior to 2014, Michigan charged sales tax on the full price of a new motor vehicle. Beginning in December 2013, Michigan will assess "sales tax on the difference" in these transactions, meaning that the sales tax levy will only apply to the difference between the purchase price and a portion of the agreed-on value of the trade-in vehicle. Initially, the first $2,000 of the agreed-on value of the trade-in vehicle is applied toward the purchase and thus exempted from the sales tax. This exempt value increases by $500 per year until 2039, at which time the full value of the trade-in vehicle would become exempt. Initial estimates suggested the exemption could reduce sales tax revenues by around $30 million in the initial years of the phase-in. The long term impact was expected to be in the range of $250 million to $450 million annually once the full value of the trade-in vehicle is fully exempt.

Moreover, beginning in 2015, Michigan required out-of-state companies with a nexus in the state to collect and remit general sales taxes. Previously, out-of-state retailers were not required to collect sales tax at the point of sale, leading to substantial amounts of lost tax revenue for the state, especially through major online retailers. This is expected to increase state sales tax revenues by around $60 million per year, or roughly $6 per capita (an increase of one percent).[5]

Selective Sales Tax

Selective sales taxes are those imposed on particular goods and services of certain businesses, including liquor, tobacco, motor fuel, wagering, and utility taxes. Every state levies these types of taxes. In 2013, Michigan state and local selective sales tax revenues were $415 per capita, 39th in the nation and 78 percent of the national average. These revenues equated to $11 per $1,000 of personal income, 33rd in the nation and 88 percent of the national average. (See Table 5.)

Table 5
State and Local Government Selective Sales Tax Revenues

	U.S. Average		Michigan					
			Per Capita			Per $1,000 of Personal Income		
Year	Per Capita	Per $1,000 Pers. Income	Amount	As Percent. of U.S. Avg.	Rank	Amount	As Percent of U.S. Avg.	Rank
1993	$439.30	$12.56	$239.97	54.6%	50	$7.05	56.2%	50
2004	487.26	11.51	388.95	79.8	39	9.83	85.3	36
2008	516.67	11.62	431.32	83.5	34	11.13	95.7	29
2012	524.59	11.68	410.08	78.2	39	10.46	89.5	32
2013	535.15	12.04	414.91	77.5	39	10.59	87.9	33

Note: The U.S. Census Bureau did not report selective sales tax revenues separately in 1983.

Source: U.S. Census Bureau, www.census.gov//govs/local/.

Michigan's tax burden from selective sales taxes has historically been below the national average, and

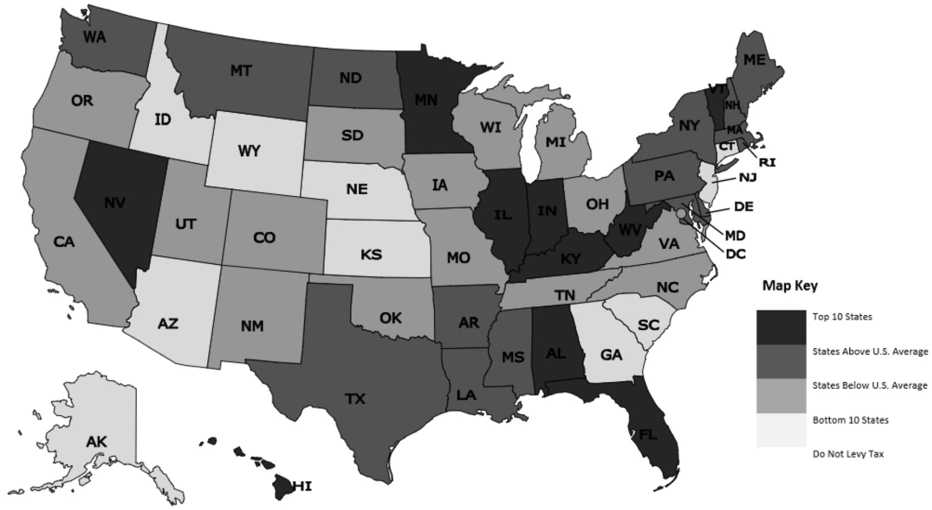
[5] Michigan Senate Fiscal Agency analysis of Senate Bills 658 and 659, https://www.legislature.mi.gov/documents/2013-2014/billanalysis/Senate/pdf/2013-SFA-0658-E.pdf

revenues dropped between 2008 and 2012 because of the recession. Unlike in some other states, Michigan local government units are limited in their ability to levy selective sales taxes.

Selective sales tax burdens vary widely between states, with different rates and bases across state lines. There is little appearance of regional correlation when comparing rates of selective sales taxation: heavily populated states like New Jersey and California relied little on such taxes, whereas other states of high population, including Illinois and Florida, relied far more heavily on these taxes per $1,000 of personal income. Generally, states bordering the Gulf of Mexico were more reliant, as well as some states in the Midwest (See Map 5).

Map 5

State and Local Government Selective Sales Tax Revenue per $1,000 of Personal Income as Percentage of U.S. Average, 2013, by Ranking



Source: U.S. Census Bureau, www.census.gov//govs/local/.

Changes that will affect future interstate comparisons

After years of legislative deliberations, Michigan enacted legislation in 2015 that will increase motor fuel tax rates and motor vehicle registration taxes beginning in 2017 in order to finance road infrastructure improvements. Both the state's gasoline and diesel fuel taxes will increase to 26.3 cents per gallon in January 2017, with those rates indexed to inflation beginning in 2022. Currently, the gasoline tax is 19 cents per gallon, while diesel fuel is taxed at 15 cents per gallon. Registration taxes for passenger vehicles and large commercial trucks will also increase by 20 percent beginning in 2017 with new surcharges added for certain electric-powered vehicles. The changes will eventually generate over $600 million new state tax revenues

Individual Income Tax

Michigan's individual income tax revenue burden ranked 34th in the nation on both a per capita basis and as a percentage of personal income. Collections for 2013 equaled $866 per capita, 81 percent of the national average, and $22 per $1,000 of personal income, 92 percent of the national average (See Table 6).

Throughout the 1980s and into the 1990s, Michigan had a relatively high income tax burden under both measures of tax burdens, owing in part to its status as a high-income state during that period. Even as the state's economic conditions worsened, the state remained among the top 20 states in terms of income tax burden through the end of the 1990s.[6] In the early 2000s, Michigan's weak economy along with income tax rate reductions resulted in reduced revenues, and Michigan fell to 34th in income tax burden by 2008 and remaining there five years later. From 2012 to 2013, while Michigan's ranking remained the same, both national and state income tax revenues increased, with Michigan's increase more pronounced than the national average using both measures of impact.

6 Citizens Research Council of Michigan, *2009 Tax Revenue Comparison: Michigan and the U.S. Average*, http://crcmich.org/tax_revenue_comparison_michigan-2012/)

Table 6
State and Local Government Individual Income Tax Revenues

	U.S. Average		Michigan					
			Per Capita			Per $1,000 of Personal Income		
Year	Per Capita	Per $1,000 Pers. Income	Amount	As Percent of U.S. Avg.	Rank	Amount	As Percent. of U.S. Avg.	Rank
1983	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1993	$764.36	$21.85	$885.63	115.9%	18	$26.03	119.1%	16
2004	906.49	21.42	780.31	86.1	32	19.71	92.0	34
2008	1,084.89	24.41	831.26	76.6	34	21.44	87.9	34
2012	992.46	22.10	754.09	76.0	34	19.23	87.0	34
2013	1,069.43	24.07	866.37	81.0	34	22.10	91.8	34

N/A - The U.S. Census Bureau did not segregate individual income and corporate income tax revenues in 1983.

Source: U.S. Census Bureau, www.census.gov//govs/local/.

Revisions to Michigan's individual income tax law brought about extensive changes for returns filed in 2013 that significantly increased revenue collections. While the income tax rate itself was reduced to 4.25 percent, a large number of previously available exemptions were eliminated. Most notably, exemptions for certain pension and retirement income were significantly limited, leading to a large expansion of the tax base.

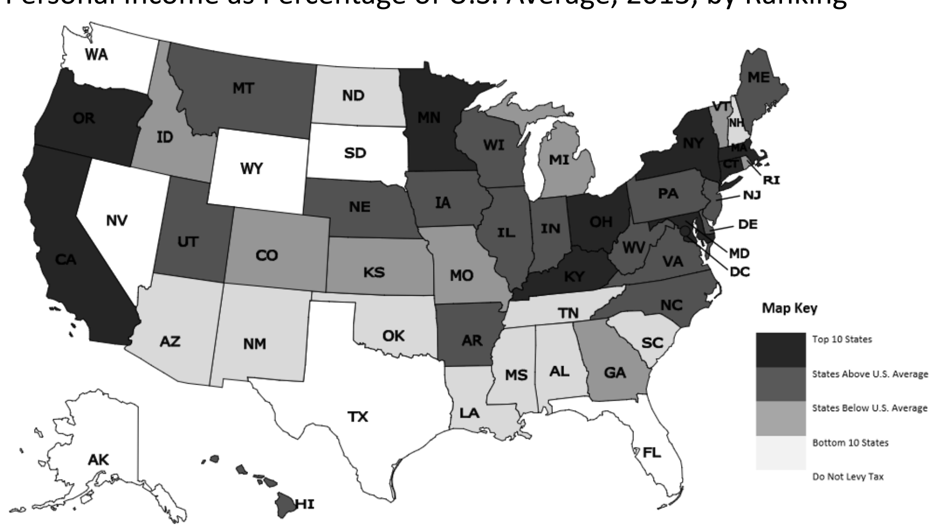
However, the changes also included the elimination of many other special exemptions targeted to seniors, children, public contributions, auto donations, and tuition and fees for colleges and universities. Furthermore, the state's Earned Income Tax Credit was reduced from 20 percent to six percent of the related federal credit, and changes to the homestead property credit resulted in significantly reduced credit amounts for many claimants. These changes led to a significant increase in state personal income tax collections, even though the overall rank of the state compared to other states in the nation did not change.

In 2013, states along both the East and West Coasts tended to have higher income tax burdens, as did a number of Midwestern states with Minnesota, Ohio, and Kentucky all falling within the nation's top ten in terms of income tax burden (See Map 6). States in the South had comparatively low income tax burdens. Seven states – Texas, Florida, Nevada, Wyoming, South Dakota, Washington, and Alaska – did not levy a personal income tax.

Changes that will affect future interstate comparisons

Michigan enacted changes to the tax code in 2015 that have the potential to trigger automatic income tax rate reductions starting in 2023. The changes were a component of new road funding legislation that will also earmark fixed amounts of future income tax revenue for road repair purposes. Starting in tax year 2023, an income tax rate cut will be triggered

Map 6
State and Local Government Individual Income Tax Revenue per $1,000 of Personal Income as Percentage of U.S. Average, 2013, by Ranking



Source: U.S. Census Bureau, www.census.gov//govs/local/.

whenever cumulative growth in state general fund/general purposes (GF/GP) revenues from a FY2021 base year exceeds a statutorily-defined measure of consumer inflation over the same period. The rate cut will be calculated to eliminate any excess GF/GP revenue growth above the calculated inflation rate. Whether the rate reduction trigger will ever become effective depends on the future path of state revenues and inflation, but since it could bring about rate reductions, it has the potential to impact Michigan's income tax burden relative to the nation down the road.

Corporate Income Tax

In 2013, Michigan's corporate income tax revenue burden equaled $90 per capita, 54 percent of the national average and 39th highest in the nation. This revenue equaled $2.31 per $1,000 of personal income, 61 percent of the national average, which put Michigan's tax burden at 38th highest nationally. (See Table 7.)

Table 7
State and Local Government Corporate Income Tax Revenues

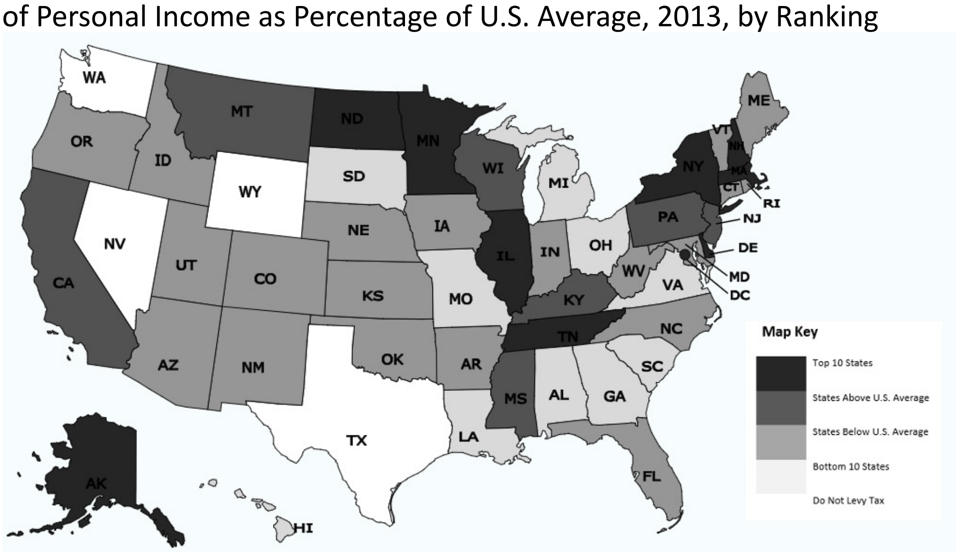
	U.S. Average		Michigan					
			Per Capita			Per $1,000 of Personal Income		
Year	Per Capita	Per $1,000 Pers. Income	Amount	As Per. of U.S. Avg.	Rank	Amount	As Per. of U.S. Avg.	Rank
1983	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1993	$163.85	$4.68	$311.51	190.1%	5	$9.16	195.5%	3
2004	142.01	3.36	225.80	159.0	9	5.70	170.0	6
2008	203.64	4.58	193.44	95.0	15	4.99	108.9	12
2012	158.06	3.52	82.53	52.2	40	2.10	59.8	38
2013	167.58	3.77	90.44	54.0	39	2.31	61.2	38

N/A - The U.S. Census Bureau did not segregate individual income and corporate income tax revenues in 1983.

Source: U.S. Census Bureau, www.census.gov//govs/local/.

Between 2008 and 2009, revenues attributable to Michigan corporate income tax collections were reduced by more than 50 percent, according to the U.S. Census Bureau. However, much of this was tied to the manner in which business tax revenues are classified by the Bureau. The Michigan SBT, a value-added tax levied from 1975 to 2007, had been categorized as a corporate income tax by the Census Bureau. When the SBT was enacted, it served to consolidate eight business taxes that included property taxes on inventories and the business portion of an intangibles tax. These tax equivalents in other states were not included under corporate income taxes by the U.S. Census Bureau. When the SBT was eliminated in 2007 and replaced with the MBT, the U.S. Census Bureau reassessed the new MBT and classified only about 30 percent of the tax as an income tax. As noted earlier,

Map 7
State and Local Government Corporate Income Tax Revenue per $1,000 of Personal Income as Percentage of U.S. Average, 2013, by Ranking



Source: U.S. Census Bureau, www.census.gov//govs/local/.

the remaining portion (based on gross receipts) was categories as a sales tax. This resulted in the plunge in Michigan's corporate income tax revenues, even though the MBT was effectively an increase in corporation taxation. As a result, Michigan's tax burden ranking in relation to other states was significantly impacted.

Effective on January 1, 2012, the MBT was repealed and replaced with the Michigan Corporate Income Tax (6 percent rate). This resulted in a substantial cut in state corporate tax rates, a substantial reduction in the number of Michigan businesses subject to the tax, as well as a simplification of Michigan's business tax structure. Revenues from this tax are entirely counted as corporate income taxes for purposes of interstate comparisons.

Michigan is joined in the bottom ten states in corporate tax revenues per $1,000 of personal income by states that tend not to host the same types of industry for which Michigan has typically competed. Among the more industrialized states, only Ohio, which now levies a gross receipts tax in lieu of a corporate income tax, has lower tax revenues when measured in a standardized approach. States with high levels of corporate income tax were concentrated in the Northeast and northern Plains states, with Alaska levying particularly high corporate tax rates. The South, Southwest, and Middle Plains states levied corporate income taxes below the national average (See Map 7). In 2013, Washington, Nevada, Wyoming, and Texas did not levy corporate income taxes.

Highlights of 2013; Potential Effects of 2014-2015

In 2013, Michigan's total state and local tax revenue of $96 per $1,000 of personal income was 34th highest in the U.S., below the national average at $103 and down from prior years. Michigan sales and income tax revenue as a portion of total tax receipts increased between 2008 and 2013, with property taxes falling during the same time period. Tax distributions by group fluctuated slightly between 2012 and 2013, with a drop in the portion of sales tax revenues compensated by an increase in income tax revenue as a portion of total tax receipts.

Substantial tax policy changes between 2008 and 2013 have changed Michigan's tax structure comprehensively. The elimination of exemptions from personal income tax, imposition of taxes on pensions, and restructuring of corporate taxes have collectively resulted in large changes to the way the state collects revenues.

While 2014 and 2015 did not produce the massive changes to the state tax code that prior years have in Michigan, the state did enact tax policy changes that will have varying impacts on overall tax collections.

In August 2014, the public endorsed the phase out of the personal property tax on business equipment and other tangible property. This will result in further declines in property tax collections in Michigan.

In November 2015, motor fuel and motor vehicle registration tax rates were increased to raise more revenues for road care.

The imposition of the "Amazon tax," requiring state sales and use taxes to be applied to remote sales, is projected to increase Michigan general sales tax revenue by about one percent.

Also in 2015, provisions were added to the individual income tax act that would ratchet down income tax rates if revenue growth from this tax increase faster than a positive inflation rate for the same period.

The Multistate Tax Compact Act was repealed in response to a Michigan Supreme Court ruling against the state when IBM sued over the apportionment of IBM's tax liability under the former MBT.[7] The court ruled that IBM was due a $4.7 million tax refund due to a conflict between the Multistate Tax Compact Act and the MBT Act regarding the apportionment of taxes based on simply sales (per the MBT Act) or a combination of sales, property, and payroll within the state (per the Compact). The repeal of the act attempted to preclude further court action and apply the MBT Act's formula universally in such cases. Treasury officials estimated the state faced over $1 billion in potential liability had the Compact's apportionment provisions remained effective.

[7] Citizens Research Council of Michigan blog post, August 29, 2014, *The IBM Ruling: Could the State Have Avoided a Potential $1 Billion Problem*? http://crcmich.org/the-ibm-ruling-could-the-state-have-avoided-a-potential-1-billion-problem/