



Webinar  
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# Diversifying Local Source Revenue Options in Michigan

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# Problems with the Current Local Government Fiscal Structure

- Financial condition of local governments remains precarious

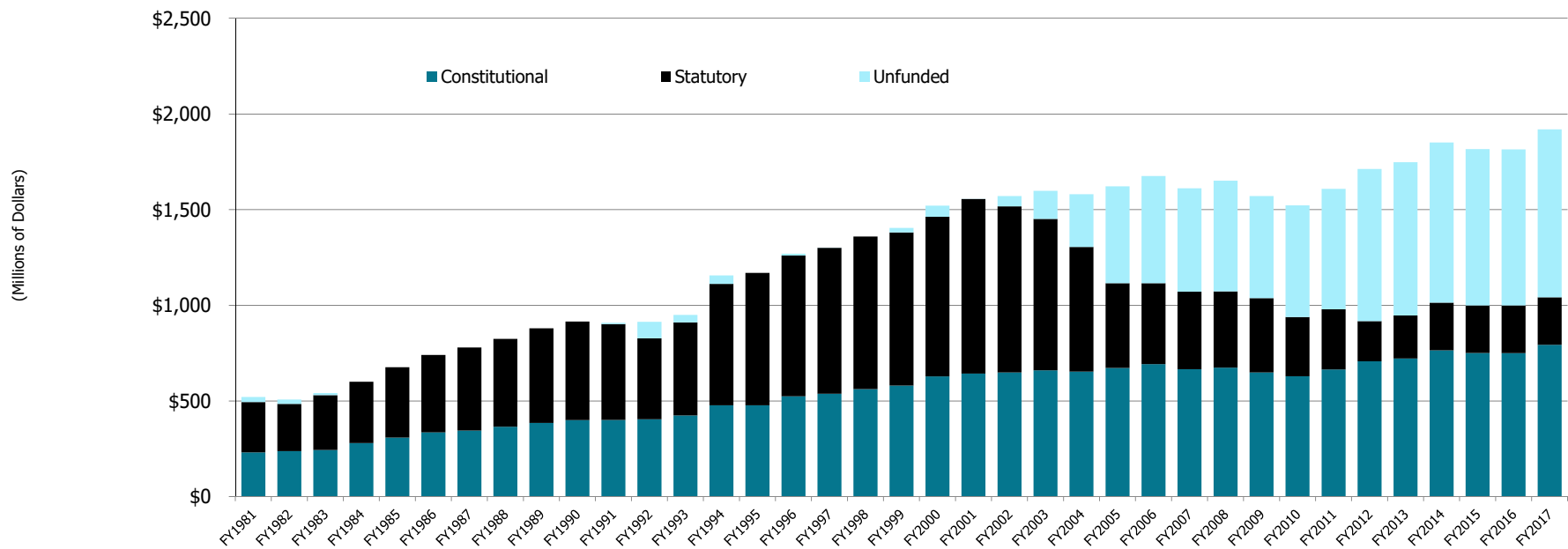


- With revenue and spending pressures, local officials left with few options.
- Time to adopt new models for local government revenue and service delivery structures.

# Problems with the Current Local Government Fiscal Structure

- Local revenue sources are disconnected from the local economy
- The local property tax is an insufficient revenue source
- State revenue sharing is in peril

# Constitutional, Statutory, and Unfunded State Revenue Sharing, FY1981 to FY2017



# Problems with the Current Local Government Fiscal Structure

- Problems with the local government service delivery model
  - ❖ Majority of services provided at most local level of government – not efficient
  - ❖ Recommend more services be provided by county governments
  - ❖ Realignment of local government service delivery should be done in conjunction with local revenue and tax restructuring

# One Potential Revenue Solution

- Provide local governments with more access to local-option taxes
  - ❖ Current revenue system not meeting the needs of vibrant, growing local units or of declining local units experiencing disinvestment
  - ❖ Increased access to local taxes will allow local officials and voters to choose the right mix of taxes and services
  - ❖ New local taxes could be crafted to replace, not supplement, property taxes – revenue neutral with greater growth potential

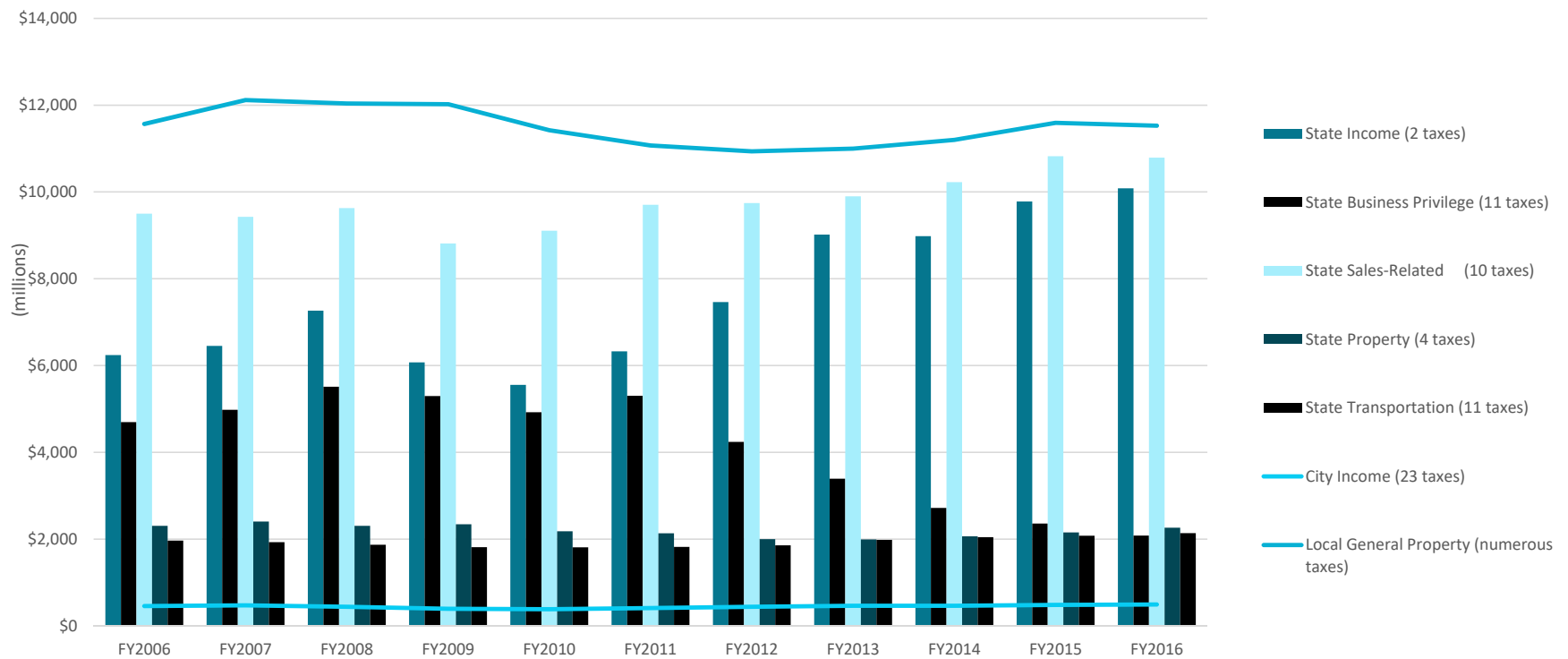


# Local-Option Taxes

# Local-Option Taxes

- Authority to levy provided in state Constitution and state law
- Advantages
  - ❖ Diversify revenue sources
  - ❖ Levy taxes on a base that reflects area's economic strengths
  - ❖ Local autonomy
- Disadvantages
  - ❖ Can increase combined tax rates – can be revenue neutral
  - ❖ Can create/increase economic disparities
  - ❖ Can make local units more vulnerable to economic downturns

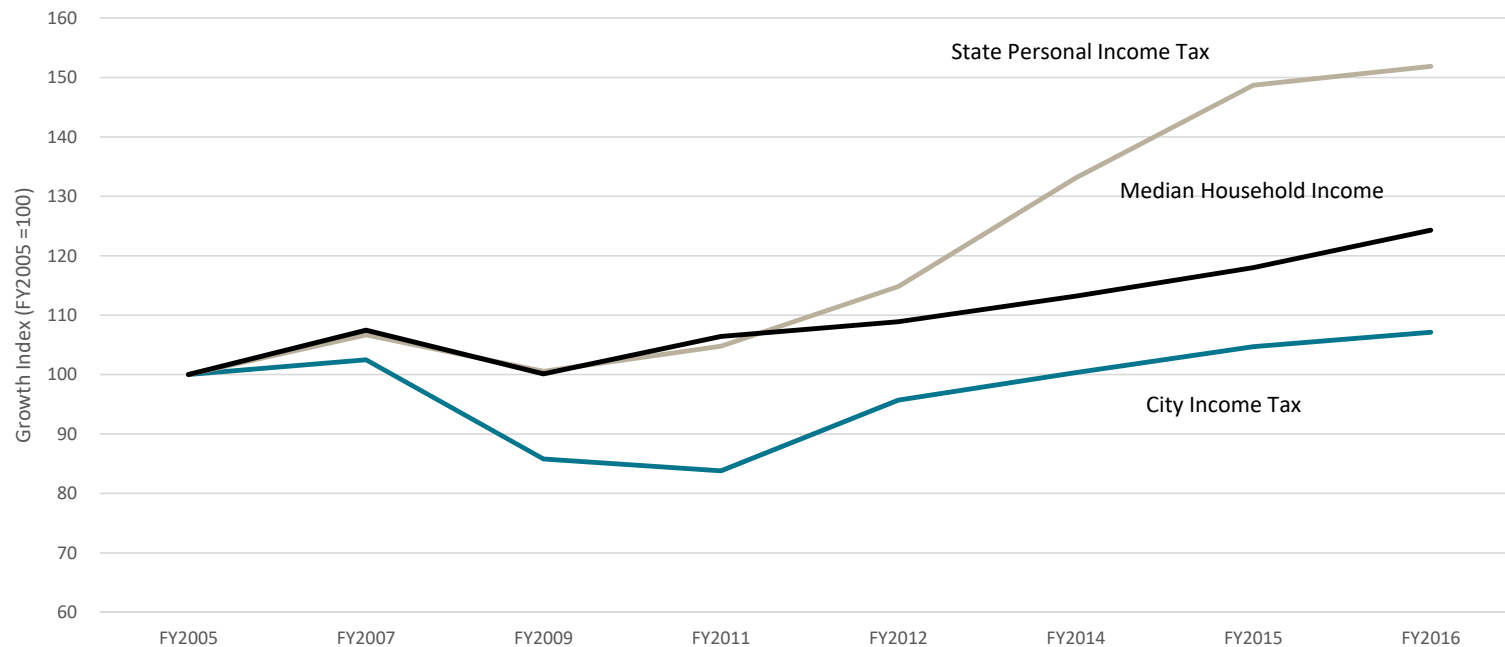
# State and Local Taxes in Michigan



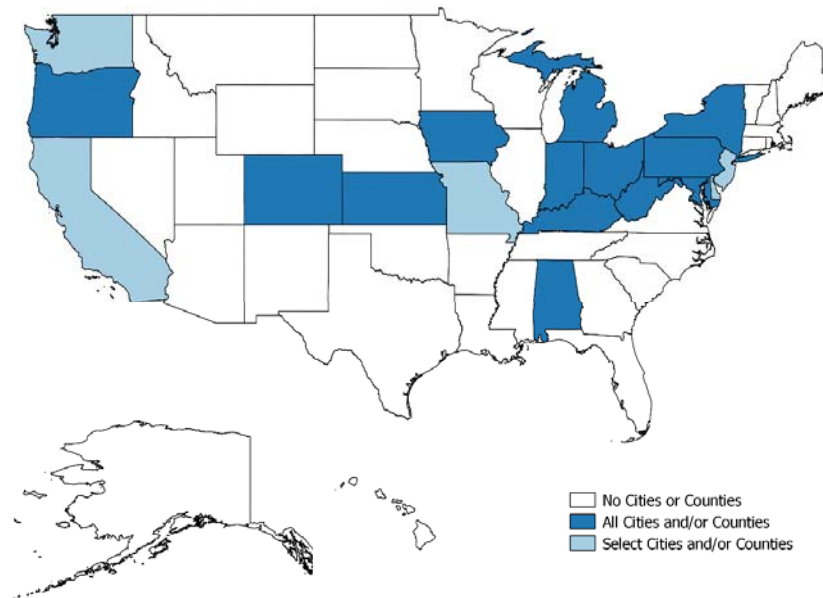
# Local Income Tax

- Authorized only to cities in Michigan
  - ❖ Not available to counties, villages, townships, special authorities, school districts
- Uniform City Income Tax Act of 1964
- Two things must happen for any city to levy an income tax:
  - 1) A local ordinance in support of income tax must be passed by legislative body
  - 2) City residents must vote in support of the tax at the ballot
- Can support dwindling property tax revenues or allow cities to lower property tax millage rates
- Allows cities to export tax to workers who live in other communities
- More closely tied to economy than property tax
- 23 cities currently levy

# Income Tax Revenue and Michigan Household Income Growth, FY2005-FY2016



# States that Allow Local Units to Levy Income Taxes



# State and Local Income Taxes in Great Lakes States

	Top State Marginal Individual Income Tax Rates	Top Local Individual Income Tax Rates	Corporate Income Taxes as Percent of Total Tax Collections
Illinois	4.95%	--	6.3%
Indiana	3.23%	3.38%	3.5%
<b>Michigan</b>	<b>4.25%</b>	<b>2.40%</b>	<b>2.4%</b>
New York	8.82%	3.88%	6.9%
Ohio	5.00%	3.00%	0.6%
Pennsylvania	3.07%	3.93%	4.6%
Wisconsin	7.65%	--	3.7%

Sources: Scarboro, Morgan. The Tax Foundation. "Fiscal Fact No. 544: State Individual Income Tax Rates and Brackets for 2017," Mar. 2017.

Scarboro, Morgan. The Tax Foundation. "To What Extent Does Your State Rely on Corporate Income Taxes?," April 19, 2017.

# Local Retail Sales Tax

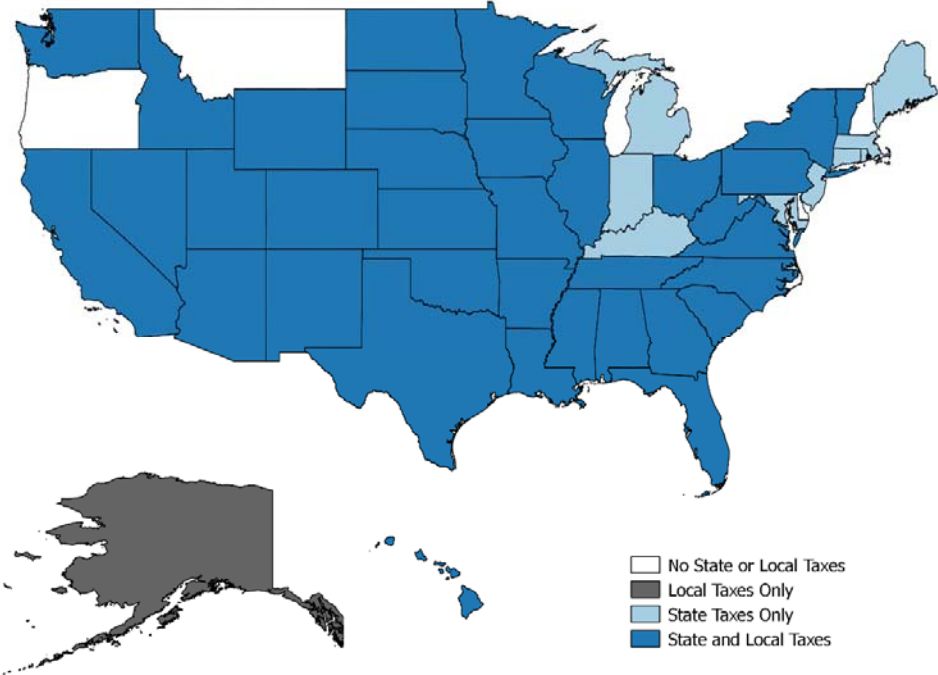
- State sales tax: a 2% tax that must be imposed and a 4% tax that is authorized, but not required, to be levied
  - ❖ State rate limited to 6%
  - ❖ Most tax proceeds constitutionally or statutorily earmarked
- Local sales tax: not currently available
  - ❖ Not clear if 6% rate limit applies to local units of government
  - ❖ Question of whether authority for a local sales tax could be granted by state complicated by earmarking of sales tax revenue
  - ❖ May require a constitutional amendment
- Constitutional and/or statutory impediments exist



# Local Sales Tax

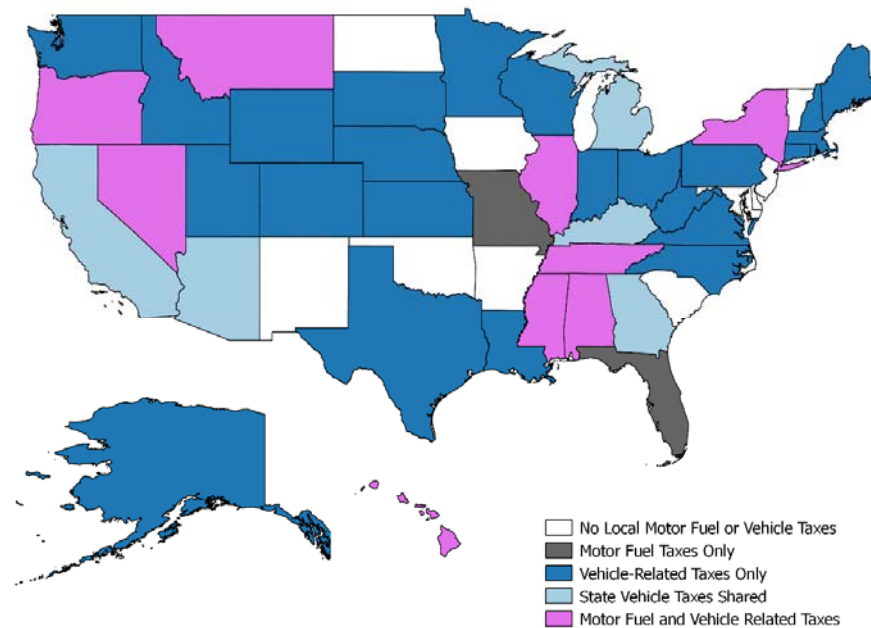
- Fairly transparent
- More popular than property and income taxes
  - ❖ People have more control over whether they pay tax
  - ❖ Generate large sums of money with fairly low rates
  - ❖ Export tax burden to nonresidents
- Avoidance likely if possible
  - ❖ Shopping across borders for lower rate
  - ❖ Online sales

# States that Levy State and Local Sales Taxes

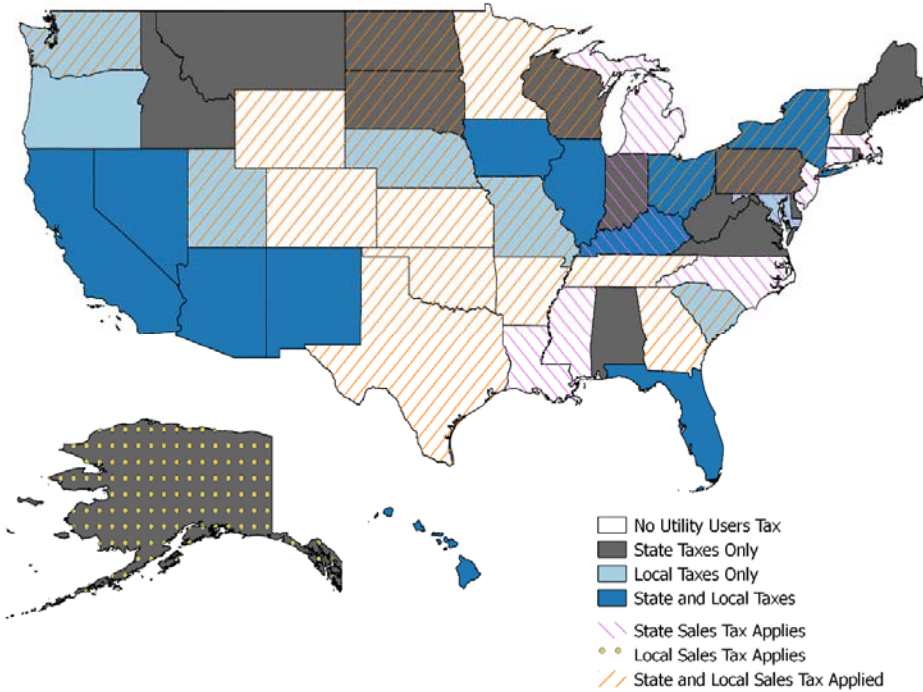


- No State or Local Taxes
- Local Taxes Only
- State Taxes Only
- State and Local Taxes

# States that Allow Local Motor Fuel and Vehicle Related Taxes



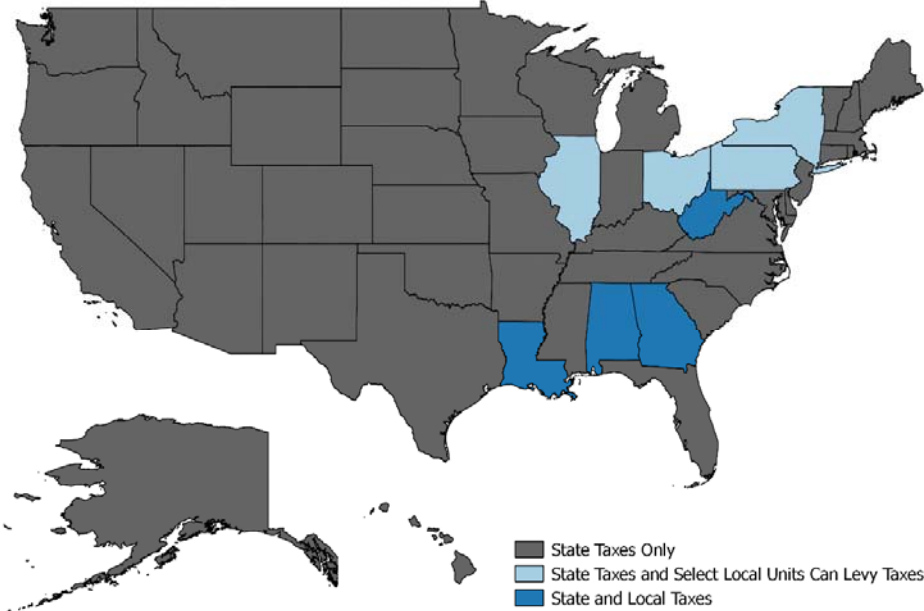
# State and Local Utility Taxes



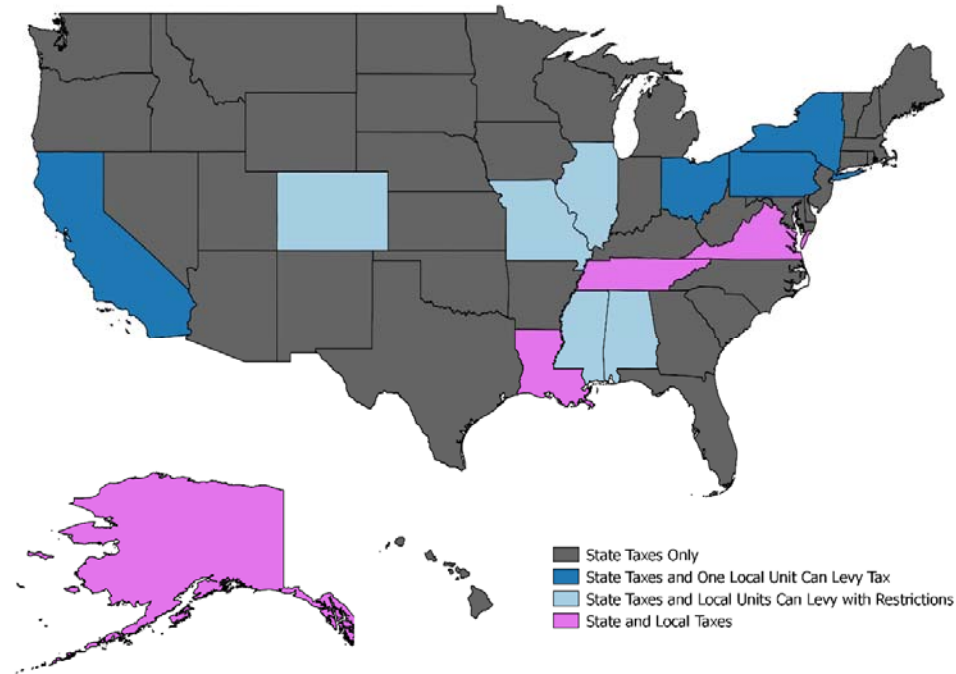
# “Sin” Taxes

- Alcohol taxes
- Tobacco taxes
- Marijuana taxes
- Casino gambling taxes
- Soda/sugar taxes

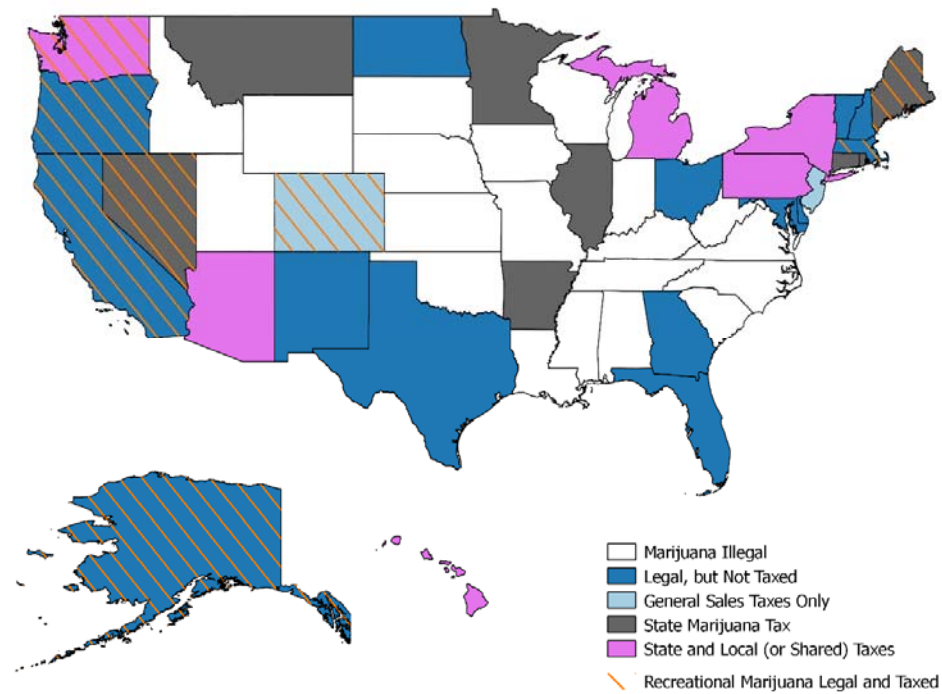
# Alcohol Taxes Across the States



# Cigarette Taxes Across the States

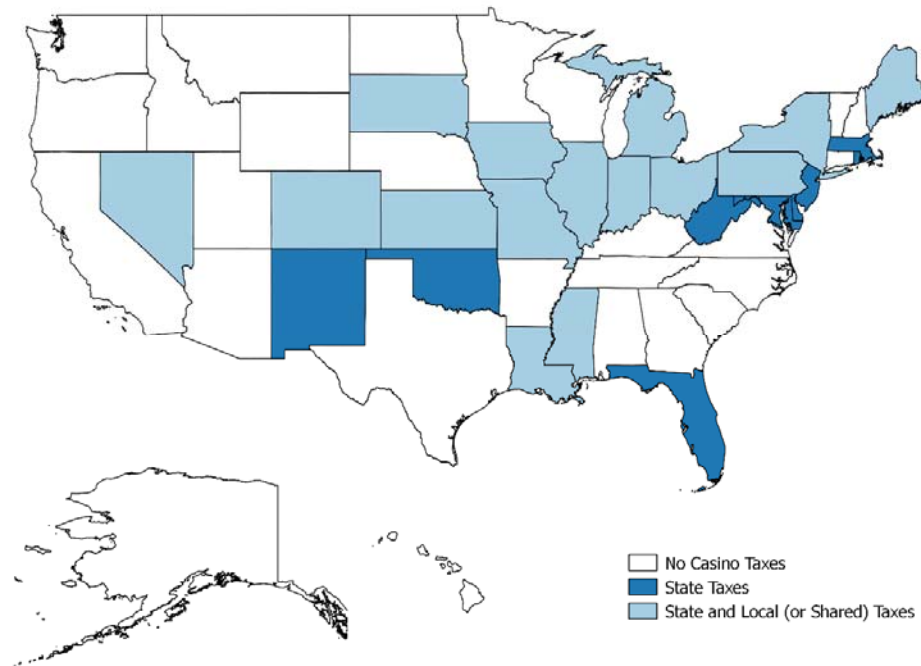


# Medical Marijuana Taxes Across the States





# Casino Gambling Taxes Across the States



# Soda or Sugar Taxes

- One state tax: West Virginia (1 cent per half liter)
- Berkeley, Oakland, San Francisco, and Albany, CA: 1 cent per ounce on sugary beverages
- Philadelphia: 1.5 cents per ounce on non-alcoholic sugary beverages
- Seattle: 1.75 cents per ounce
- Boulder, CO: 2 cents per ounce
- Cook County: 1 cent per ounce tax passed by county commission, then repealed
- Law enacted in Michigan to preempt local governments from attempting to levy sugar tax

# Other Taxes

- Severance taxes
- Tourism taxes
- Entertainment/amusement taxes
- Parking taxes
- 9-1-1 and phone-related taxes
- Sharing economy taxes

# Tourism Taxes in Michigan

- Stadium or Convention Facility Development Act: allows counties of Wayne, Oakland, Ingham, Kent, Muskegon, and Washtenaw and cities of Lansing, Grand Rapids, Muskegon, Ann Arbor, and Pontiac to levy 1% tax on restaurant meals and hotels and 2% tax on vehicle rentals to fund purposes related to a stadium or convention facility
  - ❖ Wayne County levies on hotels and vehicle rentals
  - ❖ Legality of tax on restaurant meals has been questioned
- Excise Tax on Business of Providing Accommodations Act permits counties with population under 600,000 with a city of at least 40,000 population to levy a tax of up to 5% on hotel accommodations
  - ❖ Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, and Washtenaw counties levy tax

# Tourism Taxes in Michigan

- State Convention Facility Development Act: authorizes an accommodations tax to support Cobo Hall in Wayne County (levied by Wayne, Oakland, and Macomb counties)
- Convention and visitors' bureaus can levy an assessment of up to 5% on hotel accommodations depending on size of county
- Total accommodations taxes in Detroit can be up to 15%
- Rest of the state can range from 6% sales/use tax to up to 14% tax with sales and accommodations taxes

# Entertainment/Amusement Taxes

- Not authorized in Michigan
- Ohio: city admissions taxes
- Illinois: Cook County and Chicago levy amusement taxes
- Indiana: local-option entertainment facilities admissions tax and Marion County admissions taxes
- Pennsylvania: state admissions tax and local amusement taxes

# Other Taxes

- Parking taxes: no local units have authority to levy in Michigan; state levies a tax at Detroit Metropolitan Wayne County Airport
- 9-1-1 and phone-related taxes: counties in Michigan levy tax to support 9-1-1 services
- Sharing economy taxes: ride-sharing and home-sharing
  - ❖ Services are increasingly being regulated and taxed
  - ❖ Home-sharing: applying hotel type taxes to these services

# A Note on Detroit

- Detroit has most diversified local tax structure in state
  - ❖ City income tax
  - ❖ Utility users' excise tax
  - ❖ Casino gambling tax
  - ❖ State revenue sharing
- Many of Detroit's revenue streams have suffered from city's decline
- City revenue trends not reflecting the resurgence in economic activity taking place within parts of city
- Companion paper compared local taxes in Detroit to other big cities in the Great Lakes/Midwest region of the country



# Great Lakes States

## Local-Option Taxes Authorized in the Great Lakes States

State	Property Taxes	Income Taxes	Retail Sales Taxes	Motor Fuel Taxes	Vehicle License Taxes	Utility Users' Taxes	Alcohol Taxes	Tobacco Taxes	Marijuana Taxes	Casino Gambling Taxes	Soda/Sugar Taxes	Restaurant Meals Taxes	Hotel/Motel Taxes	Vehicle Rental Taxes	Entertainment/Admissions Taxes	9-1-1 Phone Taxes	Sharing Economy Taxes	Total
Illinois	X		X	X	X	X	X	X		+	X	X	X	X	X	X	X	14
Indiana	X	X			X					X		X	X	X	X			8
Michigan	X	X		+	+	*			+	*		X**	X	X		X		6
New York	X	X	X	X	X	X	X	*	+				X			X		9
Ohio	X	X	X	+	X	X	*	*		+			X	X	X	X		9
Pennsylvania	X	X	X		X		X	*	+	X	X		X	X	X		X	11
Wisconsin	X		X		X							X	X	X		X		7
* Only authorized to one local unit																		
** Question of constitutionality																		
+ State taxes shared with local units of government																		
Note: This table highlights which states allow at least some local units to levy a tax -- does not mean that all types of local units within state can levy the tax.																		

# State and Local Tax Burdens, FY2015

	2016 Population Estimate	2015 Median Household Income	General Revenue from Own Sources				Tax Revenue			
			State	Per Capita	Local	Per Capita	State	Per Capita	Local	Per Capita
U.S. Average	318,558,162	\$ 56,516	\$ 1,248,082,251	\$ 3.92	\$ 1,014,365,746	\$ 3.18	\$ 911,042,787	\$ 2.86	\$ 655,977,117	\$ 2.06
Illinois	12,851,684	\$ 60,413	\$ 50,258,307	\$ 3.91	\$ 44,401,855	\$ 3.45	\$ 40,821,385	\$ 3.18	\$ 33,016,855	\$ 2.57
Indiana	6,589,578	\$ 51,983	\$ 23,140,438	\$ 3.51	\$ 16,655,366	\$ 2.53	\$ 17,399,650	\$ 2.64	\$ 7,989,098	\$ 1.21
Michigan	9,909,600	\$ 54,203	\$ 39,240,287	\$ 3.96	\$ 22,665,446	\$ 2.29	\$ 26,957,337	\$ 2.72	\$ 12,808,538	\$ 1.29
New York	19,697,457	\$ 58,005	\$ 104,110,477	\$ 5.29	\$ 123,814,720	\$ 6.29	\$ 78,205,405	\$ 3.97	\$ 94,443,860	\$ 4.79
Ohio	11,586,941	\$ 53,301	\$ 41,372,405	\$ 3.57	\$ 34,018,752	\$ 2.94	\$ 28,297,156	\$ 2.44	\$ 22,959,660	\$ 1.98
Pennsylvania	12,783,977	\$ 60,389	\$ 51,665,634	\$ 4.04	\$ 37,266,958	\$ 2.92	\$ 36,110,311	\$ 2.82	\$ 27,255,904	\$ 2.13
Wisconsin	5,754,798	\$ 55,425	\$ 24,035,311	\$ 4.18	\$ 14,436,799	\$ 2.51	\$ 17,019,139	\$ 2.96	\$ 9,882,836	\$ 1.72

# Considerations

# Principles of Good Tax Policy

- Adequacy
- Transparency
- Reliability
- Equity: horizontal and vertical
  - ❖ Problems caused by tax base disparities
- Neutrality: taxes should minimize interference with economy
- Administrative efficiency

# Implementation Potential

- Steps to authorize new local taxes in Michigan:
  - 1) State needs to pass law authorizing local units to levy any new local tax
  - 2) It may be necessary to pass a constitutional amendment, which would require statewide vote of the people, in order to allow for a local sales tax
  - 3) Once state Constitution and state law allow for a local tax, then legislative body of a local unit (e.g., city council or county commission) needs to pass a resolution or ordinance to levy tax at rate desired by local unit and allowed in state law
  - 4) Local voters need to pass any new local-option tax before it can be levied by a local government

# What Level of Government Best Suited to Levy Local-Option Taxes?

- Cities and townships primary provider of services → not best suited to levy local-option taxes
  - ❖ 1,700 plus potential taxing jurisdictions
  - ❖ Reduce administrative efficiency
  - ❖ Decrease equity and neutrality
  - ❖ Increase competition
  - ❖ Intensify socioeconomic disparities

# Regional Taxes and Services

- Counties already governing at regional level
- Regions still compete, but more difficult for businesses and individuals to leave a region
- Socioeconomic and income inequalities decreased at regional level
- Biggest hindrance – services provided at local level
  - ❖ Reorganize service delivery model to allow counties to provide services and levy new local-option taxes
  - ❖ Raise revenue at regional level and share revenue with all local units within a region



# Regional Taxes and Services

- Local income taxes best suited to cities and regions that are employment centers
- Local sales taxes best suited to big cities and regions that can draw people in to shop/spend in them
- Tourism and entertainment taxes best suited to regions that invite tourism due to their urban nature (Detroit, GR), large shopping centers or tourist destinations (Frankenmuth), or proximity to natural beauty and activities (the lakeshore)
- Most important: taxes best suited to regional areas where multiple units of government can benefit from them without facing direct local competition from neighbors

# Conclusion

# Regional Government in Michigan

- Regional tax base sharing
- Regional services
- Regional governance
- Providing services and raising taxes at regional level can address a lot of concerns around local government service delivery and local-option taxes

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