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Detroit’s Taxing Quandary Could Lead to Reforms

In a Nutshell

- The City of Detroit has economic momentum. It is hosting more visitors, sports and cultural events, and corporate conferences. However, the additional public costs that come with this economic uptick – such as public safety, sanitation, and infrastructure – are largely borne by city taxpayers. City leaders are exploring ways to benefit from the economic momentum to support municipal services and/or potentially provide residential tax relief.
- City leaders are exploring the attributes of a tax on ticketed entertainment events and a local sales tax. While both new taxes could diversify and modestly increase City of Detroit revenues, their authorization and enactment present significant hurdles. In other cities, either tax may not be the most suitable. Furthermore, these two taxes would not be practical for diversifying revenues in rural areas of the state. If consideration is limited to only these two options, policymakers will miss an opportunity to improve Michigan’s municipal finance system more broadly.
- State and city policymakers should aim for material change in municipal finance. As a catalyst for change, Detroit could lead communities statewide to pursue comprehensive reforms that meet the varied needs of local economies. Not only would all cities, including Detroit, benefit by gaining local revenue options, Detroit would also win allies as they drive an effort to lift the state’s economy overall.

Increasing Local Revenues and Revenue Diversity

The City of Detroit is gaining momentum. Its appeal as a destination city is growing. It is hosting more visitors, sports and cultural events, and corporate conferences. In fact, according to the upbeat forecast from the Research Seminar in Quantitative Economics at the University of Michigan, Detroit should thrive if more working-age residents are attracted to the city, wages increase, and more leisure and hospitality industry jobs are added. However, such economic progress brings more responsibilities and expenses uptick – such as public safety, sanitation, and infrastructure. Those greater costs may be borne by visitors, businesses located within city limits, or city residents. As city leaders look to their future budget needs, they are examining two new revenue sources to tap into the activities and visitors they host and to reduce the taxes residents pay: a tax on the admissions to ticketed entertainment and cultural events, and a local sales tax. Best applied in a large city or a destination area to diversify and supplement local revenues, these optional local taxes would give Detroit a new source to improve its revenue diversity.

Three general types of taxes make up a healthy revenue portfolio: property, income, and consumption. Most of Michigan’s local governments generate over two-thirds of their local revenues from property taxes. Local income taxes are currently levied in 24 cities, including Detroit. No local sales taxes are levied as they are not authorized in Michigan (Detroit and some counties do levy local excise taxes).

Expanding the options for local consumption taxes would help local governments better balance their revenue portfolios. However, not all cities or counties have the type of local economy that would benefit from an admissions tax or a local sales tax. Perhaps a better path – one that would also benefit more local units – is to explore alternative mechanisms or offer a portfolio of universally appealing revenue options.

Taxes Paid by Detroit’s Residents and Businesses

As Table 1 illustrates, Detroit residents, businesses, and visitors already pay a number of taxes. In addition to maintaining existing municipal services, the city must keep itself accessible, clean, and safe to encourage new residents, employers, and visitors, and to lure cultural programs, conferences, and sporting events. The collection and administration of these taxes are costly; adding new taxes may not be the best course of action and may not ultimately meet with local support. Consideration should be made of alternatives that would both increase revenue diversity and reduce administrative costs for both taxpayers and tax administrators.

Table 1

Major State, County, and City Taxes Levied in the City of Detroit

Type	Administration	Tax Base	Tax Rate
General Property Tax	Collected by the City of Detroit on behalf of the library, county, school district, intermediate school district, DIA, and Detroit Zoo	Assessed value of real and personal property	Homestead Millage Rate – 67.2737 mills Non-Homestead Millage Rate – 85.2787 mills
City Income Tax (Resident)	City of Detroit	Income earned by residents	2.4%
City Income Tax (Non-Resident)	City of Detroit	Income earned within the city by non-residents	1.2%
City Income Tax (Corporations)	City of Detroit	Corporate income earned in the city (allocation based on property, sales, payroll)	2.0%
Casino Wagering Tax	City of Detroit & State of Michigan	Gross receipts from licensed casinos (MGM, MotorCity, Greektown)	City Share: 11.9% of adjusted gross receipts (rate varies based on state portion)
Uniform City Utility Users Tax	City of Detroit	Surcharge on electricity, gas, and telephone services	5.0%
Stadium, Convention Facilities, Hotels/Motels, and Auto Leasing Taxes	Wayne County	Short-term lodging rentals within the county (including Detroit), Convention Marketing, Stadium or Convention Facility Financing	Available Rooms (81-160 -3.0%; (160 rooms)-6.0% for convention facility development Convention and Tourism Marketing-3.5% (4.0% in 2031) Stadium and Convention Facility Financing-1.0% Restaurants and Hotels – 1.0% Automobile Leasing – 2.0%
Real Estate Transfer Taxes	Wayne County & State of Michigan	Value of property sold or transferred	County-0.11% State-0.75%
State Sales and Use Taxes	State of Michigan	Retail sales, use, storage, or consumption of tangible goods.	6.0%

Source: Citizens Research Council of Michigan. Outline of the Michigan Tax System, updated November 2025, <https://crcmich.org/publications/outline-of-the-michigan-tax-system-39th>. Other excise taxes levied on city residents are not listed here.

An Admissions Tax or a Local Sales Tax...or Something Else

In the assessment of both taxes for the City of Detroit, the Research Council identified both benefits and challenges, estimated potential revenues, and the paths to legal authorization. The admissions tax would be easier than the sales tax to authorize and implement but for either, the effort-reward balance is questionable.

Many destination communities across the country assess taxes on activities enjoyed by visitors. These taxes are designed to offset some of the public expenses associated with hosting, such as parking enforcement, public safety, or sanitation. Such taxing mechanisms allow hosting communities to share costs with visitors and relieve residents of shouldering all the additional costs. About 34 cities across the country levy a tax on the admission ticket to an event either through their general sales tax or a specific excise tax on admission tickets.

Michigan does not currently authorize a local sales tax, nor does the state authorize a local admissions tax. While there are many differences in administration and collection of both taxes (see Table 2), the key areas to evaluate are as follows:

- Revenue Adequacy – is it enough?
- Tax Incidence – who bears the tax burden?
- Implementation Challenges – how will it be authorized, enacted, and administered?

In the Research Council's analyses of the tax options, we found that an admissions tax could raise about \$50 million at a 10 percent rate. Total revenues would fluctuate given ticket prices and the number of interested fans purchasing tickets to the events (a winning team attracts more attendees than a losing team, for example). Given that the median household income of Detroit city residents is \$39,575, about half the average annual income of those commuting into the city (\$83,000), an increase in ticket prices may deter some city residents from attending games or shows.

A local sales tax (in addition to the six percent state sales tax) would apply to items, meals, lodging, and other activities that visitors as well as residents would access. We estimated potential annual revenue of a one percent local tax in the range of \$42 to \$72 million. A sales tax would place a greater tax burden on residents as the costs for buying goods within the city would increase. Residents and small business owners may choose to make purchases outside city boundaries to avoid the additional sales tax. This would be especially true for high-cost items such as an automobile or a major home appliance.

Both a new local admissions tax and a sales tax would require state and local legislative approval, as well as an affirmative vote by residents. Authorizing a local sales tax also would require state voters to approve an amendment to the state Constitution because the current sales tax rate limit and revenue dedications appear to preclude authorization for a local sales tax. Funding advocacy and public education efforts for such an initiative would be expensive and time consuming. Amending the state constitution is a difficult process.

Given these observations, and the relatively modest revenue potential for a one percent local sales

tax – \$72 million is just under five percent of Detroit’s Fiscal Year 2026 General Fund Budget – pursuing a local admissions tax may be the preferable of these two choices for Detroit. However, there are other revenue raising mechanisms city leaders and residents could consider.

Table 2

Comparison: Local Admissions Tax vs. Local Sales Tax in the City of Detroit

	10 Percent Local Admissions Tax	1 percent Local Sales/Use Tax
Annual Estimated Revenues	\$50 million	\$72 million
Legal Authorizations Required	State Legislative Act Local Legislative Act Local Voter Approval	State Constitutional Amendment State Legislative Act Local Legislative Act Local Voter Approval
Tax Collector	Local and Online Ticket Seller	Local and Online Retailer
Tax Administrator	City of Detroit	Michigan Department of Treasury
Regressivity Impact	Lower income households attending city events	Lower income households residing in Detroit
Tax Incidence	Residents, Non-residents, Ticket Sellers	Residents, Non-residents, Tourists, Local Businesses, Online Retailers
Potential Avoidance Behavior	Do not attend	Local residents may shop elsewhere and retailers may locate elsewhere

Detroit’s Quandary as a Motivation for Municipal Finance Reform

The City of Detroit has some distinguishing issues given its history and population. However, many of the core fiscal challenges facing Detroit are challenges in other communities, albeit at a different scale: lower property values requiring higher tax rates to yield the revenues needed to maintain city services, higher levels of unemployment, lower income levels, and few commercial establishments. Detroit’s past efforts at seeking new specific taxes or special treatment have been met with skepticism from other communities. But what if Detroit could be a catalyst for real change in the fiscal system for the state’s communities?

Detroit could lead a joint effort with the state’s local governments to identify and advocate for municipal finance reforms to address issues for all Michigan local governments.

In past reports, the Research Council has identified many shortcomings of the state’s local government financing system. Many discussions have focused on potential property tax reforms given the overreliance of local governments on property tax revenues. The recent studies of a local option

admissions tax and a local sales tax emphasize another important reform that is needed – the capacity for local government to diversify their revenue sources. Both the admissions tax and the local sales tax would tip the balance of local revenues for Detroit, or other communities who adopted such taxes, towards consumption taxes.

Given that the state does not authorize local sales taxes, addressing local revenue diversity by raising the proportion of local revenues sourced by consumption-related taxes could be a good starting point for a local government reform effort. (Michigan's local governments do receive state revenue sharing from the state sales collections through constitutional and statutory channels which can be considered consumption-related revenues.) One area to improve could be the amount and certainty of state aid paid to local governments through revenue sharing or state grants.

The state currently shares both sales tax revenues and general fund revenues with local governments. While the constitutionally-required revenue sharing (for cities, villages, and townships) follows the state's sales tax collections, the statutory revenue sharing payments have been inconsistent and undependable. State revenue sharing could be increased in two ways. First, if the statewide sales tax were increased by one percentage point to seven percent, the revenue sharing earmark would increase. In the case of Detroit, its revenue sharing distribution would increase by nearly \$60 million. Other cities, villages, and townships would receive an increase, and the state would also collect additional general revenues. At a seven percent statewide tax rate, Michigan's sales tax would remain competitive with the average local and state sales taxes levied in neighboring states. Of course, raising the state sales tax to generate more financial support for local government and other purposes is an ambitious policy change with many facets to consider, including pursuing a constitutional amendment. While offering the state budget and local governments additional revenues is enticing, the same drawbacks mentioned above affecting a local sales tax would apply statewide.

A second area for improvement could be to update the state sales and use tax laws. Since the 1930s, when most states' sales and use taxes were adopted, the general economy has transformed from one based on the production of goods to one that includes more services. Many states have reformed their sales and use tax laws to reflect today's retail activity. By modernizing the law to broaden the tax base, it is possible that more revenue could be generated at the same or a lower rate. The impact of this change – requiring only state legislative action, may generate more constitutional revenue sharing by increasing state sales tax revenues overall.

State and local policymakers could pursue a wholesale revision of the state's sales and use taxes or adopt specific amendments to the tax base. While revision of the sales and use tax laws seems simple on its face, the reality of updating sales and use taxes to broaden the base is not an easy endeavor. A less ambitious alternative could be addressing the treatment of admission tickets specifically by applying the existing sales and use taxes to these activities. If the revenues raised by taxed admission-ticket sales are allocated back to the community where the event or activity is held, Detroit as well as the states' other communities with concert halls, theaters, and other event venues would benefit without having to adopt a new tax. The advantages with this mechanism are that another new tax is not established, an existing administrative system can be accessed to collect and enforce the tax, and taxpayers are familiar with sales taxes. Note that the tax rate would only be 6 percent, not 10 percent as was considered in Research Council's revenue estimate. Additionally, having a greater share of state sales tax revenue would improve revenue diversity (consumption tax-related revenue) for local governments. Again, convincing legislators to adopt such a change remains a challenge. And careful thought should be put into defining which amusement and event tickets are subject to tax in the tax code.

Conclusion

After evaluating two new potential local option taxes for Detroit, the Research Council concludes that the effort may not be worth the reward, especially for a local sales tax. With a modest revenue potential, a one percent local sales tax may only raise \$72 million for Detroit. A 10 percent local admissions tax may only raise \$50 million if the Detroit's sports franchises continue to succeed, conference and cultural events expand, and the draw for visitors climbs at an increasing pace. The hurdles to gaining authorization are formidable, even for a local excise tax such as an admissions tax.

Detroit's quandary could be a catalyst for reform. Should Detroit lead the effort for real change in municipal finance, state and local policymakers could successfully tackle diversifying revenue options for local governments statewide. Options include addressing state revenue sharing and modernizing the state sales and use tax acts, such as amending the existing statutes to include admission ticket sales. If reforms are tailored to meet the needs not only for the City of Detroit, but also the state's local governments with their varied local economies, it would be an opportunity to lift Michigan's economic health overall.

ABOUT THE AUTHOR

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Madhu held several leadership positions in state government and the non-profit sector prior to joining the Citizens Research Council in 2024. Her expertise is in local and state taxation, government finance, and regulatory policy. In addition to working on landmark tax, school finance, and pension reforms, she helped Michigan earn a AAA bond rating as Chief Deputy State Treasurer. Under her directorship of CEPI, Michigan became one of the first states to offer web-based performance metrics for school districts. Madhu also served as a Deputy Director at the Department of Environmental Quality and at the Michigan Agency for Energy. Her non-profit experience includes Director of Government Relations for the Michigan chapter of The Nature Conservancy, and Treasurer for a local ceramics cooperative.

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