



Local-Option City Income Taxation in Michigan

Benton Harbor Income Tax
Town Hall Meeting

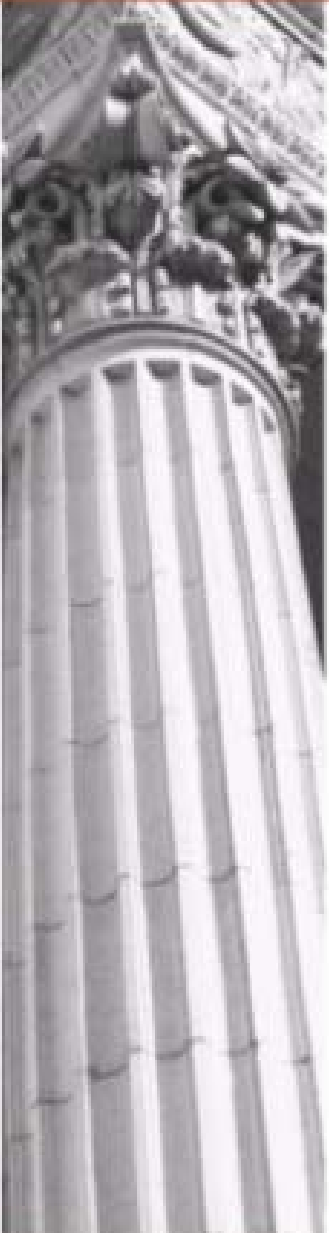
July 24, 2013

Eric Lupher
Director of Local Affairs
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Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Nonpartisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals



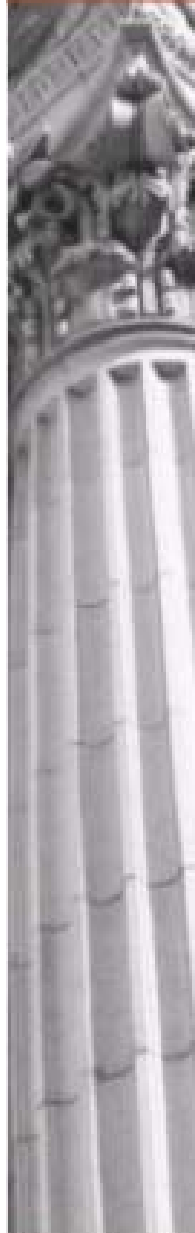


Uniform City Income Tax

- **Uniform City Tax Act of 1964**
- **Tax base includes:**
 - Residents: compensation, net profits, investments, and other income
 - Non-residents: income earned while working in city
 - Corporations: income earned in city, based on property, sales, payroll
- **Generally, tax rate is 1 percent on residents and corporations and 0.5 percent on non-residents**



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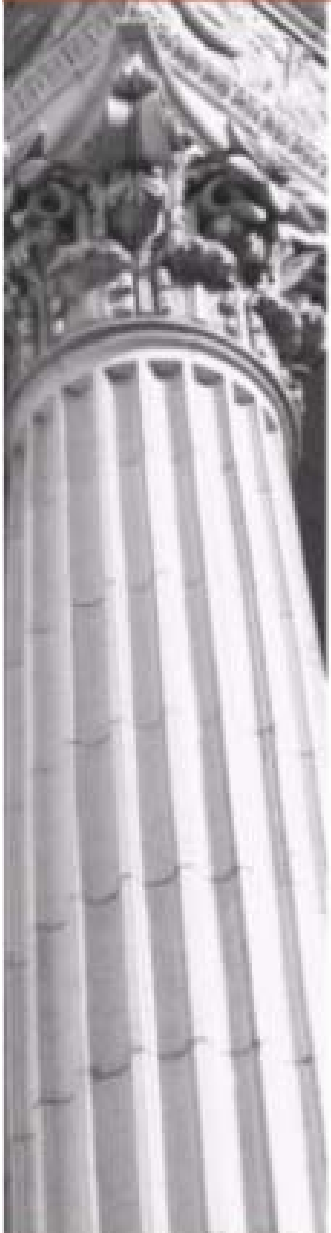


INCOME		ROUND ALL FIGURES TO NEAREST DOLLAR (\$0.50 next dollar)		Column A Federal Return Data	Column B Exclusions/Adjustments	Column C Taxable Income	
ATTACH COPY OF PAGE 1 OF FEDERAL RETURN	1. Wages, salaries, tips, etc. (W-2 forms must be attached)	1		.00	.00	.00 *	
	2. Taxable interest	2		.00	.00	.00	
	3. Ordinary dividends	3		.00	.00	.00	
	4. Taxable refunds, credit or other tax	4		.00	.00	NOT TAXABLE	
	5. Alimony received	5		.00	.00	.00	
	6. Business income or (loss) (Attach federal Schedule C)	6		.00	.00	.00	
	7. Capital gain or (loss) (Attach copy of fd. Sch. D) <input type="checkbox"/> 7a. <input type="checkbox"/> Mark if federal Sch. D not required	7		.00	.00	.00	
	8. Other gains or (losses) (Attach copy of federal Form 4752)	8		.00	.00	.00	
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	12. Subchapter S corporation distributions (Attach federal Sch. K-1)	12	NOT APPLICABLE		.00	.00	
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	16. Other income (Attach statement listing type and amount)	16		.00	.00	.00	
	17. Total additions (Add lines 2 through 16)	17		.00	.00	.00 *	
	18. Total income (Add lines 1 through 16)	18		.00	.00	.00	
	19. Total deductions (Subtractions) (Total from page 2, Deductions schedule, line 7)	19				.00 *	
	20. Total income after deductions (Subtract line 19 from line 18)	20				.00	
21. Exemptions (Enter the total exemptions, from Form L-1040, page 2, box 1h, in line 21a and multiply this number by \$500 and enter on line 21b)	21a			21b	.00		
22. Total income subject to tax (Subtract line 21b from line 20)	22				.00		
23. Tax (Multiply line 22 by Lansing resident tax rate of 1% (0.01) or nonresident tax rate of 0.5% (0.005) and enter tax on line 23a, or if using Schedule TC to compute tax, check box 23a and enter tax from Schedule TC, line 23)	23a			23b	.00		
24. Total payments and credits (Total from page 2, Payments and Credits schedule, line 4)	24				.00		
25. Interest and penalty for: failure to make estimated tax payments; underpayment of or limited tax; or late payment of tax	25a	Interest	.00	25b	Penalty	.00	
					Total Interest & penalty	25c	.00



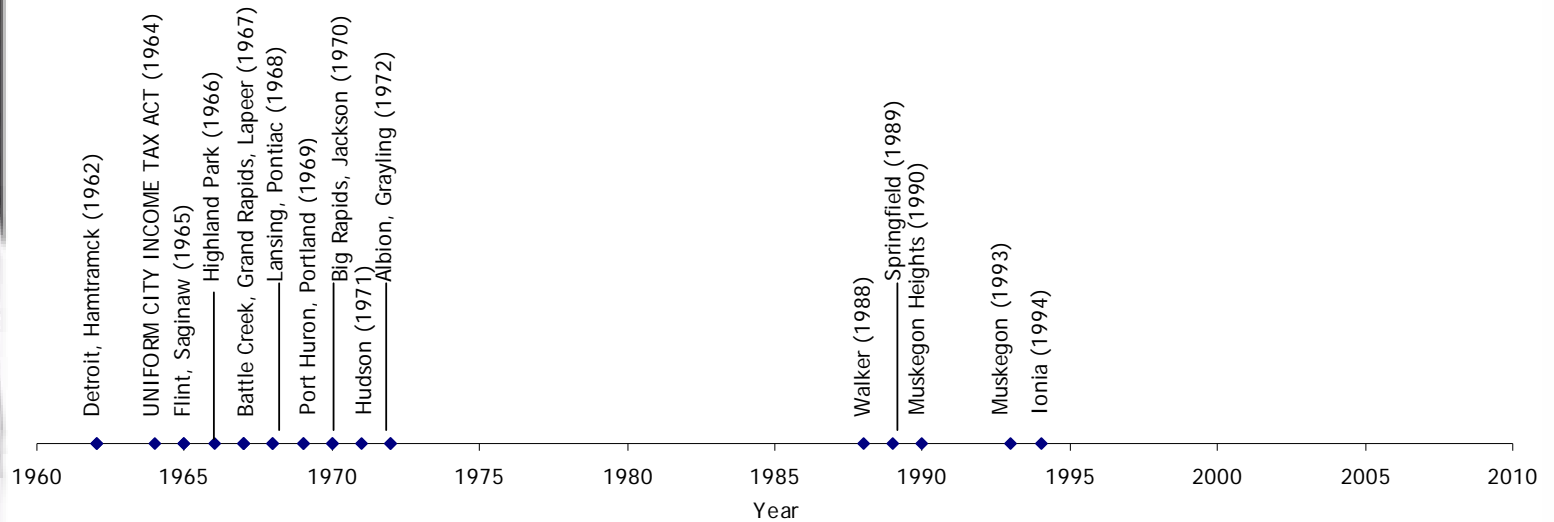
Uniform City Income Tax

- **22 cities levy a city income tax**
 - **Nine “core” cities (>30,000 people)**
Battle Creek, Detroit, Flint, Grand Rapids, Jackson, Lansing, Muskegon, Port Huron, Saginaw
 - **Seven “sub-core” cities (2,000-11,000 people)**
Albion, Big Rapids, Grayling, Hudson, Ionia, Lapeer, Portland
 - **Six “suburban” cities (2-25 sq miles, 5,200-66,000 people)**
Hamtramck, Highland Park, Muskegon Heights, Pontiac, Springfield, Walker





Year City Income Tax Adopted in Each City

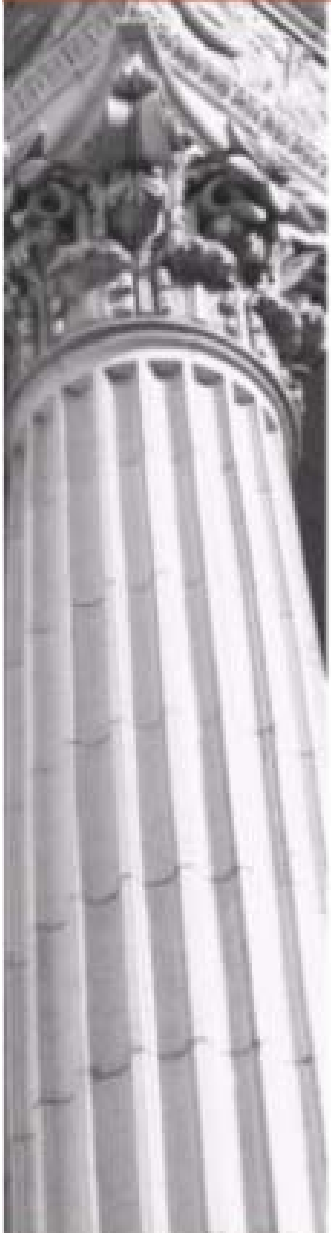


Source: Michigan Department of Treasury



Motivations for a City Income Tax

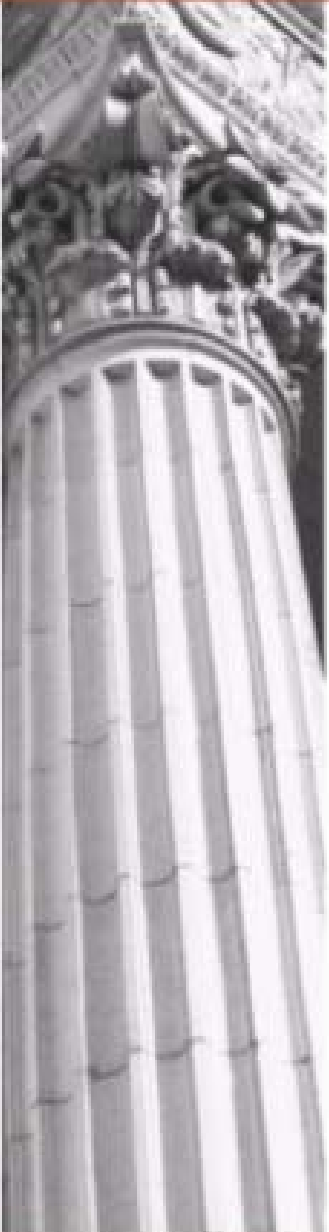
- **Supplement dwindling property tax revenue**
- **Export tax to workers that reside in outside communities**
 - Areas with high concentration of governmental offices, correctional facilities, hospitals, universities, large businesses and factories
 - Non-resident workers benefit from city services such as roads, public safety, and water and sewer





Imposing and Adopting a City Income Tax

- **Requirements:**
 - Adoption of an ordinance by legislative action of city council/commission
 - Affirmative vote to impose tax by city electors
- **Administered by cities (as opposed to the state)**
 - Separate administration from property taxes since income taxes are remitted continuously

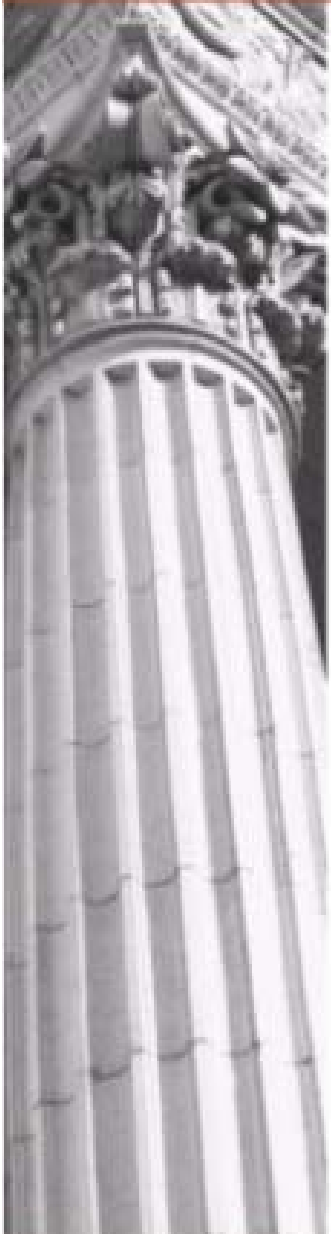




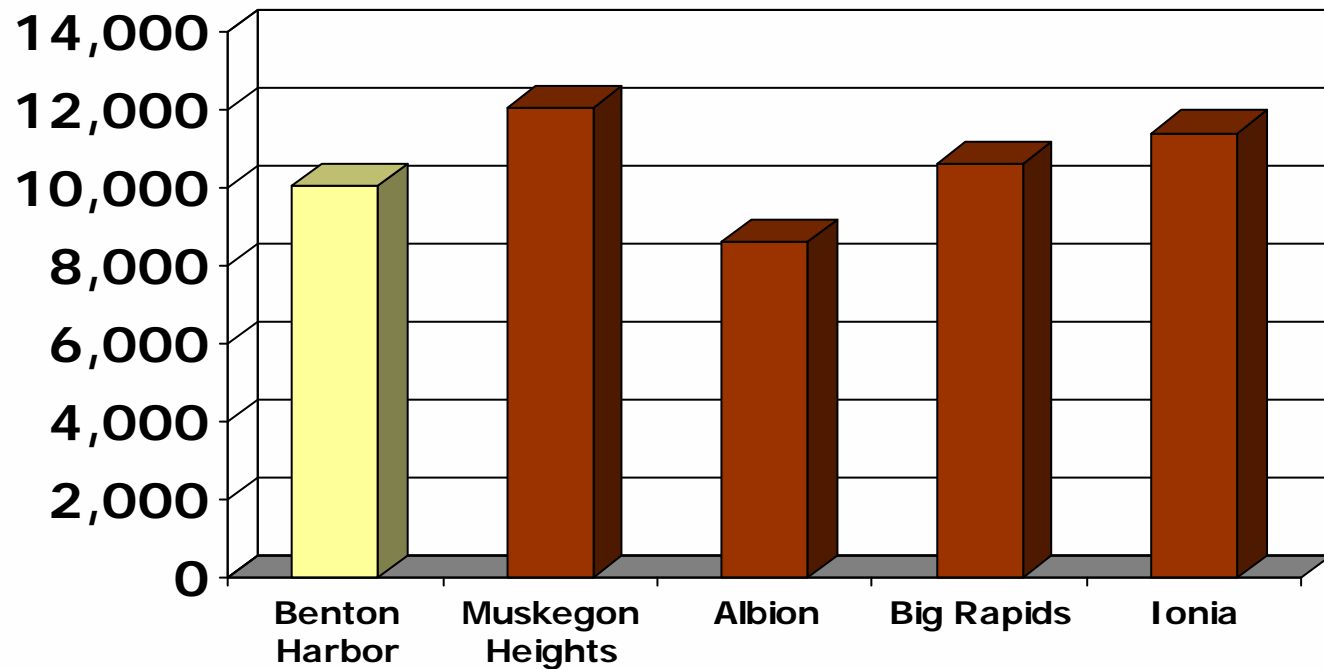
Examples – Albion & Muskegon Heights

	Muskegon Heights	Albion
Income tax instituted	1990	1972
Income tax revenue (2012)	\$933,287	\$997,411
Resident rate	1.0%	1.0%
Corporate rate	1.0 %	1.0 %
Non-resident rate	0.5%	0.5%

Source: CRC Paper Local-Option City Taxation in Michigan

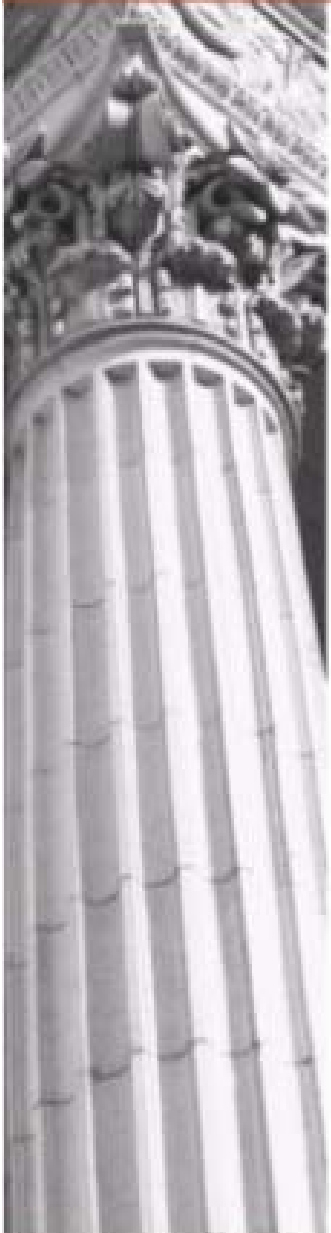
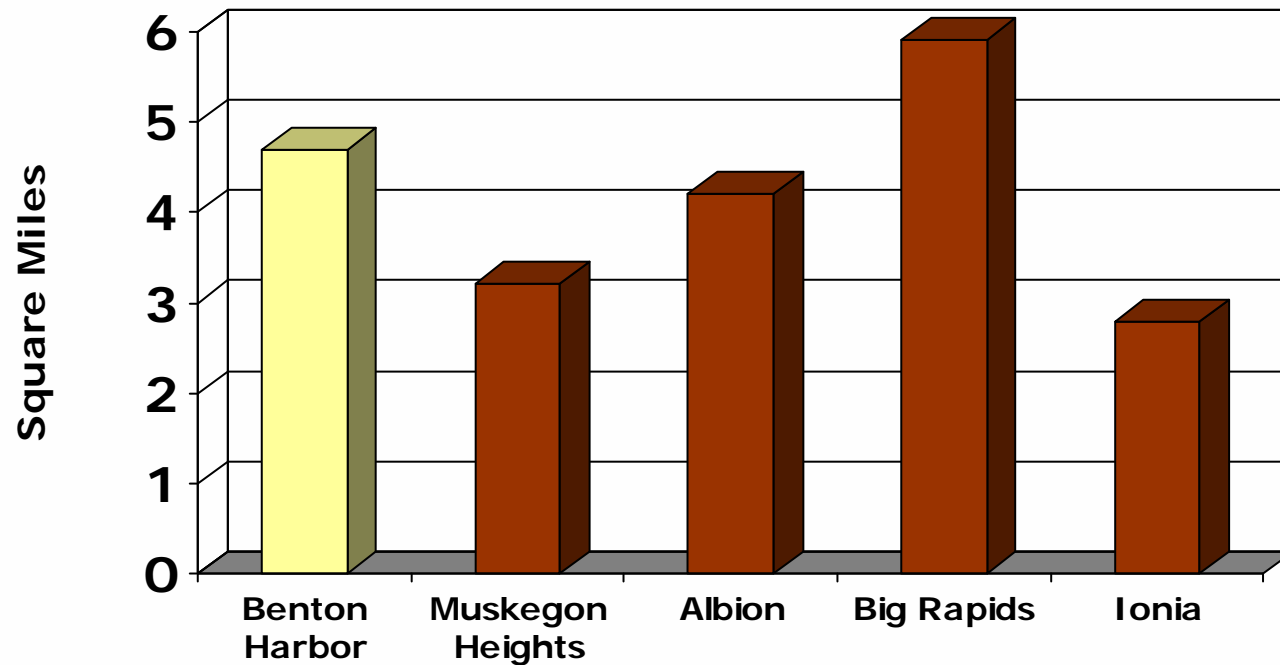


Population of Peer Cities with Local-Option City Income Taxes



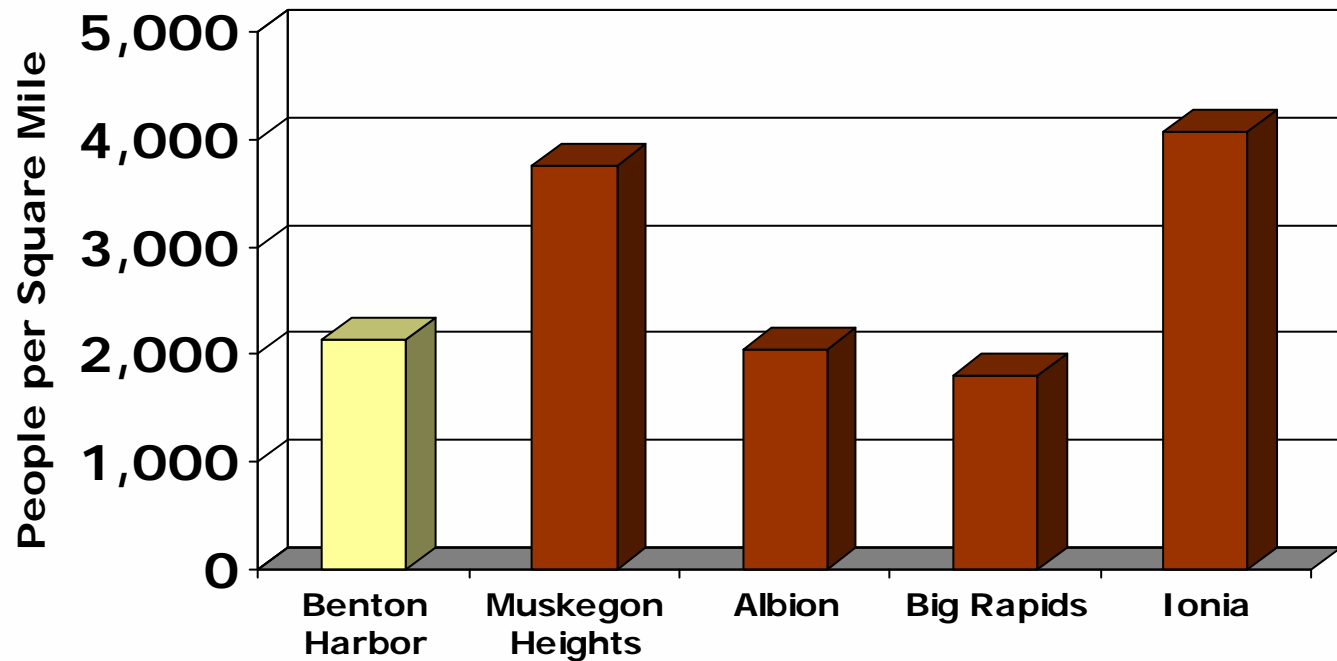


Land Area of Peer Cities with Local-Option City Income Taxes



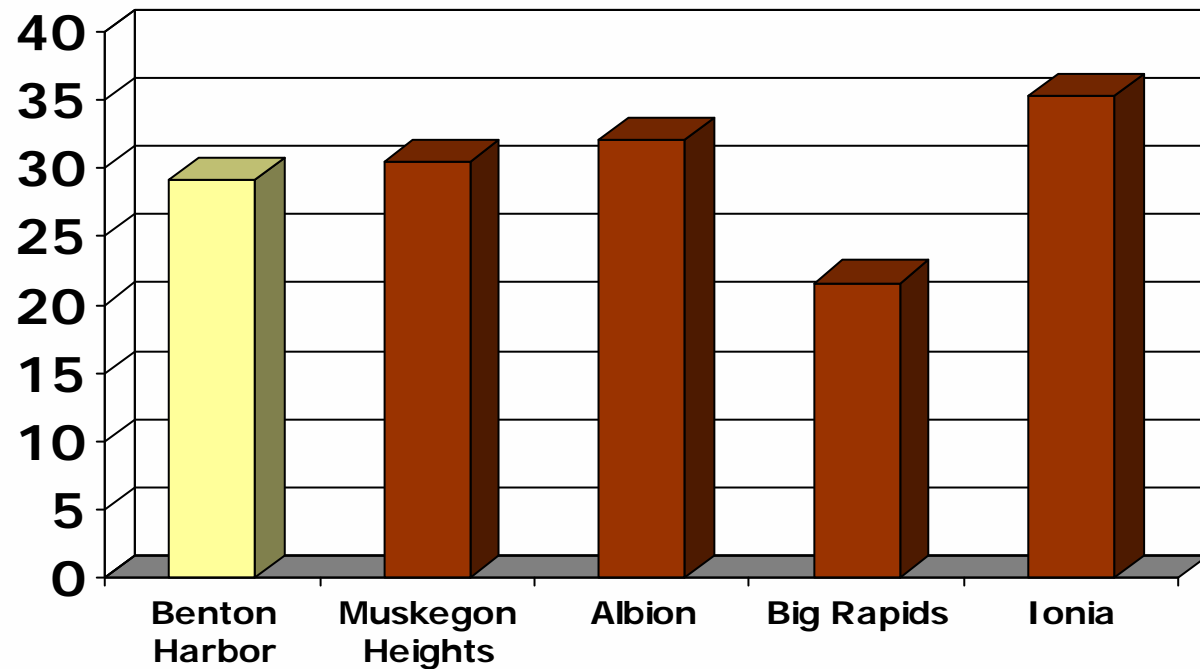


Population Density of Peer Cities with Local-Option City Income Taxes



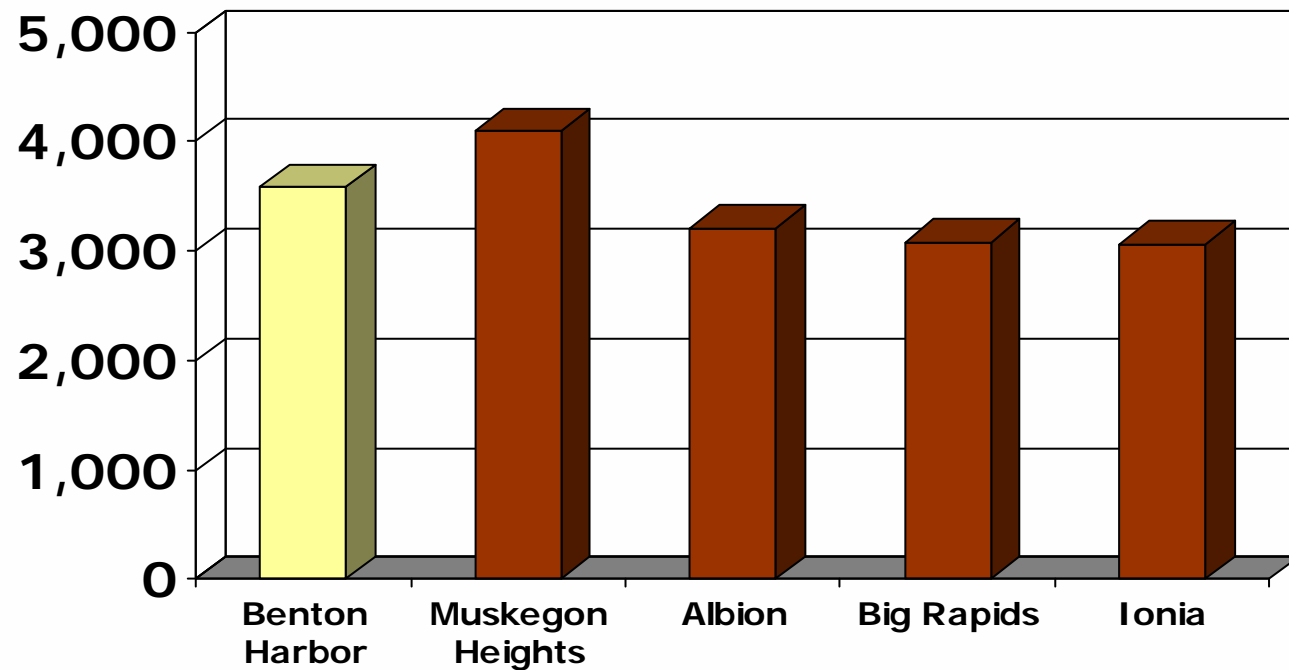


Median Age of Residents in Peer Cities with Local-Option City Income Taxes



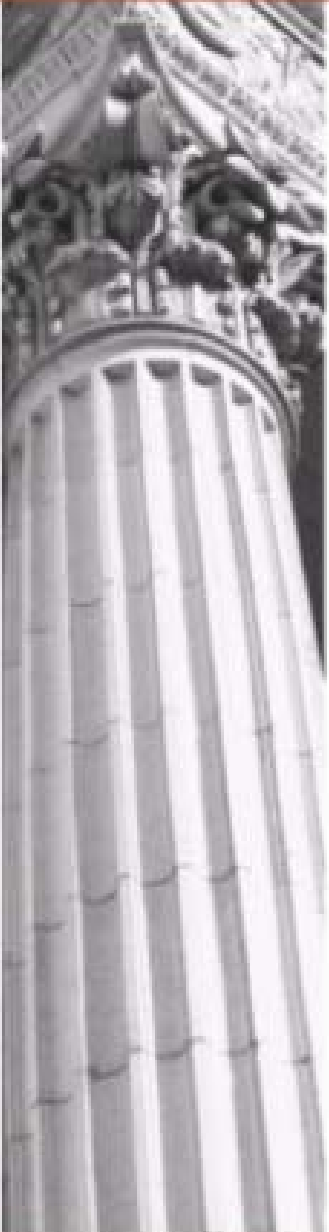
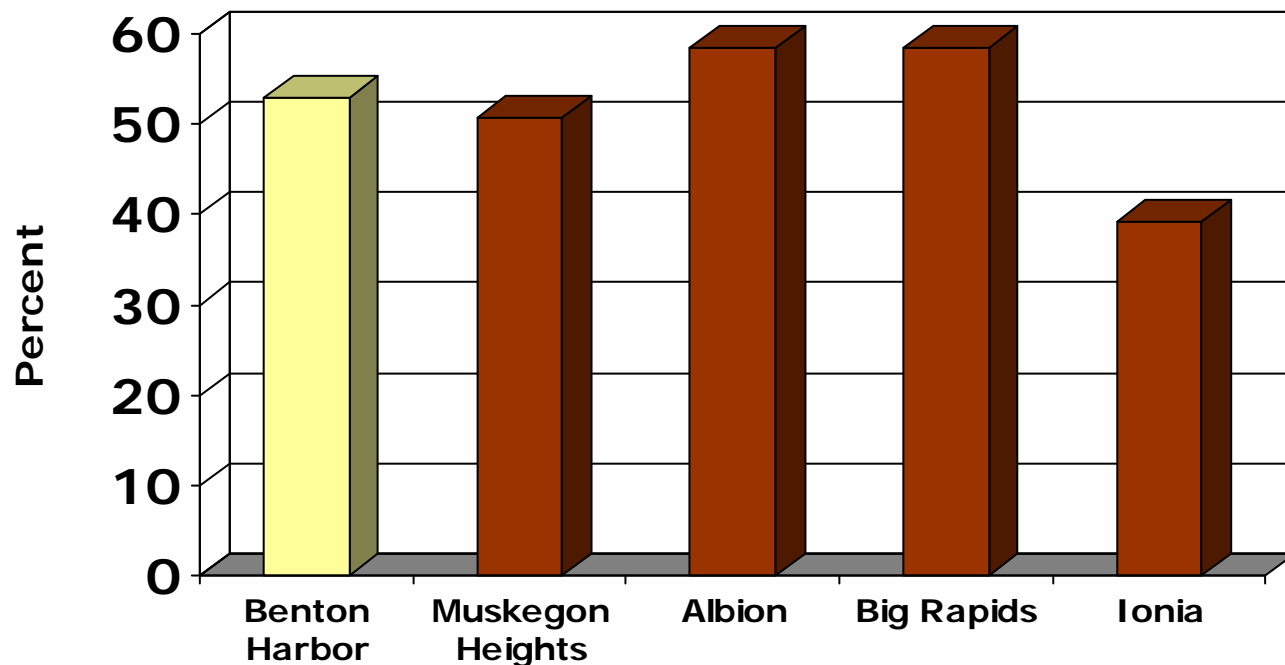


Number of Households in Peer Cities with Local-Option City Income Taxes



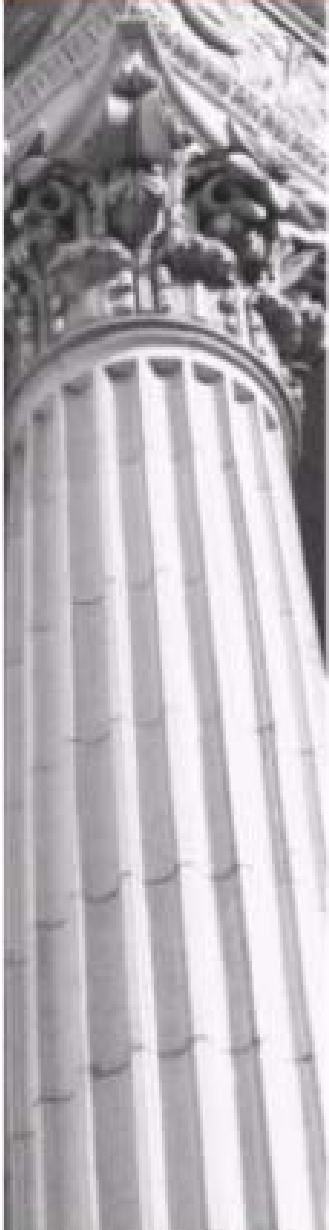
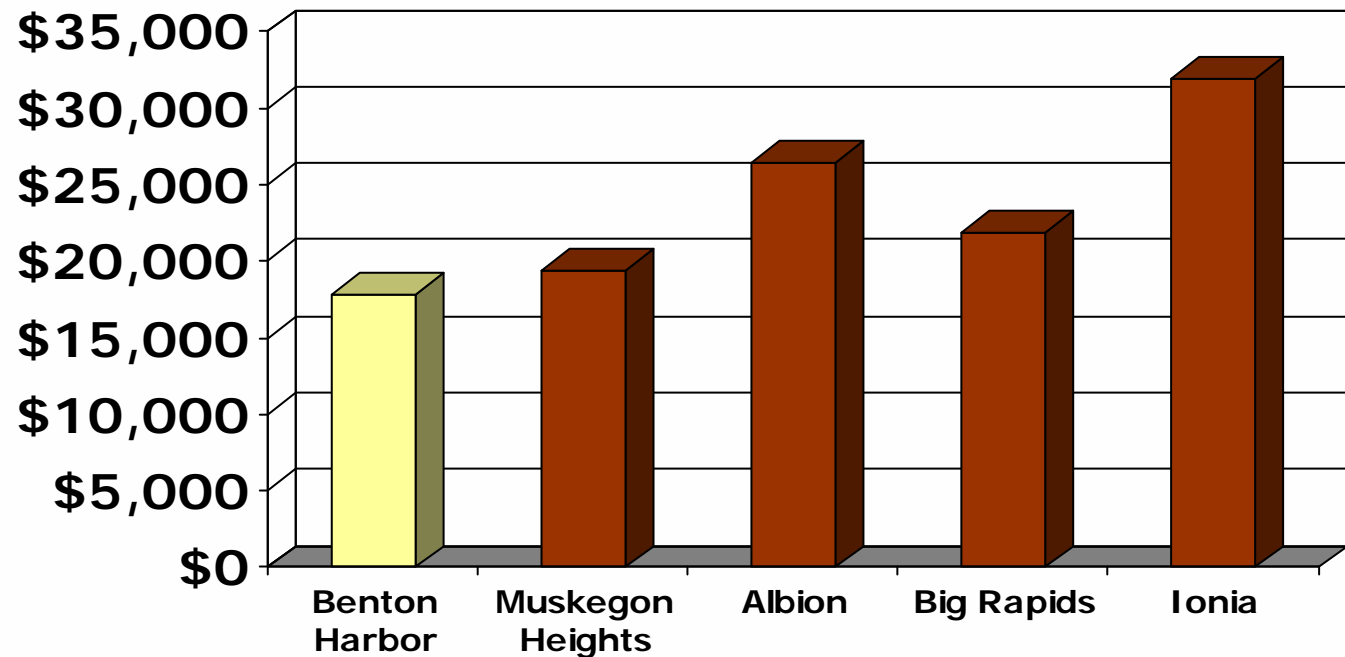


Percent of Population in Labor Force in Peer Cities with Local-Option City Income Taxes



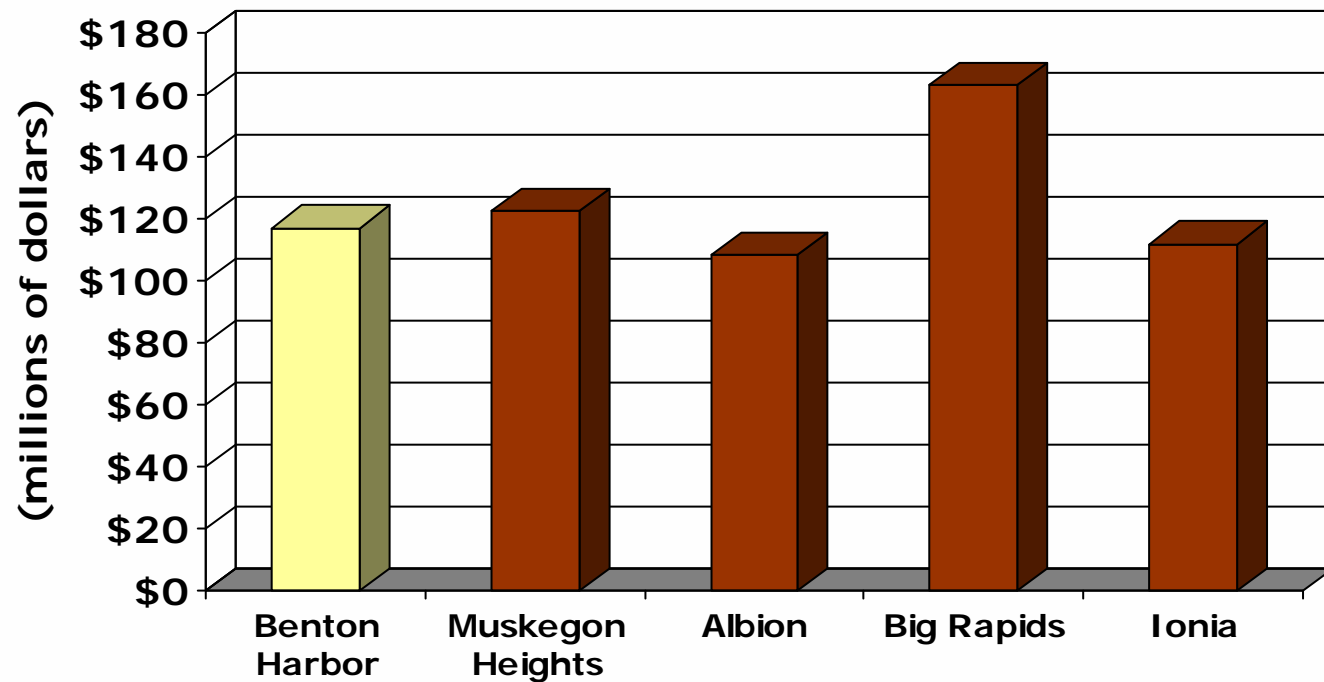


Median Household Income of Peer Cities with Local-Option City Income Taxes



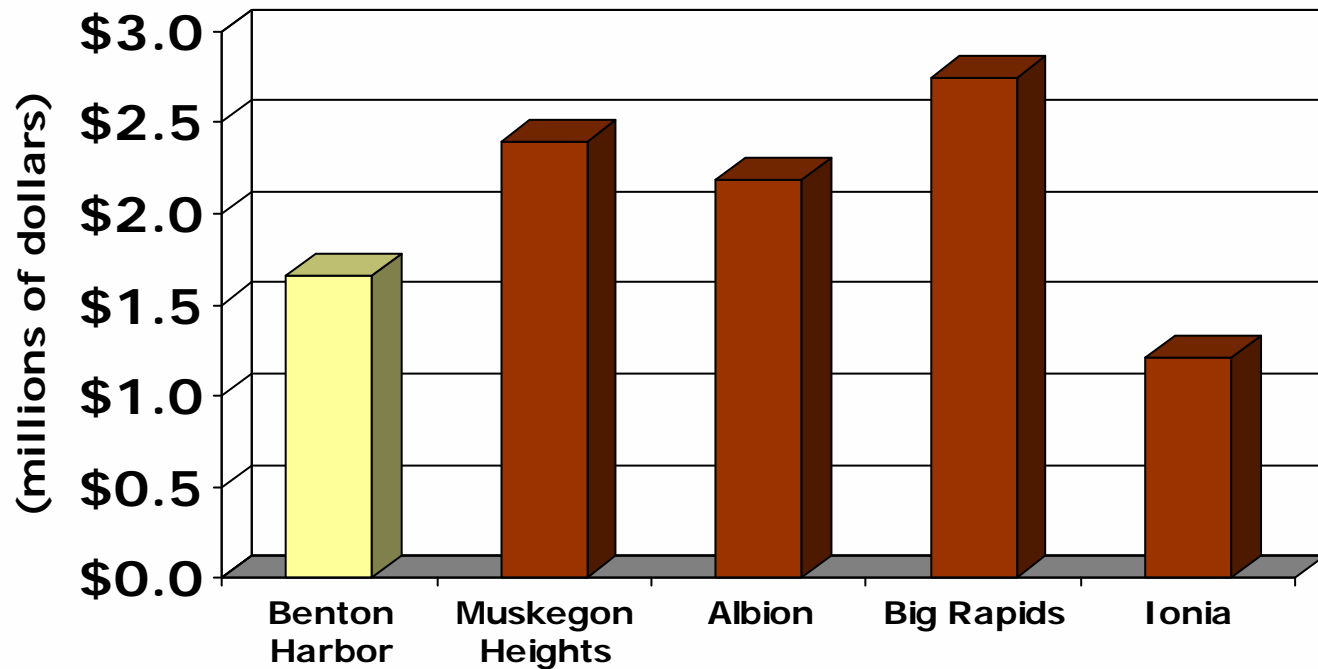


Taxable Value of Property in Peer Cities with Local-Option City Income Taxes



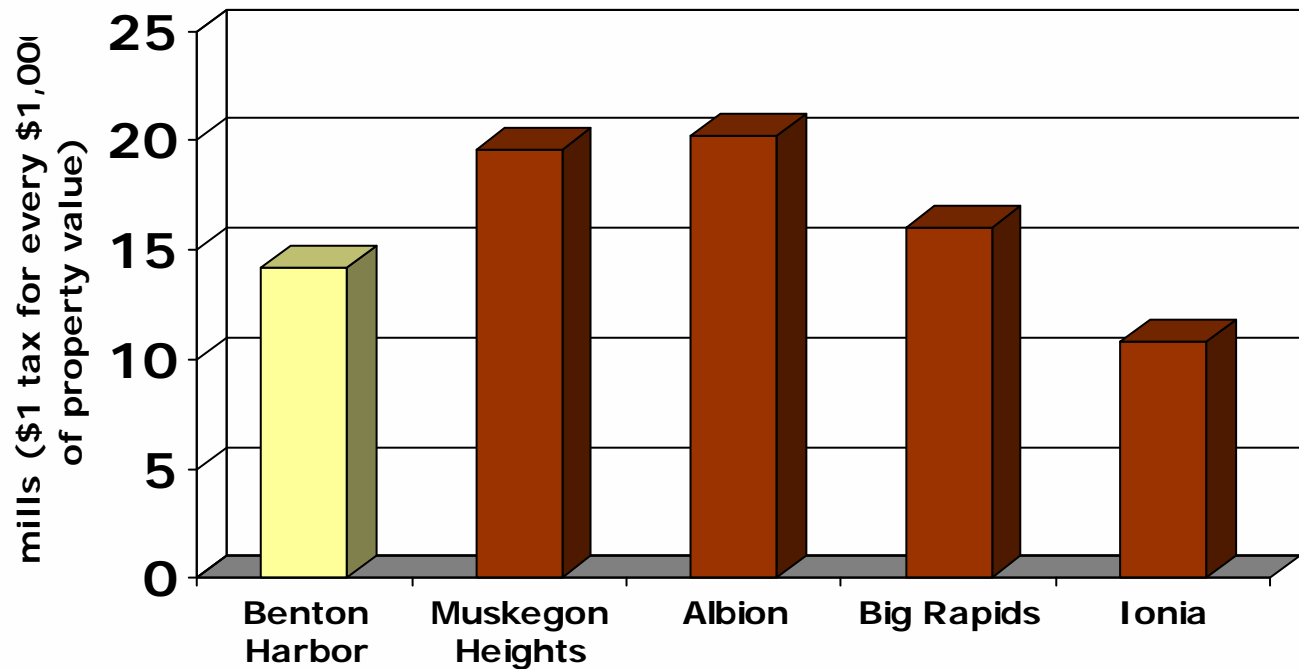


City Property Tax Revenue for Peer Cities with Local-Option City Income Taxes





City Property Tax Rate for Peer Cities with Local-Option City Income Taxes





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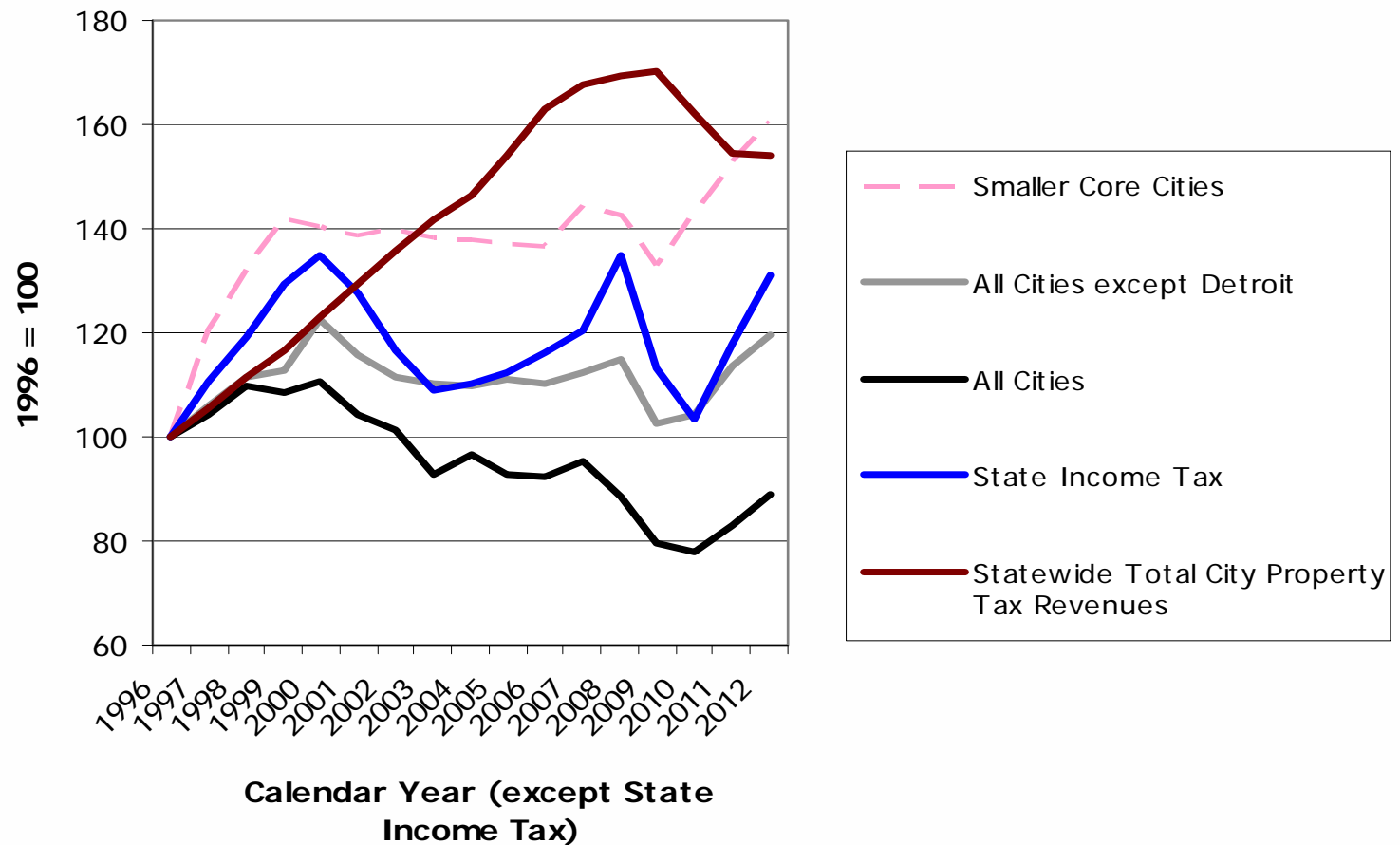
Benton Harbor Muskegon Heights Albion
Number of paid employees in pay period including March 12

Manufacturing	1,170	1,046	657
Retail trade	450	191	341
Information	15	89	1-19
Real estate and rental and leasing	50	29	1-19
Administrative, support, and waste mgt and remediation services	116	20-99	46
Accommodation and food services	100-249	140	270
Crime rates (per 1,000)	415.8	1,145.0	425.3

Source: 2007 Economic Census, City-data.com



Revenue Trends for Michigan City Income Tax Revenues

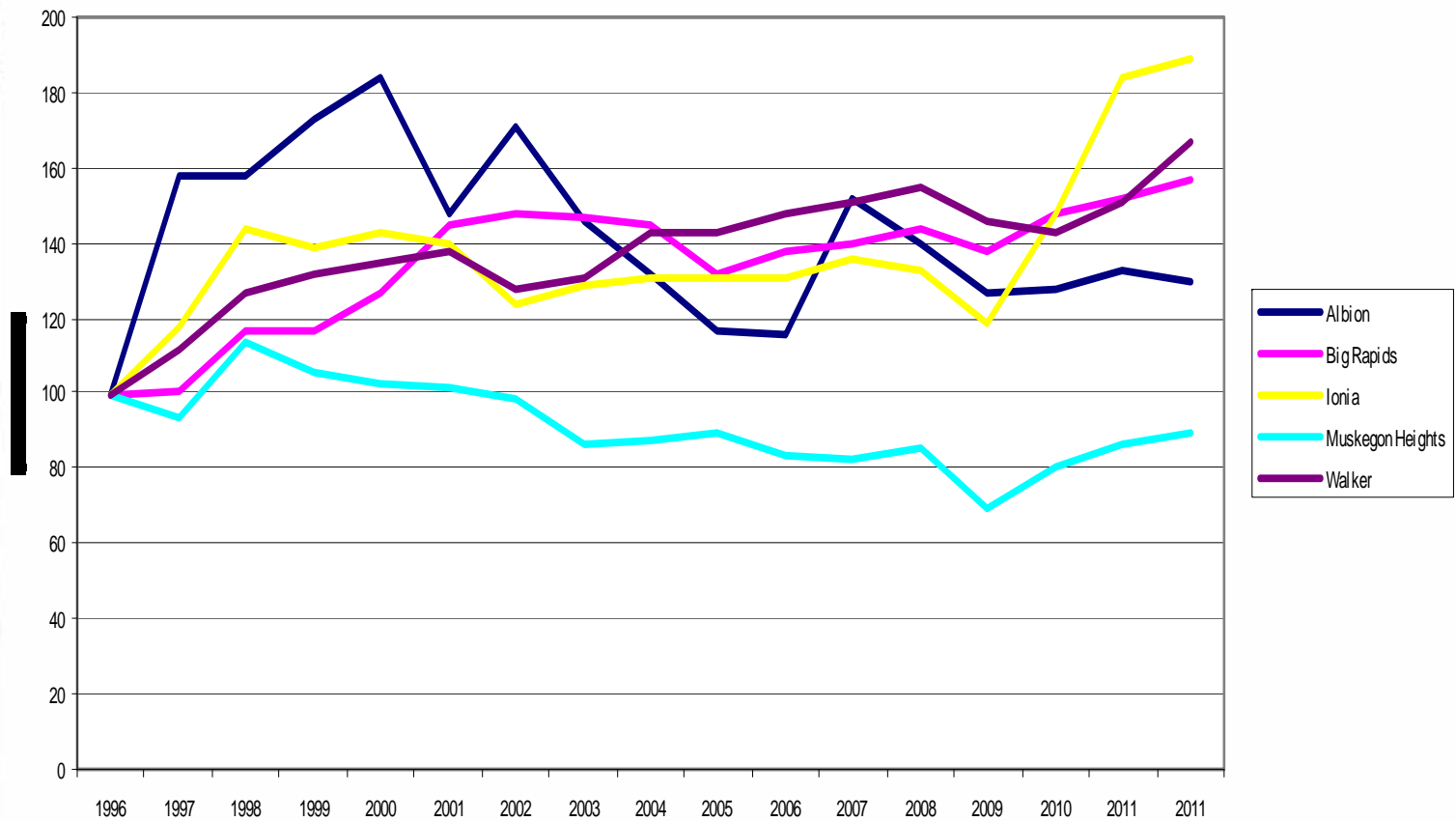


Source: Michigan Department of Treasury



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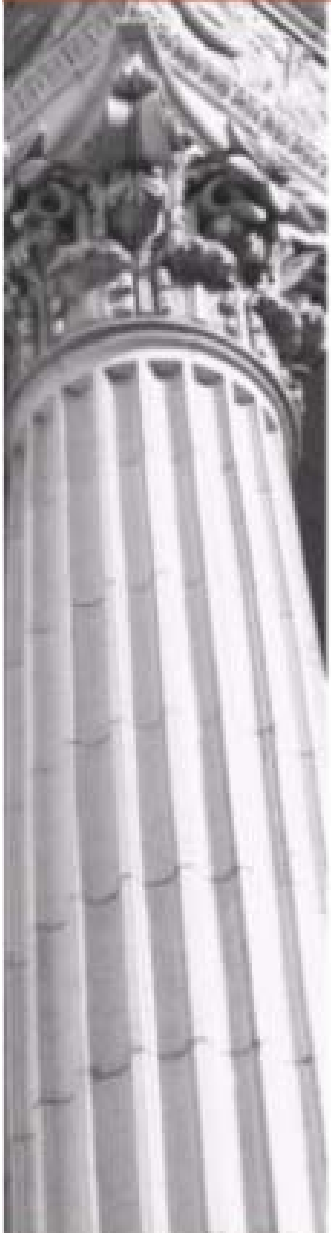
Revenue Trends for Benton Harbor Peer Cities





Economic & Political Consideration - Advantages

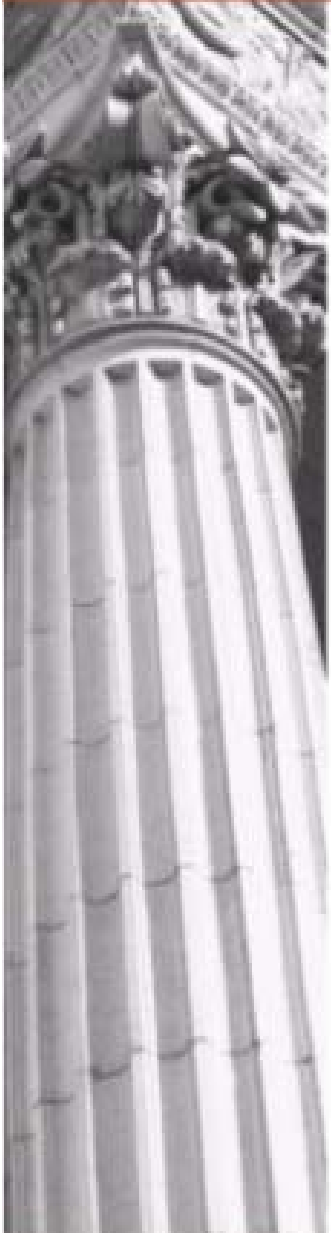
- **Declining attractiveness of property taxes**
 - Headlee Amendment of 1978 and Proposal A limit property tax growth
- **Alternate to property tax**
 - Capture economic activity that is not captured by property taxes
- **Property tax relief**
 - Example: Port Huron reduced property tax rate by three mills when income tax was imposed





Economic & Political Considerations - Disadvantages

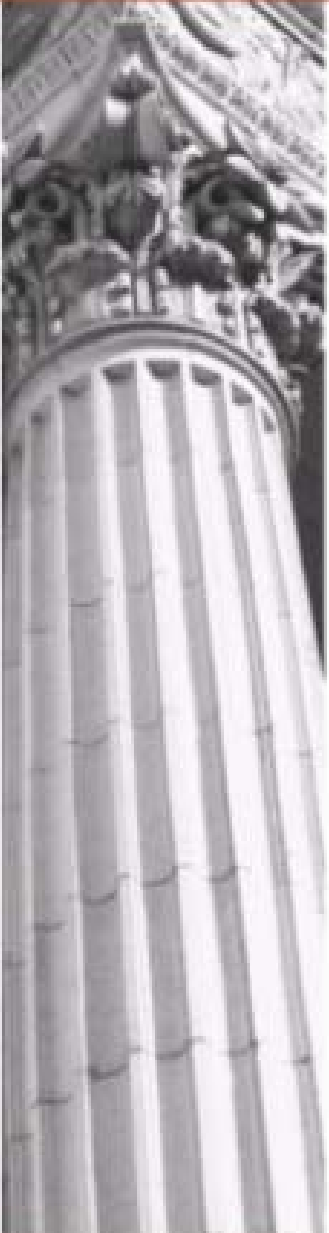
- **Disincentives to live and work in cities**
 - Does this stand on its own?
 - Does it accentuate other disincentives?
- **Subject to economic fluctuations**
 - Income taxes are more cyclical than property taxes
 - Requires prudent use of “Rainy Day” fund
- **Politics of voter approval**
 - Campaign costs to win approval: monetary costs and “political capital”





Criteria for Evaluating a City Income Tax System

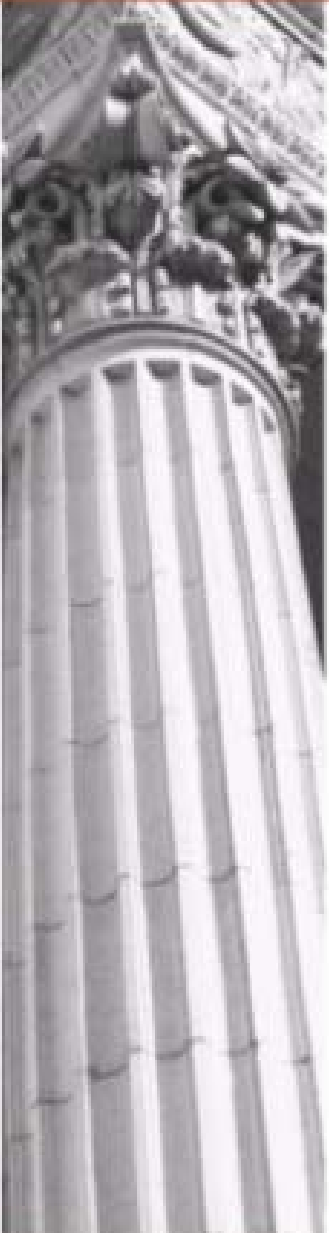
- **Can it meet funding needs?**
 - Experience of 22 cities shows that large amounts can be raised at low rates
- **Can it be implemented?**
 - Can be authorized and implemented fairly quickly
 - Largest barrier: elector approval





Criteria for Evaluating a City Income Tax System

- **How does a city income tax measure in terms of equity, neutrality, and administration efficiency?**
- **Equity**
 - Provides a high level of horizontal equity, but can be eroded by credits, deductions, and exemptions
 - Provides high level of vertical equity due to constitutional prohibition on graduated income taxes





Criteria for Evaluating a City Income Tax System

- **Neutrality**
 - Affects where people decide where to live, work, and locate a business
 - Personal income tax burden can be split between company and employee
 - Neutrality is further weakened when a city with high property tax rates also implements an income tax





Criteria for Evaluating a City Income Tax System

	Benton Harbor	St. Joseph
Manufacturing	1,170	1,655
Retail trade	450	480
Information	15	20-99
Real estate and rental and leasing	50	250-499
Administrative, support, and waste mgt and remediation services	116	682
Accommodation and food services	100-249	673

Source: 2007 Economic Census



Criteria for Evaluating a City Income Tax System

- **Administrative efficiency**
 - Requires additional administration for cities and additional record-keeping for taxpayers
 - Opportunity to piggy-back on state collections or join in multi-city collaboration (Grand Rapids, Lansing, Flint)
 - Taxpayers already keeping records for federal and state income tax filings

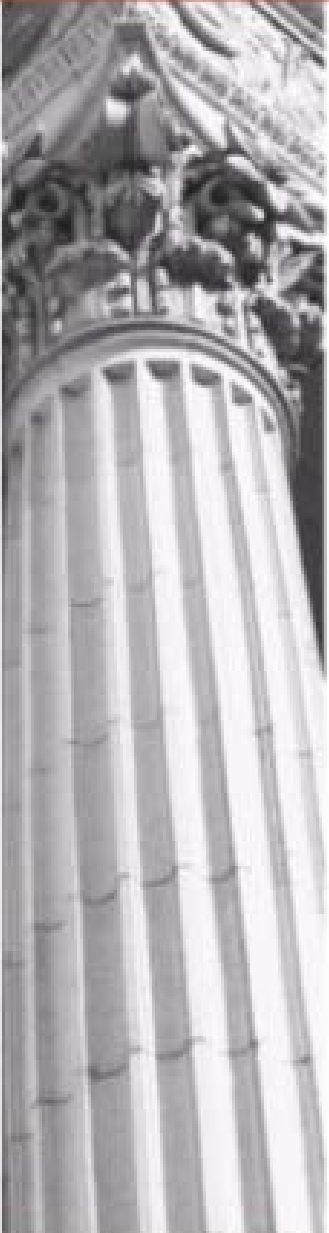




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Thank You for your attention

Questions?

www.crcmich.org

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