



Citizens Research Council of Michigan



# Outline of the Michigan Tax System

January 2007

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# Outline of the Michigan Tax System

January 2007

*CITIZENS RESEARCH COUNCIL OF MICHIGAN*



*MAIN OFFICE* 38777 West Six Mile Road, Suite 208 • Livonia, MI 48152-3974 • 734-542-8001 • Fax 734-542-8004

*LANSING OFFICE* 124 West Allegan, Suite 1502 • Lansing, MI 48933 • 517-485-9444 • Fax 517-485-0423

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## SIGNIFICANT EVENTS IN THE HISTORY OF THE MICHIGAN TAX SYSTEM

<b>1893</b>	General Property Tax Act enacted
<b>1899</b>	Inheritance Tax Act enacted
<b>1905</b>	Motor Vehicle Weight Tax enacted
<b>1925</b>	Gasoline Tax enacted
<b>1933</b>	<ul style="list-style-type: none"> <li>– 15 Mill property tax limitation added to State Constitution</li> <li>– Sales Tax enacted at 3%      – Taxation of liquor initiated with Liquor Markup</li> <li>– Beer and Wine Taxes enacted      – Horse Race Wagering Tax enacted</li> </ul>
<b>1938</b>	State Constitution amended by “Anti-Diversion Amendment” to dedicate gasoline taxes for highway purposes
<b>1939</b>	State takes over collection of Intangibles Tax, sharing 100% of revenues with local government
<b>1946</b>	“Sales Tax Diversion Amendment” to State Constitution to share revenues with schools and locals
<b>1947</b>	First Tobacco Tax enacted
<b>1953</b>	Business Activities Tax enacted
<b>1959</b>	Liquor Excise Tax enacted
<b>1960</b>	Sales Tax increased to 4%
<b>1963</b>	New Constitution includes ban on graduated income tax
<b>1964</b>	Uniform City Income Tax Act enacted
<b>1967</b>	State Individual Income Tax enacted/State Corporate Income Tax replaces Business Activities Tax
<b>1974</b>	State Constitution amended to remove food and drugs from Sales Tax base
<b>1975</b>	Single Business Tax enacted to replace seven state taxes and one local tax
<b>1978</b>	State Constitution amended by “Headlee Amendment” to limit state and local taxation
<b>1993</b>	Inheritance Tax repealed and replaced with “pick-up” tax
<b>1994</b>	Proposal A (property assessment cap amended to Constitution, Sales and Use tax rates increased to 6%, Tobacco Products Tax rate increased to 75 cents/pack, State Education and Real Estate Transfer taxes enacted to replace local school property taxes).
<b>1995</b>	Intangibles Tax phase out enacted
<b>1999</b>	<ul style="list-style-type: none"> <li>– State Income Tax phased rate reduction initiated</li> <li>– Single Business Tax phase out initiated</li> </ul>
<b>2007</b>	Single Business Tax eliminated by legislative enactment of petition-initiated legislation

# OUTLINE OF THE MICHIGAN TAX SYSTEM

## Introduction

This outline is designed to be a ready reference to the taxes levied by state and local government in Michigan. It contains information on each of the 48 state and local taxes as of December 31, 2006, including:

- a description of each of the 48 state and local taxes and historical collections from major taxes (pages 1 – 68).
- a summary of major tax law enacted by the state Legislature between January 1, 2002 and September 22, 2006 (pages 69 - 73).
- a table of tax collections for fiscal years 2002-2005 (page 76).

## Taxes Defined

A “tax” is an enforced proportionate burden, charge, or contribution exacted by the state or its municipal subdivisions for the support of government in the discharge of its various functions. State and local governments in Michigan levy several types of taxes.

- **Income taxes** are levied based on income earnings. The state income tax and local income taxes are based on federal adjusted gross income. Local nonresident income taxes are based on earnings from within the taxing cities. Only the state government and cities are authorized to levy income taxes in Michigan.
- **Business privilege taxes** are levied on firms that do business in Michigan or, in some cases, engage in a specific line of business. The major business privilege tax is a value-added tax (the Single Business Tax) which is often categorized as an income tax, enacted to replace 8 state and local taxes that formerly were levied on property and income. The state government is authorized to levy eight types of business privilege taxes in Michigan, and local government is authorized to levy one type of business privilege tax.
- **Sales-related taxes** are levied in several forms in Michigan. The Sales and Use taxes are levied on the retail sale or use of tangible personal property. Only the state government is authorized to levy sales and use taxes in Michigan. Excise taxes are levied, like sales and use taxes, on the purchase of individual products and services. In addition to the excise taxes included under the sales-related taxes, motor fuel taxes are listed separately under transportation taxes because they are, in large measure, user charges.
- **Property taxes** are levied based on the value of property. In addition to the taxation of real and personal property that typically falls under the local general property tax, local governments are authorized to levy three other ad valorem taxes and the state government is authorized to levy 3 other ad valorem taxes. Although registration taxes are not typically associated with property taxes, because Michigan taxes personal passenger vehicles based on their value, this part of the Motor Vehicle Registration Tax qualifies as a property tax. Michigan local governments are authorized to levy eight different types of specific taxes in lieu of ad valorem property taxes, several of which were created as economic development tools to reduce the tax burden on individual taxpayers.
- **Transportation taxes** are sales-related and property taxes levied on items used for transportation purposes. Each of these taxes is earmarked specifically to transportation infrastructure. For ease of use, they are grouped as transportation taxes in this outline.

## When is a charge considered a tax?

This question is significant in Michigan with the limitations placed on taxation in the State Constitution. Specifically, amendments to the State Constitution adopted in 1978 (commonly referred to as the “Headlee Amendment”) directly affect the level of state taxes and means of collecting local taxes. As part of a national taxpayer revolt, the Headlee Amendment was adopted by the voters of Michigan to limit legislative expansion of requirements placed on local government, to control increases in government spending, and to limit taxes both at the local and state level.

**State vs. Local Taxes.** One ramification of the Headlee Amendment is the differentiation of state and local taxes. Section 26, of Article IX, of the 1963 Constitution placed a limit on the growth of total state revenues.

There is hereby established a limit on the total amount of taxes which may be imposed by the legislature in any fiscal year on the taxpayers of this state. . . . The legislature shall not impose taxes of any kind which, together with all other revenues of the state, federal aid excluded, exceed the revenue limit established in this section. . .

For the purposes of this document, CRC has divided taxes according to which level of government actually levies the tax, recognizing that all taxing authority ultimately comes from the state. If the levy of a tax requires local



action, it is considered a local tax. All other taxes are considered state taxes. State taxes are most directly affected by this limitation. Specifically, the question of which taxes are state-levied is significant in calculating the ratio later spelled out in this section. While local taxes are not affected by this limitation directly, the drafters of the Headlee Amendment considered the possibility that one means of evading this restriction would be to pass functions to local government. Section 25 of Article IX, provided for such a possibility by providing that

... The state is prohibited from requiring any new or expanded activities by local governments without full state financing, from reducing the proportion of state spending in the form of aid to local governments, or from shifting the tax burden to local government. . .

Some taxes are very clearly state taxes. These taxes are levied on a statewide basis, uniform across all taxpayers, and the revenues from these taxes are deposited into state funds to finance state government activities. For other taxes the distinction is not so clear. Some taxes are state taxes levied for local purposes. The Airport Parking Excise Tax for instance, is levied only on the parking facilities in and around the Detroit Metropolitan Wayne County Airport and the majority of the revenues are used to support primarily local functions, such as general assistance to the City of Romulus and indigent health care in Wayne County. Even though the majority of the revenues are used for seemingly local purposes, this tax is considered a state tax.

Other taxes are state taxes collected by local government. Cities and townships are responsible for collecting property taxes for all units that geographically overlap their boundaries, including: counties, local school districts, intermediate school districts, and special authorities. With enactment of the State Education Tax as part of Proposal A of 1994, cities and townships became responsible for collection of that tax as well. Although taxpayers pay this tax to local units of government, it is levied uniformly across the state, revenues are transferred to a state account, and it is dedicated to the state School Aid Fund, making it a state tax. [State taxes are designated with black headers in the tax descriptions; local taxes are designated with blue headers.]

**Taxes vs. Fees.** Because of the number of local units of government, it is not practical to place an overall limit on the total revenue of local government in a state. Instead, the Headlee Amendment attempted to limit local tax revenues in two different ways. First, it attempted to control the property tax burden, the primary means of funding local government in Michigan, by limiting net growth in the tax yield on a unit-wide basis. Second, and more significant, it required voter approval for the levy of new local taxes or increasing the rate of existing local taxes. Section 31 of Article IX provides

Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon. . .

This provision has come under some scrutiny over the question of taxes versus fees. In a 1998 state Supreme Court decision, *Bolt v City of Lansing*, the court laid out three criteria to distinguish a fee from a tax:

1. User fees must serve a regulatory purpose rather than a revenue-raising purpose;
2. User fees must be proportionate to the necessary costs of the service or commodity, and imposed on those benefiting from the right/service/improvement supported by the fee; and
3. User fees are voluntary in nature.

Contrasted with fees are taxes levied by government. By implication, a tax:

1. Is to be levied to raise revenue for the general operation of government;
2. Is to be levied to benefit the general public; and
3. Is compulsory in nature.

A fee may be thought of as a charge that permits an individual or other entity access to a government service or to a privilege granted by government, whereas a tax simply underwrites the provision of governmental services available to anyone, whether the tax has been paid or not. For example, a toll on a bridge or highway permits a specific individual access to the bridge or highway and is, therefore, a fee. On the other hand, a gasoline tax, which also pays for bridges and highways, confers no special privilege and is, therefore, a tax.

# CLASSIFICATION OF MICHIGAN TAXES

The Michigan system of state and local taxes contains 48 elements, including 32 identifiable taxes imposed by the state for its own use and 16 taxes imposed by or for local governments. In this report, state and local taxes are classified according to the basis of taxation:

*Income Taxes* — directly on or measured by the income of individuals; *Business Privilege Taxes* — on the privilege of doing business in Michigan; *Sales-Related Taxes* — on general retail sales and on transactions involving specific goods; *Property Taxes* — on property or in lieu of property taxes; *Transportation Taxes* — on the direct users of transportation facilities.

## TAX DESCRIPTIONS

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(Data used to prepare these charts were drawn from reports of the Michigan Department of Treasury, the Michigan Unemployment Insurance Agency, and the State Tax Commission from various years and may be found on the CRC website at [www.crcmich.org](http://www.crcmich.org).)

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## INCOME TAXES

*Personal Income Tax*  
*Uniform City Income Tax*



## PERSONAL INCOME

<b>LEGAL CITATION:</b>	M.C.L. 206.1 et seq.; 1967 PA 281; Sec. 7, Art. 9, state Constitution.
<b>YEAR ADOPTED:</b>	1967
<b>BASIS OF TAX:</b>	A direct tax on income.
<b>MEASURE OF TAX (BASE):</b>	<p>Federal adjusted gross income of individuals, estates and trusts, with certain adjustments.</p> <p><i>Additions</i> include all or part of (1) interest income from state/local obligations other than Michigan, and certain other exclusions from federal adjusted gross income, and (2) refunds received under the Michigan Education Trust Act for a terminated advance tuition payment contract.</p> <p><i>Subtractions</i> include personal and dependency exemptions indexed to inflation (\$3,300 for 2006), special exemptions for dependents (\$600 per child under 19 years of age), the handicapped, senior citizens, and certain unemployment compensation recipients (\$2,100 for 2006). Also excluded are all or part of:</p> <ol style="list-style-type: none"> <li>(1) interest income from federal government obligations;</li> <li>(2) armed forces compensation;</li> <li>(3) public retirement or pension benefits; private retirement or pension benefits limited to \$40,920 for the 2006 tax year (\$81,840 for a joint return), limits are indexed each year;</li> <li>(4) political contributions up to \$50 (\$100 for a joint return);</li> <li>(5) advance tuition payments made under the State Education Trust Act;</li> <li>(6) up to \$9,128 for the 2006 tax year (\$18,255 for a joint return) of interest, dividends, or capital gains earned by a senior citizen: maximum deduction reduced by pension deduction claimed, limits are indexed each year;</li> <li>(7) claims for recovered assets received by Holocaust victims;</li> <li>(8) educational savings account contributions up to \$5,000 (\$10,000 for a joint return) and interest earned on those contributions;</li> <li>(9) income earned and interest, dividends, and capital gains received by residents of a renaissance zone. Special provisions exist for estates and trusts;</li> <li>(10) distribution of assets to a qualified charitable organization not more than 60 days after the taxpayer received the assets from a retirement or pension plan;</li> <li>(11) gain from an initial equity investment of at least \$100,000, if the investment plus the gain, or a portion of it, is reinvested in an equity investment in a "qualified business". The deduction is available after 2006 and the initial equity investment has to be made before 2010.</li> </ol> <p><i>Credits</i> against tax liability as follows:</p> <ol style="list-style-type: none"> <li>(1) <u>Homestead property taxes</u>. Limited to \$1,200, figured as follows: <ol style="list-style-type: none"> <li>(a) general taxpayers — 60% of taxes in excess of 3.5% of household income;</li> <li>(b) senior citizens, paraprofessionals — 100% of taxes in excess of 0 to 3.5% of household income, varying with size of household income;</li> <li>(c) special computations for certain servicemen, veterans or their spouses, blind persons, farmers, and senior citizens whose rent exceeds a certain percent of income.</li> </ol> </li> <li>(2) <u>Property taxes on rented homesteads</u> assumed to equal 20% of gross rent paid (10% in certain subsidized housing projects). Credit reduced by proportion of income from welfare. Credit reduced by 10% at \$73,650 income and by another 10% for each \$1,000 of income thereafter.</li> <li>(3) <u>Farmland property taxes</u>. Available to farmers who have entered into an agreement not to develop their land for another use for a minimum of 10 years. For individuals, partnerships, S corporations and grantor trusts, credit is 100% of taxes in excess of 3.5% of household income.</li> </ol>

## PERSONAL INCOME (CONTINUED)

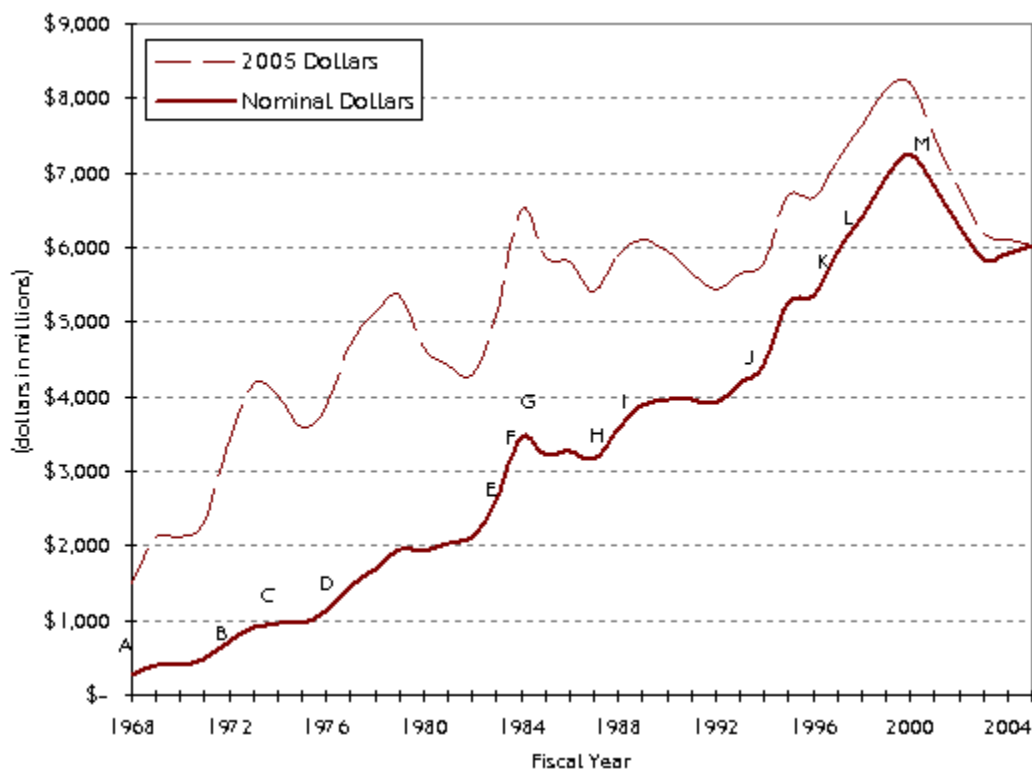
- |                               |                  |                                                    |
|-------------------------------|------------------|----------------------------------------------------|
| (4) <u>City income taxes.</u> | <u>Tax Paid:</u> | <u>Credit Received:</u>                            |
|                               | \$100 or less    | 20% of tax paid                                    |
|                               | \$100.01-\$150   | \$20 plus 10% of amount over \$100                 |
|                               | Over \$150       | \$25 plus 5% of amount over \$150 (up to \$10,000) |
- (5) Earned Income. Refundable credit, equal to 10% of the Federal Earned Income Tax Credit (EITC). To qualify for the Federal EITC, taxpayers must meet certain requirements and file a tax return, even if they did not earn enough money to be obligated to file a return.
- (6) Contributions. Limited to lesser of 50% of qualifying gifts or \$100 (\$200 on joint returns; \$5,000 for estates or trusts):
- (a) Michigan colleges, universities, public broadcast stations, public libraries, artwork, state museums or archives,
  - (b) community foundations,
  - (c) food banks and shelters for homeless persons.
- (7) Expenditures made for rehabilitation of a historic resource. Equal to 25% of qualified expenditures reduced by the credit received under section 47(a)(2) of the internal revenue code.
- (8) Income tax paid to another state.
- (9) Home heating costs for low-income families (excluding dependent full-time students). Credit varies with household income, number of exemptions, and heating costs.
- (10) Donated Automobiles. A nonrefundable credit is available for automobiles donated to a charitable organization that intends to provide the automobile to a qualified recipient. A qualified recipient is generally an employed person receiving public assistance and without access to public transportation to travel to and from work. The credit is limited to the lesser of half the value determined by the organization or an appropriate appraisal guide published by the National Automobile Dealers Association. The credit is capped at \$50 for a single return and \$100 for a joint return and is effective for tax years beginning after December 31, 2004 and before January 1, 2010.
- (11) College tuition tax credit. Limited to returns with adjusted gross income less than \$200,000. In order to qualify for the credit a Michigan college or university must not have increased tuition and fees by more than the percent increase in the United States Consumer Price Index in the previous tax year. The credit per student is the lesser of 8% of the tuition and fees paid to attend a qualifying Michigan college or university or \$375.
- (12) Adoption expenses. Refundable credit, up to \$1,200 per child, for qualified adoption expenses.
- (13) The difference between the amount repaid by the Michigan Early Stage Venture Capital Investment Fund and the negotiated repayment amount if the fund could not repay the negotiated return on a person's investment. This difference is issued to a person in the form of a tax voucher that may be used to pay any tax liability. Any amount of a voucher not used in one year may be used in subsequent years to satisfy any tax liability. The vouchers are available after 2008 and before 2020.
- (14) Stillbirth. Refundable credit, equal to 4.5% of the personal exemption, in a tax year where the taxpayer has a certificate of stillbirth from the Department of Community Health.
- (15) Individual or Family Development Account. Nonrefundable credit, equal to 75% of the contribution a taxpayer makes to a reserve fund associated with an Individual or Family Development Account.

## PERSONAL INCOME (CONTINUED)

<b>RATE:</b>	3.9%
<b>ADMINISTRATION:</b>	Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due April 15. Estimated tax declarations and payments due on 15th of April, June, September, and January. Balance of tax due April 15. Withholding required.
<b>DISPOSITION:</b>	General Fund, with 25.9% of gross collections before refunds to School Aid Fund.
<b>2004-05 COLLECTIONS:</b>	\$7,685,182,000 gross; \$1,646,604,000 refunds and credits; \$6,038,578,000 net.
<b>2004-05 COLLECTIONS/UNIT:</b>	\$1,971 million/1% gross; \$1,548 million/1% net after refunds and credits.

## PERSONAL INCOME (CONTINUED)

Chart 1  
Michigan Personal Income Tax Revenue, 1968 - 2005



- |   |      |        |   |                                                                                                                                                                                         |
|---|------|--------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A | 1967 | PA 281 | — | Personal Income Tax established with a 2.6% tax rate and \$1,200 personal exemption effective July 20, 1967.                                                                            |
| B | 1971 | PA 76  | — | Increased tax rate to 3.9%.                                                                                                                                                             |
| C | 1973 | PA 20  | — | Increased personal exemption to \$1,500 effective January 1, 1974.                                                                                                                      |
| D | 1975 | PA 19  | — | Increased tax rate to 4.6%.                                                                                                                                                             |
| E | 1982 | PA 155 | — | Increased tax rate to 5.6% effective April 1, 1982 through September 30, 1982.<br>— Returned tax rate to 4.6% effective October 1, 1982.                                                |
| F | 1983 | PA 15  | — | Increased tax rate to 6.35% for calendar year 1983.                                                                                                                                     |
| G | 1984 | PA 221 | — | Reduced tax rate to 5.35% as of September 1, 1984.                                                                                                                                      |
| H | 1986 | PA 16  | — | Reduced tax rate to 4.6% effective April 1, 1986.                                                                                                                                       |
| I | 1987 | PA 254 | — | Increased the personal exemption to \$1,600 for 1987, \$1,800 for 1988, \$2,000 for 1989, and \$2,100 for 1990.                                                                         |
| J | 1993 | PA 328 | — | Decreased tax rate to 4.4% effective May 1, 1994.                                                                                                                                       |
| K | 1995 | PA 2&3 | — | Increased the personal exemption to \$2,400 in 1995, to \$2,500 for tax years beginning after 1996, and indexed the personal exemption to the consumer price index in \$100 increments, |
| L | 1997 | PA 86  | — | Beginning with the 1998 tax year, increased the personal exemption by \$200.                                                                                                            |
| M | 1999 | PA 2-6 | — | Reduced the tax rate by one-tenth of a percentage point per year beginning in tax year 2000, with the final reduction to 3.9% occurring in 2004.                                        |



## UNIFORM CITY INCOME

<b>LEGAL CITATION:</b>	M.C.L. 141.501 et seq.; 1964 PA 284; Sec. 7, Art. 9, state Constitution.
<b>YEAR ADOPTED:</b>	Uniform state law adopted in 1964. Individual cities adopted by ordinance in various years, subject to referendum upon petition of voters.
<b>BASIS OF TAX:</b>	A direct tax on income (residents); a direct tax on earnings (nonresidents).
<b>MEASURE OF TAX (BASE):</b>	(1) Compensation, net profits, investments and other income of city residents; (2) Income earned in the city by nonresidents; (3) Corporate income earned in the city (allocation based on property, sales, payroll). Personal exemption allowed by United States internal revenue code, except that by ordinance a city may adopt an exemption of not less than \$600. A resident is allowed credit for income taxes paid to another city as a nonresident. A resident may deduct certain income earned, capital gains, and lottery winnings received while a resident of a renaissance zone and a business may deduct income attributable to business activity in a renaissance zone.
<b>RATE:</b>	<p>Generally, 1% on residents and corporations; 0.5% on income of nonresidents earned in imposing city. The nonresident rate cannot exceed one-half of the resident rate.</p> <p>The city council in cities over 750,000 (Detroit) may impose rates of up to 2.5% on residents, 1.0% on corporations, 1.25% on nonresidents. Rates may be further reduced until the rates reach 2.0% and 1.0% respectively (see box). (The rate actually appearing on income tax forms each calendar year is the average rate from before and after July 1 of that year.)</p>

### Detroit Income Tax Rate Cuts

Public Act 500 of 1998 provided for reductions of the city personal income tax rate for resident and non-resident taxpayers in Detroit. Beginning with tax rates of 3.0% on residents and 1.5% on non-residents in 1999, the law provides that the tax rates are to be reduced by one-tenth of a percentage point per year for residents and one-twentieth of a percentage point per year for non-residents. The reductions occur each year for a ten-year period until the new rates are 2.0% and 1.0% respectively, providing certain unfavorable financial conditions related to the city, as defined in the law, do not occur. The conditions suspending the rate reductions must include any three of the following: (1) two consecutive years of withdrawals from the city's budget stabilization fund or exhaustion of the fund balance; (2) a year-to-year decline in income tax revenue, after adjusting for inflation, of more than 5%; (3) a city unemployment rate of 10% or higher; or (4) a provision which compares the growth ratio of the city's taxable value with the comparable statewide figure and computes a ratio which must fall below .80 (in order for the ratio to fall below .80 with the state taxable value holding constant, the city's taxable value would have to decline 20%. It is unlikely that this will ever occur). At least three of these conditions were met in the years 2003, 2004, 2005, and 2006, causing Detroit to suspend the tax rate reduction and pushing back the schedule to reach a 2.0% rate on residents until 2012 or later.

The reductions were part of an agreement related to major changes in the state revenue sharing formula contained in PA 532 of 1998. On a full-year basis, each one-tenth of percentage point of reduced rate results in a reduction in revenue of about \$12 million in current dollars or about a \$120 million total drop in revenues, ignoring growth in the tax base.

## UNIFORM CITY INCOME (CONTINUED)

The city council in certain cities under 750,000 (Highland Park, Saginaw, and Grand Rapids) may impose rates of up to 2% on residents and corporations and 1% on nonresidents.

Rates over 1% on residents and corporations, and a city income tax imposed for the first time after January 1, 1995, must be approved by voters.

**ADMINISTRATION:** Administrator designated by the city. Collected by city treasurer.

**REPORT AND PAYMENT:** Due April 30 (when tax year ends December 31). Quarterly estimates and payments due April 30, June 30, September 30, and January 31. Withholding required.

**DISPOSITION:** General fund of the city.

2005 COLLECTIONS:	City	Year Adopted	Tax Rates			2005 Net Collections
			Resident	Corporation	Nonresident	
	Albion	1972	1.0%	1.0%	0.5%	\$ 892,720
	Battle Creek	1967	1.0	1.0	0.5	13,943,000
	Big Rapids	1970	1.0	1.0	0.5	1,642,810
	Detroit	1962	2.5	1.0	1.25	279,378,323
	Flint	1965	1.0	1.0	0.5	19,487,000
	Grand Rapids	1967	1.3	1.3	0.65	53,452,618
	Grayling	1972	1.0	1.0	0.5	468,720
	Hamtramck	1962	1.0	1.0	0.5	2,638,177
	Highland Park	1966	2.0	2.0	1.0	2,309,449
	Hudson	1971	1.0	1.0	0.5	377,710
	Ionia	1994	1.0	1.0	0.5	1,458,394
	Jackson	1970	1.0	1.0	0.5	5,117,516
	Lansing	1968	1.0	1.0	0.5	27,497,542
	Lapeer	1967	1.0	1.0	0.5	2,273,451
	Muskegon	1993	1.0	1.0	0.5	7,618,508
	Muskegon Heights	1990	1.0	1.0	0.5	938,523
	Pontiac	1968	1.0	1.0	0.5	13,805,613
	Port Huron	1969	1.0	1.0	0.5	5,931,439
	Portland	1969	1.0	1.0	0.5	614,629
	Saginaw	1965	1.5	1.5	0.75	13,109,703
	Springfield	1989	1.0	1.0	0.5	629,775
	Walker	1988	1.0	1.0	0.5	<u>7,410,922</u>
	TOTAL					\$460,996,543

## BUSINESS PRIVILEGE TAXES

*Single Business Tax*  
*Unemployment Insurance Tax*  
*Quality Assurance Assessment Fees*  
*Foreign Insurance Company Retaliatory Tax*  
*Oil and Gas Severance Tax*  
*Horse Race Wagering Tax*  
*Corporate Organization Tax*  
*State Casino Gaming Tax*  
*Commercial Mobile Radio Service Tax*  
*Airport Parking Excise Tax*  
*Accommodations (Hotel-Motel) Taxes*



## SINGLE BUSINESS<sup>1</sup>

**LEGAL CITATION:** M.C.L. 208.1 et seq.; 1975 PA 228.

**YEAR ADOPTED:** 1975

**BASIS OF TAX:** Privilege of doing business in Michigan. Tax applies to corporations and unincorporated businesses with gross receipts exceeding \$350,000.

### Elimination of the Single Business Tax (SBT)

Public Act 115 of 1999 provided for reduction of the Single Business Tax (SBT) rate by one-tenth of a percentage point per year from its 1998 rate of 2.3% until the tax is eliminated. This process has been accelerated through the initiative process. On August 9, 2006, the Michigan Legislature approved voter-initiated legislation to repeal the SBT effective for tax years beginning after December 31, 2007. Legislative approval of initiated legislation is not subject to veto by the Governor, unlike conventional bills introduced by legislators and approved by both houses of the Legislature. The revenue effect of the repeal of the SBT will be approximately \$1.9 billion on a full-year basis and fall entirely on the General Fund of the state, with some of the loss affecting FY2008 and the remainder FY2009. The initiated law contains language that encourages the legislature to: “adopt a tax that is less burdensome and less costly to employers, more equitable, and more conducive to job creation and investment.”

**MEASURE OF TAX (BASE):** A value-added type tax imposed basically on business income plus compensation paid, interest paid, and depreciation, with major deductions for new capital investments and labor intensity. Compensation excludes social security and Medicare contributions, unemployment insurance and workers’ compensation payments, and a portion of health and welfare payments for Michigan residents. Effective after December 31, 1999, the deduction for capital investments was replaced by an investment tax credit. Business conducted in the state is subject to the tax even if the business does not have a physical presence in the state.

#### *Adjustments to Base:*

Base begins with federal taxable income of business entity, adjusted to:

- (1) add back certain federal tax deductions (e.g. Single Business Tax paid; income taxes; compensation paid; depreciation; loss carryback/forward; interest; dividends; dividend income from Michigan bonds and certain Michigan obligations; partnership losses; royalties paid (except system software); certain capital gains);
- (2) deduct certain items included in federal taxable income (dividends, interest, partnership income, royalties received, excluding certain royalties paid by television broadcasters and by theaters to film distributors, oil and gas royalties, cable franchise fees paid to units of government and computer software royalties (except system software); certain capital losses); income due to grants received from certain funds established to aid the development of a small business involved in technology industries; payments or credits made to or on behalf of a taxpayer to defray the taxpayer’s floor plan interest;
- (3) add the loss or deduct the gain attributable to another taxable business, to the extent included in federal taxable income;
- (4) add rent paid or deduct rent received if attributable to a sale/lease-back arrangement for federal income tax purposes only.

<sup>1</sup> The Single Business Tax replaced eight previous taxes including an income tax on corporations and financial institutions, an annual corporation franchise fee, the business portion of the intangibles tax, the property tax on inventories, and various privilege taxes on savings and loans and domestic insurance companies.

## SINGLE BUSINESS (CONTINUED)

### *Apportionment:*

Entire tax base is allocated to Michigan if business activity is confined to the state. For businesses with multi-state activity, the apportionment formula is: sales 92.5%, property 3.75%, and payroll 3.75%, with exceptions for certain types of businesses.

### *Adjustments to Apportioned Tax Base:*

Thereafter, base is adjusted by an addition for proceeds from the disposition of tangible assets for which a deduction for capital expenditures ("capital acquisition deduction") has previously been taken. Previously unused capital acquisition deductions may be carried forward up to 10 years after year in which originally claimed to offset future tax bases (business loss deductions).

### *Exemptions are allowed for:*

- (1) first \$45,000 of tax base, plus up to \$48,000 for partnerships and small corporations, with reductions as income rises; exemption phased out as modified business income rises;
- (2) governmental agencies;
- (3) most "persons" exempt from federal income taxes;
- (4) nonprofit cooperative housing corporations;
- (5) portion of disability insurance premiums of insurers;
- (6) agricultural producers;
- (7) sales of nursery stock (trees, shrubs, plants) grown by the seller to a nursery dealer;
- (8) certain revenues and expenses of farmers' cooperatives;
- (9) expenses attributable to multiple employer arrangements to fund dental benefits;

### *Exclusions are allowed:*

- (1) if adjusted base exceeds 50% of gross receipts plus certain adjustments;
- (2) if compensation paid exceeds 63% of tax base;
- (3) if royalties are paid to a franchisor for out of state use of trade names, trademarks, or similar intangible property.

### *Credits are allowed for:*

- (1) up to 100% of tax liability for small businesses with low profits;
- (2) up to 20% of tax liability for "Subchapter S" corporations and unincorporated businesses;
- (3) 5% of state property taxes on state assessed utilities;
- (4) 50% of certain contributions up to a limit;
- (5) federal unemployment penalty taxes paid by new Michigan employers;
- (6) amounts paid for worker's compensation supplemental cost of living payments;
- (7) business activity in certain areas related to high technology, or in an enterprise zone or renaissance zone;
- (8) 50% of investments in certain minority venture capital companies;
- (9) investment and job creation as determined by Michigan economic growth authority. This credit expires December 31, 2009;
- (10) apprenticeship training between \$1,000 and \$4,000 per apprentice;
- (11) 10% of investments in brownfield redevelopment zones, up to \$30 million;
- (12) 25% of qualified expenditures made for rehabilitation of certain historic resources;
- (13) the difference between the amount repaid by the Michigan Early Stage Venture Capital Investment Fund and the negotiated repayment amount if the fund could not repay the negotiated return on a person's investment. This credit is available after 2008 and before 2020;



## SINGLE BUSINESS (CONTINUED)

- (14) 0.85% to 2.30% (depending upon size) of the capital expenditures physically located in the state adjusted down by the proportion of the SBT rate in effect in the year of the capital expenditure divided by the pre-1999 rate of 2.3%;
- (15) \$1 per long ton of low-grade hematite consumed in industrial or manufacturing process;
- (16) 6.5% of increased qualified research related to an eligible taxpayer's pharmaceutical based business activity above;
- (17) SBT liability of the start up business in tax years that the qualified business has no business income;
- (18) Percentage of compensation paid to employees in "created jobs" in technology and manufacturing industries;
- (19) 50% credit for donations of certain automobile donations to qualified organizations, up to \$100 per vehicle donated;
- (20) Difference between the negotiated rate of return on an original investment in the Michigan Early Stage Venture Capital Investment Fund and the actual repayment. This difference is issued in the form of a tax voucher that may be used to pay any tax liability. Any amount of a voucher not used in one year may be used in subsequent years to satisfy any tax liability. The vouchers are available after 2008 and before 2020;
- (21) Research, development, or manufacturing of an alternative energy system, alternative energy vehicle, alternative energy technology, or renewable fuel based. One credit based qualified business activity; another credit based on qualified payroll amount;
- (22) 15% of industrial personal property taxes paid. This credit expires December 31, 2009;
- (23) 100% of personal property taxes associated with high-tech or manufacturing jobs transferred to Michigan from outside the state. This credit expires December 31, 2009;
- (24) 3.9% of the compensation paid to employees at a facility in Troy that is engaged in research and development of a two-mode hybrid car engine. The maximum credit in a single year is \$3 million and is refundable. The credit is available for tax years 2006 through 2015.

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**RATE:** 1.9% for 2005; alternative tax of 2% of adjusted business income for eligible small businesses; insurance companies are subject to a tax of 1.0735% of adjusted receipts.

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**ADMINISTRATION:** Michigan Department of Treasury.

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**REPORT AND PAYMENT:** Due April 30. Estimated quarterly returns and payments due last day of April, July, October, and January if estimated liability for year is over \$600 or if expected adjustments for capital acquisitions or dispositions exceed \$100,000; due dates adjusted for taxpayers with fiscal year other than calendar year. A taxpayer with annualized apportioned gross receipts of less than \$350,000 need not file a return.

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**DISPOSITION:** 100% to General Fund.

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**2004-05 COLLECTIONS:** \$2,186,411,000 gross; \$249,318,000 refunds; \$1,937,093,000 net. Excludes tax paid by insurance companies.

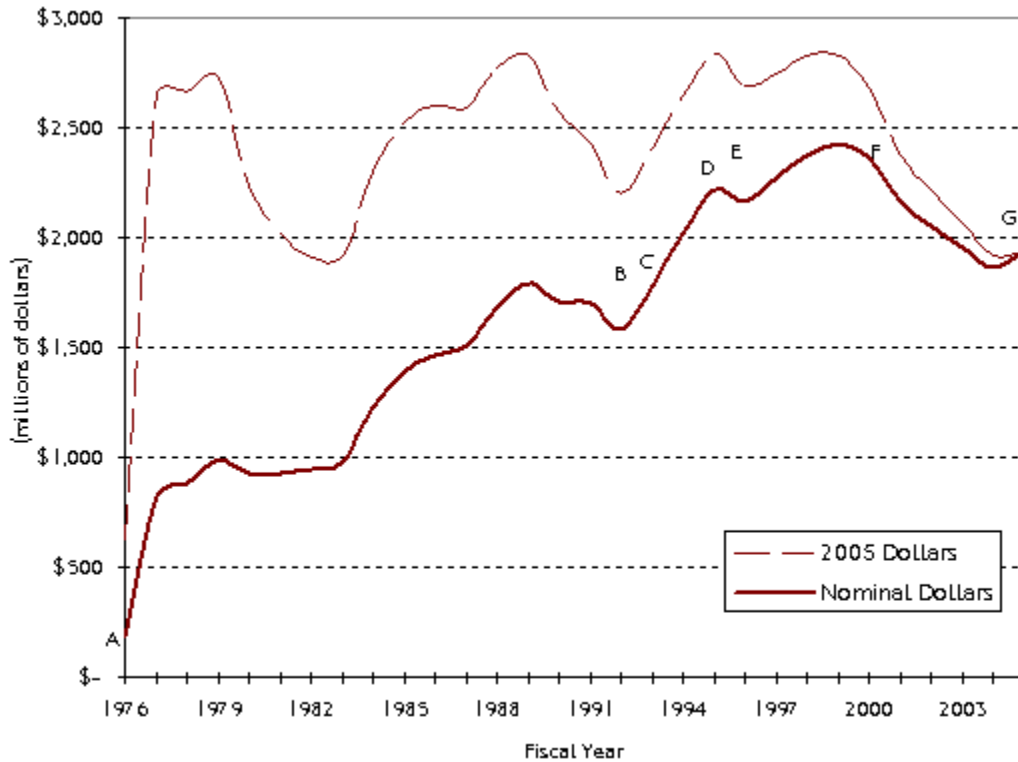
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**2004-05 COLLECTIONS/UNIT:** \$1,151 million per 1% gross; \$1,020 million per 1% net after refunds and credits.

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## SINGLE BUSINESS (CONTINUED)

Chart 2  
Michigan Single Business Tax\* Revenue, 1976 - 2005



- A 1975 PA 228 — Single Business Tax established at 2.35% replacing eight previous taxes including a corporate and financial institutions income tax, an annual corporation franchise fee, the business portion of the intangibles tax, the property tax on inventories, and various privilege taxes on savings and loans and domestic insurance companies.
- B 1991 PA 77 — Apportionment of tax base changed for tax years 1991 and 1992, so that sales account for 40%, and property and payroll account for 30% each; and, for tax years after 1992, sales account for 50%, and property and payroll account for 25% each; modified capital acquisition deduction (CAD) to permit deduction of all capital expenditures, including depreciable personal property, regardless of location, apportioned like tax base; increased gross receipts filing exemption to \$60,000 for tax year 1991 and \$100,000 for subsequent years.
- C 1992 PA 98 — Reduced, effective with tax year 1992, the small business alternative tax to 3%.
- D 1994 PA 245 — Reduced the rate of the small business alternative tax from 3% to 2% of adjusted business income.  
PA 246 — Increased the gross receipts filing threshold to \$250,000 for tax years beginning after December 31, 1994.  
PA 247 — Reduced tax rate to 2.3% effective October 1, 1994.
- E 1995 PAs 282 & 283 — Apportionment of tax base changed for tax years 1997 and 1998, so that sales account for 80%, and property and payroll account for 10% each; for tax years after 1999, sales account for 90%, and property and payroll account for 5% each; CAD limited to Michigan investments multiplied by apportionment factor.
- F 1999 PA 115 — Beginning January 1, 1999 the SBT rate is reduced by 0.1% per year until the tax is eliminated. The Insurance Tax rate is reduced proportionately to the SBT rate. The CAD was replaced with an investment tax credit, for tax years beginning after December 31, 1999.
- G 2007 — Legislative enactment of voter-initiated legislation to repeal tax effective for tax years beginning after December 31, 2007.

\* 1988 through present excludes Single Business Tax collections paid by insurance companies.

## UNEMPLOYMENT INSURANCE

<b>LEGAL CITATION:</b>	M.C.L. 421.1 et seq.; 1936 PA 1 (Ex. Sess.).												
<b>YEAR ADOPTED:</b>	1936												
<b>BASIS OF TAX:</b>	To provide for an Unemployment Insurance Fund.												
<b>MEASURE OF TAX (BASE):</b>	Wages paid per covered employee up to a limit of \$9,000 or wages equal to the federal unemployment tax base if higher.												
<b>RATE:</b>	<p>Basic rate is 2.7% on new employers other than construction contractors, who pay the average construction contractor rate. Rate for fully experienced employers (after 4 years experience) may vary from 0.06% to 10.3%, depending on the employer's experience rating and solvency of the fund. Total tax rate calculation is based on the following components:</p> <p>(1) Nonchargeable Benefit Component (NBC): a rate of 0.6–1 % to cover certain pooled costs. The 1 % rate is charged to employers with recent claims filed against their accounts. If employers' CBC rate (see below) is less than 0.2% or if they have not had any benefit charges over a number of consecutive years, this rate can be reduced in accordance with the following schedule:</p> <table> <tr> <td>If Number of Consecutive Years without Claims is:</td><td>Rate Is:</td></tr> <tr> <td>5 (or if CBC rate is less than 0.2%)</td><td>0.10%</td></tr> <tr> <td>6</td><td>0.09%</td></tr> <tr> <td>7</td><td>0.08%</td></tr> <tr> <td>8</td><td>0.07%</td></tr> <tr> <td>9</td><td>0.06%</td></tr> </table> <p>(2) Experience Account (5<sup>th</sup> or subsequent year of liability), which has two parts:</p> <p>(a) Chargeable Benefit Component (CBC), a rate of 0–6.3% measured by the "benefit ratio" (benefits charged to employer's account in the last 5 years as a percent of employer's taxable wages in those years).</p> <p>(b) Account Building Component (ABC), a rate of 0–3% based on a "reserve ratio" deficiency (amount by which an employer's actual reserve falls below 3.75% of total payroll). If overall trust fund balance is at least 1.875% of all contributing employers' payrolls, employer's deficiency, as defined above, is multiplied by 0.25, not to exceed a 2% rate. Otherwise, employer's deficiency is multiplied by 0.5, not to exceed a 3% rate.</p> <p>If overall trust fund balance is 1.2% of all contributing employer's payrolls, all fully experience-rated employers (after 4 years experience) receive a rate reduction of the greater of 10% or 0.1 percentage points in the rate determined by components (1) and (2) above (not in effect for 2005 or 2006 rate years).</p> <p>(3) Solvency Tax, a rate of 0–2% based on a "reserve ratio" deficiency, imposed only on "negative balance" employers (those with deficit in experience account as of prior June 30) and only during years when the fund has interest-bearing loans outstanding.</p>	If Number of Consecutive Years without Claims is:	Rate Is:	5 (or if CBC rate is less than 0.2%)	0.10%	6	0.09%	7	0.08%	8	0.07%	9	0.06%
If Number of Consecutive Years without Claims is:	Rate Is:												
5 (or if CBC rate is less than 0.2%)	0.10%												
6	0.09%												
7	0.08%												
8	0.07%												
9	0.06%												
<b>ADMINISTRATION:</b>	Michigan Department of Labor and Economic Growth, Unemployment Insurance Agency.												
<b>REPORT AND PAYMENT:</b>	By Unemployment Insurance Agency regulation — currently quarterly.												
<b>DISPOSITION:</b>	Deposited with UIA for transfer to U.S. Treasury to establish pool for payment of unemployment insurance benefits, except for solvency tax which goes to contingency fund in state treasury.												
<b>2004-05 COLLECTIONS:</b>	\$1,513,141,000												

## QUALITY ASSURANCE ASSESSMENT

<b>LEGAL CITATION:</b>	M.C.L. 333.20161, M.C.L. 500.224b, M.C.L. 400.109f; 2002 PA 303, 304, & 562; 2005 PA 83
<b>YEAR ADOPTED:</b>	2002 (Nursing and Long-term Care Facilities, Hospitals, and Health Maintenance Organizations) and 2005 (Community Mental Health Plans).
<b>BASIS OF TAX:</b>	Privilege of participating in the Medicaid program.
<b>MEASURE OF TAX (BASE):</b>	<p>Assessments are charged by the State on hospitals, nursing and long-term care facilities, health maintenance organizations (HMO) that have managed care contracts with the State, and Community Mental Health Plans. The resulting revenue collections, combined with federal matching revenues, are used to increase the rates paid by the State to these providers of services to patients participating in the Medicaid program.</p> <p>The tax base varies by type of provider. For hospitals, the number of licensed beds is assessed a uniform charge per bed. For nursing and hospital long-term care units, the total number of patient days of care each nursing and long-term care unit provided to non-Medicare patients during the preceding year. For HMOs, the assessment is based on the non-Medicare premiums collected by the HMO. For Community Mental Health plans, the assessment is based on the non-Medicare capitation payments collected by the plan.</p>
<b>RATE:</b>	<p>The rates for the three types of providers are as follows:</p> <ul style="list-style-type: none"> <li>• For nursing and hospital long-term care units, an amount resulting in not more than 6% of total industry revenues.</li> <li>• For hospitals, a fixed or variable rate that generates funds not more than the maximum allowable under federal matching requirements.</li> <li>• For HMO's having Medicaid managed care contracts, 6% of non-Medicare premiums collected by the HMO.</li> </ul> <p>For Community Mental Health plans, 6% of non-Medicare capitation payments collected by the plan.</p>
<b>ADMINISTRATION:</b>	Department of Community Health.
<b>REPORT AND PAYMENT:</b>	The Department of Community Health sends each provider a statement of the amounts owed for the particular assessment. Payments received are deposited in the State Treasury.
<b>DISPOSITION:</b>	The assessment revenues are appropriated as a part of the financing of the Medicaid program and are restricted for that purpose.
<b>2004-05 COLLECTIONS:</b>	\$509,857,000

## FOREIGN INSURANCE COMPANY RETALIATORY

<b>LEGAL CITATION:</b>	M.C.L. 500.440a-500.476c; 1956 PA 218.
<b>YEAR ADOPTED:</b>	1869
<b>BASIS OF TAX:</b>	Privilege of transacting business in Michigan.
<b>MEASURE OF TAX (BASE):</b>	Gross premiums of out-of-state insurance companies, with certain exclusions.
<b>RATE:</b>	Foreign insurers, an amount equal to taxes and other costs that would be imposed upon a Michigan insurer doing business in the foreign insurer's state or taxation imposed by the SBT, whichever is higher; unauthorized insurers, 2%.
<b>ADMINISTRATION:</b>	<i>Retaliatory tax</i> – Michigan Department of Treasury. <i>Unauthorized insurers</i> – Michigan Department of Labor and Economic Growth, Insurance Bureau.
<b>REPORT AND PAYMENT:</b>	Estimated quarterly payments due before April 30, July 31, October 31, January 31; report and additional amounts due before March 1 for preceding calendar year.
<b>DISPOSITION:</b>	General Fund.
<b>2004-05 COLLECTIONS:</b>	\$241,083,000. Includes Single Business Tax paid by insurance companies.

## OIL AND GAS SEVERANCE

<b>LEGAL CITATION:</b>	M.C.L. 205.301 et seq.; 1929 PA 48
<b>YEAR ADOPTED:</b>	1929
<b>BASIS OF TAX:</b>	Privilege of producing oil and gas.
<b>MEASURE OF TAX (BASE):</b>	Gross cash market value of oil and gas severed. Exemption for certain hydrocarbon fuels qualifying for federal tax credits and acquired pursuant to royalty interests sold by the state.
<b>RATE:</b>	Oil – 6.6%; Gas – 5%; <i>Stripper wells and marginal properties</i> – 4%.
<b>ADMINISTRATION:</b>	Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due by 25th of each month.
<b>DISPOSITION:</b>	General Fund; the greater of 2% or \$1 million to Orphan Well Fund if unexpended balance in that fund is less than \$3 million.
<b>2004-05 COLLECTIONS:</b>	\$64,826,000

## HORSE RACE WAGERING

<b>LEGAL CITATION:</b>	M.C.L. 431.301-431.336; 1995 PA 279.
<b>YEAR ADOPTED:</b>	1933
<b>BASIS OF TAX:</b>	Privilege of engaging in interstate and inter-track horse race simulcast wagering.
<b>MEASURE OF TAX (BASE):</b>	Amounts wagered by pari-mutuel methods on interstate and inter-track simulcasts of thoroughbred, standard bred, quarter horse, Appaloosa, American paint horse, and Arabian horse racing.
<b>RATE:</b>	3.5%.
<b>ADMINISTRATION:</b>	Michigan Department of Agriculture, Racing Commissioner.
<b>REPORT AND PAYMENT:</b>	Licensee makes daily remittance with detailed statement.
<b>DISPOSITION:</b>	Michigan Agriculture Equine Industry Development Fund.
<b>2004-05 COLLECTIONS:</b>	\$10,912,000

## CORPORATE ORGANIZATION

<b>LEGAL CITATION:</b>	M.C.L. 450.2062; 1972 PA 284.
<b>YEAR ADOPTED:</b>	1891
<b>BASIS OF TAX:</b>	Privilege of incorporating, renewing, and exercising franchise.
<b>MEASURE OF TAX (BASE):</b>	<i>Domestic</i> — authorized capital stock; <i>Foreign</i> — capital stock attributable to Michigan.
<b>RATE:</b>	<i>Domestic</i> — \$50 initially for first 60,000 shares (and \$30 for each additional 20,000 shares and with increase in stock); <i>Foreign</i> — \$50 initially for shares deemed attributable to Michigan (\$30 for each 20,000 share increase in stock).
<b>ADMINISTRATION:</b>	Michigan Department of Labor and Economic Growth, Bureau of Commercial Services, Corporation Division.
<b>REPORT AND PAYMENT:</b>	Due at time of incorporation, admission, or increase in stock.
<b>DISPOSITION:</b>	General Fund.
<b>2004-05 COLLECTIONS:</b>	\$20,188,000



## STATE CASINO GAMING

<b>LEGAL CITATION:</b>	M.C.L. 432.201–432.216; Initiated Law of 1996
<b>YEAR ADOPTED:</b>	1996
<b>BASIS OF TAX:</b>	Privilege of operating a casino in the City of Detroit.
<b>MEASURE OF TAX (BASE):</b>	Adjusted gross receipts received by a gaming licensee.
<b>RATE:</b>	24%. This may be levied as a state tax or individually as a state tax (at the rate of 12.1%) and a local tax (at the rate of 11.9%). Detroit imposes a tax, so the latter approach is used. Casinos failing to become fully operational (“permanent”) by July 1, 2009, would pay higher tax rates: 25% in 2009, 26% in 2010, and 27% in 2011. Once a casino is certified to be fully operational, the tax rate is reduced to 19%.
<b>ADMINISTRATION:</b>	Michigan Department of Treasury, Michigan Gaming Control Board.
<b>REPORT AND PAYMENT:</b>	Due daily.
<b>DISPOSITION:</b>	49.6% to City of Detroit; 33.7% to School Aid Fund; 14.6% to the State’s General Fund; and 2.1% to the Michigan Agriculture Equine Industry Development Fund.
<b>2004-05 COLLECTIONS:</b>	\$145,702,000 – State (October to September State fiscal year) \$137,970,347 – Local (July to June City fiscal year)

## COMMERCIAL MOBILE RADIO SERVICE

<b>LEGAL CITATION:</b>	M.C.L. 484.1408 et. seq.; 1999 PA 78												
<b>YEAR ADOPTED:</b>	1999 (scheduled to sunset December 31, 2007)												
<b>BASIS OF TAX:</b>	Use of commercial mobile radio service (CMRS).												
<b>MEASURE OF TAX (BASE):</b>	Commercial Mobile Radio Service (cellular telephone) connections.												
<b>RATE:</b>	\$.29 per month for each CMRS connection.												
<b>ADMINISTRATION:</b>	Michigan Department of Treasury.												
<b>REPORT AND PAYMENT:</b>	Due 30 days after the end of each quarter.												
<b>DISPOSITION:</b>	CMRS Emergency Telephone Fund distributed as follows: <table style="margin-left: 40px; border: none;"> <tr> <td>Counties (per capita):</td><td>Revenue from \$.15 of fee;</td></tr> <tr> <td>Counties (equal share):</td><td>Revenue from \$.10 of fee;</td></tr> <tr> <td>9-1-1 Operator Training:</td><td>Revenue from \$.015 of fee;</td></tr> <tr> <td>State Police:</td><td>Revenue from \$.01 of fee;</td></tr> <tr> <td>Land lines:</td><td>Revenue from \$.01 of fee;</td></tr> <tr> <td>CMRS Supplier:</td><td>Revenue from \$.005 of fee.</td></tr> </table>	Counties (per capita):	Revenue from \$.15 of fee;	Counties (equal share):	Revenue from \$.10 of fee;	9-1-1 Operator Training:	Revenue from \$.015 of fee;	State Police:	Revenue from \$.01 of fee;	Land lines:	Revenue from \$.01 of fee;	CMRS Supplier:	Revenue from \$.005 of fee.
Counties (per capita):	Revenue from \$.15 of fee;												
Counties (equal share):	Revenue from \$.10 of fee;												
9-1-1 Operator Training:	Revenue from \$.015 of fee;												
State Police:	Revenue from \$.01 of fee;												
Land lines:	Revenue from \$.01 of fee;												
CMRS Supplier:	Revenue from \$.005 of fee.												
<b>2004-05 COLLECTIONS:</b>	\$29,196,000												

## AIRPORT PARKING EXCISE

<b>LEGAL CITATION:</b>	M.C.L. 207.371-207.383; 1987 PA 248.										
<b>YEAR ADOPTED:</b>	1987										
<b>BASIS OF TAX:</b>	Privilege of providing public parking at a "regional" airport. The latter term refers to an airport which services 4,000,000 or more enplanements annually (Detroit Metropolitan Wayne County Airport).										
<b>MEASURE OF TAX (BASE):</b>	Amount charged for parking.										
<b>RATE:</b>	27%										
<b>ADMINISTRATION:</b>	Michigan Department of Treasury.										
<b>REPORT AND PAYMENT:</b>	Due at same time and manner as Use Tax.										
<b>DISPOSITION:</b>	Airport Parking Fund to be used as follows: <table> <tr> <td>State Aeronautics Fund</td><td>\$6 million</td><td>safety and security projects at state airports</td></tr> <tr> <td>City of Romulus</td><td>\$1.5 million</td><td>general fund</td></tr> <tr> <td>Wayne County</td><td>balance of revenues</td><td>indigent care</td></tr> </table>		State Aeronautics Fund	\$6 million	safety and security projects at state airports	City of Romulus	\$1.5 million	general fund	Wayne County	balance of revenues	indigent care
State Aeronautics Fund	\$6 million	safety and security projects at state airports									
City of Romulus	\$1.5 million	general fund									
Wayne County	balance of revenues	indigent care									
<b>2004-05 COLLECTIONS:</b>	\$17,670,000										

## ACCOMMODATIONS (HOTEL-MOTEL)<sup>2</sup>

LEGAL CITATION:	M.C.L. 141.861 et seq.; 1974 PA 263. M.C.L. 207.621-207.640; 1985 PA 106.									
YEAR ADOPTED:	1974 (enabling act for certain counties under 600,000 which may adopt by ordinance). 1985 (for counties over 750,000).									
BASIS OF TAX:	Privilege of engaging in business of providing accommodations.									
MEASURE OF TAX (BASE):	In counties under 600,000 and with a city over 40,000: amount charged transient guests for lodging in any hotel/motel. As of 2005, Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, and Washtenaw levy the tax. In counties over 750,000 and with a 350,000 sq. ft. convention facility and/or 2,000 rooms (Wayne, Oakland, and Macomb): amount charged transient guests for lodging in a hotel/motel of over 80 rooms.									
RATE:	<p>Rate varies according to the population of the county in which the hotel/motel is located. Rate further varies if the hotel/motel is located within a “Qualified Governmental Unit,” which is defined as a city (Detroit) that is the owner or lessee of a convention facility with 350,000 square feet or more of total exhibit space (Cobo Hall).</p> <p><i>In counties under 600,000:</i> not more than 5%, as determined by county. As of 2005, all counties levying the tax, except Washtenaw, charge the maximum rate. Washtenaw charges 2%.</p> <p><i>In counties over 750,000:</i></p> <table><tr><td>No. Rooms Available:</td><td>“Qualified Governmental Unit” (Detroit):</td><td>Other Governmental Units (Wayne, Oakland, Macomb):</td></tr><tr><td>81-160</td><td>3%</td><td>1.5%</td></tr><tr><td>161 or more</td><td>6%</td><td>5%</td></tr></table>	No. Rooms Available:	“Qualified Governmental Unit” (Detroit):	Other Governmental Units (Wayne, Oakland, Macomb):	81-160	3%	1.5%	161 or more	6%	5%
No. Rooms Available:	“Qualified Governmental Unit” (Detroit):	Other Governmental Units (Wayne, Oakland, Macomb):								
81-160	3%	1.5%								
161 or more	6%	5%								
ADMINISTRATION:	In counties under 600,000: determined by county; collected by county treasurer. In counties over 750,000: Michigan Department of Treasury, Bureau of Revenue.									
REPORT AND PAYMENT:	In counties under 600,000: determined by county. In counties over 750,000: same as Use Tax.									
DISPOSITION:	In counties under 600,000: special fund for use by county or authority organized under state law. In counties over 750,000: Convention Facility Development Fund for distribution to units of local government. Fiscal-year end excess to General Fund for distribution to qualified units of local government.									
2004-05 COLLECTIONS:	\$17,158,000 (1985 PA 106 only) \$12,800,000 (1974 PA 263 only).									

<sup>2</sup> Accommodations also are taxed under the Use Tax. See page 29.



## SALES-RELATED TAXES

*Sales Tax*

*Use Tax*

*Tobacco Products Tax*

*Beer Tax*

*Wine Tax*

*Liquor Taxes*

*Liquor Markup*

*Stadium and Convention Facility Taxes*

*Uniform City Utility Users Tax*



<b>LEGAL CITATION:</b>	M.C.L. 205.51 et seq.; 1933 PA 167; Sec. 8, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1933
<b>BASIS OF TAX:</b>	Privilege of selling at retail.
<b>MEASURE OF TAX (BASE):</b>	Gross proceeds from retail sale of tangible personal property for use or consumption. Also includes certain conditional and installment lease sales; sales to consumers of electricity, gas, and steam; and sales to persons in real estate construction and improvement business. Certain sales with the following characteristics are exempt from taxation, as follows:

*Exemptions based on status of purchaser:*

- property not purchased for resale by various nonprofit organizations and used primarily to carry out the organization's purposes;
- property sold to churches for noncommercial purposes and certain vans and buses used to transport persons for religious purposes;
- food sold to enrolled students by an educational institution not operated for profit;
- property affixed to the real estate of nonprofit hospitals and nonprofit housing, including county long-term medical care facilities;
- certain property sold to commercial radio and television station licensees;
- vehicles not purchased for resale which are used by nonprofit corporations organized exclusively to provide a community with ambulance or fire department service;
- property purchased with scrip by inmates in correctional or penal institutions;
- textbooks sold by a school to kindergarten through 12th grade students;
- vehicles which are purchased by nonresident active military personnel for titling in his or her home state;
- property purchased for use in a "qualified business activity" as defined in the Enterprise Zone Act;
- property sold to certain businesses engaged in a high technology activity;
- property sold to the federal government or to an instrumentality thereof;
- tangible personal property for fund-raising purposes purchased by certain nonprofit organizations with calendar year sales of less than \$5,000;
- trucks and trailers owned by motor carriers engaged in interstate commerce to the extent of out-of-state usage;
- passenger or cargo aircraft with a certified takeoff weight of at least 6,000 pounds, or parts and materials (except shop equipment or fuel) sold to a domestic air carrier;
- employees of restaurants for food provided by their employer;
- motor vehicles, recreational watercraft, snowmobiles, or all terrain vehicles, and mobile homes sold to resident tribal members if the purchased item is for personal use and is to be used on the resident tribal member's tribe agreement area.

*Exemptions based on item purchased:*

- copyrighted motion picture films, newspapers, and periodicals classified as second class mail;
- hearing aids, contact lenses if prescribed for a specific disease precluding the use of eyeglasses, prosthetic devices, and eyeglasses prescribed by an ophthalmologist, optometrist, or optician;
- prescription drugs for human use;
- food for human use not prepared for immediate consumption;
- beverage containers to the extent of any deposits;
- railroad cars, locomotives, and accessories;
- vehicles to the extent of any refund of the purchase price because the vehicle is returned pursuant to the automobile lemon law;
- commercial advertising elements;

## SALES (CONTINUED)

- non-alcoholic beverages in sealed containers or food not artificially heated or cooled that are sold from a mobile facility or vending machine, except fresh fruit; tax may be paid on either sales of non-exempt vended food or sum of 45% of all vended sales other than carbonated beverages;
- water delivered through water mains or in bulk tanks in amounts over 500 gallons;
- personal property for resale, for lease if rental receipts are subject to Use Tax, and for demonstration purposes;
- partial exemption (from two percentage points of the tax rate): sales for residential use of electricity, natural gas, and home heating fuel;
- investment coins and bullion;
- certain aircraft and aircraft parts temporarily located in Michigan;

### *Exemptions based on transaction type:*

- certain food or tangible personal property purchased with federal food stamps;
- property which is part of a drop shipment;
- property which results in uncorrectable debt;

### *Exemptions based on status of seller:*

- certain vending machine merchandise to the extent of any commissions paid to certain tax-exempt organizations;
- property on an isolated basis by property owners not required to have Sales Tax license;
- property in corporate sponsor contracts sold by the organizing entity of the Ryder Cup, the Super Bowl, the Professional Golfers Association Championship, the men's college basketball championship, and the men's college hockey championship;

### *Exemptions based on the use of the property or service:*

- tangible personal property purchased by a person engaged in constructing, altering, repairing, or improving real estate if it is to be affixed or made a structural part of a sanctuary;
- specially-ordered commercial vessels of at least 500 tons engaged in interstate commerce and fuel, provisions, and supplies therefore;
- property used in production of horticultural or agricultural products as a business enterprise;
- property used or consumed in industrial processing;
- certain property used to provide any combination of telecommunications services which are subject to the Use Tax;
- certain products, equipment, machinery, and utilities used or consumed by an industrial laundry;
- grain drying equipment and natural or propane gas used to fuel the equipment for agricultural purposes;
- computer equipment for data transfer by companies whose business includes publishing doctoral dissertations and information archiving and sells the majority of its products to non-profit organizations exempt from the federal income tax.

### **RATE:**

6% (state constitutional limitation). The Sales Tax can be considered two taxes, a 4% tax and a 2% tax. The 4% tax is established by law within the confines of a 4% limitation placed in the State Constitution. These percentage points are expressed as the maximum rate that may be set by the legislature. The voters approved the remaining 2% tax rate in 1994. Because the State Constitution states that this additional tax *shall* be imposed, the 2% tax is the minimum rate that must be levied by the legislature.

### **ADMINISTRATION:**

Michigan Department of Treasury.

### **REPORT AND PAYMENT:**

Most taxpayers: payment is due by 15th day of month following sale, with discount for early remittance.



## SALES (CONTINUED)

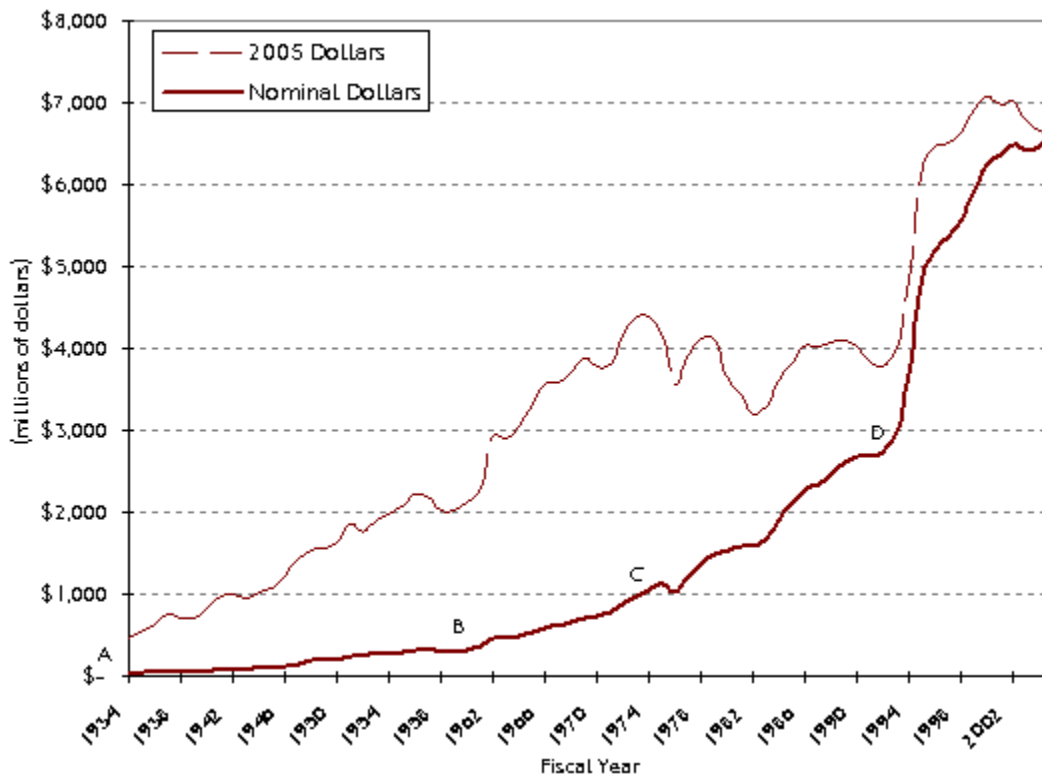
Very large taxpayers (those with sales tax liability, or use tax liability, or both, of \$720,000 or more during the prior calendar year): make two payments each month. Unlike most taxpayers, both payments are related to the sales of the current month. The first payment is due by the 15th of the month and is equal to the lesser of (a) 50% of the tax liability for the same month in the prior calendar year or (b) 50% of actual liability for current month reported, plus a reconciliation payment equal to the difference between previous month's liability minus tax already paid for that month. The second payment is due by the last day of the month and is equal to the lesser of (a) 50% of the tax liability for the same month in the prior calendar year or (b) 50% of actual liability for current month reported.

**DISPOSITION:** 73.3% to School Aid Fund; 23.7% to units of local government; 1.7% to General Fund; and 1.3% to Comprehensive Transportation Fund.<sup>3</sup>

**2004-05 COLLECTIONS:** \$6,609,944,000

**2004-05 COLLECTIONS/UNIT:** \$1,102 million per 1%

**Chart 3**  
**Michigan Sales Tax Revenue, 1934 - 2005**



- A 1933 PA 167 — Sales Tax established at 3%.
- B 1960 Const Amend — Increased tax rate limitation to 4%.
- C 1974 Const Amend — Eliminated sales and use taxes on food and prescription drugs.
- D 1993 PA 325 — Increased tax rate to 6% effective May 1, 1994, subsequent to adoption of Proposal A.

<sup>3</sup> The 6% Sales Tax rate consists of a 4% rate, which took effect in 1960, and an additional rate of 2%. Sixty percent of the revenue from the 4% rate, together with 100% of the revenue from the additional rate of 2% (60% of 4% + 100% of 2% = 73.3%) is constitutionally dedicated to the School Aid Fund. Another 35.6% (15% constitutionally, 20.6% statutorily (21.3% when lag in payment schedule is accounted for)) of the revenue from the 4% rate only (35.6% of 4% + 0% of 2% = 23.7%) is dedicated to cities, villages, and townships for revenue sharing.

## Are Local Sales Taxes Constitutionally Permitted in Michigan?

Local units in many states levy sales taxes that are piggy-backed on a uniform state sales tax rate. Such situations create unevenness among local jurisdictions and competitive disadvantages for businesses in the higher tax jurisdictions. They also yield a significant revenue source that relieves pressure on the property tax and shifts some of the costs for local services outside the boundaries of the governmental unit.

Michigan's Constitution fails to deal explicitly with the question of whether local units could be permitted to levy a sales tax. Instead, the 1963 Constitution set a maximum rate of 4% that the legislature could levy and later, as a result of Proposal A, an additional 2% rate was mandated for local public schools.

Confronted with this question in 1970, the Attorney General ruled that local sales taxes are not permitted under Michigan's Constitution. In 1991, the legislature approved a bill permitting certain municipalities to impose an excise tax at a rate not to exceed 1% of the gross receipts of restaurants and hotels and 2% of automobile rental company gross receipts. These excise taxes reflect most of the elements of a sales tax and the tax on restaurants appears to fully meet all criteria defining a sales tax, notwithstanding the "excise tax" disguise.

Readers interested in more information on this subject are encouraged to review Report 305, Issues Relative to the Constitutionality of Local Sales Taxation in Michigan, June 1992, available on the CRC website at [www.crcmich.org](http://www.crcmich.org).

## Catalog and E-commerce Sales

Under current state and federal law, purchases of merchandise by Michigan citizens from firms without a physical presence in the state do not carry with them the requirement that the business collect sales and use taxes and remit them to the state. Instead, consumers are liable for the tax and a mechanism is provided to remit the tax as part of filing the annual personal income tax. Relatively little revenue is collected through this process (a little over \$4 million in 2005 compared with an estimated liability of about \$300 million). It should also be noted that some sellers who are not required to collect Michigan's tax do so as a service to their customers who would otherwise owe the tax plus penalties and interest if not paid on time.

The issue of collecting sales and use taxes on purchases made from out-of-state firms has frustrated states around the country for many years. The Supreme Court found that states could not compel out-of-state firms to collect the tax and remit it to the states. Instead, in 1992 the United States Supreme Court found that the United States Congress could pass legislation providing a solution to the issue, because it has constitutional authority to regulate interstate commerce.

Since 2000, a national effort has been underway to solve the problem of remote sales. In order to make the assessment and collection of the taxes by merchants or agencies acting on states' behalf feasible, the states agreed to a number of simplifications, including making collection and filing of taxes more uniform, and a set of uniform definitions covering certain items that are considered by different states as taxable or exempt in different ways, hence the term tax simplification. In 2004, Michigan enacted legislation (Public Acts 172-175) that contains the technical and administrative features needed to comply with the multi-state agreement.

States participating in this effort have completed the required modifications in their individual state laws in numbers sufficient for the implementation of the collection process to begin. Collection involves third-party agencies performing the work needed to calculate individual state and local taxes due to each state. In May 2006, two private firms were contracted with to collect remote sales and use taxes on behalf of participating states. Collections began in July 2006 and have generated about \$10 million for Michigan, a small proportion of the total estimated under a fully operation program.

<b>LEGAL CITATION:</b>	M.C.L. 205.91 et. seq.; 1937 PA 94; Sec. 8, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1937
<b>BASIS OF TAX:</b>	Privilege of using, storing, and consuming certain tangible personal property, plus the services of telephone, telegraph, and other leased wire communications; used auto sales between individuals; and use of transient hotel and motel rooms. Designed to complement the Sales, Mobile Home Trailer Coach, Aircraft Weight, Watercraft Registration, and Snowmobile Registration Taxes.
<b>MEASURE OF TAX (BASE):</b>	<p>Purchase price of tangible personal property or service. Certain sales with the following characteristics are exempt from taxation, as follows:</p> <p><i>Exemptions based on status of purchaser:</i></p> <ul style="list-style-type: none"> <li>• property purchased for resale, for demonstration, or for lend-lease to a public or parochial school offering drivers education;</li> <li>• property of a nonresident brought into Michigan on a temporary basis and not used in non-transitory business activity for a period exceeding 15 days;</li> <li>• property sold to the federal government or to an instrumentality thereof, the American Red Cross and its chapters and branches, and departments, institutions, or subdivisions of state government;</li> <li>• property sold to nonprofit organizations used primarily for the organization's purposes;</li> <li>• property sold to churches for noncommercial purposes and certain vans and buses used to transport persons for religious purposes;</li> <li>• certain property sold to commercial radio and television station licensees;</li> <li>• vehicles purchased in another state by nonresident active military personnel and upon which a sales tax was paid in the other state;</li> <li>• vehicles not purchased for resale which are used by nonprofit corporations organized exclusively to provide a community with ambulance or fire department service;</li> <li>• property donated by a manufacturer to certain tax exempt organizations;</li> <li>• property purchased by a specified relative of seller;</li> <li>• parts, excluding shop equipment and fuel, affixed to certain passenger and cargo aircraft owned or used by a domestic air carrier;</li> <li>• the storage, use, or consumption of certain trucks, trailers, and parts affixed thereto used by interstate motor carriers;</li> <li>• the storage, use, or consumption of a passenger or cargo aircraft purchased by, or leased to, a domestic air carrier with a maximum certified takeoff weight of at least 6,000 pounds;</li> <li>• employees of restaurants for food provided by their employer;</li> <li>• motor vehicles, recreational watercraft, snowmobiles, or all terrain vehicles, and mobile homes sold to resident tribal members if the purchased item is for personal use and is to be used on the resident tribal member's tribe agreement area.</li> </ul> <p><i>Exemptions based on item purchased:</i></p> <ul style="list-style-type: none"> <li>• property which Michigan is prohibited by federal law from taxing;</li> <li>• copyrighted motion picture films, newspapers, and periodicals classified as second class mail;</li> <li>• vehicles purchased in another state and delivered to Michigan or purchased in Michigan but for use outside Michigan;</li> <li>• hearing aids, contact lenses if prescribed for a specific disease precluding the use of eyeglasses, prosthetic devices, and eyeglasses prescribed by an ophthalmologist, optometrist, or optician;</li> <li>• water delivered through water mains or bulk tanks of at least 500 gallons;</li> <li>• certain components of water and air pollution control facilities;</li> <li>• aircraft operating under a federal certificate which have a maximum takeoff weight of at least 12,500 pounds and used solely to transport cargo or commercial passengers;</li> </ul>

## USE (CONTINUED)

- railroad cars, locomotives, and accessories;
- certain property purchased for resale as promotional merchandise;
- prescription drugs for human use;
- food for human use not prepared for immediate consumption;
- deposits on returnable beverage containers;
- international and WATS line telephone calls;
- commercial advertising elements;
- assessments for hotel or motel rooms imposed pursuant to accommodations taxes;
- partial exemption (from two percentage points of the tax rate): consumption for residential use of electricity, natural gas, and home heating fuel;
- prepaid telephone cards, prepaid authorization numbers, and charge for Internet access;
- storage, use, and consumption of investment coins and bullion;
- certain aircraft and aircraft parts temporarily located in Michigan;

### *Exemptions based on status of seller:*

- property and services in corporate sponsor contracts sold by the organizing entity of the Ryder Cup, the Super Bowl, the Professional Golfers Association Championship, the men's college basketball championship, and the men's college hockey championship;;

### *Exemptions based on transaction type:*

- property upon which the Michigan Sales Tax has been paid;
- property upon which sales or use tax was paid in another state or local unit of another state if that tax was at least equal to the Michigan use tax and the other state has a reciprocal exemption for Michigan taxes paid;
- property, possession of which was taken outside Michigan and the value of which does not exceed \$10 during one calendar month;
- certain food or tangible personal property purchased with federal food stamps;

### *Exemptions based on the use of the property or service:*

- tangible personal property purchased by a person engaged in constructing, altering, repairing, or improving real estate if it is to be affixed or made a structural part of a sanctuary;
- property used in production of horticultural or agricultural products as a business enterprise;
- property used or consumed in industrial processing;
- specially-ordered commercial vessels of at least 500 tons engaged in interstate commerce, and fuel, provisions, and supplies thereof;
- certain machinery and equipment used to provide any combination of telecommunications services;
- certain products, equipment, machinery, and utilities used or consumed by an industrial laundry after December 31, 1997;
- computer equipment for data transfer by companies whose business includes publishing doctoral dissertations and information archiving and sells the majority of its products to non-profit organizations exempt from the federal income tax.

### **RATE:**

6% (state constitutional limitation) Like the Sales Tax, the Use Tax can be considered two different taxes. The 4% tax was established by law to parallel the Sales Tax rate. The voters approved the remaining 2% tax rate in 1994. Because the State Constitution states that this additional tax *shall* be imposed, the 2% tax is the minimum rate that must be levied by the legislature.

### **ADMINISTRATION:**

Michigan Department of Treasury.

### **REPORT AND PAYMENT:**

Most taxpayers: payment is due by 15th day of month following sale, with discount for early remittance.

## USE (CONTINUED)

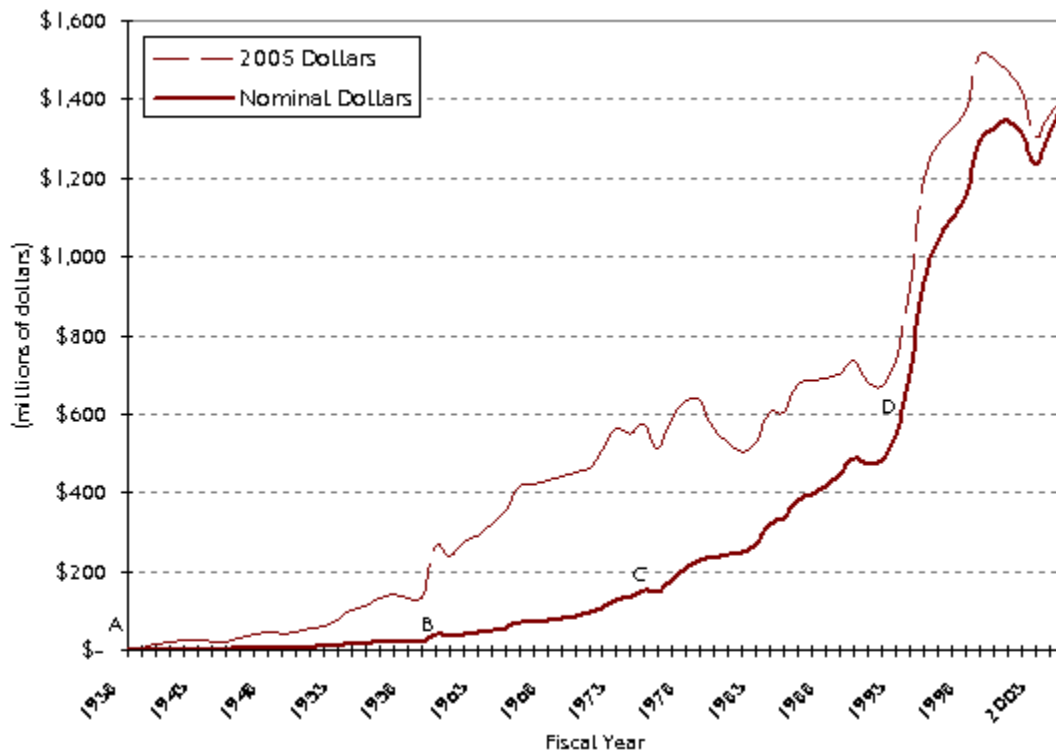
Very large taxpayers (those with sales tax liability, or use tax liability, or both, of \$720,000 or more during the prior calendar year): make two payments each month. Unlike most taxpayers, both payments are related to the sales of the current month. The first payment is due by the 15th of the month and is equal to the lesser of (a) 50% of the tax liability for the same month in the prior calendar year or (b) 50% of actual liability for current month reported, plus a reconciliation payment equal to the difference between previous month's liability minus tax already paid for that month. The second payment is due by the last day of the month and is equal to the lesser of (a) 50% of the tax liability for the same month in the prior calendar year or (b) 50% of actual liability for current month reported.

**DISPOSITION:** 67% to General Fund; 33% to School Aid Fund.<sup>4</sup>

**2004-05 COLLECTIONS:** \$1,396,395,000

**2004-05 COLLECTIONS/UNIT:** \$233 million per 1%

**Chart 4**  
**Michigan Use Tax Revenue, 1938 - 2005**



- A 1937 PA 94 — Use Tax established at 3%.
- B 1960 (2ES) PA 2 — Increased tax rate to 4%.
- C 1974 Const Amend — Eliminated sales and use taxes on food and prescription drugs.
- D 1993 PA 326 — Increased tax rate to 6% effective May 1, 1994.

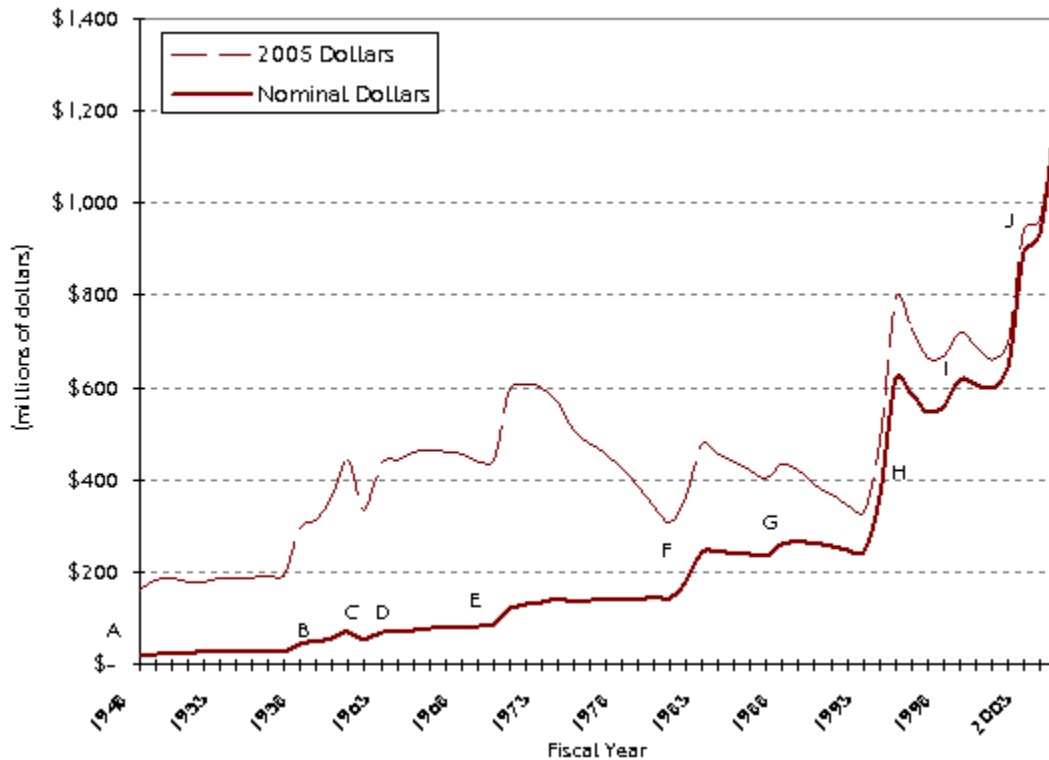
<sup>4</sup> The 6% use tax rate consist of a 4% rate, which took effect in 1960, and an additional rate of 2%, which took effect in 1994. One hundred percent of the revenue from the 4% rate (100% of 4% plus 0% of 2% equals 67%) is statutorily dedicated to the General Fund. In addition, 100% of the revenue from the additional rate of 2% (0% of 4% plus 100% of 2% equals 33%) is constitutionally dedicated to the School Aid Fund.

## TOBACCO PRODUCTS

LEGAL CITATION:	M.C.L. 205.421 et seq.; 1993 PA 327.																																
YEAR ADOPTED:	1993. The former Cigarette Tax (1947 PA 265) was repealed as of May 1, 1994.																																
BASIS OF TAX:	Privilege of selling tobacco products.																																
MEASURE OF TAX (BASE):	Tobacco products sold in Michigan.																																
RATE:	Cigarettes: 100 mills per cigarette (\$2.00 per pack); cigars, non-cigarette smoking tobacco, and smokeless tobacco: 32% of wholesale price.																																
ADMINISTRATION:	Michigan Department of Treasury.																																
REPORT AND PAYMENT:	Due by 20th of each month.																																
DISPOSITION:	<table><tr><td>Cigarette proceeds:</td><td></td><td></td></tr><tr><td>School Aid Fund</td><td></td><td>41.620%</td></tr><tr><td>General Fund</td><td></td><td>19.7625%</td></tr><tr><td>Healthy Michigan Fund</td><td></td><td>3.750%</td></tr><tr><td>Health and Safety Fund</td><td></td><td>2.4375%</td></tr><tr><td>Wayne County Indigent Health Care</td><td></td><td>0.555%</td></tr><tr><td>Medicaid Benefits Trust Fund</td><td></td><td>31.875%</td></tr><tr><td>Cigar, non-cigarette smoking tobacco, and smokeless tobacco proceeds:</td><td></td><td></td></tr><tr><td>Medicaid Benefits Trust Fund</td><td></td><td>75.0%</td></tr><tr><td>General Fund</td><td></td><td>25.0%</td></tr></table>			Cigarette proceeds:			School Aid Fund		41.620%	General Fund		19.7625%	Healthy Michigan Fund		3.750%	Health and Safety Fund		2.4375%	Wayne County Indigent Health Care		0.555%	Medicaid Benefits Trust Fund		31.875%	Cigar, non-cigarette smoking tobacco, and smokeless tobacco proceeds:			Medicaid Benefits Trust Fund		75.0%	General Fund		25.0%
Cigarette proceeds:																																	
School Aid Fund		41.620%																															
General Fund		19.7625%																															
Healthy Michigan Fund		3.750%																															
Health and Safety Fund		2.4375%																															
Wayne County Indigent Health Care		0.555%																															
Medicaid Benefits Trust Fund		31.875%																															
Cigar, non-cigarette smoking tobacco, and smokeless tobacco proceeds:																																	
Medicaid Benefits Trust Fund		75.0%																															
General Fund		25.0%																															
2004-05 COLLECTIONS:	\$1,185,794,000																																

## TOBACCO PRODUCTS (CONTINUED)

Chart 5  
Michigan Tobacco Products Tax Revenue, 1948 - 2005



- |   |      |        |                                                                                                                                                                               |
|---|------|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A | 1947 | PA 265 | — Cigarette Tax established at 1.5 mills per cigarette (3 cents per pack).                                                                                                    |
| B | 1959 | PA 274 | — Increased tax rate to 2 mills per cigarette (4 cents per pack).                                                                                                             |
| C | 1961 | PA 156 | — Increased tax rate to 2.5 mills per cigarette (5 cents per pack).                                                                                                           |
| D | 1962 | PA 215 | — Increased tax rate to 3.5 mills per cigarette (7 cents per pack).                                                                                                           |
| E | 1970 | PA 11  | — Increased tax rate to 5.5 mills per cigarette (11 cents per pack).                                                                                                          |
| F | 1982 | PA 73  | — Increased tax rate to 10.5 mills per cigarette (21 cents per pack) effective May 1, 1982.                                                                                   |
| G | 1987 | PA 219 | — Increased tax rate to 12.5 mills per cigarette (25 cents per pack) effective January 1, 1988.                                                                               |
| H | 1993 | PA 327 | — Tobacco Products Tax established.                                                                                                                                           |
|   |      |        | — Repealed 1947 PA 265 (Cigarette Tax).                                                                                                                                       |
|   |      |        | — Increased tax rate to 37.5 mills per cigarette (75 cents per pack) effective May 1, 1994.                                                                                   |
| I | 1997 | PA 187 | — Non-Cigarette Tobacco Products Tax established at 16% of wholesale price.                                                                                                   |
|   |      |        | — Tax stamp for cigarettes sold in state created, effective May 1, 1998 for wholesalers, September 1, 1998 for retailers.                                                     |
| J | 2002 | PA 503 | — Increased tax rate to 62.5 mills per cigarette (\$1.25 per pack) effective August 1, 2002.                                                                                  |
|   |      |        | — Non-cigarette tobacco products tax increased to 20% of wholesale price effective August 1, 2002.                                                                            |
| K | 2004 | PA 164 | — Increased tax rate to 100 mills per cigarette (\$2.00 per pack). Non-cigarette tobacco products tax increased to 32% of wholesale price. All became effective July 1, 2004. |

## BEER

<b>LEGAL CITATION:</b>	M.C.L. 436.1409; 1998 PA 58.
<b>YEAR ADOPTED:</b>	1933. The former statute ( 1933 PA 8 (Ex. Session)) was repealed and replaced by 1998 PA 58.
<b>BASIS OF TAX:</b>	Privilege of manufacturing and selling beer.
<b>MEASURE OF TAX (BASE):</b>	Beer manufactured or sold in Michigan; credit for beer shipped out of state for sale and consumption or sold to a military installation or an Indian reservation; exemption for beer consumed on manufacturing premises or damaged and not offered for sale.
<b>RATE:</b>	\$6.30 per barrel, with \$2 per barrel credit for brewers producing less than 20,000 barrels annually.
<b>ADMINISTRATION:</b>	Michigan Department of Labor and Economic Growth, Liquor Control Commission.
<b>REPORT AND PAYMENT:</b>	Due by 8th of each month.
<b>DISPOSITION:</b>	General Fund.
<b>2004-05 COLLECTIONS:</b>	\$41,949,026
<b>2004-05 COLLECTIONS/UNIT:</b>	\$6.7 million per \$1

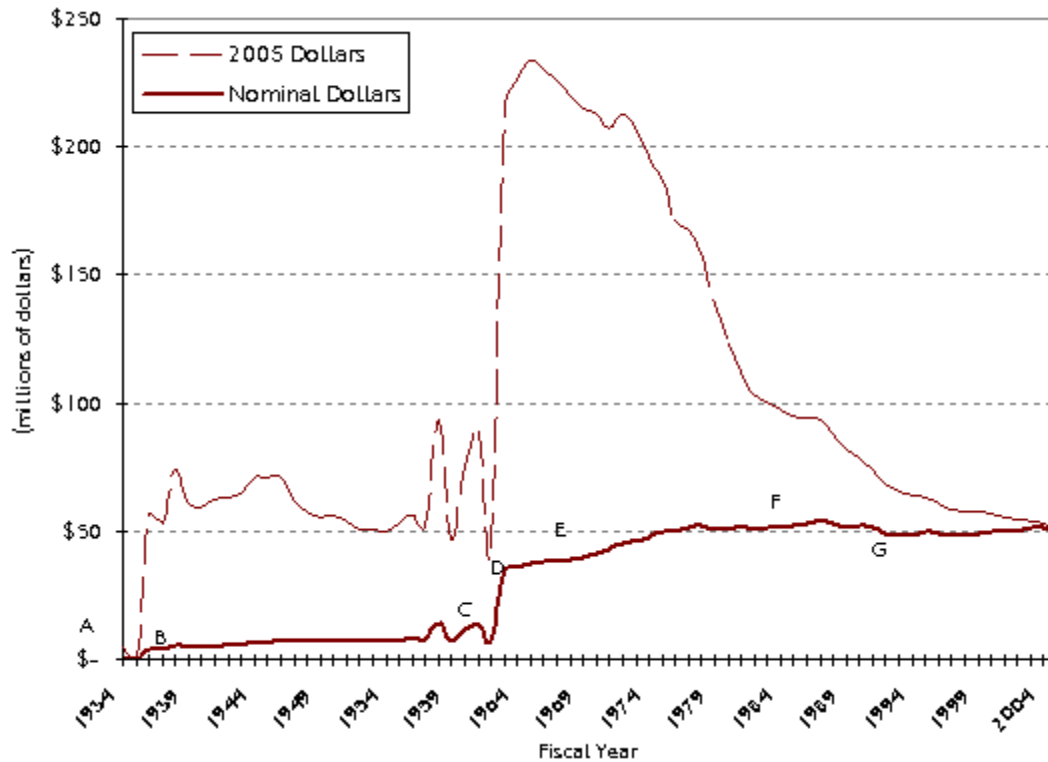
## WINE

<b>LEGAL CITATION:</b>	M.C.L. 436.1301; 1998 PA 58.
<b>YEAR ADOPTED:</b>	1933. The former statute ( 1933 PA 8 (Ex. Session)) was repealed and replaced by 1998 PA 58.
<b>BASIS OF TAX:</b>	Privilege of manufacturing and selling wine.
<b>MEASURE OF TAX (BASE):</b>	Wine sold in Michigan; credit for wine shipped out of state for sale and consumption or sold to a military installation or an Indian reservation; exemption for sacramental wine used by churches.
<b>RATE:</b>	13.5 cents per liter if 16% alcohol or less; 20 cents per liter if over 16% alcohol.
<b>ADMINISTRATION:</b>	Department of Labor and Economic Growth, Liquor Control Commission.
<b>REPORT AND PAYMENT:</b>	Due by 15th of each month.
<b>DISPOSITION:</b>	General Fund.
<b>2004-05 COLLECTIONS:</b>	\$9,010,110



## BEER AND WINE (CONTINUED)

Chart 6  
Michigan Beer and Wine Tax Revenues, 1934 - 2005



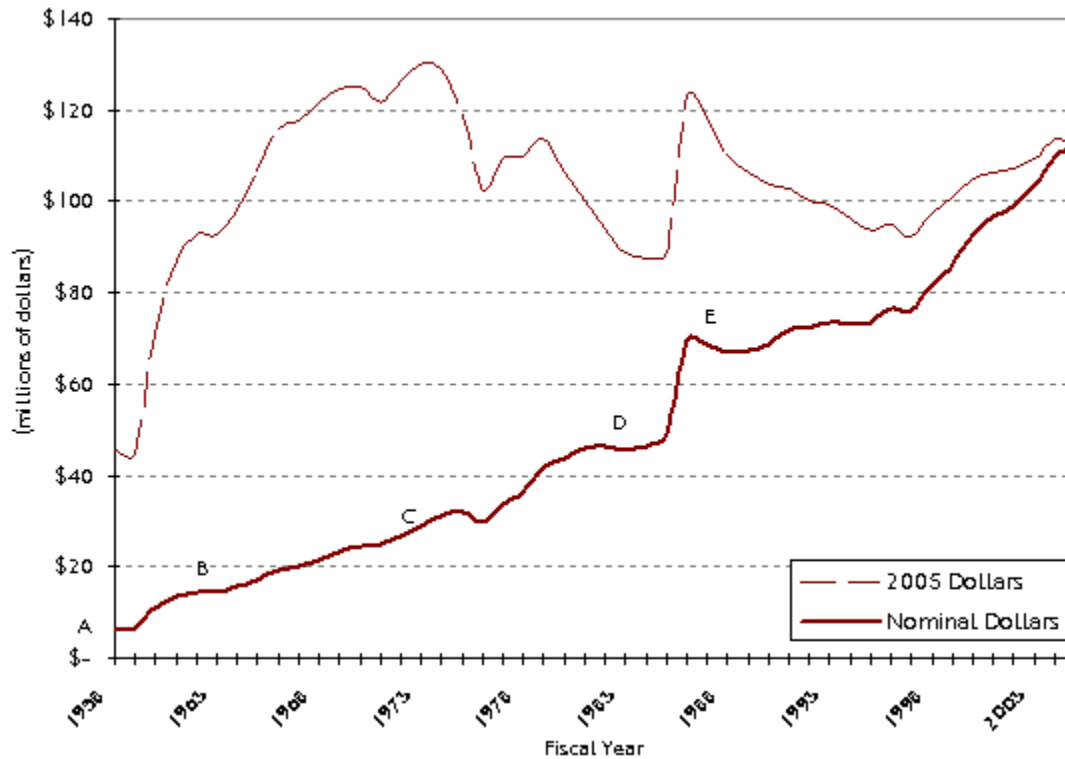
- A 1933 (ES) PA 8 — Beer Tax established at \$1.25 per barrel.
- B 1937 PA 281 — Wine Tax established at 50 cents per gallon.
- C 1959 PA 273 — Increased Beer Tax rate to \$2.50 per barrel.
- D 1962 PA 217 — Increased Beer Tax rate to 2 cents per 12 ounces (\$6.61 per barrel).
- E 1966 PA 330 — Decreased Beer Tax rate to \$6.30 per barrel.
- F 1981 PA 153 — Increased Wine Tax for wines with 16% alcohol or less by volume to a rate of 13.5 cents per liter (51.17 cents per gallon); for wines with 16 to 21% alcohol a rate of 20 cents per liter (75.8 cents per gallon).
- G 1989 PA 118 — Imposed a tax of 48 cents per liter on mixed-spirit drinks.

## LIQUOR

<b>LEGAL CITATION:</b>	M.C.L. 436.2201-436.2207; 1998 PA 58.		
<b>YEAR ADOPTED:</b>	1957, 1959, 1972, and 1985. The former statutes (1959 PA 94; 1962 PA 218; 1972 PA 213; and, 1985 PA 107) were repealed and replaced by 1998 PA 58.		
<b>BASIS OF TAX:</b>	Privilege of selling spirits.		
<b>MEASURE OF TAX (BASE):</b>	Retail selling price of spirits.		
<b>RATE:</b>	On premise consumption, 12%; off premise consumption, 13.85%.		
<b>ADMINISTRATION:</b>	Michigan Department of Labor and Economic Growth, Liquor Control Commission.		
<b>REPORT AND PAYMENT:</b>	By Liquor Control Commission regulation.		
<b>DISPOSITION:</b>	4% rate (specific) - General Fund; 4% rate (excise) - School Aid Fund; 1.85% rate (specific) - Liquor Purchase Revolving Fund; for distribution to local governments; 4% rate (specific) - Convention Facility Development Fund.		
<b>2004-05 COLLECTIONS:</b>	General Fund:	\$33,665,000	<b>2004-05 COLLECTIONS/UNIT:</b> \$8.4 million/1%
	School Aid Fund:	33,112,000	\$8.3 million/1%
	Liquor Purchase Revolving Fund:	12,194,000	\$6.6 million/1%
	Convention Facility Development Fund:	<u>33,178,000</u>	\$8.3 million/1%
	TOTAL	\$112,149,000	

LIQUOR (CONTINUED)

Chart 7  
Michigan Liquor Tax Revenues, 1958 - 2005



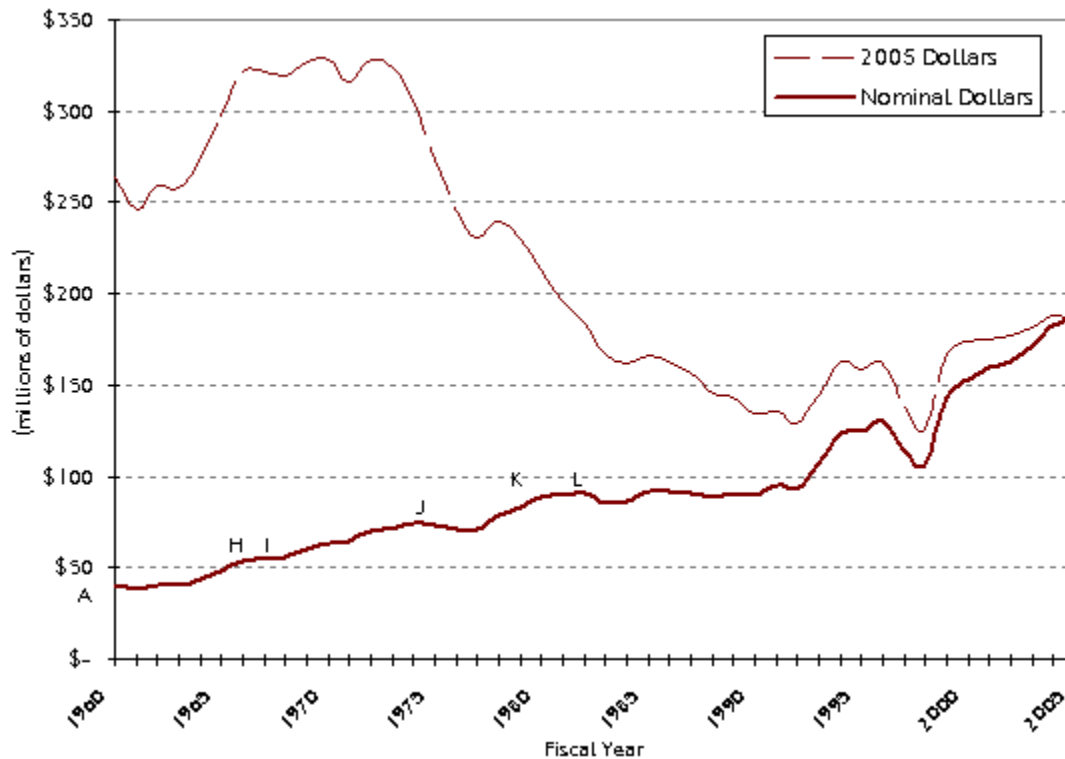
- A 1959 PA 94 — Liquor Excise Tax established at 4%.
- B 1962 PA 218 — Liquor Specific Tax established at 4%.
- C 1972 PA 213 — Liquor Specific Tax established at 1.85%.
- D 1982 PA 462, 463, 464 — Added spirits with alcohol content under 22% to Liquor Tax base.
- E 1985 PA 107 — Liquor Specific Tax established at 4%.

## LIQUOR MARKUP

<b>LEGAL CITATION:</b>	M.C.L. 436.1233; 1998 PA 58.
<b>YEAR ADOPTED:</b>	1933. The former statute ( 1933 PA 8 (Ex. Session)) was repealed and replaced by 1998 PA 58.
<b>BASIS OF TAX:</b>	State gross sales minus cost of goods sold from sale and distribution of alcoholic liquor.
<b>MEASURE OF TAX (BASE):</b>	Wholesale price of liquor.
<b>RATE:</b>	Uniform prices are established by the Liquor Control Commission that will return a gross profit of at least 51 % and not more than 65%. Currently, the full 65% markup from cost is applied to set the retail price of the liquor. A discount of 17% is deducted from the price to establish the cost of the liquor for retail sales outlets.
<b>ADMINISTRATION:</b>	Michigan Department of Labor and Economic Growth, Liquor Control Commission.
<b>REPORT AND PAYMENT:</b>	Subject to general business practices regarding the wholesaling of the merchandise and remittance of the State's gross profit.
<b>DISPOSITION:</b>	General Fund.
<b>2004-05 COLLECTIONS:</b>	\$185,562,950

## LIQUOR MARKUP (CONTINUED)

Chart 8  
Michigan Liquor Markup Tax Revenue, 1960 - 2005



- A 1933 PA 8 (ES) — Liquor Markup Tax established with a 45% markup rate effective January 1, 1934.
- B 1937 — — Increased markup rate to 55% effective August 1937.
- C 1940 — — Decreased markup rate to 50% effective July 1940.
- D 1941 — — Decreased markup rate to 46% effective October 1941.
- E 1945 PA 33 — Discount rate established at 10% for off-premise purchases and 15% for on-premise purchases effective April 30, 1945.
- F 1947 PA 350 — Discount rate decreased to 12.5% for on-premise purchases effective July 3, 1947.
- G 1952 — — Decreased markup rate to 44% effective July 1952.
- H 1966 — — Increased markup rate to 46% effective March 1966.
- I 1967 PA 90 — Increased the discount rate for off-premise purchases to 11.5% effective February 26, 1967.
- J 1975 — — Increased markup rate to 48% and increased the discount rates to 15% for both off-premise purchases and on-premise purchases effective January 1975.
- K 1980 — — Increased markup rate to 51% and increased the discount rates to 17% for both off-premise and on-premise purchases effective October 1980.
- L 1983 — — Increased markup rate to 65% effective May 1983.

## STADIUM AND CONVENTION FACILITY

<b>LEGAL CITATION:</b>	M.C.L. 207.751-207.759 1991 PA 180.
<b>YEAR ADOPTED:</b>	1991. Selected cities and counties may adopt by ordinance upon approval by voters. Wayne County voters approved the tax, on hotels and automobile leasing companies only, in November 1996.
<b>BASIS OF TAX:</b>	Privilege of operating restaurants, hotels and automobile leasing companies.
<b>MEASURE OF TAX (BASE):</b>	Gross receipts of restaurants, hotels and automobile leasing companies in selected municipalities.
<b>RATE:</b>	Restaurants and hotels, not to exceed 1%; automobile leasing companies not to exceed 2%.
<b>ADMINISTRATION:</b>	Michigan Department of Treasury upon agreement with municipality.
<b>REPORT AND PAYMENT:</b>	Determined by ordinance.
<b>DISPOSITION:</b>	Special fund of municipality.
<b>2004-05 COLLECTIONS:</b>	\$6,653,309

## UNIFORM CITY UTILITY USERS

<b>LEGAL CITATION:</b>	M.C.L. 141.1151 et seq.; 1990 PA 100.
<b>YEAR ADOPTED:</b>	1990. Originally enacted as 1970 PA 198, but expired on June 30, 1988.
<b>BASIS OF TAX:</b>	Privilege of consuming public telephone, electric, steam, or gas services in a city of 750,000 or more (Detroit). Exemption for facility located in a renaissance zone.
<b>RATE:</b>	To be established by increments of one-fourth of 1%, Detroit levies at the maximum rate of 5%.
<b>ADMINISTRATION:</b>	Administrator designated by the city. Collected by the city treasurer.
<b>REPORT AND PAYMENT:</b>	Due by last day of month. Annual return due by end of fourth month following end of tax year.
<b>DISPOSITION:</b>	To retain or hire police officers.
<b>2004-05 COLLECTIONS:</b>	\$51,635,907
<b>2004-05 COLLECTIONS/UNIT:</b>	\$10.3 million/1%

## PROPERTY TAXES

*Utility Property Tax*  
*Estate Tax*  
*State Real Estate Transfer Tax*  
*State Education Tax*  
*General Property Tax*  
*Ad Valorem Special Assessments*  
*Mobile Home Trailer Coach Tax*  
*Commercial Forest Tax*  
*Private Forest Tax*  
*Industrial Facilities Tax*  
*Obsolete Properties Tax*  
*Neighborhood Enterprise Zone Facilities Tax*  
*Enterprise Zone Facilities Tax*  
*Commercial Rehabilitation Tax*  
*Low Grade Iron Ore Specific Tax*  
*County Real Estate Transfer Tax*

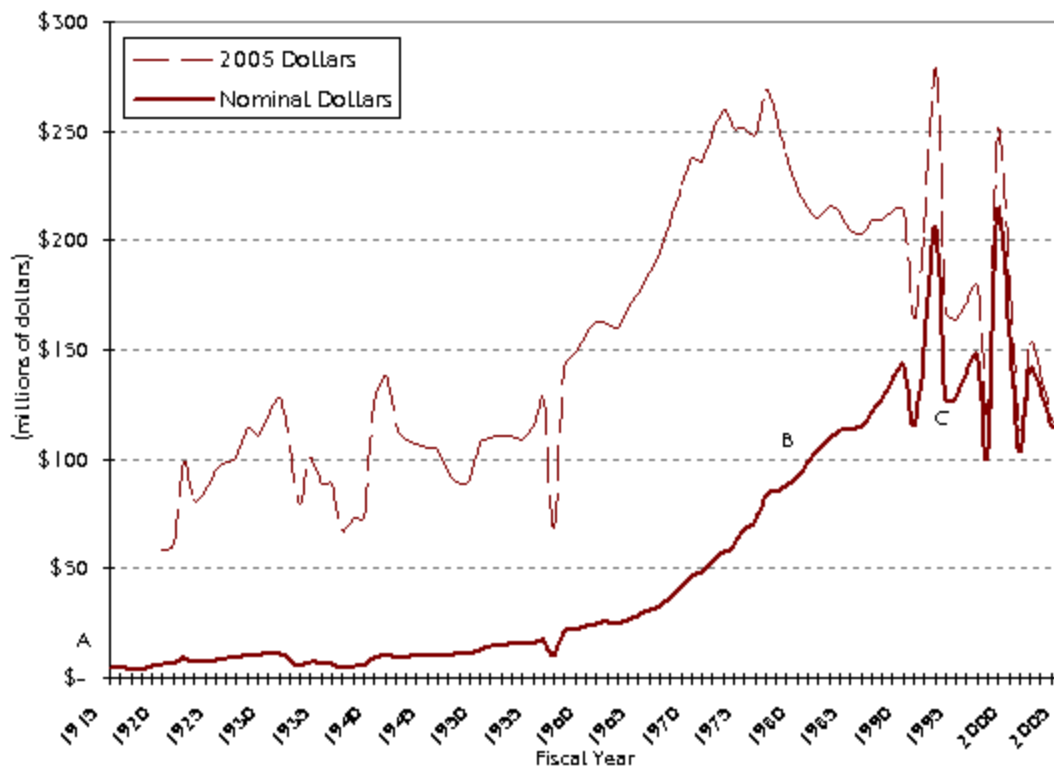




## UTILITY PROPERTY

<b>LEGAL CITATION:</b>	M.C.L. 207I et seq.; 1905 PA 282; Sec. 5, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1905
<b>BASIS OF TAX:</b>	In lieu of other general property taxes.
<b>MEASURE OF TAX (BASE):</b>	Taxable value of all property of telephone and telegraph, railroad, car loaning, sleeping car, and express car companies including franchise owned and used in connection with doing business in Michigan. Railroads receive credit equal to 25% of expenditures for maintenance and improvement of rights-of-way in Michigan, if certain conditions are met.
<b>RATE:</b>	Average statewide general property tax paid by other business property in preceding calendar year.
<b>ADMINISTRATION:</b>	Assessment: Michigan Department of Treasury, State Tax Commission. Collection: Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Report due March 31. Tax due July 1 or 1/2 by August 1 and the rest by December 1.
<b>DISPOSITION:</b>	General Fund.
<b>2004-05 COLLECTIONS:</b>	\$99,535,000

**Chart 9**  
**Michigan Utility Property Tax Revenue, 1915 - 2005**



- |                                                                |                                                                                                                                                                                                                                                                   |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>A 1905 PA 282</p> <p>B 1980 PA 322</p> <p>C 1993 PA 332</p> | <p>— Utility Property Tax established.</p> <p>— Codified means of determining average tax rate.</p> <p>— Required that utility property tax rate be the average statewide ad valorem tax rate levied upon other commercial, industrial, and utility property.</p> |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## ESTATE

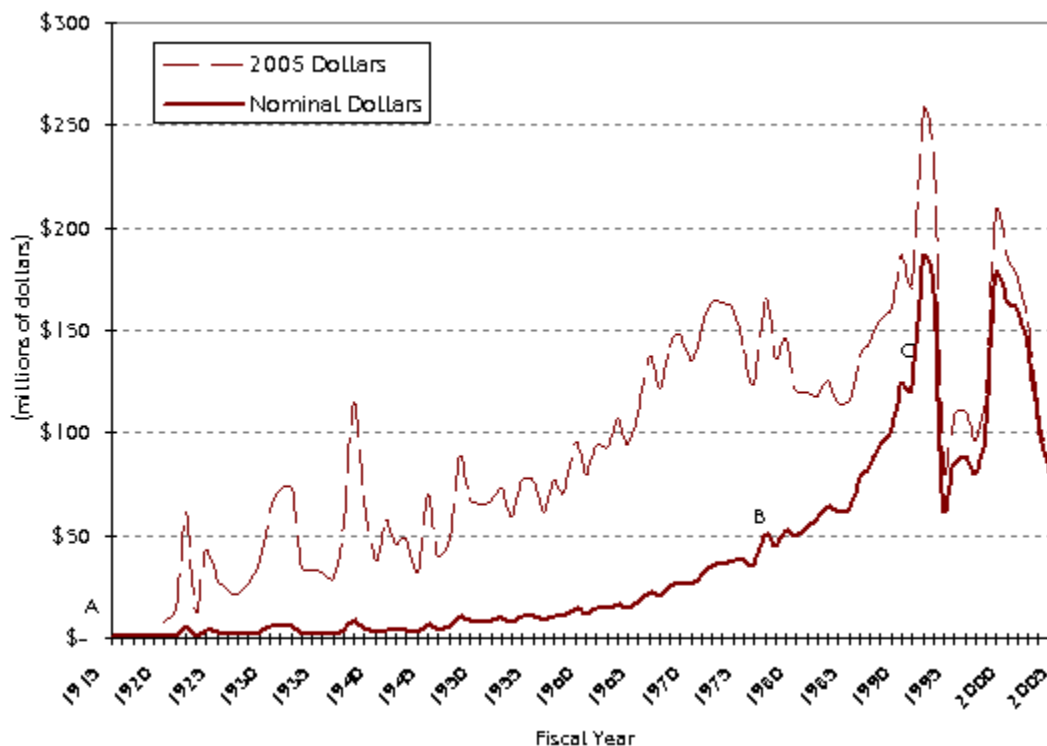
<b>LEGAL CITATION:</b>	M.C.L. 205.201 et seq.; 1899 PA 188.
<b>YEAR ADOPTED:</b>	1899 (referred to as Inheritance Tax until amended by 1993 PA 54.)
<b>BASIS OF TAX:</b>	Privilege of transferring an interest in the property of a decedent.
<b>MEASURE OF TAX (BASE):</b>	Gross estate as determined under federal internal revenue code.

### Estate Tax Elimination

The federal tax-reform package passed in 2001 eliminated the allowable federal credit over a four-year period beginning in 2002. The state took no action to offset the federal change and the state Estate Tax revenues will be eliminated in FY2007.

<b>RATE:</b>	Tax imposed up to maximum allowable federal credit for state inheritance taxes paid.
<b>ADMINISTRATION:</b>	Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due by same date as federal estate tax.
<b>DISPOSITION:</b>	General Fund.
<b>2004-05 COLLECTIONS:</b>	\$106,543,000

**Chart 10**  
**Michigan Estate Tax Revenue, 1915 - 2005**



- A 1899 PA 188 — Inheritance Tax established (Direct heirs 2-8%; collateral heirs 10-15%).
- B 1978 PA 628 — Increased maximum tax rate on direct heirs to 10%; increased minimum tax rate on collateral heirs to 12 percent and maximum tax rate to 17%.
- C 1993 PA 54 — Inheritance Tax replaced by Estate Tax.

## STATE REAL ESTATE TRANSFER

<b>LEGAL CITATION:</b>	M.C.L. 207.521 et seq.; 1993 PA 330.
<b>YEAR ADOPTED:</b>	1993
<b>BASIS OF TAX:</b>	Privilege of transferring interests in real property.
<b>MEASURE OF TAX (BASE):</b>	<p>Fair market value of written instrument by which property is transferred.</p> <p>Exemptions: written instruments involving the following:</p> <ul style="list-style-type: none"> <li>(1) transfers of less than \$100;</li> <li>(2) transfers of land outside Michigan;</li> <li>(3) transfers which the state is prohibited by federal law from taxing;</li> <li>(4) security or an assignment or discharge of a security interest;</li> <li>(5) transfers evidencing a leasehold interest;</li> <li>(6) personal property;</li> <li>(7) transfers of interests for underground gas storage purposes;</li> <li>(8) transfers where a governmental unit is the grantor;</li> <li>(9) transfers involving foreclosure by a governmental unit;</li> <li>(10) certain interspousal transfers;</li> <li>(11) transfers ordered by a court if no consideration is ordered;</li> <li>(12) transfers to straighten boundary lines if no consideration is paid;</li> <li>(13) transfers to correct a title flaw;</li> <li>(14) land contracts in which title does not pass until full consideration is paid;</li> <li>(15) transfers of mineral rights;</li> <li>(16) creation of joint tenancies if at least one joint tenant already owned the property;</li> <li>(17) sales agreements entered into before enactment of the tax;</li> <li>(18) transfers to persons considered to be "single employers" under the internal revenue code;</li> <li>(19) transfers to a bankruptcy trustee, receiver, or administrator;</li> <li>(20) transfers between religious societies of property exempt from property taxes;</li> <li>(21) transfers from one religious institution to another religious institution.</li> </ul>
<b>RATE:</b>	\$3.75 per \$500 (0.75%) or fraction thereof of total value.
<b>ADMINISTRATION:</b>	Collection: County treasurer. Supervision: Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due by 15th of each month.
<b>DISPOSITION:</b>	School Aid Fund.
<b>2004-05 COLLECTIONS:</b>	\$320,223,000

## STATE EDUCATION

<b>LEGAL CITATION:</b>	M.C.L. 211.901 et seq.; 1993 PA 331.
<b>YEAR ADOPTED:</b>	1993
<b>BASIS OF TAX:</b>	Same as General Property Tax.
<b>MEASURE OF TAX (BASE):</b>	Same as General Property Tax.
<b>RATE:</b>	6 mills – Not subject to tax rate rollbacks under the Headlee Amendment (see General Property Tax).
<b>ADMINISTRATION:</b>	Collection: Township, city, and county treasurers. Supervision: Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Same as general property tax.
<b>DISPOSITION:</b>	School Aid Fund.
<b>2004-05 COLLECTIONS:</b>	\$1,794,026,000
<b>2004-05 COLLECTIONS/UNIT:</b>	\$299 million per mill

## GENERAL PROPERTY

**LEGAL CITATION:** M.C.L. 211.1 et seq.; 1893 PA 206; Sec. 3 and 6, Art. 9, state Constitution.

**YEAR ADOPTED:** Territorial Act (current basic act enacted in 1893).

**BASIS OF TAX:** Real and personal property not otherwise exempted.

### Real versus Personal Property

The distinction between real and personal property is relatively straightforward. Real property is basically land and buildings. Personal property is generally movable. Personal property includes a broad array of assets, including most equipment, furniture, and fixtures used by businesses. In addition, electric transmission and distribution equipment, gas transmission and distribution equipment, and oil pipelines are all considered personal property.

Establishing the assessed value of real versus personal property involves different methodologies, although all taxable property is required to be assessed at 50% of true cash value, the state equalized valuation. Real property assessments are developed by comparing similar properties and principally use sales and cost data to establish assessment changes. Personal property assessments use acquisition costs adjusted by depreciation multipliers to reflect declining values, as an asset ages.

Property taxes are determined by multiplying the tax rate by the taxable value of a parcel of property. The taxable value of a parcel may differ from the state equalized value as a result of limits on increases placed in the Michigan Constitution by Proposal A of 1994. Taxable value may not rise by more than the lesser of the increase in the consumer price index or 5%. The methodology used to assess personal property virtually assures that a parcel's assessed and taxable values will be the same. In contrast, real property had a gap of over 22% between assessed and taxable values in 2005.

**MEASURE OF TAX (BASE):** Taxable value, which cannot increase in any one year by more than the lesser of 5% or inflation, excluding additions and losses. When transferred, property is reassessed in accordance with state equalized valuation which equals 50% of true cash value. The assessment for agricultural property being transferred between owners will remain capped if the new owner keeps the property in agricultural use for at least seven years from the date of transfer. If the property ceases to be agricultural property within the seven-year period, the property's assessment will be adjusted to reflect the property's state equalized valuation. The assessment for qualified forest property being transferred between owners will remain capped if the new owner keeps the property as qualified forest property for at least 10 years from the date of transfer. If the property ceases to be qualified forest property within the 10-year period, the property's assessment will be adjusted to reflect the property's state equalized valuation.

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;
- (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;
- (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;

## GENERAL PROPERTY (CONTINUED)

- (12) federally-qualified health centers;
- (13) biomass gasification systems, thermal depolymerization systems, and methane digesters.

Credits for property taxes paid: see Personal Income Tax.

### RATE:

Varies by local unit, but certain statewide constitutional and statutory restrictions exist. The rate may not exceed 15 mills (\$15 per \$1,000) or 18 mills in counties with separate, voter-fixed allocations for all jurisdictions. (These limitations were reduced by the number of mills allocated to local school districts in 1993, after which local school districts may not receive allocated millage.)

The foregoing limitations may be increased up to 50 mills with voter approval. Excluded from these limitations are:

- (1) Debt service taxes for all full faith and credit obligations of local units (after December 22, 1978, this exclusion applies only for obligations approved by voters);
- (2) Taxes imposed by units having separate tax limitations provided by charter or general law (cities, villages, charter townships, and charter counties);
- (3) Taxes imposed by certain districts or authorities having separate limits (e.g., charter water authorities, port districts, metropolitan districts, and downtown development authorities);
- (4) Certain taxes imposed by municipalities for special purposes (garbage services, library services, services to the aged, and police and fire pension funding).

The state constitutional tax limitation amendment of 1978 (Headlee) requires a taxing jurisdiction to roll back maximum authorized rates if the state equalized value, excluding new construction, increases faster than the rate of inflation, and state law requires a rate rollback to offset assessment increases (which the governing body can overcome by vote). Local school district operating taxes are limited to the lesser of 18 mills or the 1993 millage rate. Homestead and qualified agricultural property is exempt from this millage. However, school districts with a 1994-95 per pupil foundation allowance of over \$6,500 may reduce the exemption on homestead and qualified agricultural property by the number of mills necessary to raise that portion of their per pupil foundation allowance over \$6,500 and, if necessary, also may levy additional mills on all property to generate that per pupil dollar amount. In addition, voters in intermediate school districts may approve up to 3 additional mills for operating purposes. In calendar 2005, the state average millage rate, including the 6-mill state education tax, was 39.88 mills.

### ADMINISTRATION:

Property assessed by city and township assessors; values equalized by county and state among six classifications of real property (residential, commercial, industrial, developmental, agricultural, and timber cutover) plus personal property. Collection by township, city, and village treasurers. Delinquent taxes on real property collected by county treasurers (except in Kalamazoo).

### REPORT AND PAYMENT:

Township and county taxes due December 1. School taxes due December 1, unless school board elects to make all or one-half due July 1. City and village taxes due in accordance with charters.

### DISPOSITION:

As locally determined. The state reimburses local governments for certain lands controlled by the Michigan Department of Natural Resources, in lieu of property taxes (often called "the swamp tax"); this reimbursement is equal to \$2.00 an acre. (M.C.L. 324.2150)

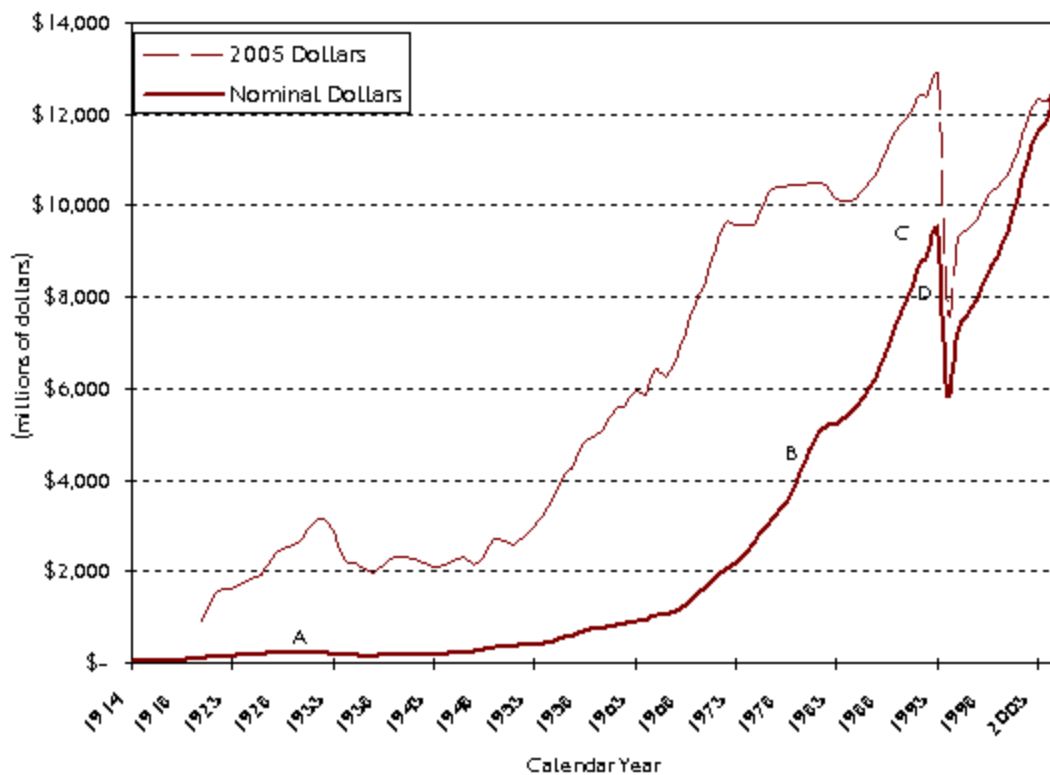
## GENERAL PROPERTY (CONTINUED)

### 2004 & 2005 COLLECTIONS:

	2004 Levy		2005 Levy	
School <sup>5</sup>	\$5,440,921,510	52.47%	\$5,710,027,883	52.36%
City	2,178,716,784	21.01	2,294,324,115	21.04
County	1,918,051,074	18.50	2,017,064,502	18.50
Township	743,252,490	7.17	793,380,177	7.27
Village	88,174,916	0.85	91,050,743	0.83
Total Levy	\$10,369,118,778	100.00%	\$10,905,847,420	100.00%

**2005 COLLECTIONS/UNIT:** \$322 million per mill

**Chart 11**  
**Total Michigan State and Local Property Tax Collections, 1914 - 2005**



- A 1933 Const Amend — 15 mill limit.
- B 1979 Const Amend — Headlee Amendment established requiring voter approval for any new local taxes and limited the rate of growth for the assessed values of property for each local unit of government.
- C 1993 PA 145 — exempted, beginning December 31, 1993, property from millage levied by a local or intermediate school district for school operating purposes.
- PA 312 — limited school operating property taxes on non-homestead property to lesser of 18 mills or 1993 rate; exempted homestead and qualified agricultural property from school operating millage in most school districts; authorized school districts to levy up to 3 additional mills with voter approval.
- PA 331 — State Education Tax established at 6 mills beginning in 1994.
- D 1994 Const Amend — Proposal A reduced school operating taxes, established cap on assessments and taxable value as the tax base.

<sup>5</sup> Includes local school districts, intermediate school districts, and community colleges (does not include 6-mill State Education Tax).

## GENERAL PROPERTY (CONTINUED)

Chart 12  
Michigan Statewide Average Property Tax Rate, 1927 – 2005  
(Non-Homestead and Homestead Tax Rates, 1994 – 2004)

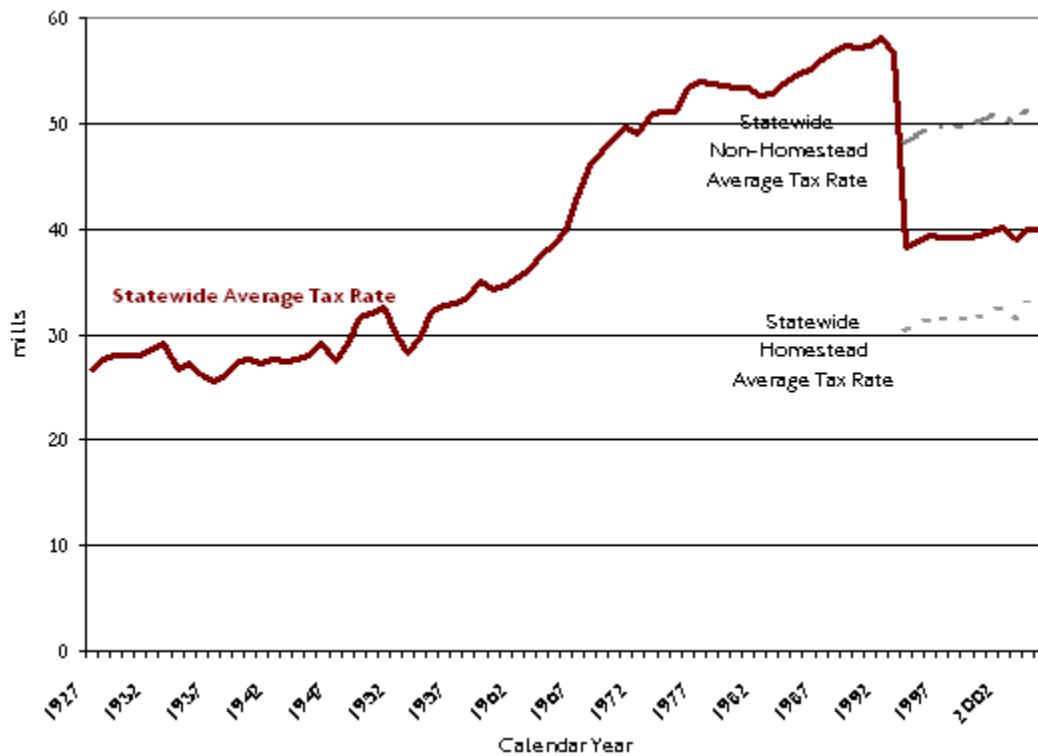
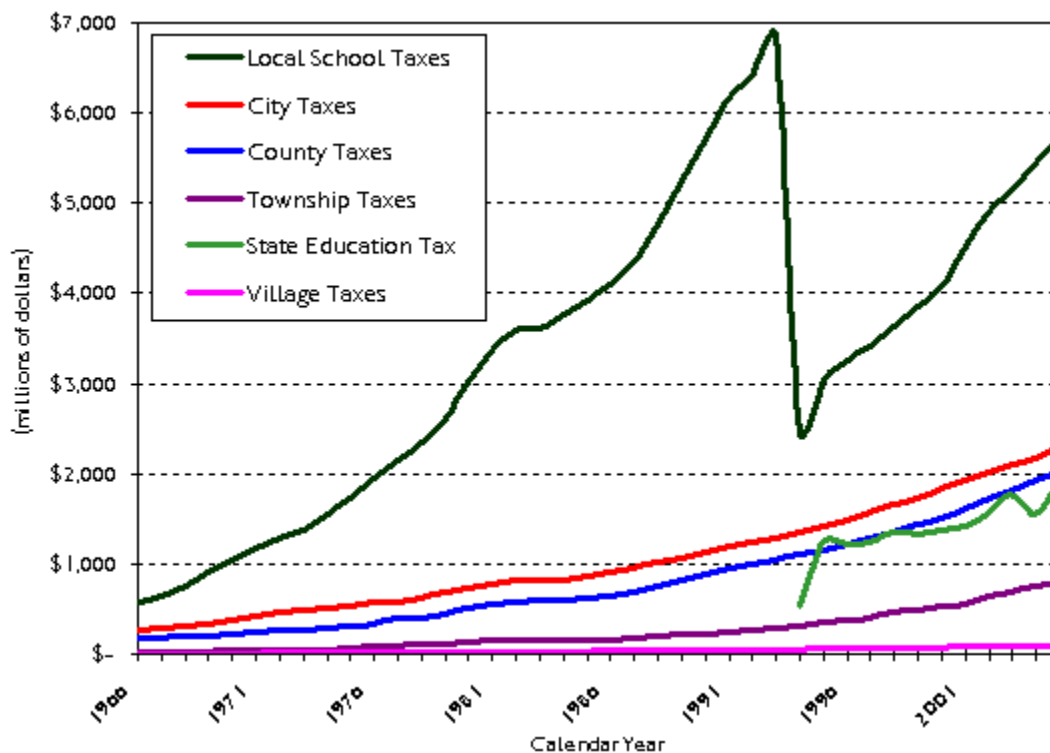


Chart 13  
Michigan Property Tax Revenues by Unit of Government, 1966 – 2005





## AD VALOREM SPECIAL ASSESSMENTS

<b>LEGAL CITATION:</b>	M.C.L. 117.4d; 1909 PA 279 (public improvements and street lighting – cities); M.C.L. 41.414; 1923 PA 116 (various public improvements – townships and villages); M.C.L. 41.801; 1951 PA 33 (police/fire equipment and operations – cities with less than 10,000 population, townships, and villages); M.C.L. 41.721 et seq; 1954 PA 188 (various public improvements – townships); M.C.L. 560.192a; 1967 PA 288 (operation and maintenance of storm water retention basins – townships, villages, and cities); M.C.L. 125.1662; 1975 PA 197 (construction, renovation, etc. of facilities, existing buildings and multi-family dwellings – downtown development authorities).
<b>YEAR ADOPTED:</b>	see above
<b>BASIS OF TAX:</b>	Real property.
<b>MEASURE OF TAX (BASE):</b>	Taxable value of the real property subject to the assessment. Property that is exempt from the general property tax, such as religious, charitable, or educational property is not exempt from the base of special assessments unless the statute authorizing the specific type of special assessment so provides. PA 33 and PA 197 exempt property that is exempt from the general property tax act. PA 279 prohibits city-wide ad valorem special assessments for street lighting if real property in the city is assessed on ad valorem basis.
<b>RATE:</b>	Determined as a rate by dividing the cost of the public improvement or service being financed by the taxable value of the special assessment district. In some cases, limits, as to the rate, are established in law. PA 33 limits levy to 10 mills for equipment, no limit for operations. PA 116 limits levy for a single assessment to 15% of assessed value and to 45% of assessed value for all assessments under the Act in any single year. PA 197 limits levy to 2 mills.
<b>ADMINISTRATION:</b>	Same as General Property Tax.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Locally determined.
<b>2005 COLLECTIONS:</b>	\$103,555,973 from unit-wide special assessments.

## MOBILE HOME TRAILER COACH

<b>LEGAL CITATION:</b>	M.C.L. 125.1041; 1959 PA 243.
<b>YEAR ADOPTED:</b>	1959
<b>BASIS OF TAX:</b>	In lieu of general property taxation.
<b>MEASURE OF TAX (BASE):</b>	Occupied trailer coaches (including mobile homes) in licensed trailer coach parks.
<b>RATE:</b>	\$3 per month per occupied trailer coach.
<b>ADMINISTRATION:</b>	Township or city treasurer.
<b>REPORT AND PAYMENT:</b>	Due each month.
<b>DISPOSITION:</b>	\$2 per coach to School Aid Fund; 50 cents per coach to counties and municipalities, respectively.

## COMMERCIAL FOREST

<b>LEGAL CITATION:</b>	M.C.L. 324.51101-324.51120; 1995 PA 57.
<b>YEAR ADOPTED:</b>	1925. The former statute (1925 PA 94) was repealed and replaced by 1995 PA 57.
<b>BASIS OF TAX:</b>	In lieu of general property taxation.
<b>MEASURE OF TAX (BASE):</b>	Lands placed in commercial forest reserve (generally, 40 acre minimum).
<b>RATE:</b>	<p><i>Specific:</i> \$1.20 per acre until December 31, 2011. Beginning January 1, 2012, and every five years after that date, the tax rate will be increased by five cents per acre. (state also pays \$1.20 per acre until December 31, 2011. Beginning January 1, 2012, and every five years after that date, the annual state payment will increase by five cents per acre to each county within which acreage is located).</p> <p><i>Withdrawal:</i> \$1.00 per acre application fee with a minimum fee of \$200 per application and a maximum of \$1,000 per application, plus per acre penalty. The penalty is a function of the number of acres withdrawn, value of comparable acres, total millage rate in the local unit where property is located, and the number of years, up to seven, in which the withdrawn property had been designated as commercial forestland.</p> <p>For commercial forestland that is subject to a sustainable forest conservation easement, the rate is 15 cents per acre less than the rate for all other commercial forestland. The application fee for withdrawal is \$2.00 per acre with a minimum fee of \$200 per application and a maximum of \$1,000 per application.</p>
<b>ADMINISTRATION:</b>	Department of Natural Resources; Township Assessors, Township and County Treasurers.
<b>REPORT AND PAYMENT:</b>	<i>Specific:</i> with property tax; <i>Withdrawal:</i> with application to withdraw.
<b>DISPOSITION:</b>	Distributed to local units in same proportion as General Property Tax except that school operating portion is paid to School Aid Fund.

## PRIVATE FOREST

<b>LEGAL CITATION:</b>	M.C.L. 324.51301 et seq.; 1995 PA 57.
<b>YEAR ADOPTED:</b>	1917 (tax is repealed effective September 1, 2007). The former statute (1917 PA 86) was repealed and replaced by 1995 PA 57.
<b>BASIS OF TAX:</b>	In lieu of general property taxation.
<b>MEASURE OF TAX (BASE):</b>	Lands placed in private forest reserve and cash value of timber thereon (40 acre maximum).
<b>RATE:</b>	<i>Specific:</i> \$1 per acre; <i>Stumpage:</i> 5% of value of timber cut; <i>Withdrawal:</i> 5% of value of timber on the stump.
<b>ADMINISTRATION:</b>	Department of Natural Resources; Township Assessors, Township and County Treasurers.
<b>REPORT AND PAYMENT:</b>	<i>Specific:</i> with property tax; <i>Stumpage:</i> when cut; <i>Withdrawal:</i> upon withdrawing.
<b>DISPOSITION:</b>	Distributed to local units in same proportion as General Property Tax except that school operating portion is paid to School Aid Fund.

## INDUSTRIAL FACILITIES

<b>LEGAL CITATION:</b>	M.C.L. 207.551 et. seq.; 1974 PA 198.
<b>YEAR ADOPTED:</b>	1974
<b>BASIS OF TAX:</b>	In lieu of general property taxation for up to 12 years after completion of facilities granted exemption certificates within plant rehabilitation or industrial development districts.
<b>MEASURE OF TAX (BASE):</b>	<i>Restored or replacement facility:</i> taxable value of facility, excluding land and inventory, in year prior to granting of exemption certificate. <i>New or speculative facility:</i> current taxable value of facility, excluding land and inventory. Partial exemption for facility located in a renaissance zone.
<b>RATE:</b>	<i>Restored facility;</i> same as the local property tax rate. <i>New or replacement facility:</i> (if granted before January 1, 1994) 1/2 of 1993 school operating taxes plus 1/2 of other property taxes except state education tax; (if granted after December 31, 1993) 1/2 of all taxes other than the state education tax plus the state education tax. Certificate applicants and the granting municipality must enter into an agreement before the State Tax Commission can approve an exemption certificate.
<b>ADMINISTRATION:</b>	Same as General Property Tax. Local legislative body and State Tax Commission must approve issuance of certificate with concurrence of Michigan Strategic Fund.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Distributed on same basis as general property tax except that all or part of school district share is credited to the School Aid Fund.

## OBSOLETE PROPERTIES

<b>LEGAL CITATION:</b>	M.C.L. 125.2781 et seq.; 2000 PA 146.
<b>YEAR ADOPTED:</b>	2000
<b>BASIS OF TAX:</b>	In lieu of general property taxation for up to 12 years after an exemption is granted. Partial exemption for facility located in a renaissance zone. New exemptions can not be granted after December 31, 2010; however, existing exemptions in effect as of this date shall remain in effect until their expiration.
<b>MEASURE OF TAX (BASE):</b>	For all taxes levied, state-equalized value of facility in year prior to granting of exemption certificate, excluding land and personal property other than buildings on leased land. For local school operating taxes and the State Education Tax, add the increase in the state-equalized value of the rehabilitated facility to the frozen state-equalized value of the facility.
<b>RATE:</b>	Varies by local unit. Total millage rate for all taxing units. State Treasurer can exempt, for up to six years, up to one-half of the mills levied for local school operating purposes and the State Education Tax.
<b>ADMINISTRATION:</b>	Same as General Property Tax.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Same as General Property Tax, except that revenue that would be attributable to local school districts and intermediate school districts is credited to the State School Aid Fund.

## NEIGHBORHOOD ENTERPRISE ZONE FACILITIES

<b>LEGAL CITATION:</b>	M.C.L. 207.771 et seq.; 1992 PA 147.
<b>YEAR ADOPTED:</b>	1992
<b>BASIS OF TAX:</b>	In lieu of general property taxation for up to 15 years after rehabilitation or completion of facility granted exemption. Partial exemption for facility located in a renaissance zone.
<b>MEASURE OF TAX (BASE):</b>	<p><i>New facility:</i> state-equalized value of facility, excluding land.</p> <p><i>Rehabilitated facility:</i> state-equalized value of facility in year prior to granting of exemption certificate, excluding land. For last three years of exemption, state equalized value of facility, excluding land.</p> <p><i>Homestead facility:</i> state-equalized value of facility, excluding land.</p>
<b>RATE:</b>	<p><i>New facility – principal residence:</i> 1/2 of the state average tax rate in the immediately preceding calendar year on other principal residence or qualified agricultural property.</p> <p><i>New facility – non-principal residence:</i> 1/2 of the state average tax rate in the immediately preceding calendar year on other commercial, industrial, and utility property.</p> <p><i>Rehabilitated facility:</i> total property tax rate levied under General Property Tax, varies by local unit.</p> <p><i>Homestead facility:</i> total property tax rate levied under General Property Tax less the sum of one-half of the operating tax rate levied by the local unit in which the facility is located and one-half of the operating tax rate levied by the county in which the facility is located.</p> <p><u>Two Years before Expiration of Exemption</u>  <i>New, rehabilitated, and homestead facilities:</i> total property tax rate levied under General Property Tax less the sum of three-eighths of the operating tax rate levied by the local unit in which the facility is located and three-eighths of the operating tax rate levied by the county in which the facility is located.</p> <p><u>One Year before Expiration of Exemption</u>  <i>New, rehabilitated, and homestead facilities:</i> total property tax rate levied under General Property Tax less the sum of one-fourth of the operating tax rate levied by the local unit in which the facility is located and one-fourth of the operating tax rate levied by the county in which the facility is located.</p> <p><u>Year of Expiration of Exemption</u>  <i>New, rehabilitated, and homestead facilities:</i> total property tax rate levied under General Property Tax less the sum of one-eighth of the operating tax rate levied by the local unit in which the facility is located and one-eighth of the operating tax rate levied by the county in which the facility is located.</p>
<b>ADMINISTRATION:</b>	Same as General Property Tax.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Same as General Property Tax.

## ENTERPRISE ZONE FACILITIES

<b>LEGAL CITATION:</b>	M.C.L. 125.2101 et seq.; 1985 PA 224.
<b>YEAR ADOPTED:</b>	1985
<b>BASIS OF TAX:</b>	In lieu of general property taxation for up to 10 years after a business is certified as a qualified business.
<b>MEASURE OF TAX (BASE):</b>	State-equalized value of real and personal property of a qualified business exclusive of exemptions. Partial exemption for facility located in a renaissance zone.
<b>RATE:</b>	<i>Qualified business:</i> 1/2 the statewide average property tax rate on commercial, industrial, and utility property. <i>Certain other businesses:</i> the local property tax rate, with credits that can reduce rate to statewide average property tax rate.
<b>ADMINISTRATION:</b>	Issuance of certification requires approval of Michigan Enterprise Zone Authority.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	To the local unit in which such property is located, with certain exceptions.

## COMMERCIAL REHABILITATION

<b>LEGAL CITATION:</b>	M.C.L. 207.841 et. seq.; 2005 PA 210.
<b>YEAR ADOPTED:</b>	2005 (The Commercial Redevelopment Act, 1978 PA 255, was effectively allowed to sunset with the provision that new exemptions could not be issued after December 31, 1985. Exemptions issued in 1985 for 12 years expired in 1997.)
<b>BASIS OF TAX:</b>	In lieu of general property taxation for up to 10 years after completion of facilities granted exemption certificates within commercial rehabilitation districts.
<b>MEASURE OF TAX (BASE):</b>	Taxable value of facilities, excluding land and personal property, in year prior to granting of exemption certificate. Exemption certificate creates alternate taxable value for all tax levies except school operating millages and State Education Tax.
<b>RATE:</b>	Same as General Property Tax.
<b>ADMINISTRATION:</b>	Same as General Property Tax. County can object to creation of district. Local legislative body and State Tax Commission must approve issuance of certificate with concurrence of Michigan Strategic Fund. Authority to issue certificates expires on December 31, 2015, but an exemption then in effect will continue until expiration of the certificate.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Distributed on same basis as general property tax.

## LOW GRADE IRON ORE SPECIFIC

<b>LEGAL CITATION:</b>	M.C.L. 211.621 et seq.; 1951 PA 77.
<b>YEAR ADOPTED:</b>	1951
<b>BASIS OF TAX:</b>	In lieu of general property taxation.
<b>MEASURE OF TAX (BASE):</b>	Rated annual capacity of production and treatment plant, and gross ton value of ore.
<b>RATE:</b>	Prior to full production: rated annual capacity times 0.55% of value per gross ton, times percent completion of plant. Subsequently: 5-year average production times 1.1% of value per gross ton.
<b>ADMINISTRATION:</b>	Assessment: Township or city assessor; Michigan Department of Natural Resources, Geological Division. Collection: Township or city treasurer.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Distributed to local units in same proportion as general property tax except that school portion is paid to School Aid Fund.

## COUNTY REAL ESTATE TRANSFER

<b>LEGAL CITATION:</b>	M.C.L. 207.501 et seq.; 1966 PA 134.
<b>YEAR ADOPTED:</b>	1966
<b>BASIS OF TAX:</b>	Privilege of transferring any interest in real property.
<b>MEASURE OF TAX (BASE):</b>	Fair market value of written instrument. Numerous exemptions including transfers of less than \$100, instruments where a government is seller or grantor, certain conveyances between spouses, transfers of mineral rights.
<b>RATE:</b>	55 cents per \$500 (0.11%) or fraction thereof of total value. Wayne County is statutorily authorized to impose a rate of 75 cents per \$500 (0.15%), but voter approval is required. It currently levies the tax at a rate of 0.11%.
<b>ADMINISTRATION:</b>	Supervision: Department of Treasury. Collection: Treasurer of county in which transfer occurs.
<b>REPORT AND PAYMENT:</b>	Due when transaction is recorded.
<b>DISPOSITION:</b>	General fund of county in which tax is collected.

## TRANSPORTATION TAXES

*Gasoline Tax*

*Diesel Fuel Tax*

*Motor Carrier Fuel Tax*

*Motor Carrier Single State Registration Tax*

*Liquefied Petroleum Gas Tax*

*Aviation Gasoline Tax*

*Aircraft Weight Tax*

*Snowmobile Registration Tax*

*Watercraft Registration Tax*

*Motor Vehicle Registration Tax*





## GASOLINE

<b>LEGAL CITATION:</b>	M.C.L. 207.1001 et seq.; 2000 PA 403; Sec. 9, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1925. The Gasoline Tax (1925 PA 150), the Diesel Fuel Tax (1951 PA 54), and the Liquefied Petroleum Gas Tax (1953 PA 147) were recodified by the Motor Fuel Tax Act, 2000 PA 403.
<b>BASIS OF TAX:</b>	Privilege of using highways.
<b>MEASURE OF TAX (BASE):</b>	<p>Gasoline sold or used in operating vehicles on public highways.</p> <p><i>Exemption for gasoline used in</i></p> <ol style="list-style-type: none"> <li>(1) vehicles owned by state or federal government;</li> <li>(2) vehicles owned or leased and operated by units of local government.</li> <li>(3) school buses owned and operated by private nonprofit parochial, or denominational schools, college, or universities.</li> </ol> <p><i>Refund of tax on gasoline purchased for</i></p> <ol style="list-style-type: none"> <li>(1) a purpose other than operation of a vehicle on public highways;</li> <li>(2) five or more person capacity vehicles operated under a municipal franchise;</li> <li>(3) passenger vehicles used to transport school children;</li> <li>(4) community action agencies.</li> </ol>
<b>RATE:</b>	19 cents per gallon, except 12 cents per gallon on gasoline that is at least 70% ethanol. The reduced rate is effective until September 1, 2016, or until the cumulative tax revenue difference for gasoline containing at least 70% ethanol and diesel fuel containing at least 5% biodiesel taxed at 12 cents per gallon compared to what would have been collected at the 19 and 15 cents per gallon rates is greater than \$2.5 million, whichever is sooner.
<b>ADMINISTRATION:</b>	Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due by 20th of each month.
<b>DISPOSITION:</b>	<p><u>Michigan Transportation Fund:</u></p> <p>2% to Recreation Improvement Fund;</p> <p>Sufficient sums for administrative and collection costs;</p> <p>\$3 million to Rail Grade Crossing Account;</p> <p>\$3 million to Local Bridge Fund;</p> <p>Revenue from three cents of tax to State Trunkline Fund and local road agencies;</p> <p>Revenue from one cent of tax to state and local bridges;</p> <p>\$43 million for state debt reduction;</p> <p>10% earmarked to Comprehensive Transportation Fund;</p> <p>\$5 million to Local Bridge Fund;</p> <p>\$40.3 million to Transportation Economic Development Fund;</p> <p>\$33 million to Local Program Fund</p> <p>of remainder,</p> <ol style="list-style-type: none"> <li>39.1% to State Trunkline Fund;</li> <li>39.1% to county road commissions;</li> <li>21.8% to cities and villages.</li> </ol>
<b>2004-05 COLLECTIONS:</b>	\$929,889,000
<b>2004-05 COLLECTIONS/UNIT:</b>	\$48.9 million per 1 cent.

## DIESEL FUEL

<b>LEGAL CITATION:</b>	M.C.L. 207.1001 et seq.; 2000 PA 403; Sec. 9, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1951. The Gasoline Tax (1925 PA 150), the Diesel Fuel Tax (1951 PA 54), and the Liquefied Petroleum Gas Tax (1953 PA 147) were recodified by the Motor Fuel Tax Act, 2000 PA 403.
<b>BASIS OF TAX:</b>	Privilege of using highways.
<b>MEASURE OF TAX (BASE):</b>	<p>Diesel fuel sold or used in operating vehicles on public highways.</p> <p><i>Exemption for diesel fuel used in or for:</i></p> <ul style="list-style-type: none"> <li>(1) vehicles owned by the state or federal government;</li> <li>(2) vehicles owned or leased and operated by units of local government;</li> <li>(3) school buses owned and operated by private nonprofit parochial, or denominational schools, college, or universities;</li> <li>(4) off-highway use;</li> <li>(5) home heating oil;</li> <li>(6) export;</li> <li>(7) as other than motor fuel;</li> <li>(8) for use in trains.</li> </ul> <p><i>Refund of tax on diesel fuel purchased for use in ten or more person capacity vehicles operated under a municipal franchise.</i></p>
<b>RATE:</b>	15 cents per gallon, except 12 cents per gallon on diesel that contains at least 5% biodiesel. The reduced rate is effective until September 1, 2016, or until the cumulative tax revenue difference for gasoline containing at least 70% ethanol and diesel fuel containing at least 5% biodiesel taxed at 12 cents per gallon compared to what would have been collected at the 19 and 15 cents per gallon rates is greater than \$2.5 million, whichever is sooner.
<b>ADMINISTRATION:</b>	Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due by 20th of each month.
<b>DISPOSITION:</b>	Michigan Transportation Fund (See Gasoline Tax).
<b>2004-05 COLLECTIONS:</b>	\$117,824,000
<b>2004-05 COLLECTIONS/UNIT:</b>	\$7.9 million per 1 cent.

### Diesel Fuel Taxation in Michigan

Public Act 668 of 2002 eliminated the two-tier system of diesel fuel taxation under the Motor Fuel Tax Act (2000 PA 403) and centralized the collection of diesel fuel taxes in Michigan. Prior to PA 668, a portion of the diesel fuel tax (9 cents per gallon) was collected at the supplier level and the remainder (6 cents per gallon) was collected at the retail level. The total fuel tax collected from each level was equal to 15 cents per gallon. As a result of PA 668 (effective April 1, 2003) the entire 15 cents per gallon is collected at the supplier level. This change in tax collection made diesel fuel taxation consistent with gasoline taxation. Both the gasoline and diesel tax are collected by the supplier and passed along to the consumer and reflected in the per-gallon “pump” price.

PA 668 was part of a package of legislation that aimed to simplify the collection of diesel fuel taxes. Another piece was PA 667 of 2002, which amended the Motor Carrier Fuel Tax, a tax on motor fuel consumed in Michigan. PA 667 changed the definition of “motor carrier” to only include *interstate* motor carriers. This change effectively made *intrastate* motor carriers exempt from the Tax and therefore only subject to the Motor Fuel Tax. PA 667 also lowered the Motor Carrier Fuel Tax from 21 cents per gallon to 15 cents per gallon and eliminated the Sales Tax refund for fuel purchased in Michigan. This change brought the Motor Carrier Fuel Tax in line with the Motor Fuel Tax, at 15 cents per gallon.

Michigan is one of only a few states that collect sales tax on motor fuels. Michigan is further unique in that it includes applicable federal motor fuel taxes in the base when calculating the sales tax due on motor fuel purchases. Michigan does not, however, include the state motor fuel taxes in the base for determining sales tax liability.

To address the long-standing disincentive for interstate motor carriers to purchase fuel in Michigan caused by the levy of sales tax on motor fuel, changes to the Use Tax were made to make interstate motor carriers who drove in Michigan subject to the Tax. Both the Sales and Use Tax are levied at 6%. Under PA 669 of 2002, interstate motor carriers who paid 15 cents per gallon under the Motor Carrier Fuel Tax are also subject to the 6% Use Tax. The changes incorporated in these three laws simplified the collection of diesel fuel taxes and resulted in motor carriers, both interstate and intrastate, being taxed at the same rate, regardless of where motor fuel was purchased: 15 cents per gallon plus 6% (Sales Tax or Use Tax).

## MOTOR CARRIER FUEL

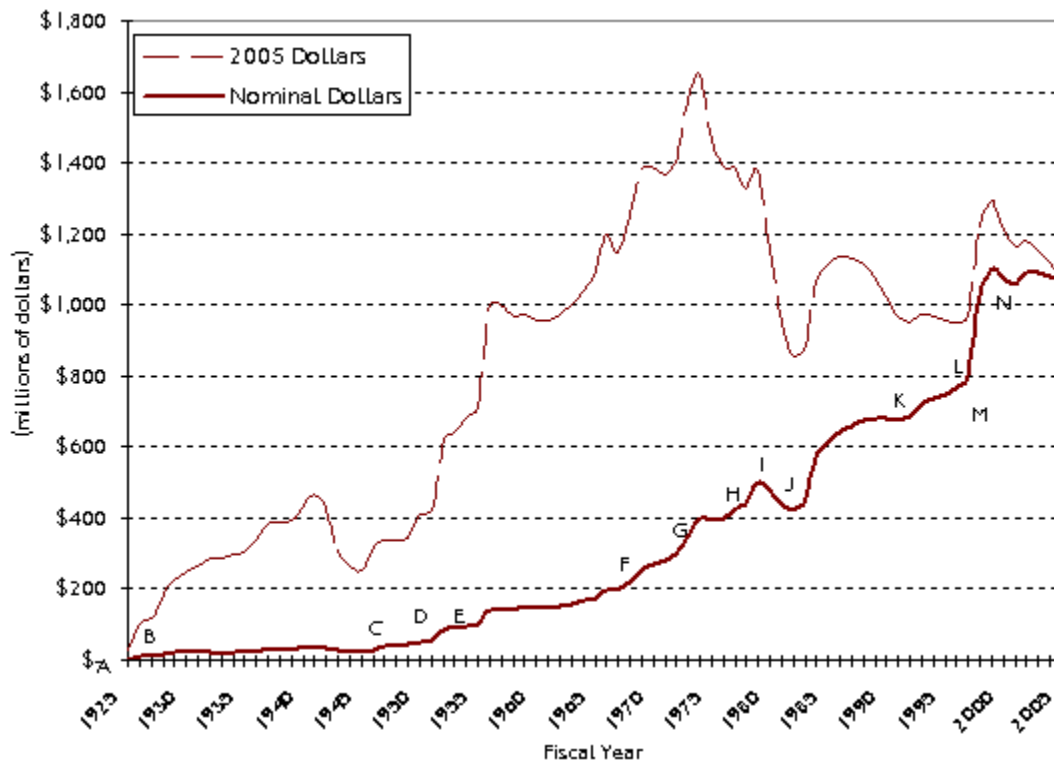
<b>LEGAL CITATION:</b>	M.C.L. 207.211 et seq.; 1980 PA 119; Sec. 9, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1980
<b>BASIS OF TAX:</b>	Privilege of using Michigan highways. Tax applies to <i>interstate</i> motor carriers only. <i>Intrastate</i> motor carriers are subject to the Motor Fuel Tax.
<b>MEASURE OF TAX (BASE):</b>	Motor fuel consumed in operating vehicles on public highways in Michigan.
<b>RATE:</b>	15 cents per gallon except 12 cents per gallon on diesel that contains at least 5% biodiesel. The reduced rate is effective until September 1, 2016, or until the cumulative tax revenue difference for gasoline containing at least 70% ethanol and diesel fuel containing at least 5% biodiesel taxed at 12 cents per gallon compared to what would have been collected at the 19 and 15 cents per gallon rates is greater than \$2.5 million, whichever is sooner.
<b>ADMINISTRATION:</b>	Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Last day of month quarterly.
<b>DISPOSITION:</b>	Michigan Transportation Fund (See Gasoline Tax).
<b>2004-05 COLLECTIONS:</b>	\$27,828,000

## MOTOR CARRIER SINGLE STATE REGISTRATION

<b>LEGAL CITATION:</b>	M.C.L. 478.1-478.8; 1933 PA 254.
<b>YEAR ADOPTED:</b>	1933
<b>BASIS OF TAX:</b>	Privilege of using highways.
<b>MEASURE OF TAX (BASE):</b>	Vehicles operated on highways by common and contract carriers.
<b>RATE:</b>	\$50 per vehicle for trucks or tractors used exclusively for transporting household goods. \$100 per vehicle for all others.
<b>ADMINISTRATION:</b>	Department of Labor and Economic Growth, Public Service Commission; and Department of State Police.
<b>REPORT AND PAYMENT:</b>	Due annually by December 1.
<b>DISPOSITION:</b>	Michigan Transportation Fund and Truck Safety Fund.
<b>2004-05 COLLECTIONS:</b>	\$3,932,000

## MOTOR FUELS

**Chart 14**  
**Michigan Motor Fuel Tax\* Revenues, 1925 - 2005**



- |   |          |        |                                                                                                                                                                                                                                      |
|---|----------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A | 1925     | PA 2   | — Gasoline Tax established at 2 cents per gallon.                                                                                                                                                                                    |
| B | 1927     | PA 150 | — Increased tax rate to 3 cents per gallon; repealed 2 PA 1925.                                                                                                                                                                      |
| C | 1947     | PA 319 | — Diesel Fuel Tax established at 5 cents per gallon.                                                                                                                                                                                 |
| D | 1951     | PA 54  | — Increased Gas Tax rate to 4.5 cents per gallon; added Chapter 2 (Diesel Fuel Tax) to 150 PA 1927 at 6 cents per gallon; repealed 1947 PA 319.                                                                                      |
| E | 1953     | PA 147 | — Added Chapter 3 (Liquefied Petroleum Gas Tax) to 150 PA 1927 at 4.5 cents per gallon.                                                                                                                                              |
| F | 1967(ES) | PA 5   | — Increased tax rates to 7 cents per gallon.                                                                                                                                                                                         |
| G | 1972     | PA 326 | — Gas and Liquefied Petroleum Gas tax rates increased to 9 cents per gallon.                                                                                                                                                         |
| H | 1978     | PA 426 | — Gas and Liquefied Petroleum Gas tax rates increased to 11 cents per gallon.                                                                                                                                                        |
| I | 1980     | PA 118 | — Increased Diesel Fuel Tax rate to 9 cents per gallon.                                                                                                                                                                              |
|   |          | PA 119 | — Raised Diesel Fuel Tax rate to 11 cents per gallon; allowed a 6 cent per gallon discount to commercial vehicles.                                                                                                                   |
| J | 1982     | PA 437 | — Motor Carrier Fuel Tax established at rate equal to Diesel Fuel Tax rate on commercial vehicles for road use based on miles driven in state.                                                                                       |
|   |          |        | — Created formula for altering gas tax rate in 1983 and 1984; set Diesel Fuel and Liquefied Petroleum Gas tax rates equal to Gasoline Tax rate (increased tax rates to 13 cents per gallon in 1983 and 15 cents per gallon in 1984). |
| K | 1992     | PA 225 | — Altered the collection point of Gasoline and Diesel Fuel taxes from wholesalers to suppliers.                                                                                                                                      |
| L | 1996     | PA 584 | — Increased Motor Carrier Fuel Tax rate to 21 cents per gallon with 15-cent credit for fuel purchased in Michigan.                                                                                                                   |
| M | 1997     | PA 83  | — Increased Gasoline Tax rate to 19 cents per gallon.                                                                                                                                                                                |
| N | 2000     | PA 403 | — Gasoline, Diesel Fuel, and Liquefied Petroleum Gas taxes recodified.                                                                                                                                                               |

\* Motor Fuels Taxes include the Gasoline, Diesel Fuel, Liquefied Petroleum Gas, and Motor Carrier Fuel Taxes.

## LIQUEFIED PETROLEUM GAS

<b>LEGAL CITATION:</b>	M.C.L. 207.1151 et seq.; 2000 PA 403; Sec. 9, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1953. The Gasoline Tax (1925 PA 150), the Diesel Fuel Tax (1951 PA 54), and the Liquefied Petroleum Gas Tax (1953 PA 147) were recodified by the Motor Fuel Tax Act, 2000 PA 403.
<b>BASIS OF TAX:</b>	Privilege of using highways.
<b>MEASURE OF TAX (BASE):</b>	Liquefied petroleum gas sold or used in operating vehicles on public highways.  Refund of tax on gasoline purchased for <ol style="list-style-type: none"> <li>(1) a purpose other than operation of a vehicle on public highways;</li> <li>(2) vehicles owned by state or federal government;</li> <li>(3) vehicles owned or leased and operated by units of local government.</li> <li>(4) five or more person capacity vehicles operated under a municipal franchise.</li> </ol>
<b>RATE:</b>	15 cents per gallon.
<b>ADMINISTRATION:</b>	Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Quarterly, by the 20th of each month following the close of the calendar quarter.
<b>DISPOSITION:</b>	Michigan Transportation Fund (See Gasoline Tax)
<b>2004-05 COLLECTIONS:</b>	\$526,000
<b>2004-05 COLLECTIONS/UNIT:</b>	\$35,067 per 1 cent.

## AVIATION GASOLINE

<b>LEGAL CITATION:</b>	M.C.L. 259.203; 1945 PA 327; Sec. 9, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1929
<b>BASIS OF TAX:</b>	Privilege of using aviation facilities.
<b>MEASURE OF TAX (BASE):</b>	Fuel sold or used for propelling aircraft.
<b>RATE:</b>	3 cents per gallon. Refund of 1.5 cents per gallon to airline operators on interstate scheduled operations.
<b>ADMINISTRATION:</b>	Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due by 20th of each month.
<b>DISPOSITION:</b>	State Aeronautics Fund.
<b>2004-05 COLLECTIONS:</b>	\$6,845,000

## AIRCRAFT WEIGHT

<b>LEGAL CITATION:</b>	M.C.L. 259.77; 1945 PA 327; Sec. 9, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1923
<b>BASIS OF TAX:</b>	In lieu of all other general property taxes on aircraft.
<b>MEASURE OF TAX (BASE):</b>	The greater of maximum gross weight or maximum takeoff weight. Many exemptions exist.
<b>RATE:</b>	1 cent per pound.
<b>ADMINISTRATION:</b>	Michigan Department of Transportation, Aeronautics Commission.
<b>REPORT AND PAYMENT:</b>	Due by each December 31.
<b>DISPOSITION:</b>	State Aeronautics Fund.
<b>2004-05 COLLECTIONS:</b>	\$299,000

## SNOWMOBILE REGISTRATION

<b>LEGAL CITATION:</b>	M.C.L. 324.82101-324.82111; 1995 PA 58; Sec. 40, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1995. The former statute (1968 PA 74) was repealed and replaced by 1995 PA 58.
<b>BASIS OF TAX:</b>	Required registration by owner of each snowmobile in state.
<b>MEASURE OF TAX (BASE):</b>	Each snowmobile considered a separate unit subject to registration.
<b>RATE:</b>	Registration for 3-year period, rate is \$22.00.
<b>ADMINISTRATION:</b>	Collection: Michigan Department of State. Enforcement: Department of Natural Resources, county sheriffs.
<b>REPORT AND PAYMENT:</b>	Due by October 1 every three years.
<b>DISPOSITION:</b>	Michigan Conservation and Legacy Fund, Snowmobile Account distributed as follows: Department of Natural Resources: Revenue from \$14.00 of fee; Department of State: Revenue from not more than \$3.00 of fee; Snowmobile Trail Improvement Subaccount: Revenue from \$5.00 of fee.
<b>2004-05 COLLECTIONS:</b>	\$1,672,000

## WATERCRAFT REGISTRATION

LEGAL CITATION:	M.C.L. 324.80115–324.80128; 1995 PA 58; Sec. 40, Art. IX, state Constitution.							
YEAR ADOPTED:	1967. The former statute (1967 PA 303) was repealed and replaced by 1995 PA 58.							
BASIS OF TAX:	In lieu of general property tax for privilege of operating motor boats and other vessels on Michigan waters.							
MEASURE OF TAX (BASE):	Length of boat. Exemptions for lifeboats; hand propelled vessels 16’ or less; non-motorized canoes not used for rental or commercial purposes, all-terrain vehicles; rafts, surfboards, swim floats; vessels used temporarily on state waters.							
RATE:	Registration for 3-year period. Rates for motor boats (in feet):							
	Under 12,	\$14	16-less than 21,	\$42	28-less than 35,	\$168	42-less than 50,	\$280
	12-less than 16,	\$17	21-less than 28,	\$115	35-less than 42,	\$244	50 or more,	\$448
	Separate rates for pontoon boats and motorized canoes, non-powered vessels 12 feet or over, and vessels carrying freight and passengers for hire.							
ADMINISTRATION:	Collection: Michigan Department of State. Enforcement: Department of Natural Resources, county sheriffs.							
REPORT AND PAYMENT:	Due by April 1 every three years.							
DISPOSITION:	Michigan Conservation and Legacy Fund, Waterways Account distributed as follows:							
	Law enforcement and education:				not less than 49%			
	Recreational boating facilities and harbor development:				remainder			
2004-05 COLLECTIONS:	\$10,483,000							

### Motor Vehicle Registrations: Weight versus Value

Until 1983, automobile registration taxes were based on the weight and age of the vehicle. These taxes were determined using a schedule of fees that required occasional revision to reflect inflation, changing funding needs, and automobile market changes. Automobile registration taxes were not a high growth item prior to 1983. Public Act 439 of 1982 changed the basis for collecting automobile registration taxes from weight-based to price-based. Individual owners of motor vehicles built since 1984 pay an initial registration of 0.5% of the list price of the vehicle (the base sticker price) for the first registration, with a minimum of \$30. The taxes decrease by 10% for each of the next three years and then remain constant.

Registration amounts for owners of used automobiles depend on the model year of the vehicle. Registration taxes on automobiles of model years prior to 1984 continue to be based on weight. Registration taxes on automobiles of model years 1984 or later are price- and age-based.

Because they are based on the vehicle price, motor vehicle ad valorem tax revenues depend on the number of vehicle registrations, the age of the autos, and the price of the vehicles. Changing registration taxes from a weight-based system to a price-based system fairly effectively protects the state from the erosion of revenues experienced as cars became lighter. As the prices of automobiles increase, revenues increase to keep pace with inflation.



## MOTOR VEHICLE REGISTRATION

<b>LEGAL CITATION:</b>	M.C.L. 257.801-257.810; 1949 PA 300; Sec. 9, Art. IX, state Constitution.
<b>YEAR ADOPTED:</b>	1905
<b>BASIS OF TAX:</b>	In lieu of general property and other taxes.
<b>MEASURE OF TAX (BASE):</b>	Weight of vehicle – or the type or sales price of vehicle. Elected gross vehicle weight (the empty weight of a vehicle or combination of vehicles plus the weight of the maximum load the owner has elected to carry) for large trucks.

**RATE:** 1. *Personal passenger vehicles purchased new, or vehicles of the 1984 model year or later which are subsequently resold as used, are assessed on the following schedule:*

<u>Base List Price</u>	<u>Tax in 1st Year of Ownership</u>
Up to \$6,000	\$30
\$6,001 to \$7,000	\$33
\$7,001 to \$30,000	\$33, plus \$5 for each \$1,000 above \$7,000 base list price.
More than \$30,000	0.5% of base list price.

The above rates are adjusted annually in accordance with increase in state personal income. During the 2nd, 3rd, and 4th years, the tax on such vehicles is reduced by 10% from the prior year's level and remains constant thereafter.

Additional charges and service fees are levied for special plates bearing insignia (e.g. military veterans) and pictorial scenes of state significance (e.g. the Mackinac Bridge). Also, plates bearing special messages and nicknames ("vanity plates") are available at additional cost.

*Pickup trucks and vans under 5,000 lb., passenger cars, and motor homes purchased before October 1, 1983 are assessed on the basis of the following schedule in lieu of a value tax:*

0-3,000 lb. \$29	4,501-5,000 lb. \$47	6,501-7,000 lb. \$67	8,501-9,000 lb. \$86
3,001-3,500 lb. \$32	5,001-5,500 lb. \$52	7,001-7,500 lb. \$71	9,001-9,500 lb. \$91
3,501-4,000 lb. \$37	5,501-6,000 lb. \$57	7,501-8,000 lb. \$77	9,501-10,000 lb. \$95
4,001-4,500 lb. \$43	6,001-6,500 lb. \$62	8,001-8,500 lb. \$81	Over 10,000 lb. add \$.90/100 lb.

2. Varied rates for specialized vehicles such as buses and taxicabs, motorcycles, certain farm equipment, ambulances and hearses, moving vans.

3. *Commercial pickup trucks under 5,000 lb.:* 0-4,000 lb. \$39; 4,001-4500 lb. \$44; 4,501-5,000 lb. \$49.

4. *Trucks weighing 8,000 lb. or less and tow trucks (\$38 minimum; fee per 100 lb.):*  
0-2,500 lb. \$1.40    4,001-6,000 lb. \$2.20    8,001-10,000 lb. \$3.25    Over 15,000 lb. \$4.39  
2,501-4,000 lb. \$1.76    6,001-8,000 lb. \$2.72    10,001-15,000 lb. \$3.77

5. *For trucks weighing 8,000 lb. or less towing a trailer or for trucks weighing 8,001 lb. and over, road tractors, and truck tractors, a flat fee on elected gross weight (shown here in lbs.):*

0-24,000: \$491	36,001-42,000: \$874	66,001-72,000: \$1,529	115,001-130,000: \$2,448
24,001-26,000: \$558	42,001-48,000: \$1,005	72,001-80,000: \$1,660	130,001-145,000: \$2,670
26,001-28,000: \$558	48,001-54,000: \$1,135	80,001-90,000: \$1,793	145,001-160,000: \$2,894
28,001-32,000: \$649	54,001-60,000: \$1,268	90,001-100,000: \$2,002	Over 160,000: \$3,117
32,001-36,000: \$744	60,001-66,000: \$1,398	100,001-115,000: \$2,223	

**ADMINISTRATION:** Michigan Department of State; certain fees, Michigan Department of Natural Resources.

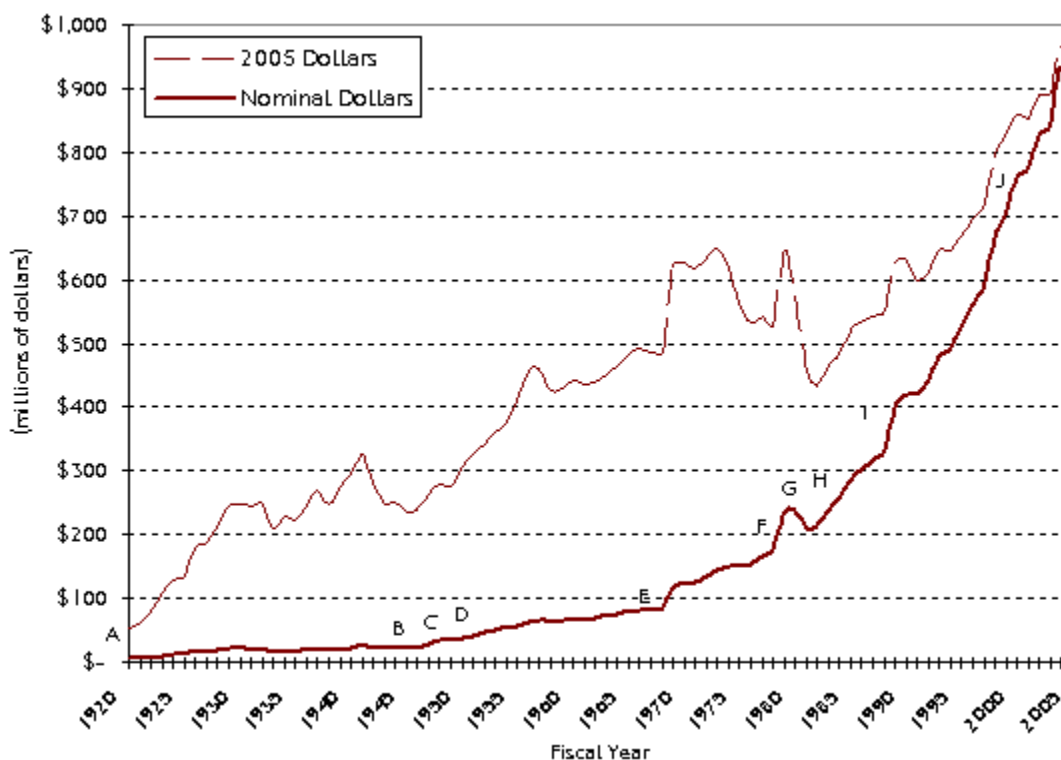
## MOTOR VEHICLE REGISTRATION (CONTINUED)

**REPORT AND PAYMENT:** Registration expires annually on owner's birthday, except for certain commercial vehicles and trailers owned by "persons" other than individuals (last day of Feb.), for motorcycles (March 31), and for historic vehicles (on April 15 in the 5th year after the date of issue). Tax due with new registration.

**DISPOSITION:** Michigan Transportation Fund (See Gasoline Tax); certain fees, Scrap Tire Regulation Fund.

**2004-05 COLLECTIONS:** \$866,580,000

Chart 15  
Michigan Motor Vehicle Registration Tax Revenue, 1920 – 2005



- |   |          |        |                                                                                                                                                              |
|---|----------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A | 1915     | PA 302 | — Motor Vehicle Weight Tax established.                                                                                                                      |
| B | 1945     | PA 255 | — Revised 1915 PA 302.                                                                                                                                       |
| C | 1949     | PA 300 | — Established Motor Vehicle Code with revised registration fee schedules.                                                                                    |
| D | 1951     | PA 55  | — Established new fee schedules for various classifications of vehicle based on vehicle weight.                                                              |
| E | 1967(ES) | PA 3   | — Established new fee schedules for various classifications of vehicle based on vehicle weight.                                                              |
| F | 1978     | PA 427 | — Established new fee schedules for various classifications of vehicle based on vehicle weight.                                                              |
| G | 1982     | PA 439 | — Established new fee schedules for various classifications of vehicle based on vehicle weight.                                                              |
|   |          |        | — Replaced weight tax with a value tax of 0.4% of purchase price for personal passenger vehicles purchased after September 30, 1983.                         |
| H | 1983     | PA 165 | — Required value tax of 0.5% of list price for personal passenger motor vehicles purchased after September 30, 1983 based on manufacturer's base list price. |
| I | 1987     | PA 238 | — Increased tax imposed upon certain passenger vehicles and trucks                                                                                           |
| J | 1997     | PA 80  | — Increased certain truck registration fees.                                                                                                                 |

## CHANGES IN MICHIGAN TAX LAWS

## CHANGES IN MICHIGAN TAX LAWS, 2004 THROUGH 2006

### Tax Administration

- 2004 PA 108: Provides a \$2.50 per parcel collection fee to be retained from the proceeds of the State Education Tax (SET) by local units of government that would not otherwise levy summer taxes and by counties collecting the SET on behalf of affected local units.
- 2006 PA 5-II: Requires the Department of Treasury to allow for an informal conference on certain tax matters, to notify a taxpayer of potential refunds during an audit, and to allow a taxpayer to claim credits to offset against debits determined during an audit.
- PA 12: Amends the General Property Tax Act to allow certain property tax assessments to be corrected during the July or December Board of Review.
- PA 174: Allows business property tax disputes to be appealed directly to the Michigan Tax Tribunal and bypass the March Board of Review beginning with the 2007 tax year. Modifies filing deadlines.
- PA 626: Amends the General Property Tax Act to require that \$5 of the \$10 fee on tax-delinquent property, and the property tax administration fee paid to the State, be deposited in the Land Reutilization Fund rather than the Delinquent Property Tax Administration Fund.
- PA 646: Amends the General Property Tax Act to require assessors to place property eligible for state payment in lieu of taxes (PILT) on a separate assessment roll.

### Income Taxes

#### Personal Income Tax

- 2005 PA 160: Creates a checkoff on the income tax return to allow a taxpayer to contribute \$5 or more of his or her refund to the Children's Trust Fund, beginning January 1, 2005.
- PA 214: Creates a deduction equal to all or a portion of certain equity investment gains beginning in tax years after 2006.
- PA 234: Replaces the tax credit associated with certain investments in the Michigan Early Stage Venture Capital Investment Fund with a tax voucher. Allows a taxpayer to use a tax voucher to pay a tax liability for years after 2008.
- 2006 PA 52: Expands the historic preservation credit for the rehabilitation of certain historic buildings, structures, and objects outside of local historic districts.
- PA 319: Allows a taxpayer to claim a refundable credit, equal to 4.5% of the personal exemption, in the tax year for which he or she had a certificate of stillbirth from the Department of Community Health.
- PA 372: Allows a taxpayer to claim a refundable credit equal to 10% of the Federal Earned Income Tax Credit.

- PA 514: Allows a taxpayer to claim a non-refundable credit equal to 75% of the contribution to a reserve fund associated with an Individual or Family Development Account.

### Business Privilege Taxes

#### Single Business Tax

- 2005 PA 233: Replaces the tax credit associated with certain investments in the Michigan Early Stage Venture Capital Investment Fund with a tax voucher. Allows a taxpayer to use a tax voucher to pay a tax liability for years after 2008.
- PA 289-292: Allows a refundable credit for 15% of the property taxes paid on industrial personal property for tax years 2006 through 2009.
- PA 293-294: Allows a credit for 100% of the personal property taxes associated with high-tech or manufacturing jobs transferred to Michigan from outside the state. This credit expires December 31, 2009.
- PA 295: Changes the tax base apportionment formula from a weighted formula based on 5% property, 5% payroll, and 90% sales to one based on 3.75% property, 3.75% payroll, and 92.5% sales. This change is effective for tax years 2006 and 2007. For tax years after 2007, the formula is weighted 2.5% property, 2.5% payroll, and 95% sales.
- PA 296: Extends, for four years, a provision allowing a "spun off" corporation to exclude sales made to its former parent corporation when calculating its sales factor used in apportionment, contingent upon certain conditions being met.
- 2006 PA 53: Expands the historic preservation credit for the rehabilitation of certain historic buildings, structures, and objects outside of local historic districts.
- PA III-II3: Creates a category for brownfield property tax credits equal to \$200,000 or less and provides a separate approval process for such credits. Allows unused credits to be carried forward into the next year. Allows a taxpayer to assign all or a portion of a brownfield property tax credit to another taxpayer.
- PA 224: Repeals 2006 PA 113, which allows a taxpayer to assign all or a portion of a brownfield property tax credit to another taxpayer. PA 113 was not given immediate effect and therefore would not take effect until 2007. PA 224 is identical to PA 113; however, it was granted immediate effect with a retroactive effective date of January 2006.
- PA 482: Refundable credit equal to 3.9% of the compensation paid to employees at a facility in Troy engaged in research and development of a two-mode hybrid car engine.

## CHANGES IN MICHIGAN TAX LAWS, 2004 THROUGH 2006

### Quality Assurance Assessment Fees

- 2004 PA 393: Extends sunset date from September 30, 2004 to October 1, 2007.
- 2005 PA 83: Authorizes the quality assurance assessment fee for community mental health plans as specialty prepaid health plans.
- PA 84: Defines specialty prepaid health plans as an additional provider type covered under health maintenance organizations.
- PA 187: Includes county-owned nursing homes in the nursing home and hospital long-term care facilities and changes the basis of the tax from a bed tax to a tax based on non-Medicare bed days. Extends the sunset date for the hospital quality assurance assessment fee from October 1, 2007 to October 1, 2008.

### Casino Gaming Tax

- 2004 PA 306: Beginning September 1, 2004 an additional 6% wagering tax (on top of 18%) was imposed on casinos in the City of Detroit subject to several provisions that may cause the rate to increase or decrease in the future. The additional revenues are allocated 1/3 to the city, 7/12 to the General Fund, and 1/12 to the Agriculture Equine Industry Development Fund. Provisions are made for payments to be made directly to the city with offsetting reductions in the amounts paid to the State. Casinos failing to become fully operational ("permanent") until after July 1, 2009, would pay higher additional tax rates: 7% in 2009, 8% in 2010, and 9% in 2011. Once a casino is certified to be fully operational, the additional tax rate is reduced from 6% or higher to 1%, entirely payable to the city.

### Commercial Mobile Radio Service Tax

- 2004 PA 89: Provides a payment of \$12 million from the CMRS Fund to the State Building Authority to cover debt service in FY04.
- 2006 PA 74: Provides a payment of \$15 million from the CMRS Fund to the State Building Authority to cover debt service in FY06.
- PA 249: Extends the sunset from December 31, 2006, to December 31, 2007.

### Accommodations (Hotel-Motel) Tax

- 2006 PA 609: Increases the minimum population, from 600,000 to 750,000, of a county in which the accommodations tax under PA of 1985 is collected.

### Sales-Related Taxes

#### Sales Tax

- 2004 PA 172,173,174,175: Taken together, the bills authorize the state's participation in the Streamlined Sales Tax Project, a multi-state effort to simplify sales and use tax collection and administration thereby increasing compliance with the taxes. To the extent that voluntary compliance is increased for remote sales involving mail order and Internet media, some portion of the estimated \$250 million to \$300 million would be collected.
- 2006 PA 17: Exempts certain aircraft and aircraft parts temporarily located in Michigan.
- PA 69: Reduces the amount of auto-related sales tax revenue deposited into the Comprehensive Transportation Fund by \$11.1 million for FY06 and increases the amount of revenue deposited into the General Fund by the same amount.
- PA 577: Amends the Streamlined Sales and Use Tax Revenue Equalization Act to allow a nonprofit organization that sold an item at a charitable auction to claim a tax refund of 6% of the proceeds over the item's fair market value.
- PA 590: Exempts the sale of taxable personal property by the organizing entities of certain sporting events (PGA Championship, NCAA Men's Basketball Championship, and NCAA Men's Ice Hockey Championship).
- PA 657: Allows the State Treasurer to enter into an agreement with a motion picture production company to provide tax credits based on the level of spending in Michigan. Limits the total amount of credits to \$7 million in any one year and holds the School Aid Fund harmless.
- PA 665: Exempts additions made to county long-term medical care facilities.
- PA 669: Maintains the exemptions for certain telecommunications machinery and equipment.

#### Use Tax

- 2004 PA 172: See 2004 Public Acts 172-175 described in the Sales Tax portion of this section.
- 2006 PA 18: Exempts certain aircraft and aircraft parts temporarily located in Michigan.
- PA 666: Exempts additions made to county long-term medical care facilities.
- PA 670: Maintains the exemptions for certain telecommunications machinery and equipment.
- PA 673: Exempts the sale of taxable property and services by the organizing entities of certain sporting events (PGA Championship, NCAA Men's Basketball Championship, and NCAA Men's Ice Hockey Championship).

## CHANGES IN MICHIGAN TAX LAWS, 2004 THROUGH 2006

### Tobacco Products Tax

- 2004 PA 164: Increased the tax on a pack of cigarettes from \$1.25 to \$2.00 effective July 1, 2004. Also the tax on other tobacco products was increased from 20% of the wholesale price to 32% of the wholesale price. The bill also specifies the distribution of tobacco products tax revenues to support various expenditures in the state budget.

### Uniform City Utility Users Tax

- 2005 PA 197: Eliminates the requirement that the tax rate be lowered when more than \$45 million in revenue is collected and requires all of the tax revenue collected to be used to hire or retain police officers.

### Property Taxes

#### General Property Tax

- 2004 PA 4: Amends the definition of "standard tools."
- 2005 PA 114: Increases the maximum household income of a taxpayer who is eligible to defer the collection of summer property taxes from \$35,000 in 2005, to \$37,500 in 2006, and to \$40,000 in 2007 and beyond.
- PA 165: Exempts owner of residential rental property located in a renaissance zone from having to file an affidavit that the property is in compliance with applicable State and local laws if the property was in compliance in December of the immediately preceding tax year.
- 2006 PA 114: Allows a totally and permanently disabled sole beneficiary of a trust to receive a principal residence or qualified agricultural exemption.
- PA 143: Allows townships to appoint two alternate members to the Board of Review.
- PA 214: Includes farming operations that harvest cervidae on-site in the definition of "agricultural operations" and makes such property eligible for the qualified agricultural property exemption.
- PA 278: Includes game bird hunting preserve in the definition of "agricultural operations" and makes such property eligible for the qualified agricultural property exemption.
- PA 326: Exempts federally-qualified health centers from real and personal property taxes effective with taxes levied in December 2004.
- PA 376: Includes raising, breeding, training, leasing and boarding horse in the definition of "agricultural operations" and makes such property eligible for the qualified agricultural property exemption.
- PA378 & 380: Exempts a limited amount of qualified forest property from local school operating taxes. Allows the transfer of qualified forest property from one owner to another owner without the property being reassessed, contingent upon the property remaining as qualified forest property.

- PA 550: Exempts from the tax biomass gasification systems, thermal depolymerization systems, and methane digesters.

- PA 612: Allows local units of government to exempt certain nonprofit-owned single family dwellings from the tax for a maximum of two years.

- PA 624: Requires that in each city or township where the State Treasurer collected the State Education Tax in the summer of 2005, the city or township will have to collect the Tax beginning in the summer of 2006.

- PA 633: Includes "wind energy system" in the definition of personal property, thereby making such a system eligible for an alternative energy tax exemption.

- PA 664: Provides a formula for calculating the portion of the taxable value of a bed and breakfast that is eligible for the principal residence exemption.

- PA 681: Exempts property owned and occupied by certain nonprofit nursing homes and adult foster care facilities.

### Commercial Forest Tax

- 2006 PA381,382,383: Creates a separate tax rate, equal to 15 cents per acre less than the standard tax rate for commercial forestland, for land that is subject to a sustainable forest conservation easement. Increases the tax on commercial forestland from \$1.10 per acre to \$1.20 per acre beginning January 1, 2007, until December 31, 2011, and by five cents per acre on January 1, 2012 and every five years after. Establishes a minimum size of 40 contiguous acres to be considered commercial forestland.

### Private Forest Tax

- 2006 PA 378: Repeals the tax effective September 1, 2007.

### Industrial Facilities Tax

- 2005 PA 118: Expands the definition of "industrial property" to include the operation of a logistical optimization center, which is defined as a sorting and distribution center that supports an assembly center and its manufacturing process.
- PA 251: Allows a specific industrial facilities exemption issued in Fenton, which expired after seven years in 2003, to be extended, effective December 30, 2005, for five years to accommodate a manufacturing operation that is being moved from Whitmore Lake.
- 2006 PA 22: Allows a facility in Port Huron to be granted an industrial facilities exemption retroactively to October 2001.
- PA 483: Modifies the definition of "qualified commercial activity" to include certain warehousing, distribution, logistics, and communication facilities.

## CHANGES IN MICHIGAN TAX LAWS, 2004 THROUGH 2006

### Obsolete Properties Tax

- 2006 PA 70: Modifies the definition of “rehabilitation” to include adding additional stories to a facility or adding additional space to an existing level.
- PA 667: Allows facilities in the cities of Bay City and Adrian to be eligible for the tax abatement retroactively.

### Neighborhood Enterprise Zone Facilities Tax

- 2005 PA338-340: Allows the tax to be collected, in lieu of general property taxes, for up to 15 years as opposed to 12 years. Also, allows existing exemptions to be extended for up to 3 additional years. Adds a new category called “homestead facility” exempt from the general property tax and eligible for the alternative tax.
- 2006 PA 349: Allows a facility in the city of Ecorse to obtain the tax abatement despite the fact that it obtained a building permit before it applied for the abatement.
- PA 661: Increases the share, from 10% to 15%, of a local unit’s total acreage that can be composed of a neighborhood enterprise zone containing only homestead facilities.

### Commercial Rehabilitation Tax

- 2005 PA 210: Allows a city, village or township to create a commercial rehabilitation district; allows an owner of a “qualified facility” to apply for a tax abatement; exempts a “qualified facility” from property taxes; provides for the levy of a Commercial Rehabilitation Tax on the “qualified facility”; and prohibits new exemptions from being granted after December 31, 2015.
- 2006 PA 554: Extends the tax to multi-family residential property located in a commercial rehabilitation district, reduces the minimum size of a district from 75 acres to 3 acres, deletes the size and vacancy requirement for a qualified facility, and includes facilities that are allocated a new markets credit by the Internal Revenue Code.

### Transportation Taxes

#### Gasoline Tax

- 2006 PA 268: Reduces rate for gasoline that contains at least 70% ethanol to 12 cents per gallon.

#### Diesel Fuel Tax

- 2006 PA 268: Reduces rate for diesel fuel that contains at least 5% biodiesel to 12 cents per gallon.

#### Motor Carrier Fuel Tax

- 2006 PA 346: Reduces rate for diesel fuel that contains at least 5% biodiesel to 12 cents per gallon.

#### Snowmobile Registration Tax

- Prop. 2006-01: Creates, within Section 40 of Article 9 of the state Constitution, the Snowmobile Account within the Michigan Conservation and Recreation Legacy Fund to receive snowmobile registration revenue.
- 2004 PA 587: Creates, within statute, the Michigan Conservation and Recreation Legacy Fund and various restricted accounts created by Proposal 2006-01. Transfers the balance of the Snowmobile Registration Fee Fund to the Snowmobile Account. Dedicates revenue to the Account that previously was deposited in the Fund. Prescribes the allowable uses of the Account, which are the same as those of the Fund.

#### Watercraft Registration Tax

- Prop. 2006-01: Creates, within Section 40 of Article 9 of the state Constitution, the Waterways Account within the Michigan Conservation and Recreation Legacy Fund to receive watercraft registration revenue.
- 2004 PA 587: Creates, within statute, the Michigan Conservation and Recreation Legacy Fund and various restricted accounts created by Proposal 2006-01. Transfers the balance of the Waterway Fund to the Waterways Account. Dedicates revenue to the Account that previously was deposited in the Fund. Prescribes the allowable uses of the Account, which are the same as those of the Fund. Requires that not less than 49% of watercraft registration fee revenue be used for law enforcement and education.



## GLOSSARY OF TERMS

**Ad Valorem Tax:** A tax computed from the value of a property. Property taxes and part of the Michigan vehicle weight tax are levied based on the value of the property or automobile. Contrasted with these taxes are most special assessments, which are levied based on a measure of how the property is benefited by a capital improvement such as frontage, or the prior method of taxing vehicle registrations, which was the weight of the automobile.

**Carryback:** A loss sustained or a portion of a credit not used in a given period that may be deducted from taxable income for a prior period.

**Collateral Heirs:** Persons who receive the assets of an individual who has died.

**Earmarked:** The dedication or setting aside of assets or revenues for a specific use.

**Excise Tax:** A tax levied on the purchase of individual products and services. Taxes levied on tobacco products, alcohol, beer and wine, gasoline are examples of excise taxes. Contrasted with these are general sales and use taxes that are levied because a retail sale has occurred rather than because of the product purchased.

**Fiscal Year:** An accounting period of twelve months at the end of which a government determines its financial condition and the results of its operations and closes its books. The state fiscal year runs from October 1 through September 30 of the following year. Many Michigan local governments have fiscal years that run quarterly: January 1 to December 31, April 1 to March 31, July 1 to June 30, or October 1 to September 30.

**Grantor Trusts:** Trusts where the income is taxed to the party placing the money into the trust or some other person under subpart E of subchapter J of the federal internal revenue code.

**Mill:** One one-thousandth of a dollar of assessed value, meaning that one mill is worth \$1 of tax per \$1,000 of assessed value.

**Nexus:** The amount or level of presence in a state that is required before a company is subject to taxation by that state.

**Par Value:** The face value of a security.

**Pari-Mutuel:** A system of betting in which the amounts wagered are placed in a pool to be shared by those who bet on the winners minus a percentage for the management.

**Personal Property:** Generally considered things movable. Contrasted with personal property is real property, which is all things attached to the realty. Personal property is embraces both tangible property other than realty and intangible property.

**Severance Tax:** A tax imposed distinctively on removal of natural products such as oil, gas, other minerals, timber, or fish and measured by value or quantity of products removed or sold.

**Situs:** The place where something exists or originates. For tax purposes, examples of situs might include the location of a residence or business, the place of work, and the origination of an estate or trust.

**Specific Tax:** Article IX, Section 3, of the Michigan Constitution provides for the uniform general ad valorem taxation of real and tangible personal property not exempt by law. The Constitution permits the legislature to provide for alternative means of taxation of designated real and tangible personal property in lieu of general ad valorem taxation. These taxes levied in lieu of ad valorem taxes are specific taxes.

**Stumpage Value:** Values determined from log grade value tables.



## GLOSSARY OF TERMS (continued)

**Subchapter S Corporation:** A small business corporation limited to no more than 15 shareholders. Statutorily, it is defined as a corporation electing taxation under subchapter S of chapter 1 of subtitle A of the Internal Revenue Code, sections 1361 to 1379 of the Internal Revenue Code.

**Tangible Assets:** An item that is capable of being perceived especially by the sense of touch. Contrasted with tangible assets are intangible assets, which include items such as stocks, bonds, and bank holdings. Intangible assets were taxed under the property tax in Michigan until 1939, when the state began collecting the Intangibles Tax. The Intangibles Tax was phased out as of January 1, 1998.

**Transient Guest:** A person staying less than 30 consecutive days at a particular establishment.

**True Cash Value:** A cash value of property determined by finding out what one could reasonably expect to get in an “arms length” transaction.

**Value Added:** Microeconomics explains that for a business endeavor to be successful, revenues will be equal to the cost of labor, the cost of materials, depreciation, and interest as well as allowing some profit for the owners or investors. The “value added” is simply the difference between these revenues and the value of the cost of materials purchased from other firms to produce the product.

**Value Added Tax:** A broad-based tax levied on that portion the “value added” of the final product of a business that is over and above the value of the materials it purchased. Each business is taxed on the addition to value it contributes to the final product or service. By applying the tax against the added value, multiple taxation of the same business activity is avoided and transactions between business are treated the same as those between internally integrated operations within a single firm.

There are two methods of arriving at this tax base for a value-added tax: the deduction method and the addition method. Under the deduction method, the value added by any individual firm is equivalent to its total sales receipts less its costs for materials. Michigan utilized the deduction method when it levied the Business Activities Tax from 1953 to 1967. The addition method bases the tax on the total of the firm’s profits, that is federal taxable income, with the addition of items that reflect the value added by the business that are excluded from federal taxation. These include the cost of labor, depreciation, and interest. This method is used in computing the Single Business Tax.

## COLLECTIONS FROM MAJOR MICHIGAN TAXES, 2002-2005

(In Millions)

State Taxes		2002	2003	2004	2005	Data Sources
<b>Income Taxes</b>	Personal Income	\$6,260	\$5,846	\$5,912	\$6,039	A
<b>Business Privilege</b>	Single Business	\$2,052	\$1,957	\$1,860	\$1,937	A
	Unemployment Insurance	946	1,082	1,360	1,513	B
	Oil & Gas Severance	35	54	49	55	A
	Insurance Company Retaliatory	219	230	234	241	A
	Horse Race Wagering	13	12	12	11	A
	Corporate Organization	12	13	20	20	A
	State Casino Gaming	92	91	100	146	A
	Airport Parking Excise	14	14	15	18	A
	Quality Assurance Assessment Fees	-	- *	325	510	A
	Subtotal <sup>7</sup>	\$3,382	\$3,452	\$3,975	\$4,450	
<b>Sales-Related</b>	Sales	\$6,493	\$6,409	\$6,458	\$6,610	A
	Use	1,316	1,236	1,317	1,396	A
	Tobacco Products	641	893	956	1,186	A
	Beer and Wine	50	51	52	52	A
	Liquor Excise	99	104	110	112	A
	Liquor Markup	163	172	182	186	E
	Subtotal <sup>7</sup>	\$8,762	\$8,864	\$9,075	\$9,541	
<b>Property</b>	Utility Property	\$ 141	\$ 133	\$ 115	\$ 100	A
	Estate	141	107	81	107	A
	State Real Estate Transfer	254	258	318	320	A
	State Education	1,579	1,776	1,542	1,794	A
	Subtotal <sup>7</sup>	\$2,115	\$2,274	\$2,056	\$2,320	
<b>Transportation</b>	Gasoline	\$948	\$937	\$927	\$930	A
	Diesel Fuel	143	155	137	146	A
	Motor Vehicle Registration	824	846	935	867	A
	Other	25	26	27	24	A
	Subtotal <sup>7</sup>	\$1,940	\$1,963	\$2,026	\$1,966	A
<b>Total State Taxes<sup>7</sup></b>		<b>\$22,459</b>	<b>\$22,399</b>	<b>\$23,043</b>	<b>\$24,317</b>	
<b>Local Taxes</b>						
<b>Income</b>	City Income	\$ 504	\$ 459	\$ 480	\$ 461	C
<b>Business Privilege</b>	Casino Gaming	\$ 109	\$ 111	\$ 116	\$ 138	F
<b>Sales-Related</b>	Utility Users	\$ 56	\$ 51	\$ 51	\$ 52	C
<b>Property</b>	General Property <sup>7</sup>	\$9,385	\$9,825	\$10,369	\$10,906	D
<b>Total Local Taxes<sup>7</sup></b>		<b>\$10,054</b>	<b>\$10,447</b>	<b>\$11,017</b>	<b>\$11,556</b>	
<b>Total State and Local Taxes<sup>7</sup></b>		<b>\$32,514</b>	<b>\$32,846</b>	<b>\$34,060</b>	<b>\$35,873</b>	

Data Sources: <sup>A</sup> Annual Reports of the State Treasurer (state fiscal year basis).<sup>B</sup> Michigan Unemployment Insurance Agency (state fiscal year basis).<sup>C</sup> State Tax Commission (calendar year basis).<sup>D</sup> State Tax Commission (local fiscal year basis).<sup>E</sup> Michigan Department of Consumer and Industry Services, Liquor Control Commission (state fiscal year basis).<sup>F</sup> Detroit Comprehensive Annual Financial Report (local fiscal year basis).

\* Quality Assurance Assessment Fees collected in 2003 but not reported in Annual Report of State Treasurer.

<sup>7</sup> Omits collections from certain minor taxes.