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**OUTLINE OF THE  
MICHIGAN TAX SYSTEM**

**JANUARY 2011**

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# OUTLINE OF THE MICHIGAN TAX SYSTEM

**JANUARY 2011**

Current Through 95<sup>th</sup> Michigan Legislature (2009-2010 Regular Session)

December 2010

CITIZENS RESEARCH COUNCIL OF MICHIGAN



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# OUTLINE OF THE MICHIGAN TAX SYSTEM

## 2011 Update

Since the last update of this report in June 2008, the state's landscape of state and local taxes has undergone little transformation as no new taxes were enacted, the rates of all major state taxes were unchanged, and the bases of major taxes were largely untouched in any substantive way. Despite the dearth of significant modifications at the state level, there have been a number of targeted tax policy changes, dealing largely with the new Michigan Business Tax. In some cases the changes have been technical in nature, while at other times the focus has been on economic development and job creation.

The scope of tax policy changes enacted over the past two years stands in stark contrast to the two-year period that preceded it. Throughout much of 2006 and 2007 significant structural changes were enacted; beginning with the legislative decision in 2006 to eliminate the Single Business Tax (SBT), the state's 30-year-old business tax. On the heels of this action, tax policy changes in 2007 dealt with a creation of a new business tax to replace the SBT and an increase in the individual income tax rate, the first increase since 1983. The two policy objectives of the various revisions to the state's tax code during the 2006 to 2007 period were: 1) increasing business tax competitiveness, and 2) generating additional revenue. Tax policy changes over the most-recent period have been singular in their focus: providing economic incentives to spur job growth and capital investment.

### Michigan's New Business Tax

Michigan's new main business tax, the Michigan Business Tax (MBT), was signed into law on July 12, 2007 (2007 Public Act 36), and took effect January 1, 2008. Since the time of its enactment, the tax policy committees in the legislature devoted considerable attention to issues involving the implementation of the tax, resulting in a number of amendments to the original statute. (Note: Since becoming law in 2007 and as of this writing (December 2010), a total of 339 bills have been introduced dealing with the new tax.) One of the most visible changes involving the MBT was the creation of a tax

surcharge (2007 PA 145) designed to replace revenue generated by the short-lived expansion of the Sale Tax base. Many of the MBT changes enacted between June 2008 and December 2010 can be classified as technical in nature. As can be expected with any major tax reform effort, a host of issues arise in the implementation phase dealing with definitional, reporting, administrative, and other relatively mundane matters.

In addition to the purely technical matters, legislative attention also addressed issues that may or may not have been fully contemplated during the development of the new tax. In a number of instances these were dealt with on a case-by-case basis, rather than universally, resulting in specific modifications to the tax law. Examples include tax treatment of certain types of business firms, tax accounting practices, and the interaction with tax laws in other countries. In select cases, tax law modifications were designed explicitly to provide taxpayer relief to certain entities – generally in the form of modifications to the base(s) of one or both of the component taxes that make up the MBT. For example, the definition of “gross receipts” (2008 PA 433) was modified in various ways, narrowing the tax base substantially.

In addition to the general and specific tax implementation concerns resulting in MBT changes, the legislature also enacted major tax credits to the MBT with the hope of spurring job creation and capital investment. Despite a steady drumbeat for general business tax relief in the form of an immediate elimination of the MBT surcharge, the legislature enacted a number of industry-specific MBT credits, mostly administered through the Michigan Economic Growth Authority (MEGA). Examples include:

- Film industry production credits (2008 PAs 74, 77, and 86);
- Polycrystalline silicon manufacturing credit (2008 PAs 262 to 267);
- Photovoltaic (solar) energy development and manufacturing credits (2008 PA 270); and

- Battery industry manufacturing and production credits (2008 PA 580).

The direct fiscal impacts of the MBT tax changes vary by credit type and across fiscal years. Individually, credits might not amount to much in the way of foregone revenue in any one year; however, cumulatively they will have a substantial impact on the level of tax resources available to support the state budget in the coming years. In most cases, the credits target nascent industries in the state and evidence of their effectiveness to spur economic growth thus far is spotty. Prospectively, the tax policy challenge facing law makers is how to effectively balance the desire to encourage business development and increase investment through the tax code with the needs of citizens for services financed by the revenues generated by the tax code.

### **Tax Policy and the State Budget**

Within the tax arena, little legislative action has been taken since October 2007 to address the state's chronic budget shortfalls through an increase in state tax revenues or by way of increasing the growth path of existing taxes. While the increase in the individual income tax rate (3.9 percent to 4.35 percent), effective October 1, 2007, and the new tax surcharge on the MBT, effective January 1, 2008, provided some degree of revenue stability to the Fiscal Year 2007-08 (FY2008) budget, these changes fell well-short of solving Michigan's projected future structural budget problems. Furthermore, the additional tax receipts provided by these two tax increases, estimated at \$1.3 billion, were entirely wiped

out by the Great Recession's impact on state revenues (primarily income and consumption taxes) in FY2009 and FY2010.

Over the past two years, the fiscal pressures on the state budget to adopt new taxes or increase the rates/bases of existing taxes to achieve budget balance were moderated by the availability of substantial amounts of temporary federal recovery funding. Entering the FY2011 budget, however, state policy makers face the same decade-long fiscal challenges and a tax structure that is nearly identical to what it was three years ago, when it was last modified. As a result of the Great Recession and the stagnation of the Michigan economy throughout much of the 2000s, the level of resources in the major state funds (General and School Aid) in FY2011 is nearly \$3 billion below where it was in FY2008 following the tax increases of 2007.

### **Conclusion**

Changes to Michigan's tax landscape since June 2008 are best characterized as incremental in nature, as no major modifications have been enacted since the adoption of the new Michigan Business Tax and the increase in the individual income tax rate in 2007. Despite the lack of major changes, the legislature has directed its attention at tax policy changes intended to spur economic growth in the state. In the coming years, these efforts will have to be weighed against the state budget's need for a stable level of resources to support programs and services.



# OUTLINE OF THE MICHIGAN TAX SYSTEM

The Michigan system of state and local taxes contains 53 elements, including 34 identifiable taxes imposed by the state for its own use and 19 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.

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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).)

## Acknowledgment

The Citizens Research Council of Michigan wishes to acknowledge the generous assistance rendered by Michigan Department of Treasury staff in reviewing a draft of this document. However, any errors or omissions are solely the responsibility of the Citizens Research Council of Michigan.



# OUTLINE OF THE MICHIGAN TAX SYSTEM

## Introduction

This outline is designed to be a ready reference to the 53 taxes levied by state and local government in Michigan. It contains information on each of the 34 state and 19 local taxes as of December 31, 2010, including:

- a description of each of the 53 state and local taxes and historical collections from major taxes (pages 1 – 74).
- a summary of major tax law enacted by the state Legislature between January 1, 2007 and December 31, 2010 (pages 76 -79).
- a table of tax collections for fiscal years 2006-2009 (page 82).

## Taxes Defined

A tax is an enforced financial charge exacted by a government for the support of its various functions. State and local governments in Michigan levy several types of taxes. This report categorizes Michigan taxes as follows:

- **Income taxes** are levied based on income earnings. The state and local income taxes are based on federal adjusted gross income. Non-resident local income taxes are based on earnings from within the taxing cities. Only the state and city governments 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 Michigan Business Tax took effect in 2008, replacing the Single Business Tax as the primary privilege tax. In contrast to the Single Business Tax, a value-added tax, the Michigan Business Tax consists of two individual taxes, a business income tax and a modified gross receipts. State government is authorized to levy ten types of business privilege taxes in Michigan, and the only local government authorized to levy one type of business privilege tax is the City of Detroit (Casino Gaming).
- **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 (See box on page 30). 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 (unit-wide special assessments, Low Grade Iron Ore Tax, and the County Real Estate Transfer Tax) and the state government is authorized to levy four ad valorem taxes (State Education Tax, Utility Property Tax, State Real Estate Transfer Tax, and Motor Vehicle Registration Tax). Motor vehicle registration taxes are not typically associated with property taxes; however, because Michigan taxes personal passenger vehicles based on their value, 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 purposes (i.e., operating and capital expenditures). For ease of use, they are grouped as transportation taxes in this outline as opposed to another type of tax.

## 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, in addition to the categorization by tax type, 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.

**Taxes vs. Fees.** Because of the number and variety 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.

# OUTLINE OF THE MICHIGAN TAX SYSTEM

## 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%</li><li>– Beer and Wine Taxes enacted</li><li>– Taxation of liquor initiated with Liquor Markup</li><li>– Horse Race Wagering Tax enacted</li></ul>
<b>1938</b>	Gasoline taxes dedicated for highway purposes by “Anti-Diversion Amendment” to state Constitution
<b>1939</b>	Intangibles Tax collection taken over by the State, 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>	Ban on graduated income tax included in new Constitution
<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>	Food and drugs remove from Sales Tax base by constitutional amendment
<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” Estate 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>2006</b>	Single Business Tax eliminated by legislative enactment of petition-initiated legislation
<b>2007</b>	Michigan Business Tax enacted



## INCOME TAXES

*Personal Income Tax*  
*Uniform City Income Tax*



# PERSONAL INCOME TAX

**LEGAL CITATION:** [M.C.L. 206.1 et seq.](#); 1967 PA 281; [Section 7, Article IX, state Constitution](#).

**YEAR ADOPTED:** 1967

**BASIS OF TAX:** A direct tax on income.

**MEASURE OF TAX (BASE):** Federal adjusted gross income of individuals, estates and trusts, with certain adjustments.

*Additions* 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.

*Subtractions* include personal and dependency exemptions indexed to inflation (\$3,600 for 2010), special exemptions for dependents (\$600 per child under 19 years of age), totally or permanently disabled, senior citizens, certain unemployment compensation recipients (\$2,300 for 2010), and disabled veterans (\$300 for 2010). Also excluded are all or part of:

- (1) interest income from federal government obligations;
- (2) armed forces compensation;
- (3) public retirement or pension benefits; private retirement or pension benefits limited to \$45,120 for the 2010 tax year (\$90,240 for a joint return), limits are indexed each year;
- (4) political contributions up to \$50 (\$100 for a joint return);
- (5) advance tuition payments made under the [Michigan Education Trust Act](#);
- (6) up to \$10,058 for the 2010 tax year (\$20,115 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;
- (7) claims for recovered assets received by Holocaust victims;
- (8) educational savings account contributions up to \$5,000 per education savings account (\$10,000 for a joint return) and interest earned on those contributions;
- (9) income earned and interest, dividends, and capital gains received by residents of a renaissance zone; special provisions exist for estates and trusts;
- (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;
- (11) gain from an initial equity investment made before 2010 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.

*Credits* against tax liability as follows:

(1) [Homestead property taxes](#). Limited to \$1,200, figured as follows:

- (a) general taxpayers — 60% of taxes in excess of 3.5% of household income;
- (b) senior citizens, paraplegics, hemiplegic, quadriplegic, totally and permanently disabled, deaf, or blind taxpayers — 100% of taxes in excess of 0 to 3.5% of household income, varying with size of household income.

(2) [Property taxes on rented homesteads](#). Equal to 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 thereabove.

(3) [Farmland property taxes](#). 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.



## PERSONAL INCOME (CONTINUED)

- (4) City income taxes. 

<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 20% 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 (includes the cash value of food items donated if a vendor makes a matching contribution of similar items),
- (7) Historic rehabilitation. 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. Credit varies with household income, number of exemptions, and heating costs. Excludes dependent full-time students.
- (10) Donated automobiles. A 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.
- (11) College tuition. 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 (\$162 in 2010), in a tax year where the taxpayer has a certificate of stillbirth from the Department of Community Health.
- (15) Individual or Family Development Account. Equal to 75% of the contribution a taxpayer makes to a reserve fund associated with an Individual or Family Development Account.

## PERSONAL INCOME (CONTINUED)

(16) Energy efficient qualified home improvement. Refundable credit available for tax years 2009 to 2011, equal to 10% of the purchase price and installation of improvement item, up to \$75 (\$150 for a joint return) for taxpayers with AGI up to \$37,500 (\$75,000 for a joint return).

(17) Renewable energy standard. Available for tax years 2009 to 2011, equal to a percentage of the additional utility charges paid imposed by utilities to comply with new renewable energy standards, for taxpayers with AGI up to \$65,000 (\$130,000 for a joint return).

(18) Venture Investment. Credit available for tax years 2010 to 2013, equal to 25% of the amount of a qualified investment in a qualified business.

### RATE:

4.35% from October 1, 2007, until September 30, 2011.

4.25% from October 1, 2011, until September 30, 2012.

4.15% from October 1, 2012, until September 30, 2013.

4.05% from October 1, 2013, until September 30, 2014.

3.95% from October 1, 2014, until September 30, 2015.

3.90% from October 1, 2015 and thereafter.

### ADMINISTRATION:

Michigan Department of Treasury.

### REPORT AND PAYMENT:

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.

### DISPOSITION:

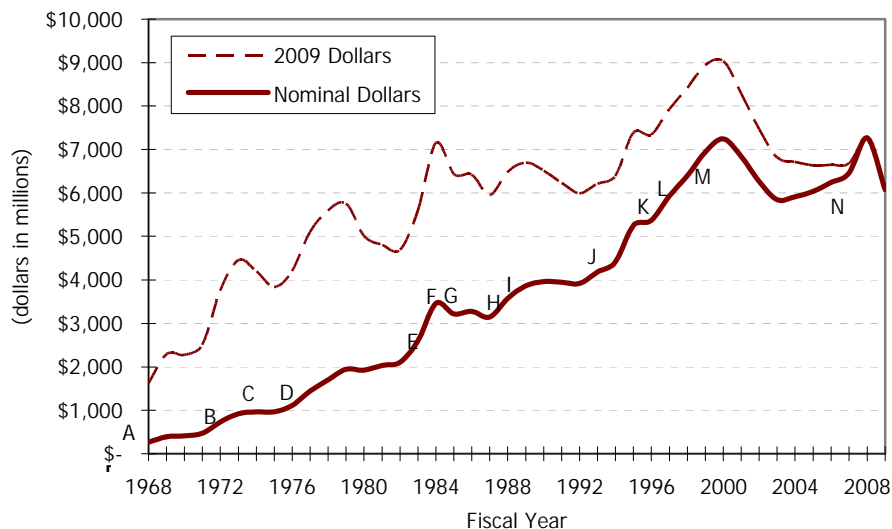
General Fund, with 23.26% of gross collections before refunds to School Aid Fund at 4.35% tax rate (earmarking is determined by calculating 1.012% divided by the tax rate).

### 2008-09 COLLECTIONS:

\$8,173,520,000 gross; \$2,102,006,000 refunds and credits; \$6,071,514,000 net.

## PERSONAL INCOME (CONTINUED)

Chart 1  
Michigan Personal Income Tax Revenue, 1968 - 2009



- 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.  
— 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 PAs 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 — Increased the personal exemption by \$200 beginning with the 1998 tax year.
- 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.
- N 2007 PA 94 — Increased tax rate to 4.35% effective October 1, 2007. Beginning October 1, 2011, and each October 1<sup>st</sup> after 2011, the rate is reduced 0.1% until the rate reaches 3.95%. On October 1, 2015, the rate is 3.9%.

## UNIFORM CITY INCOME TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 141.501 et seq.</u> ; 1964 PA 284; <u>Section 7, Article IX, state Constitution.</u>
<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 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%).

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.

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 2014 or later.

Public Act 209 of 2007 amended the Uniform City Income Tax Act to delay, for 2008 and 2009, the reductions in the city personal income tax rates as required under the Act. Public Act 209 requires the income tax rates (resident and non-resident) for 2008 and 2009 to remain the same as they were for 2007, 2.5% and 1.25%, respectively.

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.

## UNIFORM CITY INCOME (CONTINUED)

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.

2009 COLLECTIONS:	City	Year Adopted	Tax Rates			2009 Net Collections
			Resident	Corporation	Nonresident	
	Albion	1972	1.0%	1.0%	0.5%	\$ 973,740
	Battle Creek	1967	1.0	1.0	0.5	11,605,677
	Big Rapids	1970	1.0	1.0	0.5	1,717,415
	Detroit	1962	2.5	1.0	1.25	227,769,918
	Flint	1965	1.0	1.0	0.5	14,512,261
	Grand Rapids	1967	1.5	1.5	0.75	51,279,277
	Grayling	1972	1.0	1.0	0.5	331,443
	Hamtramck	1962	1.0	1.0	0.5	2,189,141
	Highland Park	1966	2.0	2.0	1.0	2,019,423
	Hudson	1971	1.0	1.0	0.5	128,492
	Ionia	1994	1.0	1.0	0.5	1,325,260
	Jackson	1970	1.0	1.0	0.5	6,942,669
	Lansing	1968	1.0	1.0	0.5	28,743,034
	Lapeer	1967	1.0	1.0	0.5	2,267,701
	Muskegon	1993	1.0	1.0	0.5	6,654,659
	Muskegon Heights	1990	1.0	1.0	0.5	720,000
	Pontiac	1968	1.0	1.0	0.5	9,624,237
	Port Huron	1969	1.0	1.0	0.5	5,508,396
	Portland	1969	1.0	1.0	0.5	739,449
	Saginaw	1965	1.5	1.5	0.75	12,174,977
	Springfield	1989	1.0	1.0	0.5	673,814
	Walker	1988	1.0	1.0	0.5	7,551,285
	TOTAL					\$395,452,268

## **BUSINESS PRIVILEGE TAXES**

*Michigan Business Tax*  
*Unemployment Insurance Tax*  
*Quality Assurance Assessment Fees*  
*Foreign Insurance Company Retaliatory Tax*  
*State Casino Gaming Tax*  
*Oil and Gas Severance Tax*  
*Corporate Organization Tax*  
*Horse Race Wagering Tax*  
*Captive Insurance Company Tax*  
*State 9-1-1 and Emergency 9-1-1 Charges*  
*Local Casino Gaming Tax*  
*County 9-1-1 Charges*





## MICHIGAN BUSINESS TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 208.1101 et seq.</u> ; 2007 PA 36.
<b>YEAR ADOPTED:</b>	2007. The Michigan Business Tax replaced the Single Business Tax (1975 PA 228).
<b>BASIS OF TAX:</b>	The tax is comprised of two components, an income tax and a modified gross receipts tax. For the income tax component, a direct tax on business income. For the modified gross receipts component, the privilege of doing business in Michigan. Both components apply to all businesses with activity in the state and gross receipts exceeding \$350,000 sourced to Michigan. Insurance companies and financial institutions pay separate taxes from the income and gross receipt taxes.
<b>MEASURE OF TAX (BASE):</b>	<p>The basis of the business income tax component begins with the federal taxable income of the business entity. The basis of the modified gross receipts tax component is the gross receipts of the business entity, less purchases from other firms. Both taxes are subject to a number of base adjustments and apportionment to Michigan.</p> <p><i>Base Adjustments:</i>  <u>Business Income Tax</u>            Federal taxable income adjusted to:</p> <ol style="list-style-type: none"> <li>(1) add back certain federal income tax deductions (e.g., interest income and dividends from other states' obligations; income taxes and Michigan Business Tax paid; net operating loss carryback/forward; royalty, interest, or other expense paid to a person related to the taxpayer by ownership or control for the use of an intangible asset);</li> <li>(2) deduct certain items included in federal taxable income (e.g., dividends and royalties from non-United States entities; interest income from U.S. obligations; net earnings from self-employment; the book-tax difference for qualifying assets);</li> <li>(3) add the loss or deduct the gain attributable to another taxable business, to the extent included in federal taxable income;</li> <li>(4) deduct any business loss.</li> </ol> <p><u>Modified Gross Receipts Tax</u>            Gross receipts exclude the following:</p> <ol style="list-style-type: none"> <li>(1) proceeds from sales by a principal that are collected in an agency capacity solely on behalf of the principal and delivered to the principal;</li> <li>(2) amounts received as an agent solely on behalf of the principal that are expended by the taxpayer under certain circumstances;</li> <li>(3) amounts excluded from gross income of a foreign corporation engaged in the international operation of aircraft under IRC section 883(a);</li> <li>(4) amounts received by an advertising agency used to acquire advertising media time, space, production or talent on behalf of another person;</li> <li>(5) amounts received by a person that manages real property owned by a client that are deposited into a separate account kept in the name of the client and that are not reimbursed and are not indirect payments for management services provided to that client;</li> <li>(6) proceeds from the original issue of stock, equity instruments or debt instruments;</li> <li>(7) refunds from returned merchandise;</li> <li>(8) cash and in-kind discounts;</li> <li>(9) trade discounts;</li> <li>(10) federal, state or local tax refunds;</li> <li>(11) security deposits;</li> <li>(12) payment of the principal portion of loans;</li> <li>(13) value of property received in like-kind exchange;</li> <li>(14) proceeds from a sale or other disposition of property less any gain from the disposition or reorganization to the extent that the gain is included in the taxpayer's taxable income, subject to certain limitations;</li> </ol>

## MICHIGAN BUSINESS (CONTINUED)

- (15) proceeds from an insurance policy, settlement of a claim or judgment in a civil action, less any proceeds that are included in federal taxable income;
- (16) proceeds from the taxpayer's transfer of an account receivable, if the sale that generated the account receivable was included in gross receipts for federal income tax purposes. This provision does not apply to a taxpayer who both buys and sells any receivables during the tax year.
- (17) for a sales finance company at least partly owned by a motor vehicle manufacturer, and for a securities broker or dealer, amounts realized from the repayment or sale of the principal of a loan, bond, or similar marketable instrument if not held as inventory, and the principal amount received under a repurchase agreement or other transaction properly characterized as a loan;
- (18) for a mortgage company, proceeds representing the principal balance of loans transferred or sold in the tax year;
- (19) for a professional employer organization (PEO), the actual cost of compensation paid to or on behalf of a covered employee by the PEO under a professional employer arrangement;
- (20) invoiced items used to provide more favorable floor plan assistance to a person subject to the MBT than to a person not subject to the MBT and paid by a manufacturer, distributor, or supplier;
- (21) for an individual, estate, or other person organized for estate or gift planning purposes, amounts received from personal investment activity and the disposition of property held for personal use and enjoyment;
- (22) for a person that is organized exclusively to conduct investment activity for himself or a relative, amounts derived from investment activity;
- (23) interest income and dividends derived from obligations or securities of the U.S. government, state government, or any sub-state governmental unit;
- (24) dividends and royalties received from a foreign operating entity;
- (25) to the extent amounts are not deducted as "purchases from other firms", amounts relating to certain federal and state taxes and certain state fees;
- (26) amounts attributable to an ownership interest in a pass-through entity, investment company, real estate investment trust, or cooperative corporation;
- (27) amount of the excise taxes paid by a person on or for cigarettes or tobacco products.

"Purchases from other firms" include:

- (1) inventory acquired during the tax year;
- (2) depreciable assets;
- (3) materials and supplies;
- (4) for general building, heavy construction, and construction special trade contractors "materials and supplies" also includes payments for materials deducted as purchases in determining the cost of goods sold for the purpose of calculating total income on Federal return;
- (5) for a staffing company, compensation of personnel supplied to its customers;
- (6) for construction contractors, payments to subcontractors;
- (7) for a theater owner, film rental and royalty payments; and
- (8) for real estate brokers, salespeople, or appraisers, certain payments made to independent contractors.

## MICHIGAN BUSINESS (CONTINUED)

### Insurance Companies and Financial Institutions

*For insurance companies:* The base of the tax is gross direct premiums written on property or risk located or residing in Michigan, excluding:

- (1) premiums on policies not taken;
- (2) returned premiums on canceled policies;
- (3) receipts from the sale of annuities;
- (4) receipts on reinsurance premiums if the tax was paid on the original premium; and
- (5) the first \$190 million of disability insurance premium, other than credit insurance and disability income insurance premiums

*For financial institutions,* including their subsidiaries: The base of the tax is the financial institution's net capital. Net capital is averaged over a five-year period and excludes goodwill and the average daily value of obligations of the United States and Michigan.

### *Apportionment:*

For businesses with activity entirely within Michigan, the income and modified gross receipts tax bases are allocated entirely to Michigan. For businesses with multi-state activity, the income and modified gross receipt tax bases are allocated in proportion to sales in Michigan, with exceptions for certain types of businesses.

*Exemptions* are allowed for:

- (1) governmental agencies;
- (2) most "persons" exempt from federal income taxes;
- (3) nonprofit cooperative housing corporations;
- (4) agricultural producers;
- (5) certain revenues and expenses of farmers' cooperatives;
- (6) that portion of the tax base attributable to the services provided by an attorney-in-fact to a reciprocal insurer;
- (7) expenses attributable to multiple employer arrangements to fund dental benefits;

*Credits* are allowed for:

- (1) 0.37% of compensation paid in Michigan;
- (2) 2.9% of the cost of new capital assets located in Michigan. Combined with the compensation credit, limited to 52% of tax liability, before surcharge;
- (3) 1.9% of research and development expenses. Combined with compensation credit and the investment credit, limited to 65% of tax liability, before surcharge;
- (4) 30% of contributions to a small business for research and development, not to exceed \$300,000, for tax years 2008 through 2010 only;
- (5) Michigan International Speedway, 100% of expenditures for infield renovation, grandstand, and infrastructure upgrades (phased down from \$2,100,000 to \$1,580,000), for tax years 2008 through 2016 only;
- (6) Michigan International Speedway, 100% of necessary expenditures to ensure pedestrian and traffic safety;
- (7) certain sports stadia, 65% of tax liability, not to exceed \$1.7 million for 2008 through 2010 tax years; 45% of tax liability, not to exceed \$1.2 million for 2011 tax year; 25% of tax liability, not to exceed \$650,000 for 2012 tax year;
- (8) threshold credit, for firms with allocated or apportioned gross receipts between \$350,000 and \$700,000;
- (9) 35% of taxes paid on industrial personal property;
- (10) 13.5% of taxes paid on telephone personal property;
- (11) 10% of taxes paid on natural gas pipeline property;
- (12) alternative small business tax credit equal to the amount of tax liability above 1.8% of adjusted business income (subject to phase-in);

## MICHIGAN BUSINESS (CONTINUED)

- (13) 50%, up to \$100,000, of contributions of \$50,000 or more to art, historical, or zoological institute;
- (14) entrepreneurial credit equal to 100% of increased tax liability associated with employment increase, for tax years 2008 through 2010 only;
- (15) motor vehicle dealer credit equal to 0.25% of the amount paid to acquire inventory in the tax year;
- (16) exhibition owner, operator, or controller, equal to 50% of the taxpayer's liability or \$200,000, whichever is less;
- (17) large retailer (operates at least 17 million square feet of retail space) credit equal to 1.0% of compensation paid in Michigan, not to exceed \$8.5 million;
- (18) retailer (operates at least 2.5 million square feet of retail space) credit equal to 0.125% of compensation paid in Michigan, not to exceed \$300,000;
- (19) 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 \$2 million and is refundable. The credit is available for tax years 2008 through 2015;
- (20) bottle deposit compliance credit equal to 30.5% of expenses required to comply with Michigan's bottle deposit law;
- (21) private equity funds credit equal to remaining tax liability, after application of other credits, that is proportional to the total activity conducted by the private equity manager in Michigan;
- (22) SBT liability of the start up business in tax years that the qualified business has no business income;
- (23) 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;
- (24) 50% of charitable contributions;
- (25) amount paid for workers' disability compensation;
- (26) 75% of contributions to reserve fund of a fiduciary organization pursuant to an individual or family development account program;
- (27) 50% of contributions to food bank and homeless shelter;
- (28) research, development, or manufacturing of an alternative energy system, alternative energy vehicle, alternative energy technology, or renewable fuel based. One credit based on qualified business activity; another credit based on qualified payroll amount;
- (29) amounts certified by the Michigan Economic Growth Authority (MEGA) (see box below);
- (30) tax liability in the amount equal to the business activity conducted in a renaissance zone;
- (31) 25% of expenditures for historic preservation projects;
- (32) certain expenditures on brownfield projects;
- (33) \$1.00 per long ton of hematite ore consumed;
- (34) up to 42% of production costs and 30% of personnel costs for film industry;
- (35) 25% of base investment, subject to minimum investment amount, in qualified film and digital media infrastructure project;
- (36) 50% of qualified job training expenditures for eligible film production companies;
- (37) 30% of costs in converting existing fuel pumps to ones that provide E85 or biodiesel blends up to \$20,000 per year per taxpayer (capped at \$1 million in total credits);
- (38) 0.42% of the amount of the deduction for bonus depreciation (available in tax years 2009 and 2010 to taxpayers other than regulated utilities);

## MICHIGAN BUSINESS (CONTINUED)

**RATE:** 4.95% Business income tax; 0.8% modified gross receipts tax; alternative tax of 1.8% of adjusted business income for eligible small businesses; insurance companies are subject to a tax of 1.25% of gross direct premiums plus a retaliatory tax; financial institutions are subject to a franchise tax of 0.235% of an institution's net capital.

### Michigan Business Tax Surcharge

Public Act (PA) 145 of 2007 created a Michigan Business Tax surcharge in order "to meet deficiencies in state funds." The surcharge was enacted as replacement for the Use Tax expansion to various services (PA 93 of 2007), which was enacted to address a portion of the state's budget deficit. The Use Tax expansion was repealed by PA 145.

The surcharge is calculated as a percentage of a taxpayer's liability apportioned to Michigan, but before credits. Insurance companies are exempt from the surcharge. Taxpayers, other than financial institutions, are subject to a 21.99% surcharge, while financial institutions pay a surcharge of 27.7% for the 2008 tax year, then 23.4% after 2008. The maximum surcharge a business other than a financial institution can pay is \$6 million for any single tax year.

The surcharge will be repealed on January 1, 2017, if, during 2014, 2015, or 2016, Michigan personal income increases year-over-year. Given the nature of this trigger, it is almost certain the surcharge will be eliminated in 2017.

**ADMINISTRATION:** Michigan Department of Treasury.

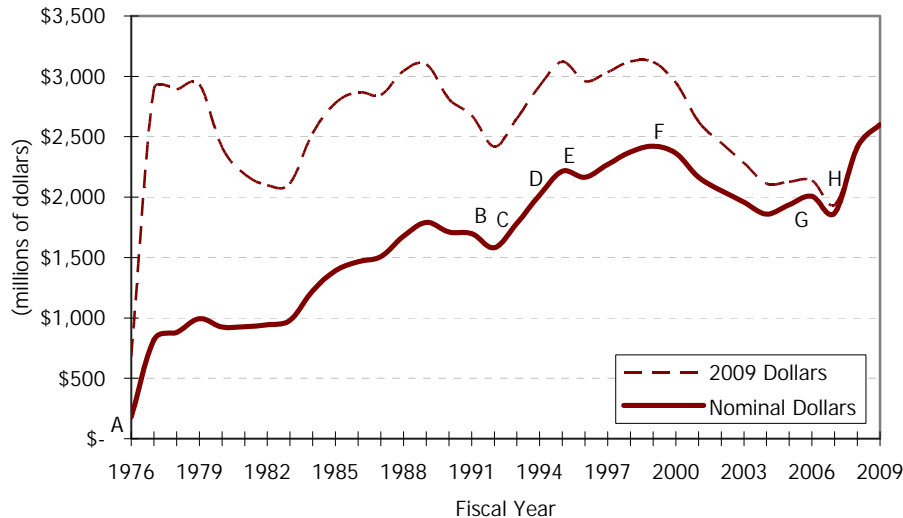
**REPORT AND PAYMENT:** Due April 30. Estimated quarterly returns and payments due by the 15<sup>th</sup> day of April, July, October, and January if estimated liability for year is over \$800; due dates adjusted for taxpayers with fiscal year other than calendar year. A taxpayer, other than an insurance company or financial institution, with annualized apportioned gross receipts of less than \$350,000 need not file a return.

**DISPOSITION:** In Fiscal Year 2009, \$729 million to the School Aid Fund and the remainder to the General Fund. For years after Fiscal Year 2009, the amount deposited in the School Aid Fund is equal to the previous year's amount, adjusted for growth in the United States Consumer Price Index during the previous year, and the remainder to the General Fund. If MBT cash collections in a fiscal year exceed a specified amount, 60% of the excess shall be refunded to taxpayers. The amount in Fiscal Year 2009 and each subsequent year is reduced by an amount equal to the amount of Use Tax deposited in the School Aid Fund associated with the taxation of certain medical services.

**2008-09 COLLECTIONS:** \$2,602,517,000

## MICHIGAN BUSINESS (CONTINUED)

Chart 2  
Michigan Single Business/Michigan Business Tax\* Revenue, 1976 - 2009



- 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 2006 — Legislative enactment of voter-initiated legislation to repeal tax effective for tax years beginning after December 31, 2007.
- H 2007 PA 36 — Michigan Business Tax Act, consisting of an income tax (4.95% rate) and a modified gross receipts tax (0.8% rate), enacted to replace SBT as the primary business privilege tax in the state effective January 1, 2008.

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



## UNEMPLOYMENT INSURANCE TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 421.1 et seq.</u> ; 1936 PA 1 (Extra Session).														
<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><u>If Number of Consecutive</u></td><td></td></tr> <tr> <td><u>Years without Claims is:</u></td><td><u>Rate Is:</u></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> <ol style="list-style-type: none"> <li>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).</li> <li>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.</li> </ol> <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>	<u>If Number of Consecutive</u>		<u>Years without Claims is:</u>	<u>Rate Is:</u>	5 (or if CBC rate is less than 0.2%)	0.10%	6	0.09%	7	0.08%	8	0.07%	9	0.06%
<u>If Number of Consecutive</u>															
<u>Years without Claims is:</u>	<u>Rate Is:</u>														
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>	<u>Michigan Department of Energy, Labor and Economic Growth, Unemployment Insurance Agency.</u>														
<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>2008-09 COLLECTIONS:</b>	\$1,415,834,000														



## QUALITY ASSURANCE ASSESSMENT FEES

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 333.20161</a> , <a href="#">M.C.L. 400.109f</a> ; 2002 PA 303, 304, & 562; 2005 PA 83
<b>YEAR ADOPTED:</b>	2002 (hospitals and nursing and long-term care facilities) 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>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 Community Mental Health plans, the assessment is based on the non-Medicare capitation payments collected by the plan.</p> <p>Assessments are charged by the state on hospitals, nursing and long-term care facilities, 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>
<b>RATE:</b>	<p>The rates for the providers are as follows:</p> <ul style="list-style-type: none"> <li>• <i>For hospitals</i>, a fixed or variable rate that generates funds not more than the maximum allowable under federal matching requirements.</li> <li>• <i>For nursing and hospital long-term care units</i>, an amount resulting in not more than 6% of total industry revenues.</li> <li>• <i>For Community Mental Health plans</i>, 6% of non-Medicare capitation payments collected by the plan.</li> </ul>
<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 finance part of the Medicaid program and are restricted for that purpose. This revenue is used to capture additional Federal funding for the Medicaid program and offset the amount of General Fund resources allocated to the program.
<b>2008-09 COLLECTIONS:</b>	\$859,482,000

### Medicaid Managed Care Organizations

Effective October 1, 2009, the Federal Deficit Reduction Act required that a quality assurance assessment program (QAAP) fee charged by a state must be uniform across all service providers, regardless of whether or not they serve Medicaid-eligible individuals. This uniformity requirement effectively prevented the State of Michigan from assessing the QAAP fee selectively to support the state's Medicaid program and to provide general budgetary relief. In response to this, the state enacted changes to the Use Tax Act (PA 440 of 2008) to apply the 6% tax to the use or consumption of medical services provided by Medicaid managed care organizations (health maintenance organizations (HMOs) and prepaid inpatient health plans (PIHPs)), the same organizations that were previously subject to the QAAP. The use tax changes took effective April 1, 2009.

PA 440 of 2008 also repealed the relevant sections of the Social Welfare Act that authorized the QAAP fee for the HMOs and PIHPs, effectively terminating the assessments for these entities on April 1, 2009.

## FOREIGN INSURANCE COMPANY RETALIATORY TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 500.440a-500.476c</a> ; 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 Michigan Business Tax, whichever is higher; unauthorized insurers, 2%.
<b>ADMINISTRATION:</b>	<i>Retaliatory tax</i> – Michigan Department of Treasury. <i>Unauthorized insurers</i> – <a href="#">Department of Energy, Labor and Economic Growth, Insurance Bureau, Office of Financial and Insurance Regulation</a> .
<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>2008-09 COLLECTIONS:</b>	\$262,949,000. Includes Michigan Business Tax paid by insurance companies.

## STATE CASINO GAMING TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 432.201-432.216</a> ; Initiated Law 1 of 1996
<b>YEAR ADOPTED:</b>	1996
<b>BASIS OF TAX:</b>	Privilege of operating a casino. Initiated Law 1 of 1996 authorized three licensees in the City of Detroit.
<b>MEASURE OF TAX (BASE):</b>	Adjusted gross receipts received by a gaming licensee.
<b>RATE:</b>	8.1%.
<b>ADMINISTRATION:</b>	<a href="#">Michigan Gaming Control Board</a> in Michigan Department of Treasury.
<b>REPORT AND PAYMENT:</b>	Due daily.
<b>DISPOSITION:</b>	100% to School Aid Fund
<b>2008-09 COLLECTIONS:</b>	\$121,313,000

## OIL AND GAS SEVERANCE TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 205.301 et seq.</a> ; 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>	<i>Oil</i> — 6.6%; <i>Gas</i> — 5%; <i>Stripper wells and marginal properties</i> — 4%.
<b>ADMINISTRATION:</b>	<a href="#">Department of Treasury.</a>
<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>2008-09 COLLECTIONS:</b>	\$55,036,000

## CORPORATE ORGANIZATION TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 450.2062</a> ; 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>	<a href="#">Michigan Department of Energy, Labor and Economic Growth, Bureau of Commercial Services, Corporation Division.</a>
<b>REPORT AND PAYMENT:</b>	Due at time of incorporation, admission, or increase in stock.
<b>DISPOSITION:</b>	General Fund.
<b>2008-09 COLLECTIONS:</b>	\$19,594,000

## HORSE RACE WAGERING TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 431.301-431.336</a> ; 1995 PA 279.
<b>YEAR ADOPTED:</b>	1995. Originally authorized in 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>	<a href="#">Michigan Department of Agriculture, Racing Commissioner.</a>
<b>REPORT AND PAYMENT:</b>	Licensee makes daily remittance with detailed statement.
<b>DISPOSITION:</b>	Michigan Agriculture Equine Industry Development Fund.
<b>2008-09 COLLECTIONS:</b>	\$7,516,000

## CAPTIVE INSURANCE COMPANY TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 500.4601-500.4813</a> ; 2008 PA 29.																		
<b>YEAR ADOPTED:</b>	2008																		
<b>BASIS OF TAX:</b>	Privilege of transacting business in Michigan.																		
<b>MEASURE OF TAX (BASE):</b>	Annual volume of insurance and reinsurance premiums written by captive insurance companies.																		
<b>RATE:</b>	<table> <tr> <th><u>For annual premiums:</u></th><th><u>Amount of Tax:</u></th></tr> <tr> <td>Less than \$5,000,000</td><td>\$5,000</td></tr> <tr> <td>Equal to or greater than \$5,000,000 but less than \$10,000,000</td><td>\$10,000</td></tr> <tr> <td>Equal to or greater than \$10,000,000 but less than \$15,000,000</td><td>\$15,000</td></tr> <tr> <td>Equal to or greater than \$15,000,000 but less than \$25,000,000</td><td>\$25,000</td></tr> <tr> <td>Equal to or greater than \$25,000,000 but less than \$40,000,000</td><td>\$40,000</td></tr> <tr> <td>Equal to or greater than \$40,000,000 but less than \$55,000,000</td><td>\$50,000</td></tr> <tr> <td>Equal to or greater than \$55,000,000 but less than \$75,000,000</td><td>\$75,000</td></tr> <tr> <td>Equal to or greater than \$75,000,000</td><td>\$100,000</td></tr> </table>	<u>For annual premiums:</u>	<u>Amount of Tax:</u>	Less than \$5,000,000	\$5,000	Equal to or greater than \$5,000,000 but less than \$10,000,000	\$10,000	Equal to or greater than \$10,000,000 but less than \$15,000,000	\$15,000	Equal to or greater than \$15,000,000 but less than \$25,000,000	\$25,000	Equal to or greater than \$25,000,000 but less than \$40,000,000	\$40,000	Equal to or greater than \$40,000,000 but less than \$55,000,000	\$50,000	Equal to or greater than \$55,000,000 but less than \$75,000,000	\$75,000	Equal to or greater than \$75,000,000	\$100,000
<u>For annual premiums:</u>	<u>Amount of Tax:</u>																		
Less than \$5,000,000	\$5,000																		
Equal to or greater than \$5,000,000 but less than \$10,000,000	\$10,000																		
Equal to or greater than \$10,000,000 but less than \$15,000,000	\$15,000																		
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Equal to or greater than \$40,000,000 but less than \$55,000,000	\$50,000																		
Equal to or greater than \$55,000,000 but less than \$75,000,000	\$75,000																		
Equal to or greater than \$75,000,000	\$100,000																		
<b>ADMINISTRATION:</b>	<a href="#">Department of Energy, Labor and Economic Growth, Office of Financial and Insurance Regulation.</a>																		
<b>REPORT AND PAYMENT:</b>	March 1 <sup>st</sup> of each calendar year.																		
<b>DISPOSITION:</b>	Captive Insurance Regulatory and Supervision Fund.																		
<b>2008-09 COLLECTIONS:</b>	NA, new tax effective March 13, 2008.																		

## STATE 9-1-1 and EMERGENCY 9-1-1 CHARGES

<b>LEGAL CITATION:</b>	<u>M.C.L. 484.1401a et. seq.</u> ; 2007 PA 164.										
<b>YEAR ADOPTED:</b>	1999 (scheduled to sunset December 31, 2014)										
<b>BASIS OF TAX:</b>	Communication services capable of accessing a 9-1-1 system.										
<b>MEASURE OF TAX (BASE):</b>	All communication services capable of accessing a 9-1-1 system, including local telephones, contractual and prepaid cellular telephones, wireless communications, and interconnected voice over Internet devices.										
<b>RATE:</b>	<p>For all communication services other than prepaid cellular telephones:</p> <p>For the first ten lines per service user: \$0.19 per line per month. For additional lines: rate is \$0.019 per line per month.</p> <p>For pre-paid cellular telephones per service user: \$0.90 per line per month (adjusted annually)</p>										
<b>ADMINISTRATION:</b>	<u>Department of State Police</u> and <u>Department of Treasury</u> .										
<b>REPORT AND PAYMENT:</b>	Due 30 days after the end of each quarter.										
<b>DISPOSITION:</b>	<p>Service suppliers allowed to retain 2% of the 9-1-1 charge for billing and collection costs. Remainder deposited in the Emergency 9-1-1 Fund distributed as follows:</p> <table> <tr> <td>Counties (per capita):</td><td>49.50%</td></tr> <tr> <td>Counties (equal share):</td><td>33.00%</td></tr> <tr> <td>Local exchange providers:</td><td>7.75%</td></tr> <tr> <td>Emergency 9-1-1 centers for training:</td><td>6.00%</td></tr> <tr> <td>State Police:</td><td>3.75%</td></tr> </table>	Counties (per capita):	49.50%	Counties (equal share):	33.00%	Local exchange providers:	7.75%	Emergency 9-1-1 centers for training:	6.00%	State Police:	3.75%
Counties (per capita):	49.50%										
Counties (equal share):	33.00%										
Local exchange providers:	7.75%										
Emergency 9-1-1 centers for training:	6.00%										
State Police:	3.75%										
<b>2008-09 COLLECTIONS:</b>	\$27,619,000										

### 9-1-1 Charges

The Citizens Research Council of Michigan decided to include the two state 9-1-1 charges (\$.19 per line per month and \$.90 per line per month) and the local emergency 9-1-1 charge (up to \$3.00 per line per month) in the *Tax Outline* even though it is not entirely clear at this point whether these charges are technically taxes. The state law that authorizes all three of these assessments on wireless telephone service refers to “service charges” and does not use the word “tax” to describe them. Despite the wording used in the authorizing statute, these charges certainly have attributes that closely resemble a “tax” in the legal sense of the word (i.e., applying the three criteria that distinguish a fee from a tax as laid out in the 1998 Michigan Supreme Court decision, *Bolt v. City of Lansing* (see Introduction)). Therefore, in an attempt to provide a comprehensive summary of Michigan state and local taxes, these charges are included in the *Outline*.

With the increasing migration towards wireless communication, the question of whether such charges constitute a “tax” or a “fee” is expected to get further attention, in Michigan as well as in other states. While Michigan courts have not addressed the legal nature of these charges, another state has. In July 2010, the Georgia Court of Appeals (*Fulton Count v. Georgia TMobile*) ruled that the 9-1-1 charge imposed by local governments on wireless telephone service providers is a “tax” as opposed to a “fee”. In its decision, the Georgia court applied criteria very similar to Michigan’s *Bolt* decision. Specifically, the court found: 1) that the money collected is used to cover the costs of 9-1-1 service available to all residents; 2) the charge is an involuntary extraction; and 3) the charged did not confer special benefits to those paying. It is possible that a future, precedent-setting legal decision in Michigan will determine the true nature of the state and local 9-1-1 charges assessed on wireless telephone services in Michigan; however, until that time the *Tax Outline* will continue to include them.

## LOCAL CASINO GAMING TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 432.201-432.216</a> ; Initiated Law 1 of 1996, as amended by 2004 PA 306.
<b>YEAR ADOPTED:</b>	1996
<b>BASIS OF TAX:</b>	Privilege of operating a casino. Initiated Law 1 of 1996 authorized three licensees in the City of Detroit.
<b>MEASURE OF TAX (BASE):</b>	Adjusted gross receipts received by a gaming licensee.
<b>RATE:</b>	10.9%.
<b>ADMINISTRATION:</b>	City of Detroit.
<b>REPORT AND PAYMENT:</b>	Due daily.
<b>DISPOSITION:</b>	City of Detroit
<b>2008-09 COLLECTIONS:</b>	\$172,912,862 (July to June City fiscal year)

## COUNTY 9-1-1 CHARGE

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 484.1401b et. seq.</a> ; 2007 PA 164.
<b>YEAR ADOPTED:</b>	2007 (scheduled to sunset December 31, 2014)
<b>BASIS OF TAX:</b>	Communication services capable of accessing a 9-1-1 system.
<b>MEASURE OF TAX (BASE):</b>	All communication services capable of accessing a 9-1-1 system, including local telephones, contractual and prepaid cellular telephones, wireless communications, and interconnected voice over Internet devices.
<b>RATE:</b>	Counties can charge up to \$.42 per line per month by resolution of the county board of commissioners and up to a maximum of \$3.00 per line per month with the approval of the voters of the county.  Service users with multiple access points/lines are charged the full rate for the first ten access points/lines and then one charge for each additional ten access points/lines.
<b>ADMINISTRATION:</b>	County.
<b>REPORT AND PAYMENT:</b>	Due quarterly to the county.
<b>DISPOSITION:</b>	Service suppliers may retain 2% to cover billing and collection costs.  Remainder is distributed to the Primary 9-1-1 centers.





## SALES-RELATED TAXES

*Sales Tax*

*Use Tax*

*Tobacco Products Tax*

*Liquor Markup*

*Liquor Taxes*

*Beer Tax*

*Wine Tax*

*Mixed Spirits Tax*

*Airport Parking Excise Tax*

*Accommodations (Hotel-Motel) Tax*

*Convention and Tourism Marketing Fees*

*Stadium and Convention Facility Tax*

*Uniform City Utility Users Tax*



## SALES TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 205.51 et seq.</u> ; 1933 PA 167; <u>Section 8, Article IX, state Constitution.</u>
<b>YEAR ADOPTED:</b>	1933
<b>BASIS OF TAX:</b>	Privilege of selling at retail.
<b>MEASURE OF TAX (BASE):</b>	<p>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:</p> <p><i>Exemptions based on status of purchaser:</i></p> <ul style="list-style-type: none"> <li>• property not purchased for resale by various nonprofit organizations and used primarily to carry out 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>• food sold to enrolled students by an educational institution not operated for profit;</li> <li>• property affixed to the real estate of nonprofit hospitals and nonprofit housing, including county long-term medical care facilities;</li> <li>• certain property sold to commercial radio and television station licensees;</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 purchased with scrip by inmates in correctional or penal institutions;</li> <li>• textbooks sold by a school to kindergarten through 12th grade students;</li> <li>• vehicles which are purchased by nonresident active military personnel for titling in his or her home state;</li> <li>• property purchased for use in a "qualified business activity" as defined in the Enterprise Zone Act;</li> <li>• property sold to the federal government or to an instrumentality thereof;</li> <li>• tangible personal property for fund-raising purposes purchased by certain nonprofit organizations with calendar year sales of less than \$5,000;</li> <li>• trucks and trailers owned by motor carriers engaged in interstate commerce to the extent of out-of-state usage;</li> <li>• 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;</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>• copyrighted motion picture films, newspapers, and periodicals classified as second class mail;</li> <li>• prosthetic devices, durable medical equipment, and mobility enhancing devices;</li> <li>• prescription drugs for human use;</li> <li>• food for human use not prepared for immediate consumption;</li> <li>• beverage containers to the extent of any deposits;</li> <li>• railroad cars, locomotives, and accessories;</li> <li>• commercial advertising elements;</li> <li>• 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 ;</li> </ul>

## SALES (CONTINUED)

- water delivered through water mains or in bulk tanks in amounts over 500 gallons;
- personal property which is part of water and air pollution control facilities;
- personal property for resale, for lease if rental receipts are subject to Use Tax, and for demonstration purposes;
- investment coins and bullion;
- certain aircraft and aircraft parts temporarily located in Michigan;
- partial exemption (from two percentage points of the tax rate): sales for residential use of electricity, natural gas, and home heating fuel;

*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 uncollectible debt;

*Exemptions based on status of seller:*

- certain vending machine merchandise to the extent that commissions are paid to tax-exempt organizations;
- property on an isolated basis by property owners not required to have Sales Tax license;

*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;
- Personal property acquired before January 1, 2014, to be used in construction of eligible convention facility.

**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.

## SALES (CONTINUED)

**REPORT AND PAYMENT:** For most taxpayers: payment is due by 20th day of month following sale, with discount for early remittance.

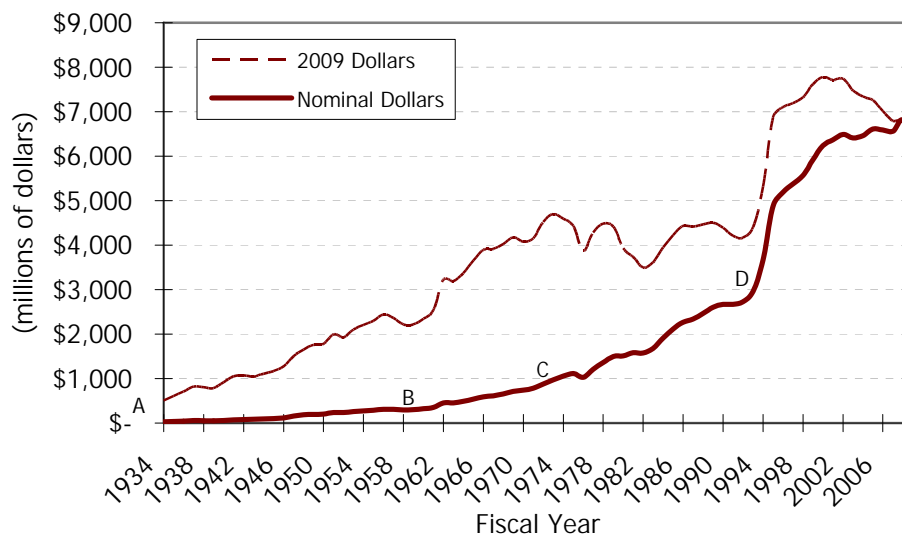
Very large taxpayers (those with sales tax liability, or use tax liability, or both, of \$720,000 or more during the prior calendar year) make two payments each month. Unlike most taxpayers, both payments are related to the sales of the current month. The first payment is due by the 20th of the month 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>1</sup>

**2008-09 COLLECTIONS:** \$6,124,969,000

**2008-09 COLLECTIONS/UNIT:** \$1,021 million per 1%

**Chart 3**  
**Michigan Sales Tax Revenue, 1934 - 2009**



- 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>1</sup> The 6% Sales Tax rate consists of a 4% rate, which took effect in 1960, and an additional rate of 2% that was added in 1994. 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. The legislature may appropriate less than the 20.6% statutorily dedicated for state 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 (\$4 million in 2006 compared with an estimated liability of about \$300 million, or only about 1.5 percent of the total liability). Michigan's use tax losses from remote sales are estimated to grow to \$400 million in 2012. 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 generated about \$15 million for Michigan in Fiscal Year 2009.

## USE TAX

**LEGAL CITATION:** M.C.L. 205.91 et. seq.; 1937 PA 94; Section 8, Article IX, state Constitution.

**YEAR ADOPTED:** 1937

**BASIS OF TAX:** Privilege of using, storing, and consuming certain tangible personal property, plus the services of telephone, telegraph, other leased wire communications, and medical services provided by Medicaid managed care organizations; 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.

**MEASURE OF TAX (BASE):** Purchase price of tangible personal property or service. Certain sales with the following characteristics are exempt from taxation, as follows:

*Exemptions based on status of purchaser:*

- property purchased for resale or for demonstration;
- property purchased for lend-lease to a public or parochial school offering drivers education;
- 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;
- 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;
- property sold to nonprofit organizations used primarily for the organization's purposes;
- property sold to churches for noncommercial purposes and certain vans and buses used to transport persons for religious purposes;
- certain property sold to commercial radio and television station licensees;
- vehicles purchased in another state by nonresident active military personnel and upon which a sales tax was paid in the other state;
- vehicles not purchased for resale which are used by nonprofit corporations organized exclusively to provide a community with ambulance or fire department service;
- property donated by a manufacturer, retailer, or wholesaler to certain tax exempt organizations;
- property purchased by a specified relative of seller;
- parts, excluding shop equipment and fuel, affixed to certain passenger and cargo aircraft owned or used by a domestic air carrier;
- equipment sold to an extractive operator (i.e., natural resources);
- the storage, use, or consumption of certain trucks, trailers, and parts affixed thereto used by interstate motor carriers;
- 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;
- 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:*

- property which Michigan is prohibited by federal law from taxing;
- copyrighted motion picture films, newspapers, and periodicals classified as second class mail;
- vehicle purchased for resale by a new vehicle dealer;
- certain computer software that was written for exclusive use of the purchaser and related technical support;
- prosthetic devices, durable medical equipment, and mobility enhancing devices;
- water delivered through water mains or bulk tanks of at least 500 gallons;
- certain components of water and air pollution control facilities;

## USE (CONTINUED)

- 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;
- 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;
- 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;
- partial exemption (from two percentage points of the tax rate): consumption for residential use of electricity, natural gas, and home heating fuel;

### *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;
- 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;
- Personal property acquired before January 1, 2014, to be used in construction of eligible convention facility.

### **RATE:**

6% (state constitutional limitation). 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.



## USE (CONTINUED)

**REPORT AND PAYMENT:** For most taxpayers: payment is due by 20th day of month following sale, with discount for early remittance.

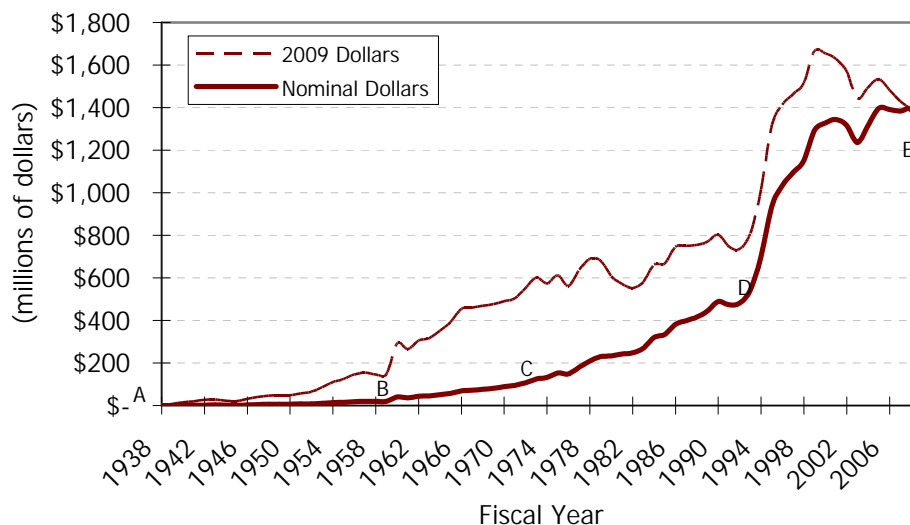
Very large taxpayers (those with sales tax liability, or use tax liability, or both, of \$720,000 or more during the prior calendar year) make two payments each month. Unlike most taxpayers, both payments are related to the sales of the current month. The first payment is due by the 20th of the month 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>2</sup>

**2008-09 COLLECTIONS:** \$1,292,912,000

**2008-09 COLLECTIONS/UNIT:** \$215 million per 1%

**Chart 4**  
**Michigan Use Tax Revenue, 1938 - 2009**



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.

E 2008 PA 440 — Added to the tax base the use or consumption of medical services provided by Medicaid managed care organizations.

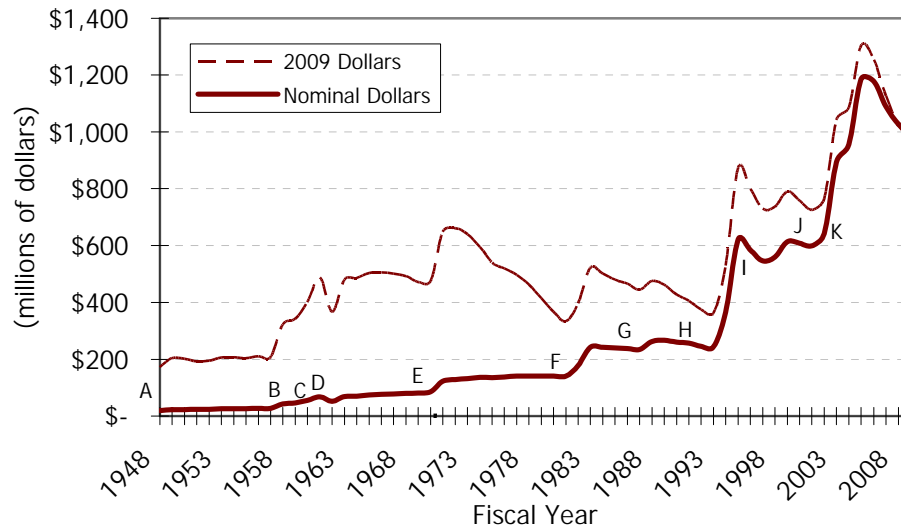
<sup>2</sup> The 6% use tax rate consist of a 4% rate, which took effect in 1960, and an additional rate of 2%, which took effect in 1994. One hundred percent of the revenue from the 4% rate (100% of 4% plus 0% of 2% equals 67%) is statutorily dedicated to the General Fund. In addition, 100% of the revenue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

<b>LEGAL CITATION:</b>	<u>M.C.L. 205.421 et seq.</u> ; 1993 PA 327.																
<b>YEAR ADOPTED:</b>	1993. The former Cigarette Tax (1947 PA 265) was repealed as of May 1, 1994.																
<b>BASIS OF TAX:</b>	Privilege of selling tobacco products.																
<b>MEASURE OF TAX (BASE):</b>	Tobacco products sold in Michigan.																
<b>RATE:</b>	<i>Cigarettes</i> : 100 mills per cigarette (\$2.00 per pack); <i>cigars, non-cigarette smoking tobacco, and smokeless tobacco</i> : 32% of wholesale price.																
<b>ADMINISTRATION:</b>	<u>Michigan Department of Treasury.</u>																
<b>REPORT AND PAYMENT:</b>	Due by 20th of each month.																
<b>DISPOSITION:</b>	<p><i>Cigarette</i> proceeds:</p> <table> <tr> <td>School Aid Fund</td><td>41.620%</td></tr> <tr> <td>Medicaid Benefits Trust Fund</td><td>31.875%</td></tr> <tr> <td>General Fund</td><td>19.7625%</td></tr> <tr> <td>Healthy Michigan Fund</td><td>3.750%</td></tr> <tr> <td>Health and Safety Fund</td><td>2.4375%</td></tr> <tr> <td>Wayne County Indigent Health Care</td><td>0.555%</td></tr> </table> <p><i>Cigar, non-cigarette smoking tobacco, and smokeless tobacco</i> proceeds:</p> <table> <tr> <td>Medicaid Benefits Trust Fund</td><td>75.0%</td></tr> <tr> <td>General Fund</td><td>25.0%</td></tr> </table>	School Aid Fund	41.620%	Medicaid Benefits Trust Fund	31.875%	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	75.0%	General Fund	25.0%
School Aid Fund	41.620%																
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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	75.0%																
General Fund	25.0%																
<b>2008-09 COLLECTIONS:</b>	\$1,038,063,000																

## TOBACCO PRODUCTS (CONTINUED)

Chart 5  
Michigan Tobacco Products Tax Revenue, 1948 - 2009



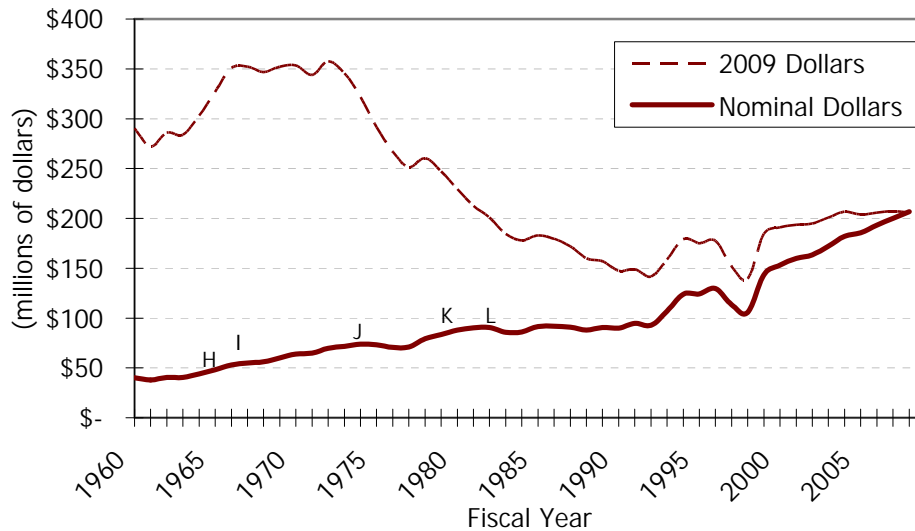
- A 1947 PA 265 — Cigarette Tax established at 1.5 mills per cigarette (3 cents per pack).
- B 1959 PA 274 — Increased tax rate to 2 mills per cigarette (4 cents per pack).
- C 1961 PA 156 — Increased tax rate to 2.5 mills per cigarette (5 cents per pack).
- D 1962 PA 215 — Increased tax rate to 3.5 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.  
— Non-Cigarette Tobacco Products Tax established at 16% of wholesale price.
- I 1997 PA187 — 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.

## LIQUOR MARKUP

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 436.1233</a> ; 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>	<a href="#">Michigan Department of Energy, Labor and Economic Growth, Liquor Control Commission.</a>
<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>2008-09 COLLECTIONS:</b>	\$210,913,459

## LIQUOR MARKUP (CONTINUED)

Chart 6  
Michigan Liquor Markup Tax Revenue, 1960 - 2009

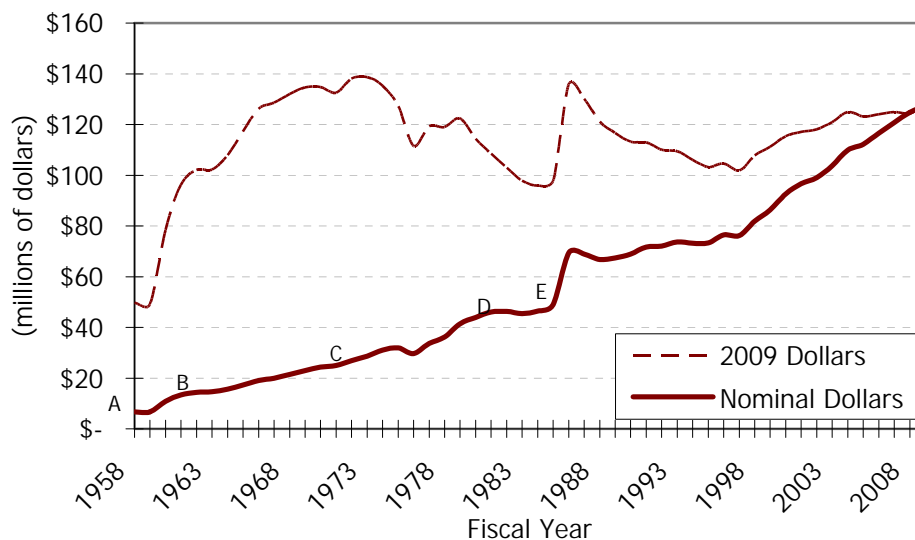


- A 1933 PA 8 (ES) —Liquor Markup Tax established with a 45% markup rate effective January 1, 1934.
- B 1937 — — Increased markup rate to 55% effective August 1937.
- C 1940 — — Decreased markup rate to 50% effective July 1940.
- D 1941 — — Decreased markup rate to 46% effective October 1941.
- E 1945 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.

# LIQUOR TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 436.2201-436.2207</u> ; 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>	<u>Michigan Department of Energy, Labor and Economic Growth, Liquor Control Commission.</u>		
<b>REPORT AND PAYMENT:</b>	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>2008-09 COLLECTIONS:</b>	General Fund:	\$37,985,000	<b>2008-09 COLLECTIONS/UNIT:</b> \$9.5 million/1%
	School Aid Fund:	37,616,000	\$9.4 million/1%
	Liquor Purchase Revolving Fund:	14,093,000	\$7.6 million/1%
	Convention Facility Development Fund:	<u>37,680,000</u>	\$9.4 million/1%
	TOTAL	\$127,374,000	

**Chart 7**  
**Michigan Liquor Tax Revenues, 1958 - 2009**



- 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 bases.
- E 1985 PA 107 — Liquor Specific Tax established at 4%.

## BEER TAX

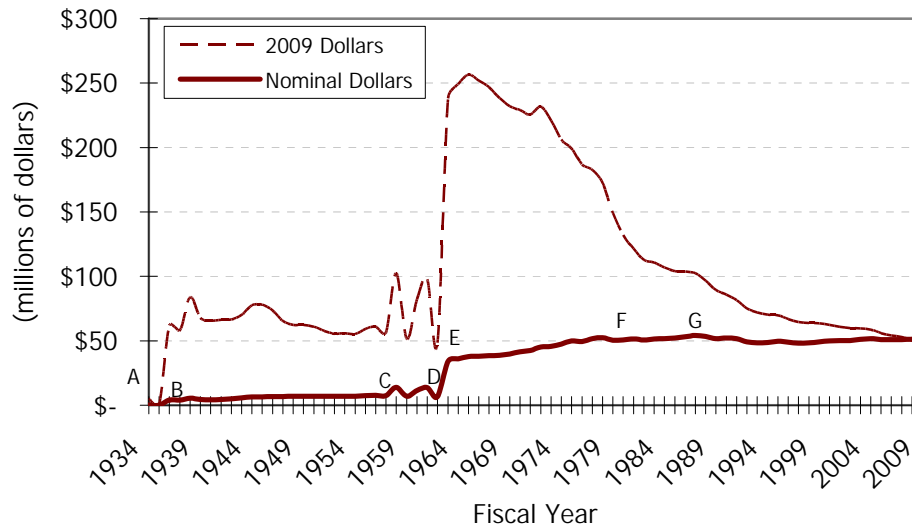
<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 436.1409</a> ; 1998 PA 58.
<b>YEAR ADOPTED:</b>	1933. The former statute (1933 PA 8 (Ex. Session)) was repealed and replaced by 1998 PA 58.
<b>BASIS OF TAX:</b>	Privilege of manufacturing and selling beer.
<b>MEASURE OF TAX (BASE):</b>	Beer manufactured or sold 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 (31 gallons = 1 barrel), with \$2 per barrel credit, up to 30,000 barrels, for brewers producing up to 50,000 barrels annually.
<b>ADMINISTRATION:</b>	<a href="#">Michigan Department of Energy, Labor and Economic Growth, Liquor Control Commission.</a>
<b>REPORT AND PAYMENT:</b>	Due by 8th of each month.
<b>DISPOSITION:</b>	General Fund.
<b>2008-09 COLLECTIONS:</b>	\$40,370,246
<b>2008-09 COLLECTIONS/UNIT:</b>	\$6.4 million per \$1 of tax per barrel.

## WINE TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 436.1301</a> ; 1998 PA 58.
<b>YEAR ADOPTED:</b>	1937. 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>	<a href="#">Department of Energy, Labor and Economic Growth, Liquor Control Commission.</a>
<b>REPORT AND PAYMENT:</b>	Due by 15th of each month.
<b>DISPOSITION:</b>	General Fund.
<b>2008-09 COLLECTIONS:</b>	\$10,400,143

## BEER AND WINE (CONTINUED)

Chart 8  
Michigan Beer and Wine Tax Revenues, 1934 - 2009



- 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 — Mixed-Spirit Drinks Tax established at 48 cents per liter.

## MIXED SPIRITS TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 436.1301</a> ; 1998 PA 58.
<b>YEAR ADOPTED:</b>	1989. 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 mixed spirits.
<b>MEASURE OF TAX (BASE):</b>	Mixed spirits drinks manufactured or sold in Michigan; credit for mixed spirits drinks shipped out of state for sale and consumption or sold to a military installation or an Indian reservation or damaged and not offered for sale.
<b>RATE:</b>	48 cents per liter.
<b>ADMINISTRATION:</b>	<a href="#">Michigan Department of Energy, Labor and Economic Growth, Liquor Control Commission.</a>
<b>REPORT AND PAYMENT:</b>	Due by 8th of each month.
<b>DISPOSITION:</b>	General Fund.
<b>2008-09 COLLECTIONS:</b>	\$386,454
<b>2008-09 COLLECTIONS/UNIT:</b>	\$8,051 per 1 cent



## AIRPORT PARKING TAX

LEGAL CITATION:	<u>M.C.L. 207.371-207.383</u> ; 1987 PA 248.														
YEAR ADOPTED:	1987. 1987 PA 248 will be repealed under the provisions of 2002 PA 680 effective on the date that all bonds described in Section 7a(1)(a) (M.C.L. 207.377a) are retired.														
BASIS OF TAX:	Privilege of providing public parking at a airport which services 4,000,000 or more enplanements annually (Detroit Metropolitan Wayne County Airport).														
MEASURE OF TAX (BASE):	Amount charged for parking.														
RATE:	27%														
ADMINISTRATION:	<u>Michigan Department of Treasury.</u>														
REPORT AND PAYMENT:	Due at same time and manner as Use Tax.														
DISPOSITION:	Airport Parking Fund to be used as follows: <table><tr><td><u>Dedicated to</u></td><td><u>Amount</u></td><td><u>Dedicated for</u></td></tr><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>			<u>Dedicated to</u>	<u>Amount</u>	<u>Dedicated for</u>	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
<u>Dedicated to</u>	<u>Amount</u>	<u>Dedicated for</u>													
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													
2008-09 COLLECTIONS:	\$20,053,000														

## ACCOMMODATIONS (HOTEL-MOTEL) TAXES

LEGAL CITATION:	<a href="#">M.C.L. 141.861 et seq.</a> ; 1974 PA 263. <a href="#">M.C.L. 207.621-207.640</a> ; 1985 PA 106.														
YEAR ADOPTED:	1974 (enabling act for certain counties under 600,000 which may adopt by ordinance). 1985 (for counties over 700,000). Tax is authorized until December 31, 2039, or 30 days after debt issued by the Detroit Regional Convention Facility Authority, whichever is sooner.														
BASIS OF TAX:	Privilege of engaging in business of providing accommodations.														
MEASURE OF TAX (BASE):	<i>In counties under 600,000</i> and with a city over 40,000: amount charged transient guests for lodging in any hotel/motel. As of 2010, Calhoun, Genesee, Ingham, Kalamazoo, Kent, Muskegon, Saginaw, and Washtenaw levy the tax.  <i>In counties over 700,000</i> 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:	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).  <i>In counties under 600,000:</i> not more than 5%, as determined by county. As of 2010, all counties levy the tax at the maximum rate.  <i>In counties over 700,000:</i> <table><tr><td>No. Rooms</td><td>“Qualified Governmental Unit”</td><td>Other Governmental Units</td></tr><tr><td><u>Available:</u></td><td><u>(Detroit):</u></td><td><u>(Wayne, Oakland, Macomb):</u></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	“Qualified Governmental Unit”	Other Governmental Units	<u>Available:</u>	<u>(Detroit):</u>	<u>(Wayne, Oakland, Macomb):</u>	81-160	3%	1.5%	161 or more	6%	5%
No. Rooms	“Qualified Governmental Unit”	Other Governmental Units													
<u>Available:</u>	<u>(Detroit):</u>	<u>(Wayne, Oakland, Macomb):</u>													
81-160	3%	1.5%													
161 or more	6%	5%													
ADMINISTRATION:	<i>In counties under 600,000:</i> determined by county; collected by county treasurer.  <i>In counties over 700,000:</i> <a href="#">Michigan Department of Treasury, Bureau of Revenue</a> .														
REPORT AND PAYMENT:	<i>In counties under 600,000:</i> determined by county.  <i>In counties over 700,000:</i> same as Use Tax.														
DISPOSITION:	<i>In counties under 600,000:</i> special fund for use by county or authority organized under state law.  <i>In counties over 700,000:</i> Convention Facility Development Fund for distribution to units of local government.														
2008-09 COLLECTIONS:	\$15,683,000 (1985 PA 106 only) \$15,394,853 (1974 PA 263 only)														

<sup>3</sup> Accommodations also are taxed under the Use Tax. See page 31.

## CONVENTION AND TOURISM MARKETING FEES

<b>LEGAL CITATION:</b>	<p><a href="#">M.C.L. 141.881 et seq.</a>; 1980 PA 383.</p> <p><a href="#">M.C.L. 141.871 et seq.</a>; 1980 PA 395.</p> <p><a href="#">M.C.L. 141.1321 et seq.</a>; 2007 PA 25.</p>
<b>YEAR ADOPTED:</b>	<p>1980 (enabling act for a convention bureau within a county having a population more than 1,500,000, and counties contiguous to it – Wayne, Oakland, and Macomb).</p> <p>1980 (enabling acts for a convention bureau within a county with a population of less than 650,000).</p> <p>2007 (enabling act for a convention bureau within a municipality with a population of more than 570,000 and less than 775,000 (Kent County)).</p>
<b>BASIS OF TAX:</b>	Privilege of operating a transient facility (e.g., hotel/motel) containing 35 or more rooms.
<b>MEASURE OF TAX (BASE):</b>	Amount charged guests for lodging in any transient facility.
<b>RATE:</b>	<p>Rate varies according to the population of the county in which the hotel/motel is located:</p> <p>In counties over 1,500,000: not more than 2% of the room charges.</p> <p>In counties under 650,000: not more than 5% of the room charges.</p> <p>In counties of more than 570,000 and less than 775,000; not more than 2% of the room charges.</p>
<b>ADMINISTRATION:</b>	Convention bureau of the county or region.
<b>REPORT AND PAYMENT:</b>	30 days after the end of each month.
<b>DISPOSITION:</b>	Depository of the convention bureau.

## UNIFORM CITY UTILITY USERS TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 141.1151 et seq.</a> ; 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>2008-09 COLLECTIONS:</b>	\$49,900,471
<b>2008-09 COLLECTIONS/UNIT:</b>	\$10 million per 1%

## STADIUM AND CONVENTION FACILITY TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 207.751-207.759</a> ; 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>2008-09 COLLECTIONS:</b>	\$6,454,000

## PROPERTY TAXES

*State Real Estate Transfer Tax*

*State Education Tax*

*Estate Tax*

*Utility Property Tax*

*General Property Tax*

*Ad Valorem Special Assessments*

*Mobile Home Trailer Coach Tax*

*Industrial Facilities Tax*

*Obsolete Properties Tax*

*Neighborhood Enterprise Zone Facilities Tax*

*Enterprise Zone Facilities Tax*

*Low Grade Iron Ore Specific Tax*

*County Real Estate Transfer Tax*

*Commercial Rehabilitation Tax*

*Commerical Facilities Tax*

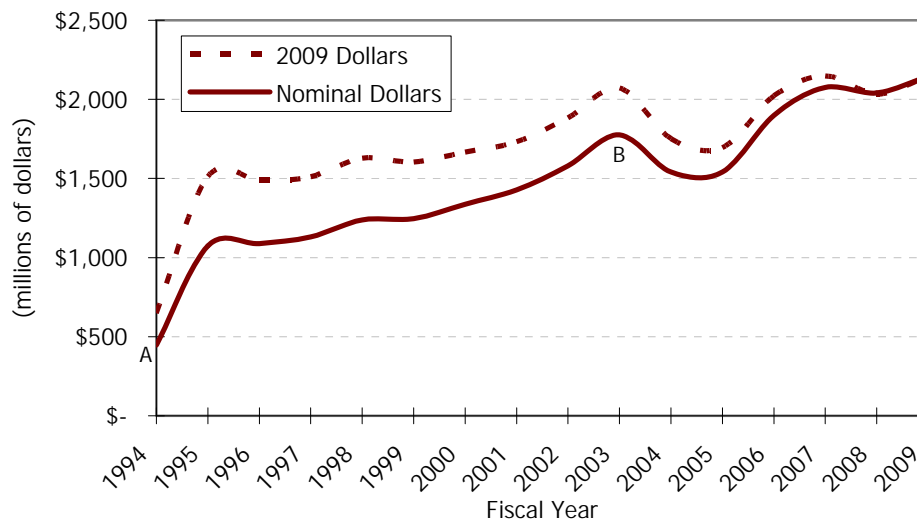
*Commercial Forest Tax*



## STATE EDUCATION TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 211.901 et seq.</a> ; 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, except property classified as industrial personal property is exempt.
<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: <a href="#">Michigan Department of Treasury</a> .
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	School Aid Fund.
<b>2008-09 COLLECTIONS:</b>	\$2,145,866,000
<b>2008-09 COLLECTIONS/UNIT:</b>	\$358 million per mill

**Chart 9**  
**Michigan State Education Tax Revenue, 1994 - 2009**



- A 1993 PA 331 — State Education Tax established.
- B 2002 PA 243 — Requires that the tax be collected in a summer levy for 2003 and subsequent years. For 2003 only, the tax rate is reduced from 6 mills to 5 mills.

## STATE REAL ESTATE TRANSFER TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 207.521 et seq.</u> ; 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><i>Exemptions:</i> written instruments involving the following:</p> <ol 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 to dissolve corporation corporations;</li> <li>(16) transfers between limited liability corporations and their members;</li> <li>(17) transfers between partnerships and their members;</li> <li>(18) transfers of mineral rights;</li> <li>(19) creation of joint tenancies if at least one joint tenant already owned the property;</li> <li>(20) sales agreements entered into before enactment of the tax;</li> <li>(21) transfers to persons considered to be "single employers" under the internal revenue code;</li> <li>(22) transfers to a bankruptcy trustee, receiver, or administrator;</li> <li>(23) transfers between religious societies of property exempt from property taxes.</li> </ol>
<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>2008-09 COLLECTIONS:</b>	\$125,027,000

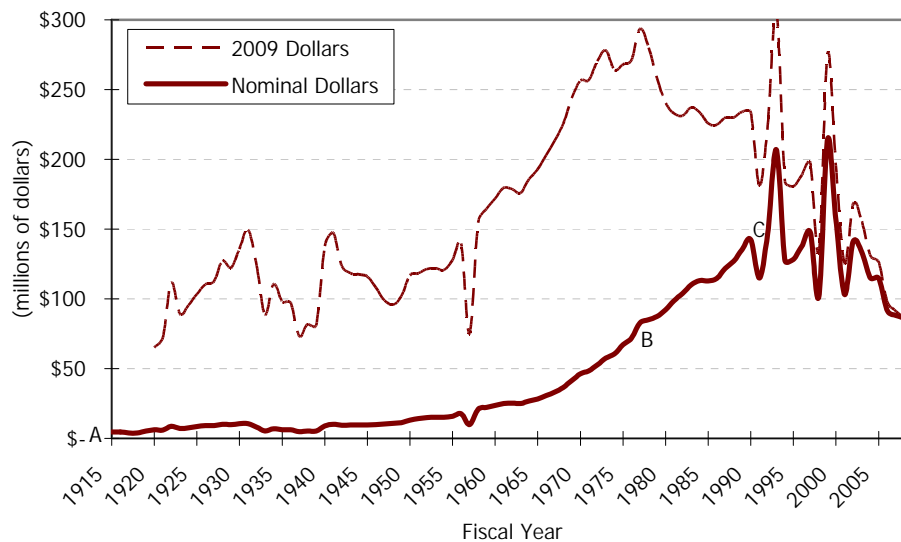


## UTILITY PROPERTY TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 207.1 et seq.</a> ; 1905 PA 282; <a href="#">Section 5, Article IX, state Constitution</a> .
<b>YEAR ADOPTED:</b>	1905
<b>BASIS OF TAX:</b>	In lieu of other general property taxes.
<b>MEASURE OF TAX (BASE):</b>	<p>Taxable value of all real and tangible personal property of telephone companies, the unit value allocated to Michigan of railroad companies, the taxable value of freight cars of private owners allocated to Michigan in connection with doing business in Michigan.</p> <p><i>Credits:</i></p> <ol style="list-style-type: none"> <li>1) Under certain circumstances, railroad companies receive a credit equal to 100% of expenditures for maintaining and improving Michigan rights-of-way, up to company's total tax liability.</li> <li>2) Railroad companies and private railcar owners receive a credit equal to all of the expenses for maintenance or improvements done in Michigan, up to company's total tax liability.</li> <li>3) Telephone companies receive: <ol style="list-style-type: none"> <li>a) A credit equal to 12% of eligible expenditures associated with new equipment capable of carrying 200 kilobits per second in two directions, subject to certain limitations and not to exceed the total tax liability;</li> <li>b) A credit against the remainder of tax liability after taking the investment credit (#3a above) that is equal to certain telecommunication rights-of-way maintenance fees paid, subject to certain limitations and any portion of the credit that exceeds the remaining tax liability for the tax year shall not be refunded but may be carried forward to offset any tax liability in subsequent tax years that remains after any investment credit claimed in that subsequent tax year is determined until used up.</li> </ol> </li> </ol>
<b>RATE:</b>	Average statewide general property tax paid by other business property in preceding calendar year.
<b>ADMINISTRATION:</b>	<p>Assessment: <a href="#">Department of Treasury, State Tax Commission</a>.</p> <p>Collection: <a href="#">Department of Treasury</a>.</p>
<b>REPORT AND PAYMENT:</b>	Report due March 31. Tax due by August 1 to avoid interest penalty; however, if one-half of tax liability is paid by August 1 and the rest by December 1, interest penalty (1% per month) is avoided.
<b>DISPOSITION:</b>	General Fund.
<b>2008-09 COLLECTIONS:</b>	\$73,289,000

## UTILITY PROPERTY TAX (CONTINUED)

Chart 10  
Michigan Utility Property Tax Revenue, 1915 - 2009



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

## ESTATE TAX

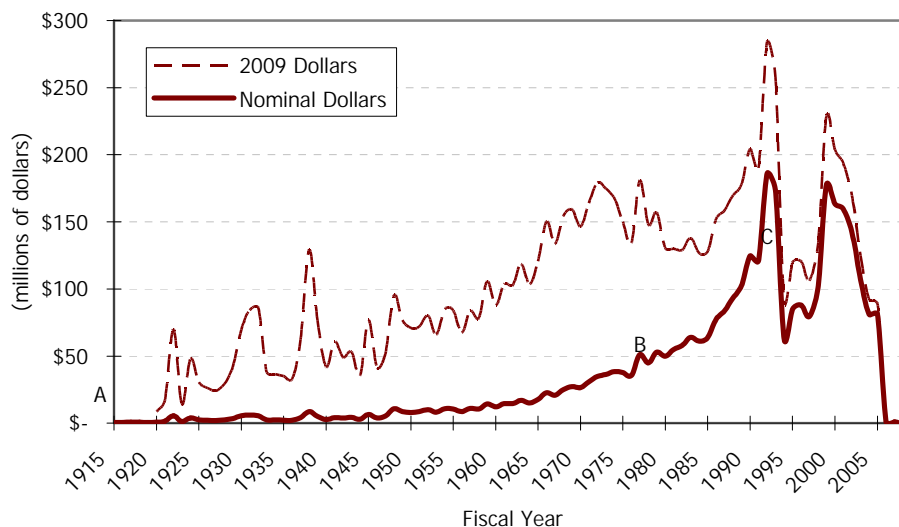
<b>LEGAL CITATION:</b>	<u>M.C.L. 205.201 et seq.</u> ; 1899 PA 188.
<b>YEAR ADOPTED:</b>	1899 (referred to as Inheritance Tax until amended by 1993 PA 54.)
<b>BASIS OF TAX:</b>	Privilege of transferring an interest in the property of a decedent.
<b>MEASURE OF TAX (BASE):</b>	Gross estate as determined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

### Estate Tax Elimination

Michigan's Estate Tax is equal to the maximum allowable federal state death tax credit. In 2001, federal tax reforms eliminated the allowable state death tax credit over a four-year period beginning in 2002. As a result, there is no state death tax credit for dates of death after December 31, 2004. The State of Michigan took no action to offset the federal change and therefore the state Estate Tax is no longer effective. State Estate Tax revenues, which approached \$200 million in FY2001, will not be collected by the state in the future unless the federal death tax credit is resumed.

<b>RATE:</b>	Tax imposed up to maximum allowable federal credit for state inheritance taxes paid.
<b>ADMINISTRATION:</b>	<u>Department of Treasury.</u>
<b>REPORT AND PAYMENT:</b>	Due by same date as federal estate tax.
<b>DISPOSITION:</b>	General Fund.
<b>2008-09 COLLECTIONS:</b>	(\$153,000)

**Chart 11**  
**Michigan Estate Tax Revenue, 1915 - 2009**



- 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 — Estate Tax replaced Inheritance Tax.

## GENERAL PROPERTY TAX

**LEGAL CITATION:** M.C.L. 211.1 et seq.; 1893 PA 206; Sections 3 and 6, Article IX, state Constitution.

**YEAR ADOPTED:** 1893. Territorial Act.

**BASIS OF TAX:** Ownership of 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 13.5% between assessed and taxable values in 2010.

**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 taxable value 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 taxable value will be adjusted to reflect the property's state equalized valuation. The taxable value 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 taxable value 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);

## GENERAL PROPERTY (CONTINUED)

- (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;
- (12) federally-qualified health centers;
- (13) biomass gasification systems, thermal depolymerization systems, and methane digesters;
- (14) personal property designated as industrial and commercial property for school operating millages;
- (15) new personal property in one or more "distressed parcel", subject to local approval;
- (16) supportive housing property for school operating millages.

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 without voter approval. (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;
- (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) and state law require a taxing jurisdiction to roll back maximum authorized rates if the state equalized value, excluding new construction, increases faster than the rate of inflation (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. Principal residence, industrial personal property, qualified agricultural property is entirely exempt from school millages. Commercial personal property is partially exempt (12 of the 18 mills). However, school districts with a 1994-95 per pupil foundation allowance of over \$6,500 may reduce the exemption on principal residence 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 2009, the state average millage rate, including the 6-mill State Education Tax, was 39.13 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 county treasurers. Delinquent taxes on real property collected by county treasurers (except in Kalamazoo).

## GENERAL PROPERTY (CONTINUED)

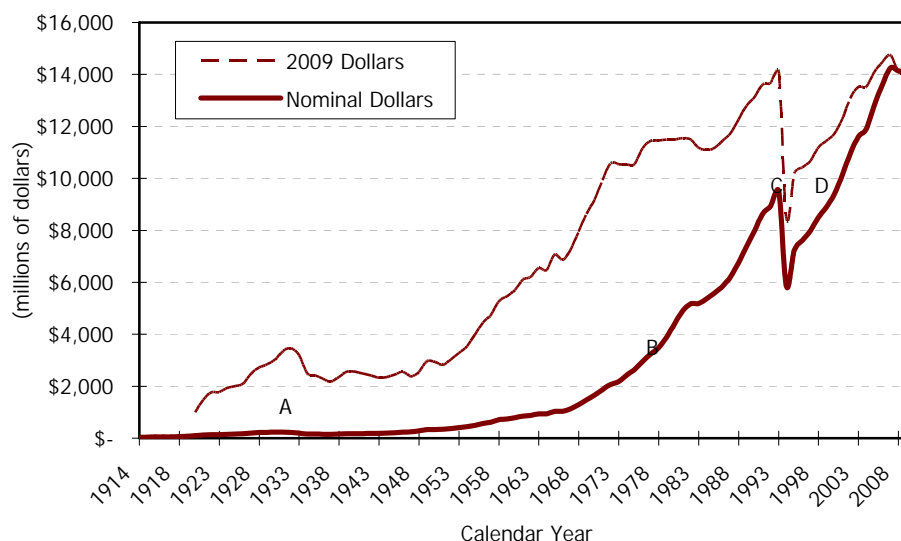
**REPORT AND PAYMENT:** Township and county taxes due December 1. School taxes due December 1, unless school board elects to make all or one-half due July 1. City and village taxes due in accordance with charters.

**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)

2008 & 2009 COLLECTIONS:	2008 Levy			2009 Levy		
School <sup>4</sup>	\$6,150,130,000	51%		\$6,184,781,164	51%	
City	2,519,647,000	21		2,532,292,532	21	
County	2,331,415,000	19		2,223,021,931	19	
Township	931,810,000	8		980,194,930	8	
Village	<u>103,937,000</u>	1		<u>101,990,805</u>	1	
Total Levy	\$12,036,939,000	100%		\$12,022,281,361	100%	

**2009 COLLECTIONS/UNIT:** \$363 million per mill (based on average rate excluding 6-mill State Education Tax)

**Chart 12**  
**Total Michigan Local Property Tax Collections, 1914 - 2009**

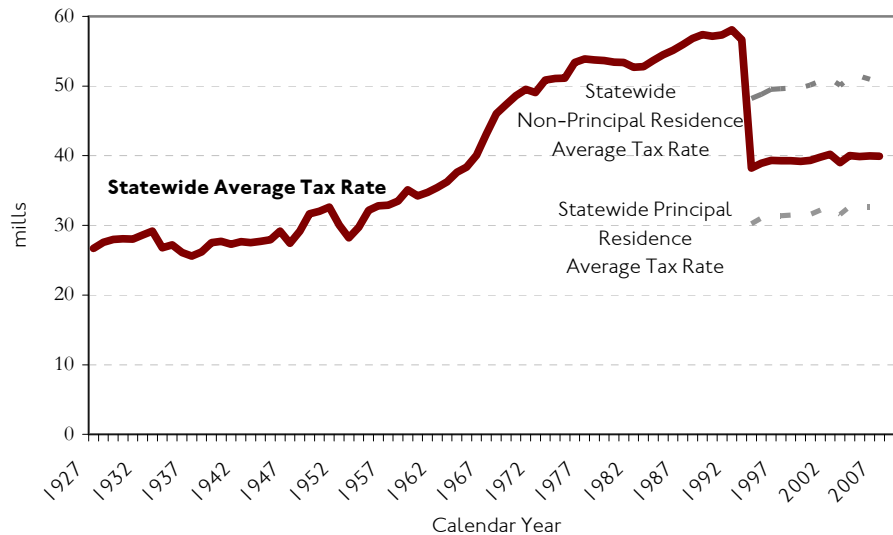


- A 1933 Const Amend — 15 mill limit.
- B 1978 Const Amend — Headlee Amendment established requiring voter approval for any new local taxes and limited the rate of growth for the assessed values of property for each local unit of government.
- C 1993 PA 145 — exempted property from millage levied by a local or intermediate school district for school operating purposes, beginning December 31, 1993.  
PA 312 — limited school operating property taxes on non-principal residence property to lesser of 18 mills or 1993 rate; exempted principal residence 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.
- D 1994 Const Amend — Proposal A reduced school operating taxes, established cap on assessments and taxable value as the tax base.

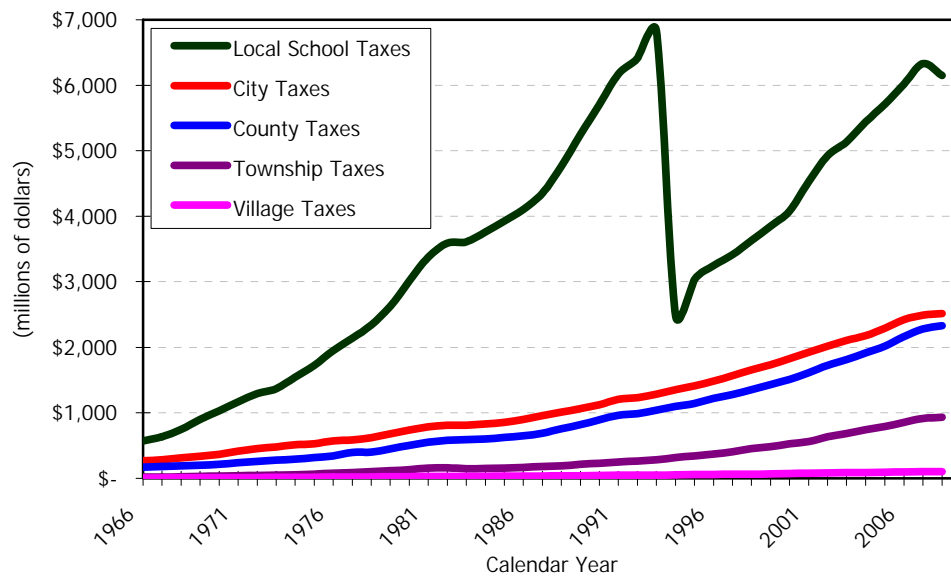
<sup>4</sup> Includes local school districts, intermediate school districts, and community colleges (does not include 6-mill State Education Tax).

## GENERAL PROPERTY TAX (CONTINUED)

**Chart 13**  
**Michigan Statewide Average Property Tax Rate, 1927 – 2009**  
 (Non-Principal Residence and Principal Residence Tax Rates, 1994 – 2009)



**Chart 14**  
**Michigan Property Tax Revenues by Unit of Government, 1966 – 2009**



## AD VALOREM SPECIAL ASSESSMENTS

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 117.4d</a> ; 1909 PA 279 (public improvements and street lighting – cities); <a href="#">M.C.L. 41.414</a> ; 1923 PA 116 (various public improvements – townships and villages); <a href="#">M.C.L. 41.801</a> ; 1951 PA 33 (police/fire equipment and operations – cities with less than 10,000 population, townships, and villages); <a href="#">M.C.L. 41.721 et seq.</a> ; 1954 PA 188 (various public improvements – townships); <a href="#">M.C.L. 560.192a</a> ; 1967 PA 288 (operation and maintenance of storm water retention basins – townships, villages, and cities); <a href="#">M.C.L. 125.1662</a> ; 1975 PA 197 (construction, renovation, etc. of facilities, existing buildings and multi-family dwellings – downtown development authorities).
<b>YEAR ADOPTED:</b>	Various (see above).
<b>BASIS OF TAX:</b>	Ownership of 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>2009 COLLECTIONS:</b>	\$132,163,102 (unit-wide special assessments only).

## MOBILE HOME TRAILER COACH TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 125.1041 et seq.</a> ; 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 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 50 cents per coach to municipalities.



## INDUSTRIAL FACILITIES TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 207.551 et. seq.</a> ; 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>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. Industrial personal property subject to the tax may be exempt from the portion of the tax attributable to the State Education Tax or local school operating taxes. Partial exemption for facility located in a renaissance zone.
<b>RATE:</b>	<i>Replacement facility</i> : same as the local property tax rate. <i>New or speculative facility</i> : 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 the Department of Energy, Labor and Economic Growth.
<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 TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 125.2781 et seq.</a> ; 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 completion of facility. Partial exemption for facility located in a renaissance zone. New exemptions cannot be granted after December 31, 2016; 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, taxable 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 taxable value of the rehabilitated facility to the frozen taxable 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 on the post-rehabilitation taxable value, 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. Local legislative body and State Tax Commission must approve issuance of certificate.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Same as General Property Tax, except that revenue that is attributable to local school districts and intermediate school districts is credited to the state School Aid Fund.

## NEIGHBORHOOD ENTERPRISE ZONE FACILITIES TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 207.771 et seq.</u> ; 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> taxable value of facility, excluding land.</p> <p><i>Rehabilitated facility:</i> taxable value of facility in year prior to granting of exemption certificate, excluding land. For last three years of exemption, current taxable value of facility, excluding land.</p> <p><i>Homestead facility:</i> taxable 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 the Exemption Expires</u></p> <p>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 the Exemption Expires</u></p> <p>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 that the Exemption Expires</u></p> <p>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. Local legislative body (homestead) or State Tax Commission (new or rehabilitated facility) must approve issuance of certificate.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Same as General Property Tax, except that revenue that is attributable to local school districts and intermediate school districts is credited to the state School Aid Fund.

## ENTERPRISE ZONE FACILITIES TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 125.2101 et seq.</u> ; 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>	<p><i>Qualified business:</i> 1/2 the statewide average property tax rate on commercial, industrial, and utility property.</p> <p><i>Certain other businesses:</i> the local property tax rate, with credits that can reduce rate to statewide average property tax rate.</p>
<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 the property is located, with certain exceptions.

## LOW GRADE IRON ORE SPECIFIC TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 211.621 et seq.</u> ; 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>	Same as General Property Tax, except that revenue that is attributable to local school districts and intermediate school districts is credited to the state School Aid Fund.

## COUNTY REAL ESTATE TRANSFER TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 207.501 et seq.</u> ; 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>	<p>Fair market value of written instrument by which property is transferred.</p> <p><i>Exemptions:</i> written instruments involving the following:</p> <ol 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) transfers to a bankruptcy trustee, receiver, or administrator.</li> </ol>
<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 55 cents per \$500 (0.11%) of taxable value.
<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.

## COMMERCIAL REHABILITATION TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 207.841 et seq.</u> ; 2005 PA 210.
<b>YEAR ADOPTED:</b>	2005
<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. Authority to issue certificates expires on December 31, 2015, but an exemption then in effect will continue until expiration of the certificate.
<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>	Varies by local unit.
<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.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Same as General Property Tax, except that revenue that is attributable to local school districts and intermediate school districts is credited to the state School Aid Fund.

## COMMERCIAL FACILITIES TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 207.651 et seq.</u> ; 1978 PA 255.
<b>YEAR ADOPTED:</b>	1978
<b>BASIS OF TAX:</b>	In lieu of general property taxation for up to 12 years after completion of facilities granted exemption certificates within commercial redevelopment districts. Authority to issue certificates expires on December 31, 2020, but an exemption then in effect continues until expiration of certificate.
<b>MEASURE OF TAX (BASE):</b>	<p><i>New or replacement facility:</i> current taxable value of facility, excluding land and personal property other than buildings or leased land.</p> <p><i>Restored facility:</i> taxable value of facility, excluding land and personal property other than buildings and leased land, in year prior to granting of exemption certificate.</p>
<b>RATE:</b>	<p><i>New or replacement facility:</i> 1/2 of the total property taxes levied by all units, other than the State Education Tax, plus the entire amount of the State Education Tax. The State Treasurer, in order to promote economic growth, may exempt up to 1/2 of the mills levied under the State Education Tax for a period not to exceed six years. The Treasurer may only issue 25 exemptions each year.</p> <p><i>Restored facility:</i> same as the local property tax rate.</p>
<b>ADMINISTRATION:</b>	Same as General Property Tax. Local legislative body must approve issuance of certificate.
<b>REPORT AND PAYMENT:</b>	Same as General Property Tax.
<b>DISPOSITION:</b>	Same as General Property Tax, except that revenue that is attributable to local school districts and intermediate school districts is credited to the state School Aid Fund.

## COMMERCIAL FOREST TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 324.51101-324.51120</u> ; 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). Commercial forest land located in a renaissance zone is exempt from the tax.
<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. (The 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 property, average millage rate for all townships in the county where property is located, the number of years, up to seven, in which the withdrawn property had been designated as commercial forestland, and a county-specific (contained in law) factor. The property's value is equal to the previous year's value adjusted for inflation, but not to exceed 5%.</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.

## TRANSPORTATION TAXES

*Motor Vehicle Registration Fees*  
*Gasoline Tax*  
*Diesel Fuel Tax*  
*Liquified Petroleum Gas Tax*  
*Motor Carrier Fuel Tax*  
*Motor Carrier Single State Registration Tax*  
*Watercraft Registration Fee*  
*Aviation Gasoline Tax*  
*Aircraft Weight Fee*  
*Snowmobile Registration Fee*





# MOTOR VEHICLE REGISTRATION FEES

**LEGAL CITATION:** M.C.L. 257.801-257.810; 1949 PA 300; Section 9, Article IX, state Constitution.

**YEAR ADOPTED:** 1905

**BASIS OF TAX:** In lieu of general property and other taxes.

**MEASURE OF TAX (BASE):** 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.

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 8,000 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.

The above rates are adjusted annually in accordance with changes in state personal income.

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.):

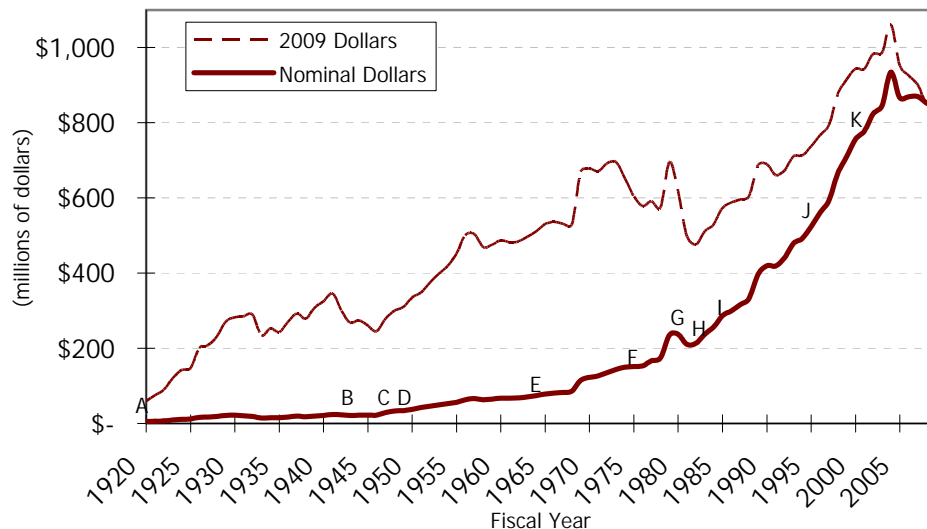
0-24,000: \$491	36,001-42,000: \$874	66,001-72,000: \$1,529	115,001-130,000: \$2,448
24,001-26,000: \$558	42,001-48,000: \$1,005	72,001-80,000: \$1,660	130,001-145,000: \$2,670
26,001-28,000: \$558	48,001-54,000: \$1,135	80,001-90,000: \$1,793	145,001-160,000: \$2,894
28,001-32,000: \$649	54,001-60,000: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

6. *For trailers* (one-time fee): under 2,500 lb. \$75; 2,500 lb. to 9,999 lb. \$200; 10,000 lb and over \$300.

## MOTOR VEHICLE REGISTRATION (CONTINUED)

<b>ADMINISTRATION:</b>	<u>Michigan Department of State</u> ; certain fees, Michigan Department of Natural Resources.
<b>REPORT AND PAYMENT:</b>	Registration expires annually on owner's birthday, except for certain commercial vehicles owned by "persons" other than individuals (last day of Feb.), for trailers (lifetime registration), for motorcycles (March 31), and for historic vehicles (on April 15 in the 10th year after the date of issue). Tax due with new registration.
<b>DISPOSITION:</b>	Michigan Transportation Fund (See Gasoline Tax); certain fees, Scrap Tire Regulation Fund.
<b>2008-09 COLLECTIONS:</b>	\$841,305,000

**Chart 15**  
**Michigan Motor Vehicle Registration Tax Revenue, 1920 – 2009**



- 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.
- K 2003 PA 152 — Established new fee scheduled for trailers.

## GASOLINE TAX

<b>LEGAL CITATION:</b>	<u>M.C.L. 207.1001 et seq.</u> ; 2000 PA 403; <u>Section 9, Article IX, state Constitution.</u>
<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</i> for gasoline used in</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</i> of tax on gasoline purchased for</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, respectively, is greater than \$2.5 million, whichever is sooner.
<b>ADMINISTRATION:</b>	<u>Department of Treasury.</u>
<b>REPORT AND PAYMENT:</b>	Due by 20th of each month.
<b>DISPOSITION:</b>	<p><u>Michigan Transportation Fund:</u></p> <ul style="list-style-type: none"> <li>2% to Recreation Improvement Fund;</li> <li>Sums sufficient for administrative and collection costs;</li> <li>\$3 million to Rail Grade Crossing Account;</li> <li>\$3 million to Local Bridge Fund;</li> <li>Revenue from three cents of tax to State Trunkline Fund and local road agencies;</li> <li>Revenue from one cent of tax to state and local bridges;</li> <li>\$43 million for state debt service payments;</li> <li>10% earmarked to Comprehensive Transportation Fund;</li> <li>\$5 million to Local Bridge Fund;</li> <li>\$40.3 million to Transportation Economic Development Fund;</li> <li>\$33 million to Local Program Fund;</li> <li>Remainder allocated:               <ul 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> </ul> </li> </ul>
<b>2008-09 COLLECTIONS:</b>	\$836,853,000
<b>2008-09 COLLECTIONS/UNIT:</b>	\$44 million per 1 cent of Gas Tax.

## DIESEL FUEL TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 207.1001 et seq.</a> ; 2000 PA 403; <a href="#">Section 9, Article IX, state Constitution</a> .
<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</i> for diesel fuel used in or for:</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</i> of tax on diesel fuel purchased for use in ten or more person capacity vehicles operated under a municipal franchise.</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, respectively, is greater than \$2.5 million, whichever is sooner.
<b>ADMINISTRATION:</b>	<a href="#">Department of Treasury</a> .
<b>REPORT AND PAYMENT:</b>	Due by 20th of each month.
<b>DISPOSITION:</b>	Michigan Transportation Fund (See Gasoline Tax).
<b>2008-09 COLLECTIONS:</b>	\$94,663,000
<b>2008-09 COLLECTIONS/UNIT:</b>	\$6.3 million per 1 cent of Diesel Fuel Tax.

## 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).

## LIQUIFIED PETROLEUM GAS TAX

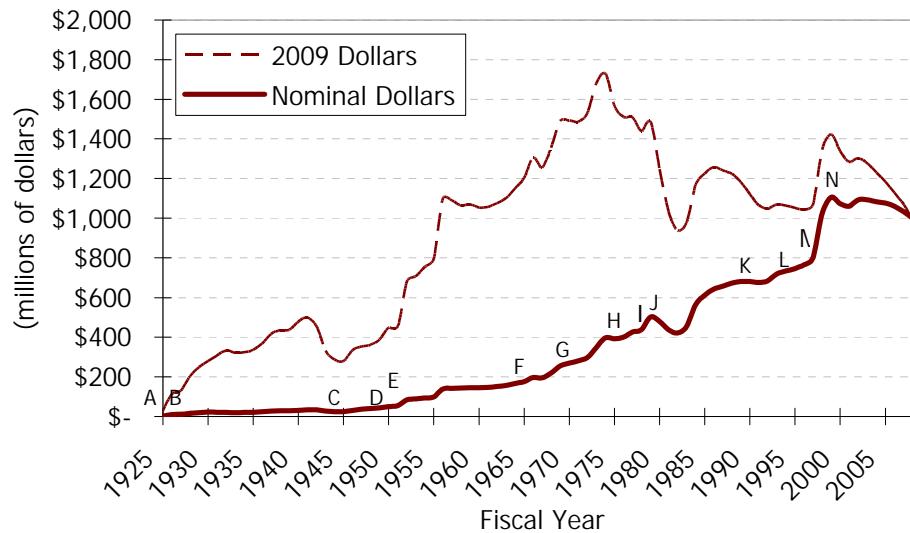
<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 207.1151 et seq.</a> ; 2000 PA 403; <a href="#">Section 9, Article IX, state Constitution</a> .
<b>YEAR ADOPTED:</b>	1953. The Gasoline Tax (1925 PA 150), the Diesel Fuel Tax (1951 PA 54), and the Liquefied Petroleum Gas Tax (1953 PA 147) were recodified by the 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. <i>Refund</i> 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>	<a href="#">Department of Treasury</a> .
<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>2008-09 COLLECTIONS:</b>	\$427,000
<b>2008-09 COLLECTIONS/UNIT:</b>	\$28,467 per 1 cent in Liquefied Petroleum Gas Tax.

## MOTOR CARRIER FUEL TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 207.211 et seq.</a> ; 1980 PA 119; <a href="#">Section 9, Article IX, state Constitution</a> .
<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, respectively, is greater than \$2.5 million, whichever is sooner.
<b>ADMINISTRATION:</b>	<a href="#">Department of Treasury</a> .
<b>REPORT AND PAYMENT:</b>	Quarterly, on the last day of month following the close of the calendar quarter.
<b>DISPOSITION:</b>	Michigan Transportation Fund (See Gasoline Tax).
<b>2008-09 COLLECTIONS:</b>	\$19,832,000

# MOTOR FUELS

**Chart 16**  
**Michigan Motor Fuel Tax\* Revenues, 1925 - 2009**



- 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.  
— Increased Diesel Fuel Tax rate to 9 cents per gallon.
- I 1980 PA 118 — Raised Diesel Fuel Tax rate to 11 cents per gallon; allowed a 6 cent per gallon discount to commercial vehicles.  
PA 119 — 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.
- J 1982 PA 437 — 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 Fuel Taxes include the Gasoline, Diesel Fuel, Liquefied Petroleum Gas, and Motor Carrier Fuel Taxes.

## MOTOR CARRIER SINGLE STATE REGISTRATION TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 478.1-478.8</a> ; 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>	<a href="#">Department of Energy, Labor and Economic Growth, Public Service Commission</a> ; and Department of State Police.
<b>REPORT AND PAYMENT:</b>	Due annually by December 1.
<b>DISPOSITION:</b>	Public Service Commission and Truck Safety Fund (\$750,000 or 10%, whichever is greater).
<b>2008-09 COLLECTIONS:</b>	\$3,844,000

## WATERCRAFT REGISTRATION FEE

LEGAL CITATION:	M.C.L. 324.80115-324.80128; 1995 PA 58; Section 40, Article 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): <table><tr><td>Under 12,</td><td>\$14</td><td>16-less than 21,</td><td>\$42</td><td>28-less than 35,</td><td>\$168</td><td>42-less than 50,</td><td>\$280</td></tr><tr><td>12-less than 16,</td><td>\$17</td><td>21-less than 28,</td><td>\$115</td><td>35-less than 42,</td><td>\$244</td><td>50 or more,</td><td>\$448</td></tr></table> Separate rates for pontoon boats and motorized canoes, non-powered vessels 12 feet or over, and vessels carrying freight and passengers for hire.	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
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										
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																
2008-09 COLLECTIONS:	\$9,518,000																



## AVIATION GASOLINE TAX

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 259.203</a> ; 1945 PA 327; <a href="#">Section 9, Article IX, state Constitution</a> .
<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. <i>Refund</i> 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>2008-09 COLLECTIONS:</b>	\$5,132,000

## AIRCRAFT WEIGHT FEE

<b>LEGAL CITATION:</b>	<a href="#">M.C.L. 259.77</a> ; 1945 PA 327; <a href="#">Section 9, Article IX, state Constitution</a> .
<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>	Department of Transportation, Aeronautics Commission.
<b>REPORT AND PAYMENT:</b>	Due by each December 31.
<b>DISPOSITION:</b>	State Aeronautics Fund.
<b>2008-09 COLLECTIONS:</b>	\$311,000

## SNOWMOBILE REGISTRATION FEE

<b>LEGAL CITATION:</b>	<a href="#">M.C.L 324.82101-324.82111</a> ; 1995 PA 58; <a href="#">Section 40, Article IX, state Constitution</a> .												
<b>YEAR ADOPTED:</b>	1968. 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>	<p><i>Regular snowmobile:</i> Registration is for 3-year period, \$30.00.</p> <p><i>Historic snowmobile:</i> Life-time registration (non-transferable), \$50.00.</p>												
<b>ADMINISTRATION:</b>	Collection: <a href="#">Department of State</a> . Enforcement: Department of Natural Resources, county sheriffs.												
<b>REPORT AND PAYMENT:</b>	Due by October 1 every three years.												
<b>DISPOSITION:</b>	<p>Michigan Conservation and Legacy Fund, Snowmobile Account distributed as follows:</p> <p><i>Regular snowmobile:</i></p> <table> <tr> <td>Department of Natural Resources:</td><td>\$19.00 of fee;</td></tr> <tr> <td>Department of State:</td><td>Not more than \$3.00 of fee;</td></tr> <tr> <td>Snowmobile Trail Easement Subaccount:</td><td>\$8.00 of fee.</td></tr> </table> <p><i>Historic snowmobile:</i></p> <table> <tr> <td>Department of Natural Resources:</td><td>\$5.00 of fee;</td></tr> <tr> <td>Department of State:</td><td>Not more than \$3.00 of fee;</td></tr> <tr> <td>Snowmobile Trail Improvement Subaccount:</td><td>\$42.00 of fee.</td></tr> </table>	Department of Natural Resources:	\$19.00 of fee;	Department of State:	Not more than \$3.00 of fee;	Snowmobile Trail Easement Subaccount:	\$8.00 of fee.	Department of Natural Resources:	\$5.00 of fee;	Department of State:	Not more than \$3.00 of fee;	Snowmobile Trail Improvement Subaccount:	\$42.00 of fee.
Department of Natural Resources:	\$19.00 of fee;												
Department of State:	Not more than \$3.00 of fee;												
Snowmobile Trail Easement Subaccount:	\$8.00 of fee.												
Department of Natural Resources:	\$5.00 of fee;												
Department of State:	Not more than \$3.00 of fee;												
Snowmobile Trail Improvement Subaccount:	\$42.00 of fee.												
<b>2008-09 COLLECTIONS:</b>	\$1,750,000												

## CHANGES IN MICHIGAN TAX LAWS

## CHANGES IN MICHIGAN TAX LAWS, 2008 THROUGH 2010

### Tax Administration

- 2008 PA284: Amends the Neighborhood Enterprise Zone Act to transfer responsibility to approve "home-stead facilities" from the State Tax Commission to local assessors.
- PA436-439: Makes changes to the Streamlined Sales and Use Tax Revenue Equalization Act, the General Sales Tax Act, and the Use Tax Act, respectively, to comply with the Streamlined Sales and Use Tax Agreement.
- 2009 PA189: Amends the General Property Tax Act to require the deferment of summer property taxes for agricultural property owned by a limited liability corporation.
- 2010 PA198: Creates a tax amnesty period between May 15, 2011, and June 30, 2011, for taxes due before January 1, 2010.
- PA332: Amends the General Property Tax Act to require assessors to mail notices of an increase in state equalized value or taxable value at least 14 days before the meeting of the board of review.

### Income Taxes

#### Personal Income Tax

- 2008 PA162, 322, 526, 558, 560: Creates new Income Tax check-offs (minimum of \$5), Michigan law enforcement memorial monument fund, the renewal fuels fund, the foster care trust fund, the children's miracle network fund, children's hospital of Michigan fund, united way fund, and the Michigan council for the arts.
- PA207: Includes a credit for donations of food items to food bank or homeless shelter if vendor makes a matching contribution of similar items, first effective for 2008 tax year.
- PA287: Provides two new credits: 1) Refundable Energy Efficient Qualified Home Improvement Credit, for purchase and installation of energy efficient home improvements. 2) Nonrefundable credit associated with the additional charges paid so that electric utilities would meet new renewable energy standards.
- PA360: Allows income tax withholdings for certain employees to be retained by eligible community colleges, rather than remitted to the state, to be used for debt service associated bonds issued by community colleges that provide employee training to eligible employers.
- 2009 PA134: Allows a taxpayer to deduct the amount of a charitable contribution made to the Advance Tuition Payment Fund under the Michigan Education Trust Act.

- PA195: Eliminates the sunset provision (January 1, 2010) pertaining to the credit for donated automobiles.

- 2010 PA214: Provides a new, nonrefundable credit for a customer of a municipally-owned electric utility for charges imposed to cover the costs of the utility's compliance with the Clean, Renewable, and Efficient Energy Act (PA 287 of 2008).

- PA235: Creates a small business investment credit, Venture Investment Credit, for tax years 2010-2013. Among other restrictions, the credit is equal to 25 percent of the amount of the qualified investment in a qualified business, not to exceed \$250,000 per year.

### Business Privilege Taxes

#### Michigan Business Tax

- 2008 PA 74, 77, 86: Provides new refundable credits to film industry based on job training expenses, production costs, and capital investment.
- PA177: Modifies the definition of "purchases from other firms" for general building, heavy construction, and construction special trade contractors to include in the definition of "materials and supplies" payments for materials deducted as purchases in determining the cost of goods sold for the purpose of calculating total income on Federal return.
- PA262-267: Provides a new refundable credit to manufacturers of polycrystalline silicon for solar cells and semiconductor chips that construct and operate a new or expanded facility in Michigan. Credit amount based on electricity consumption and rates charged to the company claiming the credit.
- PA270: Provides a new refundable credit to companies engaged in research and development of photovoltaic energy. Credit amount limited to \$100 per year and based on greater of: 1) 50 percent of capital investment made during year, or 2) 50 percent of research and development expenses.
- PA335: Provides new nonrefundable credit for costs associated with transition to E85 fuel pumps for gas station owners. Credit eligible for 2009 to 2011.
- PA433: Modifies the definition of "gross receipts" to exclude certain proceeds, interest income, royalties, dividends, taxes/fees, and surcharges.

## CHANGES IN MICHIGAN TAX LAWS, 2008 THROUGH 2010

- PA434: Modifies depreciation credit in tax year 2008 for electric and gas utility firms making capital investments. For tax years 2009 and 2010 provides credit equal to 0.42% of the amount of the deduction claimed in 2008 for bonus depreciation; available to all firms other than electric and gas utility firms. Redefines "foreign operating entity".
- PA435: Redefines the term "foreign person" to provide an exemption from the tax for certain individuals.
- PA448: Makes changes to the MBT historic preservation credit to allow eligible taxpayers to take full advantage of state credit (25 % of expenditures), rather than the residual credit after taking the federal credit (20% of expenditures).
- PA472: Exempts payments made by real estate brokers and salespersons and appraisers to independent contractors from the gross receipts tax base, by including these payments in the definition of "purchases from other firms."
- PA507: Provides a new credit to eligible exhibition owners equal to 50% or \$200,000, whichever is less,
- PA572: Modifies the tax credits available to the Michigan International Speedway in 2008 through 2012, from a maximum of \$2.1 million (\$1.7 million previously) to a minimum of \$1.1 million (\$650,000 previously). The minimum expenditure threshold to qualify for the tax credit was increased to \$30 million (previously \$25 million).
- PA580: Provides new MEGA credit to the tax for battery technology.
- 2009 PA5, 6, & 26: Increased the number of MEGA credits allowed for battery technology and increased the size of the credits.
- PA 90: Extends to December 31, 2011, the sunset for granting a MEGA credit for the construction and operation of a new facility for the development and manufacture of photovoltaic energy and technology. Modifies the size of the credits from \$25 million to \$75 million and lowers the job creation threshold from 700 jobs to 500 jobs.
- PA105: Modifies the business income tax base to exclude royalty and interest payments to person organized under the laws of another country.
- PA106: Modifies the amount of the tax deposited in the School Aid Fund to account for the deposit of the Use Tax proceeds designated to the School Aid Fund from the taxation of medical services under PA 440 of 2008.
- PA110: Creates a new MEGA credit for automotive battery manufacturing, up to \$25 million for up to four years.
- PA123: Increases the number of MEGA credits against the MBT, from 400 per year to 500 per year, that are not qualified high-tech, distressed, rural, or historic credits. Increases the number of high-tech credits from 50 to 75 per year.
- PA126: Caps the annual increase in the value of MEGA credits to the MBT, equal to \$95 million above the level in the preceding calendar year.
- PA135: Allows a taxpayer to deduct the amount of a charitable contribution made to the Advance Tuition Payment Fund under the Michigan Education Trust Act.
- PA157: Makes changes to the tax base apportionment factor used by certain eligible taxpayers,
- PA159 & 160: Modifies the "anchor company" MEGA credits allowed under the MBT.
- PA192: Modifies the availability of certain historic preservation credits in 2009 and 2010 and revises the criteria for one of the 2009 credits and establishes new criteria for one of the 2009 credits.
- PA240: Modifies the number of MEGA battery credits; extends application deadline; modifies capital investment requirements; caps the total amount of credits; and includes credit repayment provisions.
- 2010 PA103: Modifies the infrastructure credit available to the Michigan International Speedway by increasing the amount for the 2012 tax year, extending the credit through the 2106 tax year, and requiring additional capital expenditures by the Speedway before 2017 to receive the credit extension.
- PA133: Excludes from the definition of "gross receipts", for a taxpayer that provides health care management consulting services, fees received by the taxpayer from clients and spent to reimburse those clients pursuant to service agreements.
- PA156: Includes in the definition of "financial institution" a federally chartered Farm Credit System institution.
- PA200: Excludes from the definition of "gross receipts" 100 percent of the excise taxes paid by a person on or for cigarettes or tobacco products.
- PA310: Amends the historic rehabilitation credit to allow a single credit to be issued for a rehabilitation plan that involves the rehabilitation of multiple historic resources within the same geographic district rather than the rehabilitation of a single historic resource, subject to certain criteria. Also, increases, from \$3 million to \$24 million, the maximum tax credit allowed for a plan involving multiple resources.

## CHANGES IN MICHIGAN TAX LAWS, 2008 THROUGH 2010

### Quality Assurance Assessment Fees

2008 PA277: Extends the sunset for the hospital assessment fee from September 30, 2009, to September 30, 2010.

PA283: Eliminates the October 1, 2008, sunset for the Medicaid managed care health maintenance organization assessment fee.

### 9-1-1 Service Tax

2010 PA206: Allows \$5 million from the Emergency 9-1-1 Fund to be used in FY2010 to fund a portion of the costs of the Public Safety Communications System and to allow \$7 million from the Fund to be used in FY2011.

### Sales-Related Taxes

#### Sales Tax

2008 PA332 & 415: Extends current agricultural exemption to machinery used for simultaneously harvesting grain and other crops and biomass.

PA361: Reduces the amount of auto-related sales tax revenue deposited into the Comprehensive Transportation Fund by \$5 million for FY2008 and increases the amount of revenue deposited into the General Fund by the same amount.

PA438: Clarifies the treatment of discounts involving third parties. Also, explicitly exempts employee discounts on the sale of motor vehicles from sales price.

PA556: Provides a new definition of "extractive operation" applicable to the timber industry for purposes of exemption from tax. Also, provides an exemption from the tax for the sale of personal property for use in construction or renovation of an eligible convention facility. Finally, requires the Department of Treasury to determine the prepaid sales tax for gasoline every three months, as opposed to every six months, except under certain circumstances.

2009 PA 53: Created a tax exemption for sale of parts and materials affixed to aircraft that are temporarily within Michigan and for the sale of aircraft temporarily in Michigan.

2010 PA116: Extends tax exemption to certain machinery used to unload logs from trucks at a sawmill for the purpose of processing at the site and to load lumber onto trucks for transportation from the site.

PA160: Reduces the amount of sales tax revenue related to motor vehicle fuels, parts, and accessories that is otherwise directed to the Comprehensive Transportation Fund by \$5.7 million for FY2010 and directs this revenue to the General Fund.

PA333: Allows a sales tax refund for tax paid on a core charge attributable to a recycling fee, deposit, or disposal fee for a component, part, or battery for heavy earthmoving equipment.

### Use Tax

2008 PA314: Extends current agricultural exemption to machinery used for simultaneously harvesting grain and other crops and biomass.

PA440: Includes in the tax base the use or consumption of medical services provided by Medicaid managed care organizations. The tax on these services replaced the assessment previously levied under the Insurance Code of 1956.

PA555: Provides a new definition of "extractive operation" applicable to the timber industry for purposes of exemption from tax. Also, provides an exemption from the tax for the sale of personal property for use in construction or renovation of an eligible convention facility.

2009 PA 54: Created a tax exemption for sale of parts and materials affixed to aircraft that are temporarily within Michigan and for the sale of aircraft temporarily in Michigan.

2010 PA 37: Requires the Department of Treasury to deposit \$9.5 million of use tax proceeds into the Michigan Promotion Fund in FY2010.

PA115: Extends tax exemption to certain machinery used to unload logs from trucks at a sawmill for the purpose of processing at the site and to load lumber onto trucks for transportation from the site.

### Accommodations (Hotel-Motel) Tax

2008 PA553: Provides new sunset for the tax levied under PA 106 of 1985, as the earlier of: 1) December 31, 2039; or 2) 30 days after debt issued by the Detroit Regional Conventional Facility Authority is retired. Redefines "convention hotel" to mean one that is located in a county of 700,000 (as opposed to 750,000) for purposes of taxation under PA 106.

2010 PA207: Provides a transfer of \$5 million from the Convention Facility Development Fund to the General Fund for FY2010 only.

### Convention and Tourism Marketing Fees

2010 PA283: For counties under 650,000, raises the maximum assessment from 2 percent to 5 percent on applicable room charges. Eliminates the provision allowing a 4 percent assessment on room charges in certain townships.

## CHANGES IN MICHIGAN TAX LAWS, 2008 THROUGH 2010

### Property Taxes

#### **State Real Estate Transfer Tax**

2008 PA473: Extended the tax to contracts for the transfer or acquisition of a controlling interest in any entity if the real property comprised 90% or more of the entity's fair market value. Defines the term "controlling interest." Also, provides exemptions from the tax for certain transfers,

#### **General Property Tax**

2008 PA230: Allows a local assessing district to exempt all new personal property by an eligible business located in one or more "distressed parcels" from the collection of taxes under the Act.

PA243: Allows a "principal residence" exemption to continue for three years after the property is rented to another person if the owner of the property is on active duty as a member of the United States Armed Forces.

PA 285: Extends new personal property tax exemptions to major distribution and logistics facilities, headquarters facilities, competitive edge technology businesses, information technology facilities, and MEGA-eligible businesses.

PA334: Extends current agricultural exemption to machinery used for simultaneously harvesting grain and other crops and biomass.

PA337: Includes in the definition of "agricultural operations", for purpose of exemption, collecting, evaporating, and preparing maple syrup for property owners with \$25,000 of less in sales.

PA454: Exempts supportive housing property from the school operating taxes.

PA505 & 506: Modified the tax exemption for real property owned by YMCAs, YWCAs, Boy or Girl Scouts, and others, from 400 to 480 acres. Also, exempted the transfer of property from one group to another group as a result of a consolidation or a merger from the "pop tax".

PA573: Allows local assessing district to exempt all new personal property located in a county that partially or entirely borders another state or Canada, subject of specific conditions.

PA585: Extends tax exemption to housing owned by a "limited dividend housing corporation" and defines term.

2010 PA109: Provides exemption from tax for property used in the retail store in a charitable nonprofit housing organization.

#### **Industrial Facilities Tax**

2008 PA170: Includes the operation of a "major distribution and logistics facility" in the definition of a "industrial property".

#### **Obsolete Property Rehabilitation Tax**

2010 PA137: Extends the deadline for granting new exemptions from December 31, 2010, to December 31, 2016.

#### **Neighborhood Enterprise Zone Facilities Tax**

2008 PA204 & 228: Includes in the definition of "new facility" a new structure that is rented or leased or a mixed use building, and is located in a "qualified downtown revitalization district". Allows a zone in a "revitalization district" to contain fewer than 10 platted parcels if the parcels, combined, contain 10 or more facilities.

#### **Commercial Facilities Tax**

2008 PA227: Reactivates the Commercial Redevelopment Act to allow new tax abatements (Commercial Facilities Tax) for a new or replacement facility in a redevelopment district, on property zoned for mixed-use that is located in a "downtown revitalization district", as defined in the Neighborhood Enterprise Zone Act. Exemptions would be available through December 31, 2020.

#### **Commercial Rehabilitation Tax**

2008 PA231: Includes in the definition of "qualified facility" a retail supermarket, grocery store, produce market, or deli located in an underserved area.

PA500: Revised the definition of "qualified retail food establishment"; modified the calculation of the tax for certain facilities; and modified the application process.

#### **Commercial Forest Tax**

2008 PA299: Modifies the calculation of the withdrawal penalty for applications filed on or after September 27, 2007.

PA306: Expands period during which a facility owner or lessee can apply for another tax exempt certificate.

PA581: Redefines "qualified commercial activity" to allow certain warehousing facilities to qualify for a property tax exemption.

### Transportation Taxes

#### **Snowmobile Registration Fee**

2010 PA 371: Allows the creation of a historic snowmobile registration and establishes a lifetime fee of \$50 per snowmobile (non-transferable) and provides for the disposition of the fee revenue.



## Glossary of Terms

**Ad Valorem Tax:** A tax computed from the value of a property. Property taxes and part of the Michigan Motor Vehicle Registration 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.

**Capitation:** A payment method for health care services. The physician, hospital, or other health care provider is paid a contracted rate for each member assigned, referred often reflected as a “per-patient amount”, regardless of the number or nature of services provided. Payment can be adjusted for age, gender, illness, and regional differences.

**Captive Insurance Company:** An insurance a company that insures risks of its parent, affiliated companies, controlled unaffiliated business, or a combination of its parent, affiliated companies, and controlled unaffiliated business.

**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 financial resources 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. Various Michigan local governments have fiscal years that run from 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.

**Gross Receipts:** Entire amount received by a taxpayer from any business activity for direct or indirect gain, benefit or advantage to the taxpayer.

**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 or sub-geographical area of the 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. Personal property includes tangible property, other than real property, intangible property, and inventory.

**Real Property:** Land, buildings and fixtures on the land, and appurtenances to the land.

**Scrip:** Any substitute for currency which is not legal tender and is often a form of a credit.



## GLOSSARY OF TERMS (continued)

**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.

**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 General 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.

**Written Instrument:** Includes contracts for the sale or exchange of real estate or any interest therein. Includes deeds or instruments of conveyance of real property or any interest therein for consideration.

## COLLECTIONS FROM MAJOR MICHIGAN TAXES, 2006-2009

(In Millions)

State Taxes		2006	2007	2008	2009	Data Source
<b>Income</b>	Personal Income	\$6,243	\$6,453	\$7,266	\$6,040	A
<b>Business Privilege</b>	Single Business	\$2,008	\$1,869	\$998	NA	A
	Michigan Business	NA	NA	1,415	\$2,603	A
	Unemployment Insurance	1,513	1,610	1,591	1,416	B
	Oil & Gas Severance	88	68	101	55	A
	Insurance Company Retaliatory	226	218	224	263	A
	Horse Race Wagering	10	9	8	8	A
	Corporate Organization	20	20	20	20	A
	State Casino Gaming	155	159	131	121	A
	Quality Assurance Assessment Fees	<u>677</u>	<u>828</u>	<u>1,024</u>	<u>859</u>	G
	Subtotal <sup>7</sup>	\$4,697	\$4,981	\$5,512	\$5,345	
<b>Sales-Related</b>	Sales	\$6,589	\$6,564	\$6,804	\$6,125	A
	Use	1,391	1,383	1,390	1,293	A
	Tobacco Products	1,139	1,088	1,027	984	A
	Beer and Wine	51	51	51	51	A
	Liquor Excise	117	121	125	128	A
	Liquor Markup	193	200	207	211	E
	Airport Parking Excise	<u>20</u>	<u>21</u>	<u>23</u>	<u>20</u>	A
	Subtotal <sup>7</sup>	\$9,500	\$9,428	\$9,627	\$8,812	
<b>Property</b>	Utility Property	\$92	\$88	\$85	\$73	A
	Estate	1	1	1	0	A
	State Real Estate Transfer	312	240	181	125	A
	State Education	<u>1,900</u>	<u>2,075</u>	<u>2,040</u>	<u>2,146</u>	A
	Subtotal <sup>7</sup>	\$2,305	\$2,404	\$2,307	\$2,344	
<b>Transportation</b>	Gasoline	\$908	\$887	\$854	\$837	A
	Diesel Fuel	163	145	144	115	A
	Motor Vehicle Registration	870	880	853	841	A
	Other	<u>24</u>	<u>19</u>	<u>21</u>	<u>21</u>	A
	Subtotal <sup>7</sup>	\$1,965	\$1,931	\$1,872	\$1,814	
<b>Total State Taxes<sup>7</sup></b>		<b>\$24,710</b>	<b>\$24,997</b>	<b>\$26,584</b>	<b>\$24,355</b>	
<b>Local Taxes</b>						
<b>Income</b>	City Income	\$458	\$473	\$440	\$395	C
<b>Business Privilege</b>	Casino Gaming	\$155	\$157	\$180	\$173	F
<b>Sales-Related</b>	Utility Users	\$60	\$50	\$52	\$50	F
<b>Property</b>	General Property <sup>7</sup>	<u>\$11,565</u>	<u>\$12,119</u>	<u>\$12,037</u>	<u>\$12,022</u>	D
<b>Total Local Taxes<sup>7</sup></b>		<b>\$12,238</b>	<b>\$12,799</b>	<b>\$12,709</b>	<b>\$12,640</b>	
<b>Total State and Local Taxes<sup>7</sup></b>		<b>\$36,948</b>	<b>\$37,796</b>	<b>\$39,293</b>	<b>\$36,995</b>	

## Data Sources:

A Annual Report of the State Treasurer (state fiscal year cash basis).

B U.S. Department of Labor (state fiscal year basis).

C State Tax Commission (calendar year basis).

D State Tax Commission (local fiscal year basis).

E Michigan Department of Energy, Labor and Economic Growth, Liquor Control Commission (state fiscal year cash basis).

F Detroit Comprehensive Annual Financial Report (local fiscal year modified accrual basis).

G Michigan Comprehensive Annual Financial Report (state fiscal year modified accrual basis).

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