CRC MEMORANDUM

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# Local-Option City Income Taxation in Michigan

Michigan's prolonged economic recession is creating fiscal stress for many local governments and causing city government officials to seek alternative revenue sources. Revenues from the two current primary sources, property taxes and unrestricted state revenue sharing, have fallen sharply in recent years. Some might prefer a local-option sales tax, but the state Constitution dictates the maximum sales tax rate and the dedication of sales tax revenues. Without the ability to go above the current six percent rate, it is not likely that a local-option sales tax could be authorized without the state ceding some of the tax it currently levies or a constitutional amendment, which would require voter approval in a statewide election. The local option income tax, therefore, is the revenue option immediately available to cities.

Since 1964, Michigan law has authorized cities to impose local-option income taxes as an alternative, or supplement, to property taxes. At present, only 22 cities levy an income tax. The following will explain how city income taxes work, analyze the history of the cities levying this tax, and investigate the incentives and disincentives municipal policy makers may wish to consider relative to imposition of this tax.

## Why Now?

Lost revenues are a major problem for communities in Michigan's urban areas. Declines in property values were among the causes of the recession and are among the leading causes of the fiscal distress for local governments. Resources earmarked for unrestricted state revenue sharing have been diverted for funding of other state functions. Local governments have made drastic cuts in many service areas and without alternative or new revenues, additional cuts will be necessary.

The decline of property tax values was both a cause and a symptom of the 2008 recession. Michigan's economic decline has caused an exodus from the state resulting in depressed demand for housing and declining property values. The nationwide bursting of the housing bubble and the foreclosure crisis exacerbated the depression of property values. Michigan has ranked near the top among states in the number of properties subject to foreclosure throughout this crisis.

Total state equalized value, a measure of the cash value of real and personal property, fell 15 percent from 2007 to 2010 for the state as a whole. Statewide taxable value, the base to which tax rates are applied, was down six percent in this period. In many Michigan cities, which are heavily reliant on residential, commercial, and industrial properties, the declines in property tax bases and tax revenues were even starker. The Southeast Michigan Council of Governments (SEMCOG) projects taxable values will decline 32 percent between 2007 and 2013 in the seven-county Southeast region, the part of the state hardest hit by the loss of manufacturing jobs.

While townships have not been immune to the economic declines, the problems have been largely concentrated in Michigan's cities and charter townships. General law townships, in particular, have fared well because the value of agricultural property, rarely found in Michigan cities but common in townships, has suffered little from the decline in property values. Charter townships, which are usually located in urban areas, have suffered many of the same problems as cities during this prolonged recession.

Unrestricted state revenue sharing, another significant source of local revenue, has dropped 31 percent since 2000, a cumulative reduction of $4 billion. Efforts to deal with the state's structural budget deficit led state policy makers to retain funds that previously would have been allocated to statutory state revenue sharing in order to finance other state General Fund programs.

## The Uniform City Income Tax

In the early 1960s, about the same time that a new state constitution was being drafted in Lansing, the cities of Detroit and Hamtramck began levying city income taxes. With these actions in the background, and a push by other local governments for alternative revenue sources, the 1963 Constitution included the following language in Article VII, Section 21:

> ...Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law.

Shortly after adoption of the new Constitution, the Uniform City Income Tax Act of 1964 was enacted granting all cities the authority to levy an income tax. Other local governments – counties, villages, townships, school districts, etc. – are statutorily precluded from levying an income tax. The act authorized a uniform tax, with a single tax rate and uniform tax base for all cities. The tax rate remains uniform for most of the cities levying the tax, but over the years a few cities have had exceptions written into the law to authorize the levy of the tax at higher rates.

The base of the city income tax is measured differently for city residents, non-residents who earn income in the city, and corporations. For city residents, the tax base includes compensation, net profits, investments and other income. City income tax payers are allowed a credit for nonresident income taxes paid to another city. For non-residents, the tax base is measured as income earned while working in the city. For corporations, the tax base is income earned in the city, allocated based on property, sales, payroll.

The income tax rate levied on non-residents may not exceed one-half the rate levied on residents. Generally, the tax is levied at a rate of 1 percent on residents and corporations and 0.5 percent on the income of non-residents earned in the imposing city. Exceptions were written into state law for the cities of Detroit (2.5% on residents, 1.0% on corporations, 1.25% on non-residents); Grand Rapids (1.5%/1.5%/0.75%); Highland Park (2.0%/2.0%/1.0%); and Saginaw (1.5%/1.5%/0.75%). (See **Table 1**.)

**Table 1**
**Tax Rates and Revenue Yield by City**

| City | Residents | Corporations | Non-Residents |
|---|---|---|---|
| Albion | 1.00% | 1.00% | 0.50% |
| Battle Creek | 1.00 | 1.00 | 0.50 |
| Big Rapids | 1.00 | 1.00 | 0.50 |
| Detroit | 2.50 | 1.00 | 1.25 |
| Flint | 1.00 | 1.00 | 0.50 |
| Grand Rapids | 1.50 | 1.50 | 0.75 |
| Grayling | 1.00 | 1.00 | 0.50 |
| Hamtramck | 1.00 | 1.00 | 0.50 |
| Highland Park | 2.00 | 2.00 | 1.00 |
| Hudson | 1.00 | 1.00 | 0.50 |
| Ionia | 1.00 | 1.00 | 0.50 |
| Jackson | 1.00 | 1.00 | 0.50 |
| Lansing | 1.00 | 1.00 | 0.50 |
| Lapeer | 1.00 | 1.00 | 0.50 |
| Muskegon | 1.00 | 1.00 | 0.50 |
| Muskegon Heights | 1.00 | 1.00 | 0.50 |
| Pontiac | 1.00 | 1.00 | 0.50 |
| Port Huron | 1.00 | 1.00 | 0.50 |
| Portland | 1.00 | 1.00 | 0.50 |
| Saginaw | 1.50 | 1.50 | 0.75 |
| Springfield | 1.00 | 1.00 | 0.50 |
| Walker | 1.00 | 1.00 | 0.50 |

Source: Michigan Department of Treasury.

## Imposing a City Income Tax

Imposition of a city income tax requires two separate actions: 1) adoption of an ordinance by legislative action of the city council/ commission and then 2) an affirmative vote to impose the tax by city voters.

Approval by the city voters is required by provisions of the Headlee Amendment of 1978 to the state Constitution. Article IX, Section 31 provides in relevant part that

> 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...

## Administering Income Taxes

City income taxes are administered by the cities themselves. While the tasks performed to administer income taxes are not unlike those needed to administer property taxes, there are sufficient differences to warrant separate bureaucracies. Administration of income taxes requires an ongoing, monthly activity to collect taxes as employers remit taxes withheld from each paycheck. In contrast, property taxes are remitted in summer and winter payments. Administration of property taxes requires tracking of property sales and appraisals of real and personal property. Administration of income taxes requires an auditing function for the cities to know they are receiving the taxes that are due to them.

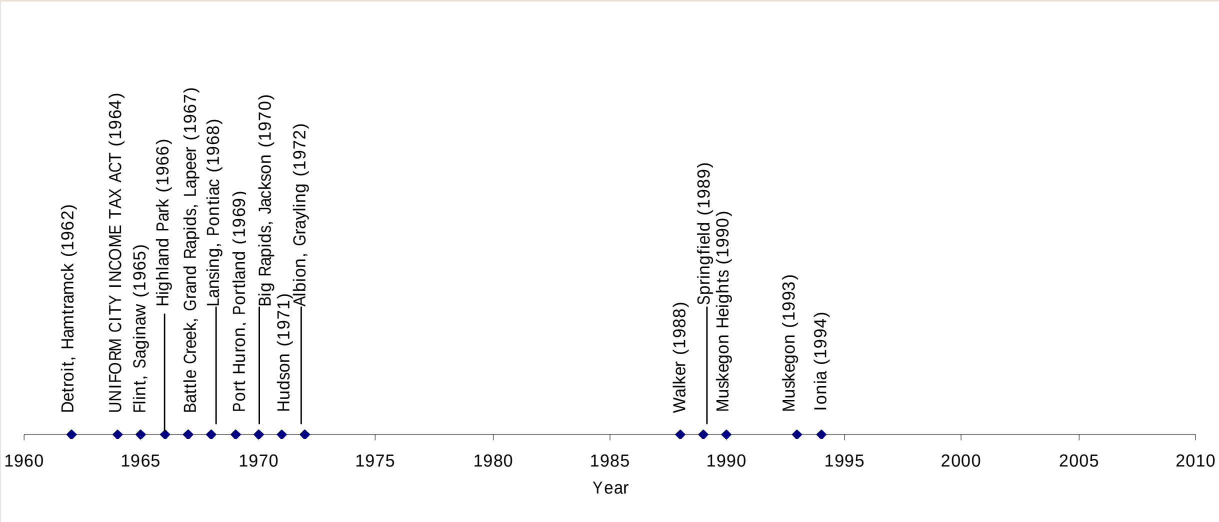
It is important to remember that cities must still administer the property tax, even if they levy an income tax in lieu of property taxes. The state and other local governments that overlap cities and levy taxes on property in the cities, and state law designates cities and townships as the entities responsible for assessing property and collecting property tax revenues on behalf of those governments.

An earlier offer was extended by Michigan Department of Treasury to administer the tax on behalf of each city. The state is not currently administering the tax for any cities. The state and cities may wish to revisit this offer as the state and local governments endeavor to streamline their functions and elimination duplication.

## Adopting City Income Taxes

City income taxes are currently levied by 22 of Michigan's 279 cities. Adoption of the local-option income taxes occurred in two eras. From 1962 to 1972, 17 cities adopted a city income tax. From

**Chart 1**
**Year City Income Tax Adopted in Each City**




Source: Michigan Department of Treasury

1988 to 1994, 5 cities adopted a city income tax. (See **Chart 1**.)

The cities range in size from the Detroit (with an estimate of more than 800,000 people living in 138.7 square miles) to Grayling (with a 2000 census of 1,952 people living in two square miles).

CRC sorted the 22 cities into three broad categories. Nine cities are "larger core" cities, meaning they are some of the state's bigger cities (at least 30,000 people) serving as employment hubs in their regions. Seven more "smaller core" cities serve as the same sort of employment hubs in their regions, but are much smaller in size, with populations of 2,000 to 11,000. Six cities grouped together as "suburban" cities; these cities vary in geographic size (2–25 square miles) and in population (5,200–66,000 people) and are located in proximity to a larger core city. All but Pontiac abuts its core city neighbor, but Pontiac is clearly more of a suburb of Detroit than an isolated city like the "larger core" or "smaller core" cities. Walker is the only one of

**Table 2**
**Characteristics of Michigan Cities that Impose an Income Tax**

| | Land Area | Total Population | Percent of Population in Labor Force | Median Household Income |
|---|---|---|---|---|
| **Large Core Cities** | | | | |
| Detroit# | 138.7 | 808,398 | 54.7 | $29,423 |
| Grand Rapids# | 44.3 | 187,695 | 68.0 | $39,269 |
| Flint# | 33.8 | 105,068 | 52.0 | $28,584 |
| Lansing# | 33.9 | 111,304 | 66.0 | $37,894 |
| Saginaw# | 17.4 | 51,218 | 50.5 | $27,066 |
| Battle Creek# | 42.8 | 51,701 | 60.6 | $39,052 |
| Muskegon# | 14.4 | 41,085 | 51.1 | $27,241 |
| Jackson# | 11.0 | 31,755 | 61.1 | $34,271 |
| Port Huron# | 8.0 | 30,736 | 64.3 | $32,929 |
| **Smaller Core Cities** | | | | |
| Big Rapids^ | 5.9 | 10,849 | 64.7 | $20,192 |
| Ionia^ | 2.8 | 10,569 | 35.7 | $38,289 |
| Albion^ | 4.2 | 9,144 | 64.5 | $30,245 |
| Lapeer^ | 5.5 | 9,072 | 54.9 | $35,526 |
| Portland^ | 2.4 | 3,789 | 70.8 | $45,656 |
| Hudson^ | 2.1 | 2,499 | 64.0 | $41,122 |
| Grayling^ | 2.0 | 1,952 | 57.0 | $24,250 |
| **Suburban Cities** | | | | |
| Pontiac# | 20.0 | 66,337 | 62.0 | $32,370 |
| Hamtramck# | 2.1 | 22,976 | 50.9 | $25,035 |
| Walker# | 25.2 | 21,842 | 72.9 | $50,780 |
| Highland Park^ | 3.0 | 16,746 | 46.2 | $17,737 |
| Muskegon Heights^ | 3.2 | 12,049 | 55.5 | $21,778 |
| Springfield^ | 3.8 | 5,189 | 61.0 | $29,790 |
| State of Michigan# | | | 63.7 | $49,694 |

Sources:

# 2006-2008 American Community Survey 3-Year Estimates, U.S. Census Bureau

^ Census 2000 Demographic Profile, U.S. Census Bureau the 22 cities with a median household income above the state median. (See **Table 2**.)

Motivation for adopting an income tax has varied for each city, but they generally have been driven by two rationale:

First, revenues from income taxes were needed to supplement dwindling property tax revenues. For cities like Detroit, Flint, Pontiac, Saginaw, and others, the growth in demand and cost of services outpaced the revenues generated by property taxes. These cities are in various stages of economic decline, but trying to maintain city services at levels sufficient to meet the needs of residents and businesses.

Second, the income tax allows cities to export the tax to workers that reside in surrounding communities but work in those cities. Sometimes it is to compensate for economic activity occurring in governmental offices, correctional facilities, hospitals, or universities that do not directly contribute to the property tax. Among the 22 cities, five cities host to institutions of higher education for which the cities receive little direct benefit from property taxation, including Wayne State University in Detroit, Grand Valley State University in Grand Rapids, University of Michigan—Flint in Flint, Ferris State University in Big Rapids, and Albion College in Albion. Detroit, Lansing, Jackson, and Ionia host significant federal and state governmental properties for which the cities receive little direct benefit from property taxation.

At other times it is because large businesses have located in the cities, drawing workers from surrounding communities. Detroit, Lansing, Pontiac, Hamtramck, and Highland Park each have (or recently had) automotive facilities that bring workers from surrounding communities. Outside of Southeast Michigan, cities host non-automotive related major employers, such Battle Creek, which hosts the Kellogg Company, or Walker, which hosts Meijer Inc. Although non-resident employees in these companies do not pay property taxes to the hosting cities, they still consume city services such as roads, police and fire, and water and sewer.

## Revenue Trends

**Chart 2** illustrates city income tax revenue trends. To create this chart, CRC indexed tax revenues to 1996 to show relative growth since that year. The last city to impose an income tax, Ionia in 1994, had a few years to gear up by 1996, and adoption of the taxes in all other cities was fully incorporated.

**Chart 2** has three solid, thick lines that show state income tax revenues (blue), total city income tax revenues for all cities (black), and statewide city property tax revenues (brown).

The dashed gray line shows the Detroit's income tax revenue in isolation. The amount of Detroit city income tax revenues relative to the 21 other cities is reflected in the symmetry between the total for all cities and this line. Detroit income tax revenues have constituted about 60 percent of all city income tax revenues over the past decade.

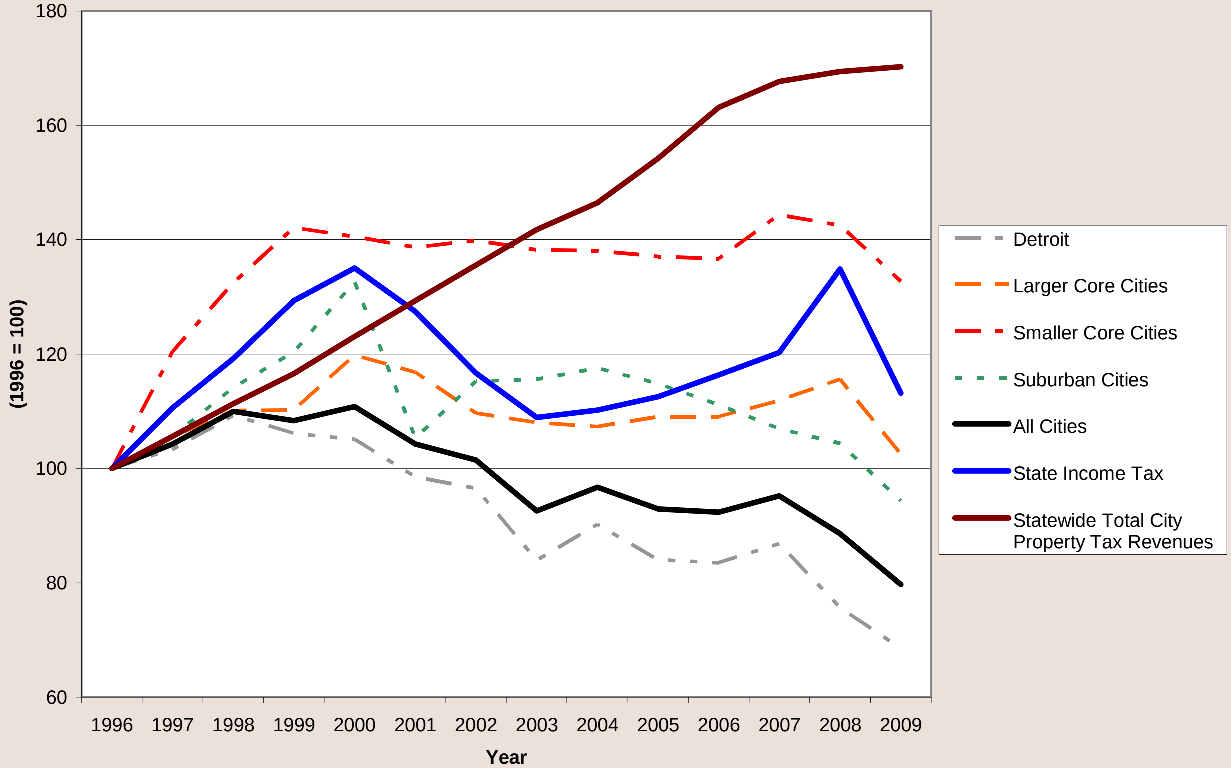
The dashed orange line represents the larger core cities that levy this tax (Battle Creek, Flint, Grand Rapids, Jackson, Lansing, Muskegon, and Saginaw). Those cities have fared better than Detroit, but not as well as the state income tax.

The dashed red line represents smaller core cities (Albion, Big Rapids, Grayling, Hudson, Ionia, Lapeer, Port Huron, and Portland). The tax revenues from these cities trended better than the total of all cities levying the tax and better than state income tax revenues.

The dotted green line represents suburban cities (Hamtramck, Highland Park, Muskegon Heights, Pontiac, Springfield, and Walker) located near Detroit, Grand Rapids, Muskegon, and Battle Creek. These cities were at times better off and at times worse off relative to the income tax revenues of other cities and the state income tax revenues. Walker and Springfield are in better economic condition than the other four cities and helped keep these revenues from further decline.

**Chart 2** indicates two distinct periods: before and after 2001. Economic growth was still occurring in Michigan from 1996 to

**Chart 2**
**Michigan City Income Tax Revenue Trends**




Source: Michigan Department of Treasury.

2001. The income tax revenues of most cities trended upward during this period. In particular, the smaller cities trended better than the state income tax revenues and statewide property tax revenues during those years.

The Michigan economy has been in a recession since 2001. Whereas Michigan's per capita personal income grew by 23 percent (an annualized rate of more than 4 percent) from 1996 to 2001, it grew by only 14.5 percent (an annualized rate of 1.7 percent) from 2001 to 2009. As a tax on income, it cannot be expected that either state or local taxes would have grown at a rapid pace under these circumstances. Note that the income tax revenues for the smaller core cities held steady during these later years even under these miserable conditions.

The fact that city income tax revenues as a whole have not done as well as state income tax revenues may reflect the makeup of the larger cities that levy this tax. Several of the cities in the state that are suffering the greatest economic decline levy city income taxes. Both state and city income taxes reflect economic fluctuations, but the city income tax revenues also reflect the out migration and loss of income in the state's largest core cities.

Also note that the revenue productivity of the state income tax and city income taxes pale in comparison to property tax revenues. The property provides a much more stable source of revenues for cities and tends to provide incremental annual growth, even if at a moderate rate, when compared to income tax revenues. Even with the recent decline in property values since 2007, statewide property tax revenues have experienced minimal decline when compared to the sometimes severe income tax revenue declines the state and city governments experience.

## Economic and Political Considerations

It is likely that other cities will consider joining the 22 cities that currently impose a city income tax. Exploration of positives and negatives of city income taxes may be helpful for elected officials and residents of those cities. The following is not meant to be exhaustive, but to offer some key points of consideration during those deliberations.

### Positives

**Declining Attractiveness of Property Taxes.** A number of limitations in the Michigan Constitution compound to restrict the potential growth of property tax revenues in the years ahead. The Headlee Amendment of 1978 limits the growth of tax revenues for units of government to rate of inflation. If the tax base (not including new development) grows faster than the rate of inflation, tax rates must be reduced so that net result is an inflationary growth in revenues. Because Headlee property tax limitations are applied on a unit-wide basis, property values for individual parcels still outpaced inflation in the years after adoption of the amendment. Some perceived a need for further limitations. Proposal A, the school funding reform measure that was adopted in 1994, created new limitations on the growth in value of each parcel of property for purposes of taxation. Under this limitation, the taxable value on each parcel of property cannot increase faster than rate of inflation or five percent (if inflation is greater than five percent). Values are reset to the assessed state equalized value when ownership of the property transfers.

Because both limitations are based on the rate of inflation, it might seem that Proposal A of 1994 should have made the Headlee property tax limitation provisions moot. But in fact, Proposal A was implemented to interact with the Headlee provisions, thus allowing transfers in ownership (which cause taxable values to "pop up" to state equalized value and in aggregate can cause the government's tax revenues to grow faster than the rate of inflation) to trigger tax rate rollbacks. The net result is a compounding affect that results in revenue growth below the rate of inflation for many local governments.

The compounding affect of these two tax limitations will prolong the amount of time needed before local governments can begin to regain the purchasing power lost because of the recent declines in property values. City leaders cannot anticipate that the property tax will ever return to the productive revenue source it once was. City income taxes may serve to supplement property tax revenues or as an alternative tax sources.

**Alternative to Property Tax.** Income taxes allow city governments to capture economic activity that is not captured by property taxation. Property taxes capture the value of investment in real and personal property. Income taxes capture the value of earned income, investments, and profits. The benefits of revenue from income taxes vary in each city, but generally Michigan's smaller cities, located in isolation from urban areas, have had the most success with income taxes as an alternative revenue source. (See **Chart 2**.)

**Property Tax Relief.** A few cities have adopted city income taxes with the expectation of reducing property tax rates, thus shifting the tax burden from city residents to non-residents who work in the city. For instance, Port Huron reduced its property tax rate by three mills when the income tax was imposed. The ability to provide property tax relief in exchange for a new income tax may reduce the unattractiveness of this tax to opponents.

### Negatives

**Disincentives to Live or Work in Cities.** Because only 22 cities (eight percent of the local units eligible to do so) impose an income tax, and neither townships, villages, school districts, counties, nor any other local government is authorized to do so, residents of the 22 cities, non-residents working in these cities, and corporations with nexus in these cities carry a heavier tax burden than corporations and people that reside or work in neighboring communities.

The higher tax burdens can create incentives for people to locate and find jobs in cities or townships that do not levy a local income tax. It also creates incentives for corporations to locate in cities without city income taxes. This has not been a universal experience for Michigan's 22 cities that levy this tax. While some of the cities have experienced abandonment before and after imposition of an income tax, other cities have grown and used the income tax revenues to enhance city services and improve their communities. On the whole, it is not clear that the disincentives created by city income taxes are any different than those created by city property taxes levied at high rates relative to the surrounding communities.

Authorization of the tax at Michigan's most local level is perhaps the biggest negative associated with the tax. Michigan is one of only 14 states that authorize local-option income taxes (the others being AL, AR, DE, IN, IA, KY, MD, MI, MO, NJ, NY, OH, OR, PA). More than half the states authorize local-option sales taxes. Many of these states authorize local-option taxes to be levied at the county or regional level, thus removing some of the dislocation tendencies associated with these taxes.

**Economic Fluctuations.** Income tax revenues are much more cyclical than property tax revenues, varying with growth and contraction in the economy. Although a new city income tax may provide an infusion of revenues to support service provision, the fluctuations in revenues make it difficult to finance ongoing services at constant levels. As **Chart 2** (on page 6) illustrates, property tax revenues tend to be very stable, growing steadily from year to year, with the recent contraction in property values as an exception.

**Politics of Voter Approval.** Because a vote of the people is required for imposition of city income taxes, the cost of campaigns to win approval at the ballot can be a disincentive. Campaigns to win voter approval require the expense of scarce funds. Additionally, city officials must expend "political capital" campaigning for what have proven to be unpopular ballot questions for city income taxes. The political risk of backing city income taxes can be a disincentive to those elected officials.

## Assessing Tax Alternatives

A number of criteria may be used to evaluate any tax system. At the most fundamental level, a tax should: 1) be adequate to meet the specified funding needs; 2) meet certain criteria of a "good" tax system; and 3) have implementation potential.

1) The experience of the 22 cities that currently levy income taxes shows that large amounts, relative to the size of the city, can be raised at low tax rates.

2) As they relate to a city's considerations of whether to impose an income tax, the economic criteria for a "good" tax system include measures of transparency, reliability, equity, neutrality, and administration efficiency.

A tax is transparent when the time, manner and quantity of payment are clear to the taxpayer. Both property and income taxes tend to be relatively transparent. However, the assessment process and laws – such as the Headlee Amendment and Proposal A – obscure taxpayers understanding of their property tax liabilities. At the same time, the myriad of credits, deductions and exemptions can compromise the income tax's transparency.

It is important for governments to have reliable revenue sources to ensure they can provide uninterrupted services. As **Chart 2** demonstrates, property taxes tend to generate more stable and reliable revenue than income taxes. Property tax revenue growth is relatively moderate and reliable, because they do not ebb and flow with the economy as tightly as income tax revenues. Even with the recent foreclosure crisis, statewide property tax revenues have experienced minimal decline compared to income tax revenues.

Equity is measured in two ways:

Horizontal equity is determined when taxpayers in equal financial positions are taxed in equal amounts.

In theory, property taxes should provide a fair level of horizontal equity, but that equity is affected by life decisions – whether to maximize investment in house or other property or rent and instead drive a fancy car or travel – and by the cap on growth in taxable value created by Proposal A of 1994 that results in properties of equal market value being subject to different tax burdens based on the length of ownership.

Income taxes are based on financial position – compensation, profits, investments – and thus provide a high level of horizontal equity. That equity is eroded by credits, deductions, and exemptions built into the tax system. Life style differences, such as decisions to have children, home ownership, philanthropic spirit, can thus influence horizontal equity.

Vertical equity, a more controversial concept, involves the treatment of taxpayers in unequal financial positions. A tax is said to be *regressive* if taxpayers of higher income pay lower percentages than those of lower income, *proportional* if each class of taxpayer pays the same percentage, or *progressive* if taxpayers of higher income pay higher percentages.

Property taxes provide poor vertical equity. While the value of a property may relate to the wealth of the owner – for example, richer people tend to own bigger homes than middle class people – communities with greater property wealth can levy property taxes at lower rates to yield the same revenues as other communities that have to levy higher tax rates on lesser valued properties. Furthermore, the less wealthy tend to consume more governmental services, thus necessitating the levy of higher taxes to fund those services.

The constitutional prohibition on graduated income taxes in Michigan results would purport to create a proportional tax system. Michigan's state income tax is made mildly progressive by its relatively high level of personal exemptions and the subtractions, deductions, exclusions, exemptions, and credits. Those exemptions, deductions, and exemptions are not available to the same extent for payers of city income taxes.

Neutrality is defined as the criterion that taxes should be structured so as to minimize interference with economic decisions in otherwise efficient markets. A tax should not alter, or should minimally alter, business decisions over where to locate, what to produce, or whom to employ. Likewise, a tax should not alter a person's consumption, location, or employment decisions.

Both property taxes levied at high rates and city income taxes affect people's decisions on where to live, work, or to locate a business. The fact that many of Michigan's most financially challenged cities both levy property taxes at high rates and impose an income tax on top of that further weakens the neutrality of the tax system.

The subtractions, deductions, exclusions and credits built into the federal and state income tax systems are more likely to alter consumption or employment decisions than a city income tax.

Administrative efficiency has two sides. The burden imposed on the taxpayer – the time and effort that are needed to calculate and pay a tax – as well as the burden imposed on the government – the bureaucratic effort that is needed to collect the tax, keep records, or audit filings – should be considered when determining administrative efficiency.

Property taxes carry little administrative burden for taxpayers. Ownership is established at the time of property transfer, principle residence exemptions documents are filed at that time, and taxes are remitted upon receipt, usually in summer and winter billings. The subtractions, deductions, exclusions and credits built into the income tax system create an administrative burden for taxpayers in the form of record keeping and tax calculation. Because those actions are already required for federal and state income tax filings, a city income tax only marginally increases that burden.

Both taxes create administrative burdens for cities. Cities have to develop new administrative capacities to administer city income taxes – including collection and audit functions. This requires the addition of only one or two staff people in most cities. As discussed above, administration of property taxes is required of cities whether they levy a tax or not.

3) Local-option city income taxes are authorized and can be implemented immediately. The biggest political hurdle is the requirement that city voters approve imposition of the tax before it takes effect.

## Conclusion

A number of factors are creating fiscal stress for local governments in Michigan. In addition to shrinking the size of city governments and streamlining service provision, many city officials seek alternative revenue sources to avoid drastic cuts. The Uniform City Income Tax is the only tax currently authorized for all cities in addition to property taxes. The cities that have imposed this tax tend not to be wealthy, either in property wealth or personal income. The smaller core cities have had the most success with income taxes creating growing or stable revenue sources.

### To Learn More

To learn more about the local-option Uniform City Income Tax and all other taxes authorized for levy by the state or local governments in Michigan, visit the newly revised Outline of the Michigan Tax System at www.crcmich.org/TaxOutline.