

Citizens Research Council of Michigan

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Summary Digest of Michigan Tax Study Staff Reports

As a public service the Research Council has prepared this digest of a staff report to the Michigan State Tax Study Committee. The Committee is considering basic changes in the state's tax structure and these digests have been prepared to inform the public as to what is being considered by the Committee. It should be emphasized that the material presented is a digest of the staff report to the Committee and does not represent the findings or opinions of the Michigan Tax Study Committee, its citizens advisory committee, or the Research Council.

Memorandum #192, No. 20

August 15, 1958

IMPACT OF STATE AND LOCAL TAXES ON MICHIGAN FARMERS

Farmers have stood out in times past as one of the most important occupational and taxpayer groups in Michigan, but are no longer as important relative to other occupational groups as they once were.

TAXES PAID BY MICHIGAN FARMERS

Farmers are subject to a variety of taxes including the sales tax, motor fuels taxes, motor vehicle weight taxes, cigarette and liquor taxes, the intangibles tax, inheritance tax, and business activities tax. Only limited data are available concerning the amounts that they actually pay.

Tangible personal property used or consumed in the business of growing and harvesting agricultural products and of raising livestock and poultry is exempt from the sales tax, but farmers must pay the 3 per cent rate on all other purchases. They pay the full state tax on motor fuels, but are refunded the tax paid on fuels used for nonhighway purposes (\$5.4 million in 1957).

In 1957, Michigan farmers paid nearly \$1.6 million in weight taxes on agricultural commercial vehicles (mostly farm trucks) and an estimated \$1.9 million on automobiles. Indications are that they pay less than city dwellers in liquor and tobacco taxes. Few farmers have sufficient intangible personal property to be subject to the intangibles tax, and the same situation applies to the inheritance tax.

Farmers with gross annual receipts of \$20,000 or more are subject to the business activities tax, but in 1957 only 690 farmers filed reports for this tax. They paid a total of \$71,463 in that year (0.1 per cent of the total collected). It appears as though the average Michigan farmer in 1957 paid about \$266 in property taxes (his largest tax), \$94 in Federal income and social security taxes, and \$68 in sales taxes.

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PROPERTY TAXES AND THE FARMER

Property Tax Per Acre

Farm real estate tax in Michigan increased about three-fold between 1942 and 1956 (average of 45 cents to \$1.32 per acre of all farm land). There are wide differences in grades of farm land and in tax levies applied to individual holdings (about 25 cents to \$30 per acre). The average tax paid per tillable acre in Michigan increased from 70 cents in 1942 to \$2.25 in 1956.

Taxes Per Dollar of Farm Property Value

Much of the increase in property taxes has been matched by a comparable increase in property values. Except for Ohio and Indiana, the average Michigan farmer now pays less property tax per dollar of property value than farmers in neighboring states (85 cents per \$100 of value in 1956).

Taxes Per Dollar of Farm Income

The relationship between property taxes and farm income varies considerably from year to year and from taxpayer to taxpayer, and to some extent between types of farms. Michigan farmers paid 7.1 per cent of their average realized net incomes as real property taxes in 1956 (8.2 per cent if personal property taxes are included), but still enjoyed a more favorable position in this respect than the farmers in any neighboring state. However, they are in a less favorable position than other Michigan occupational groups (3.6 per cent of personal income in the state went for property taxes in 1956).

Variations in Property Tax Loads by Areas

The increase in property taxes between 1940 and 1955 stems from three factors: adding of new properties to the tax rolls, an increase in the assessed valuations of older properties, and higher property tax rates. School and county expenditures have provided a major reason for increase.

With the influx of suburban residents into a township or school district, the farmer must help finance needed services and often subsidizes the newcomers until their homes are placed on the tax rolls. In addition, assessors tend to overassess farm properties relative to suburban residential properties.

Higher farm taxes are partly offset by increasing land values as the area becomes urbanized, and those who sell land for home sites ordinarily enjoy profits far in excess of the increased taxes they have paid. It should be remembered, however, that higher taxes should be the result, not a cause of land shifting to higher valued uses. The farmer in an urbanized area who plans to continue farming finds he must bear an extra cost relative to that borne by farmers in other areas.

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