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CITIZENS RESEARCH COUNCIL OF MICHIGAN

110 YEARS OF UNCOMPROMISING POLICY RESEARCH

Evaluating a Local-Option Sales Tax Policy for Detroit

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Evaluating a Local-Option Sales Tax Policy for Detroit

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The City of Detroit's Legislative Policy Division commissioned the Citizens Research Council to explore an admissions tax on sports and entertainment venues and a local-option sales tax. The first report, "Evaluating Local-Option Admission Taxes in Michigan" was published in September 2025, focuses on the concept of a local sales tax in the City of Detroit, as well as offering that option in other Michigan cities and counties.

This analysis also addresses the legal process to authorize and levy a local sales tax in a city in Michigan. Given the challenges of projecting local sales and use tax revenues with limited specific data available on geographically-specific household and visitor spending on sales taxable items and activities, and the increasing use of ecommerce, the report offers an informed, but imprecise, projection of revenues the City of Detroit could collect to support city programs and services or to offer some type of property or other tax relief.

We recognize and thank Keion Harris for his research assistance for this paper. Mr. Harris is a Ph.D. candidate in the School of Social Work and Psychology at the University of Michigan.

We also extend our appreciation to the Research Seminar in Quantitative Economics at the University of Michigan, the City of Detroit's Office of the Treasury, the Michigan Department of Treasury, and Anderson Economic Group, who not only shared their expertise but also demographic and economic data for our analysis which occurred during a period when the most recent of such data was not available from federal government data sources.

Evaluating a Local-Option Sales Tax Policy for Detroit

In a Nutshell

- Michigan's local governments rely primarily on property taxes to fund general public services. The largest cities and counties continue to struggle to sustain and grow local revenues to meet their residents' needs. The heavy reliance on only property taxes, which are subject to multiple limitations on growth, makes revenue generation difficult for areas with weak tax bases, such as in the city of Detroit.
- While the path to adopting a local sales tax option for Michigan's local governments is daunting, having access to taxes that diversify local revenues would help improve the fiscal health of the state's most populated cities and counties, allowing them to benefit from the increased retail and commerce activity. Authorizing a local sales tax in Michigan will require amending the state Constitution, adopting state statutes authorizing local sales and use taxes, the local governing body to enact an ordinance, and voter approve of a new tax.
- Estimating the revenue potential of a one percent local sales and use tax in Detroit is challenging. Data on sales tax collections is not available by geographic location, does not accurately jive with state sales and use tax laws, nor is household spending data and expenditures on taxable purchases available for city visitors. The Research Council estimates potential revenues for a one percent sales tax in Detroit to yield about $72 million annually.

Michigan's local governments, especially its major cities and larger counties, continue to struggle to sustain and grow local revenues to fund a range of public services. Michigan affords local governments few options to levy local taxes. The issues stem from heavy reliance on property taxes, with multiple limitations on growth, and for cities like Detroit, weak tax bases that make revenue generation difficult. Except for a few special taxes and a city income tax, most local governments rely heavily on property taxes and state revenue sharing.

The City of Detroit is reviewing potential local option taxes to raise city revenues to improve city services and address needs it anticipates in the future. Rising out of bankruptcy, the city is working to put city services on par with surrounding communities, supplement pension payments that are again a city responsibility after a 10-year hiatus, capture economic benefits from growth in visitor activity downtown, and potentially also provide tax relief.

Cities and counties, with larger geographical footprints such as the City of Detroit, are the units most likely to benefit from a local sales tax, given the tax revenues will be higher in areas with greater retail, business, and visitor activity.

Local Taxes Currently Levied in Detroit

Michigan cities primarily rely on property taxes and state-shared revenue to fund general services. City residents, visitors, tourists, and businesses pay taxes to jurisdictions other than the city, including the state, county, school districts, special regional districts, and others. In the City of Detroit, several county taxes are imposed on lodging, auto rentals, and the state imposes excise taxes imposed on liquor, tobacco, and marihuana.

Because of the layering of all these taxes, many of which are levied at the highest (or among the highest) rates in the state, Detroit residents are among the highest taxed in the state. Some of the taxes, such as the non-resident income tax and casino taxes, export the tax burden to outsiders, but city residents bear a heavy burden.

Background on Sales and Use Taxes

Revenues from sales and use taxes, second only to income taxes, help fund government operations and services, at both the state and local levels. All but four states authorize sales taxes at either the state or local level: Delaware, New Hampshire, Montana, and Oregon.[1] Alaska does not levy a state sales tax, but its local governments may levy local sales taxes. Across the country, the sales and use taxes provided 32 percent of state tax collections, and 13 percent of local collections in 2025.[2,3] States determine how to allocate sales tax revenues through their appropriations process. Some portion of the revenues may be designated for specific purposes, such as school aid or revenues sharing, as is required by law in Michigan.

Currently, 37 states allow at least some of their local governments to levy a local-option, retail sales tax. How local sales taxes are structured differs across the states: variation exists in which local units are allowed to levy taxes, how many local units actually do levy taxes, and how broad a local tax's base is. Some states allow different types of local units to levy local-option sales tax, which can lead to overlapping local sales tax rates in some areas. Almost all of the local-option sales taxes across the states are administered at the state level.

Michigan's sales tax is imposed on the retailer for the privilege of making sales at retail. The use tax is imposed on the privilege of using, storing, and consuming certain tangible personal property, plus telephone, telegraph, and other leased wire communication services; used auto sales between individuals; and the use of transient hotel and motel rooms.
Michigan's six percent sales tax rate, which does not include any local sales taxes, ranks 38th in the country. Seventeen states levied a combined state and local sales tax rate of seven percent or greater in 2025.

Local-Option Tax Issues to Consider

The lack of alignment of local revenue sources with the local economy is a challenge for Michigan's current local government revenue structure. Communities lack taxes that capture the business activity taking place within their boundaries. While the local property tax revenues reflect growth in property values, they do not produce revenue gains from increased business activity from bustling downtowns and job growth.

When levied at the most local level of government (i.e., city, village, township level) local taxes can create administrative difficulties and local competition, introduce economic distortions by creating incentives for people to live or work or purchase items in jurisdictions with lower taxes, and intensify socioeconomic disparities across local units of government. Some of these concerns over economic distortions, socioeconomic disparities, and local competition can be addressed by authorizing local-option taxes for larger cities, counties, or regions.

Access to a variety of local-option taxes may allow a particular government to tailor the taxes it levies on activities that reflect its economic strengths (e.g., retail or tourism). On the other hand, some local taxes could diminish a region's economic competitiveness, make it more vulnerable to economic downturns, and limit the state's ability to raise rates on state taxes.

Perspectives on Sales and Use Taxes

In theory, well-designed sales and use taxes have several components.

- The tax base should be broad and include both tangible goods and services.
- The taxes should be imposed on the product or service in the state or local government where it is consumed.
- The taxes should provide a sustainable and reliable source of revenue to support ongoing public services.
- The taxes should be simple to understand by taxpayers as well as consumers.

Regressivity. Tax economists agree that the sales tax is generally regressive, imposing a greater economic burden on lower-income households than on higher-income households

Tax Avoidance and Tax Exportation. What often appeals to local policymakers is that local sales taxes are 'exported' or paid by visitors to the geographic area through spending on activities such as dining and entertainment. However, when a significant portion of consumers try to avoid higher taxes when tax rates vary between areas, or through online retailers, retailer retention, local employment, and general economic activity can be affected.

Sales Tax Competition and Neutrality. A local-option sales tax not only impact individual consumer habits, but also potentially affects the decisions of retailers to relocate elsewhere to neighboring communities or states. Due to consumers' and businesses' sensitivity to tax differences, neutrality is a key concept to consider. A tax should not alter, or should minimally alter, business decisions over where to locate, what to produce, or whom to employ.

Evolving Tax Base. Since states' initial adoption of sales taxes, the economy has changed from one based on manufacturing and production of goods to a more service-based economy. With the increase in professional and personal services offered consumers are buying fewer tangible goods. Many goods previously in the form of a physical product, such as a movie, software disc, or video game, are now delivered in a digital format and are not taxed.

The tax base is also affected by exemptions. A most recent example is the exemption of sales tax on motor fuel that was adopted as part of Michigan's 2025 Transportation Funding Package.[4]

Balance in Overall Mix of Local Revenues. Balance in the overall mix of taxes as revenue sources for a local government is achieved when the overall tax burden is spread over several different tax bases. Property, income, and sales should all contribute to the financing of government. A tax structure that is out of balance risks creating economic disincentives that could cause people and businesses to locate elsewhere or to conduct business elsewhere and can place the governmental unit at risk if one tax suffers an economic decline.

Michigan's State Sales and Use Taxes

Michigan retailers are required to submit the sales and use taxes collected on their sales to the Department of Treasury. The tax is applied to the gross proceeds of a transaction for use or consumption. The total sales tax rate is limited to six percent in the Michigan Constitution.[5] (The use tax rate is also six percent, but is statutorily set.) Exemptions are allowed for purchases made by certain purchasers, such as not-for-profit organizations or the federal government. In addition, the sale of certain items is exempt from tax. The most notable exemptions include the sale of food not for immediate consumption or groceries, prescription medications, water, and sales to religious and other not-for-profit organizations.[6]

A final, but important, characteristic of Michigan's sales tax is that very few services are taxed. Originally adopted when the economy had fewer professional and personal services, the tax base has not kept up with shifts in commerce activity. Plus, the adoption of various tax exemptions has eroded the original tax base.

Benefits of a Local-Option Sales Tax

Michigan law authorizes some local-option taxes, but local governments continue to rely heavily on local property taxes. Cities may levy a local income tax, but only 24 Michigan cities currently do. The inability to levy sales taxes leaves local governments without a full complement of tax options from which to choose to create a stable revenue stream.

Local governments gain several advantages with the ability to levy a local option sales tax.

- The availability of a local sales tax increases revenue diversity for Michigan governments.

- Revenue diversification of the tax mix could benefit local governments by allowing local governments to benefit directly when retail and economic activity grows in their communities. However, the opposite could occur if such activity declines.
- A local tax would lessen dependence on the state to share its tax revenues. Although the state shares state sales tax revenue, the total level of state revenue sharing payments can be undependable.
- A supplementary revenue source could provide local governments the resources to offer their residents general tax relief, especially in the state's counties and larger cities, and capture economic activity from visitors and tourists from outside the area who frequent lodging, restaurants, and entertainment in the community.

Legal Authority for Sales Taxes and Local Taxation in Michigan

Michigan's counties, cities, villages, and townships derive their authority to levy taxes through both the 1963 Michigan Constitution and state statutes. These laws stipulate the type of taxes that may be levied, the maximum tax rates and the items included or exempted from the tax bases. They also specify which types of local governments are authorized to levy certain types of taxes.

The legal authority to levy Michigan sales and use taxes, either at the state or the local level, spans across several constitutional provisions and state statues. While some of the legal provisions are quite specific, others contain some ambiguity. For instance, it does not state whether the sales tax rate limit applies to only state sales taxes or if the limit applies to combined state AND local sales taxes. under the existing language of the state Constitution as that authority remains legally untested.[7] Additionally, while the Constitution provides for sharing a percentage of sales tax revenues collected with local governments, it does not specify whether the sharing provisions would apply to any local sales tax revenues.

Legal Path to Authorizing and Adopting a Local Sales Tax in Michigan

Pursuing authorization requires careful attention to the legal process for obtaining constitutional approval, state legislative approval, local legislative approval, and finally, securing local voter approval.

Amending the Michigan Constitution. Consistent with the 1970 Attorney General opinion, providing room to increase the state sales tax rate, clarifying how local tax revenues would apply to existing constitutional earmarks, and clarifying whether local government could levy a local sale tax would entail an amendment to the 1963 Constitution.

State Legislative Authorization. Article VII, Sections 2 and 21, attempted to grant home rule charters more self-governance powers, including taxing authority, than general law units.[8] However, despite the constitutional authority granted to home rule counties, cities, and villages, local governments could not levy taxes other than property taxes after 1964 due to Public Act 243 of 1964. Michigan's existing local-option tax laws are drafted as uniform laws that define the tax base, administrative responsibilities, the disposition of revenues, and the permissible tax rates.

Local Legislative Approval. Once a state law is in place to permit a local government to levy a local sales tax, the local government's legislative body must also adopt an ordinance.

Local Voter Approval. The local government will also have to place the question of a new tax before voters for approval, pursuant to Article IX, Section 31, of the 1963 Constitution.

Ecommerce Sales and the Streamlined Sales Tax Agreement

Tax administration – collection, enforcement, and auditing of tax filings – is another important consideration for those considering enacting a local sales tax. Complying with the 2018 the landmark U.S. Supreme Court decision in *South Dakota v. Wayfair, Inc*. (138 S. Ct. 2080 (2018))will be an important consideration.[9] As a member of the Streamlined Sales Tax Agreement (SSUTA), a collaborative effort of state governments, and the business community,[10] Michigan has made remitting sales and use taxes simpler for ecommerce and remote businesses.

The following are the most important SSUTA provisions that apply to all states party to the agreement.

- State level administration and collection of state and local sales and use taxes.
- Uniformity in the state and local sales tax bases.
- Uniformity of major sales tax base definitions.
- Central, electronic registration system for all member states.
- Simplification of state and local sales tax rates.

Should Michigan pursue a uniform local sales tax option for cities or counties, the administration requirements for local sales taxes under the SSUTA will have to be met for the state to continue to be a member of the SSTA. Not participating in the SSTA would bring significant administrative and collection challenges, and potentially a loss of sales tax revenue to the state. Michigan state sales tax collections from out-of-state retail sales rose from $12.9 million in 2015 to $158.3 million in 2024. [11]

Designing Uniform Local Sales and Use Taxes

Tax Bases. Given that retaining membership in the Streamlined Sales Tax Agreement (SSUTA) is in Michigan's best interest, the state and local sales tax bases must be the same. Although this is a tax design component that improves simplicity and administration of the tax, it will preclude local governments from providing specific exemptions they may want through the sales and use taxes, unless those exemptions are adopted for both state and local taxes.

Administration. To mitigate the burden of sales tax collections for out-of-state sellers and avoid challenges to the U.S. Commerce Clause, SSUTA requires local sales taxes to be collected at the state level. There is administrative efficiency for state-level collection but local governments most likely would have to include an administrative fee for collection services as they budget revenues from a new tax.

Disposition of Revenues. Local policymakers may wish to select some specific purposes that appeal to local residents to gain more support for additional local taxation. In Detroit, these purposes could include funding for its post-bankruptcy pension debts, street maintenance, increases in public safety personnel, or property tax relief.

Potential Revenues. Estimating revenues a Michigan local government could collect by levying local sales and use taxes is recognized by tax analysts as notoriously difficult. Not only is accurate data of what amount-of-purchases-are-made-where unavailable due to Michigan's sales tax collection system, but the complexity of the sales and use tax bases does not lend themselves to the way consumer or business spending information is collected by public data collecting agencies.

With a local sales tax rate higher in nearby jurisdictions, consumers will more easily be able to shop across borders. The Research Council was unable to model cross-border shopping to identify use taxes that would be owed. Moreover, exported taxes to suburbanites and tourists are also difficult to estimate and can vary from year to year depending on events and the economy.

The total revenues the City of Detroit may collect with a one percent local sales tax were calculated by based on retail spending as a percentage of the sales and use tax spending base. Under this approach, it is estimated that a one percent local sales tax may raise nearly $72 million annually.

Alternatives to a Local Sales Tax Option

A local sales tax option gives local governments the opportunity to diversify their revenues stream. However, given the challenging legal pathway to authorizing local governments to levy local sales taxes, it may be helpful to review alternative paths, and evaluate their feasibility as well.

Raising the Statewide Sales Tax Rate Will Increase Amounts Available for Revenue Sharing. With a statewide sales tax increase, not only will constitutional revenue sharing payments rise for cities, villages, and townships across the state, the state would also gain additional sales tax revenues. For example, in the City of Detroit, if the total state sales tax rate were seven percent, the City of Detroit would receive just under $60 million in addition to its current constitutional revenue sharing allocation. Note, an increase to the sales tax rate will still require an amendment to the state constitution.

Reforming and Broadening the Sales Tax and Use Tax Base May Mitigate the Need to Raise the Rate. Since Michigan adopted its sales tax in 1933, the general economy has evolved from one based on the purchases of tangible goods to one which includes the delivery of digital products, and more services, both professional and personal. In addition, many exemptions have been adopted, further eroding the tax base. By broadening the base to recognize modern retail activity and revising exemptions, it may be possible to capture new revenues to share with local governments and potentially avoid a significant rate increase. Amendments to the sales tax base and capturing new revenues would require state law changes.

Adding Amusement Activities and Ticket Sales to State Sales and Use Taxes Could Bring Revenues to Cities with Entertainment Venues. The state could amend the state sales tax law to subject admission tickets to the state sales tax. This change may also bring additional revenues to other Michigan cities that host events and entertainment centers if there is geographic distribution of revenues raised from this addition.[12] The state legislature would have to amend and adopt changes to the Sales and Use Tax Acts.

Adopting a New Local Excise Tax Could Generate Special Purpose Revenues. A local excise tax instead of a local general sales tax is another option to increasing local revenues. The authorization path for the adoption and approval of a local excise tax will require state and local legislative approval and a local vote.

Choosing Not to Pursue a New Local Tax Option Could Be an Opportunity for Municipal Finance Reform. Completing a review of the state's municipal finance system could address some of the structural fiscal challenges faced by Michigan's local governments. Embarking on an evaluation and reform of the state's municipal finance structure is a demanding endeavor that will take state support, proactive leadership, and dedication from all levels of government to be successful.

Conclusion

As Michigan's local governments, especially its largest cities and counties, seek to diversify their revenue sources and take advantage of growing local economies, a local sales tax option may be a good fit. The legal path to authorizing a local sales tax is a formidable task, however, and no city, even Detroit, should make the effort without widespread support.

Some alternatives to establishing a local sales tax option could also be used to increase local revenues. They include increasing the statewide sales tax rate and capturing additional constitutional revenue sharing, modernizing the state sales tax base, and evaluating existing exemptions, including on amusements and entertainment tickets, and the taxability of digital products and services, or choosing an entirely different revenue enhancement policy.

The ability to estimate how much a one percent local sales tax in Detroit is quite difficult, given the lack of data on household spending and visitor activity that jives with the state's sales and use tax laws. Policymakers should consider a revenue range of approximately $42.3 million to $71.2 million annually from a one percent local sales tax.

Evaluating a Local-Option Sales Tax Policy for Detroit

Introduction

Michigan's local governments, especially its major cities and larger counties, continue to struggle to sustain and grow local revenues to fund a range of public services. Michigan affords local governments few options to levy local taxes. The issues stem from heavy reliance on property taxes, with multiple limitations on growth, and for cities like Detroit, weak tax bases that make revenue generation difficult. Except for a few special taxes and a city income tax, most local governments rely heavily on property taxes and state revenue sharing.

The City of Detroit is reviewing potential local option taxes to raise city revenues to improve city services and address needs it anticipates in the future. Rising out of bankruptcy, the city is working to put city services on par with surrounding communities, supplement pension payments that are again a city responsibility after a 10-year hiatus, capture economic benefits from growth in visitor activity downtown, and potentially also provide tax relief.

With local property tax rates among the highest level in the state, and city income taxes levied at the maximum rate, Detroit is considering the benefits of imposing a local sales tax. Not only would a local sales tax take advantage of increased visitor activity in the city, it also would diversify the city's revenue base. Other larger cities, or counties, in Michigan could also benefit from the option to levy local sales taxes. The Citizens Research Council has documented the challenges to the state's local governments due to its municipal finance structure. A study of a potential local sales tax in Detroit could be illustrative for other Michigan communities as they address their own fiscal challenges. However, each community will have to evaluate whether a local-option sales tax or other method to raise revenue would fit its unique economy.

With a focus on the City of Detroit, this paper examines the potential benefits of extending the option for Michigan's local governments to levy local sales and use taxes. Cities and counties are the units most likely to pursue a local sales tax, given the tax revenues will be higher in areas with greater retail, business, and visitor activity. Because of the potential for consumers to avoid paying higher sales taxes by crossing borders, communities with larger geographic footprints would benefit more from a local sales tax than smaller jurisdictions.

The challenges to authorizing local governments to levy local sales taxes in Michigan will be addressed through an overview of sales taxes, a description of the pathway for adopting local sales taxes in Michigan, and by identifying some of the more recent developments in sales tax administration given the growth in ecommerce and out-of-state purchases. This report will also discuss some of the national trends in modernizing the sales tax base and suggest a few alternatives to a local sales tax.

Detroit Demographics and Local Economy

When considering whether a local sales tax would be a worthwhile pursuit in the City of Detroit, an evaluation of city's demographics, general economy, and visitor activity is instructive.

Detroit is the largest city in Michigan by both population and land area, with over 640,000 residents within 139 square miles. The breadth of wages and income within the city are supported by an array of jobs in various industries, affecting economic activity and the range of disposable income of its residents. The $39,575 median household income for Detroit residents is roughly half of the annual income for non-residents who commute into the city, averaging $83,000, according to the most recent City of Detroit Economic Outlook study.[13]

Detroit possesses a high concentration of manufacturing, transportation, and utility employers, with the longstanding presence of Ford, General Motors, and their suppliers. The healthcare and finance sectors are composed of major companies such as the Henry Ford Health System, the Detroit Medical Center (DMC), Ally Financial, and Rocket Mortgage, which typically employ many workers with advanced degrees and certifications.

The retail and hospitality industry are also prominent within the city, especially during peak tourism and holiday seasons. This is highlighted by major events such as the 2024 NFL Draft that brought in over 775,000 visitors and generated nearly $213 million in total spending.[14]

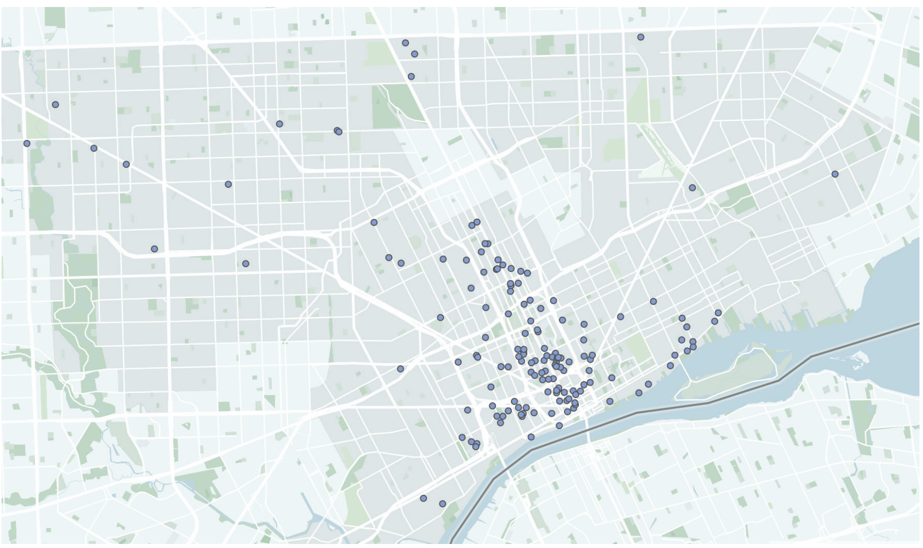
The city is home to four professional sports teams and several entertainment venues. Additionally, several theaters hold major performances throughout the year. A growing number of restaurants, retail stores, and new developments such as Hudson's Detroit, Ralph C. Wilson Jr. Centennial Park, and the recently opened Michigan Central Station, serve patrons of various sports and entertainment/arts events.

Higher-wage jobs are typically found within the skilled-trade/blue-collar and higher-educational attainment occupations. The Economic Outlook study projects that wage growth will moderately rise between 2025 and 2030. All job industry wages in Detroit are predicted to grow by 3.2 percent per year, a higher rate than the annual 2.8 percent projection statewide. [15] The level of confidence in the city's growth can be attributed to two consecutive years of population growth, which surpasses nearby midwestern cities such as Pittsburgh, Chicago, Cincinnati, Indianapolis, and the Twin Cities.

Approximately 150 new developments are occurring throughout Detroit, with a high concentration of developments in the downtown and midtown districts within the city as illustrated in **Map 1**.[16] Detroit City Council's interest in adopting a local-option sales tax coincides with the city's newfound growth.

This level of interest is also due to the impending expiration of one-time funding from the federal American Rescue Plan Act (ARPA) of 2021, which will impact programs such as workforce and economic development, housing assistance, neighborhood beautification, and other city services. The anticipated loss of these funds adds to the stakes for the city to find alternative funding streams to support services.

Map 1
New and Ongoing Real-Estate Developments in Detroit, November 2025



Source: Detroit Development Tracker, Real-Estate Developments as of November 2025

Local Taxes Currently Levied in Detroit

Michigan cities primarily rely on property taxes and state-shared revenue to fund general services. City residents, visitors, tourists, and businesses pay taxes to jurisdictions other than the city, including the state, county, school districts, special regional districts, and others. Having an overview of all taxes paid within city limits is important to understanding the full tax burden on businesses, residents, and non-residents within city limits. Excise taxes, which function similarly to sales taxes, are particularly worthy of note. In the City of Detroit several county taxes are imposed on lodging, auto rentals, and the state imposes excise taxes imposed on liquor, tobacco, and marihuana.

City Taxes

Detroit is authorized to levy a select few local-option taxes. The city levies a 2.4 percent city income tax on residents, with the tax levied at a rate of 1.2 percent on non-residents, and 2.0 percent on corporations. In 2024, Detroit collected $414.7 million in revenue from the income tax, which equated to 31.9 percent of the city's General Fund.

MGM Grand Detroit, MotorCity Casino, and Greektown Casino are all subject to the casino wagering tax with both the city and state receiving a share of revenue. The tax generated approximately $158 million in 2024 for the city. Detroit also levies the Uniform City Utility Users tax which is a five percent surcharge on electricity, gas, and telephone services.

County Taxes

Wayne County levies hotel/motel taxes under the authority of three separate state laws, including: a 3.0 percent tax on facilities with 81 to 160 rooms and 6.0 percent on facilities with 161 or more rooms; a 3.5 percent tax for convention and tourism marketing, which will increase to 4.0 percent in 2030; and a 1.0 percent tax for stadium and convention facilities. The county levies a 2.0 percent tax on rented/leased vehicles. The county also levies a Real Estate Transfer Tax at a rate of 75 cents per $500 (0.15 percent) of property value for the privilege of transferring interest in real property.

State Taxes

In addition to a six percent state sales tax and a six percent use tax, the state levies a 10.8 percent excise tax on alcohol, a $2.00 to $2.50 tax on every pack of cigarettes, and a 32 percent tax on the wholesale price of tobacco products.

Overview

Because of the layering of all these taxes, many of which are levied at the highest (or among the highest) rates in the state, Detroit residents are among the highest taxed in the state. Some of the taxes, such as the non-resident income tax and casino taxes, export the tax burden to outsiders, but city residents bear a heavy burden.

Detroit's property, income tax, and casino wagering taxes are dedicated toward the city's General Fund, which supplies funding for a variety of city services such as public safety, parks and recreation, and transportation.

The other referenced taxes at the city, county, and state levels all have designated purposes. Detroit's Uniform Utility User's tax is dedicated toward the city's police department and Public Lighting Authority for repayment of bond debt. Wayne County's hotel/motel tax revenue is used to primarily support tourism and destination improvements. The state uses its share of the casino wagering tax (8.1 percent) for the Michigan School Aid Fund to support K-12 education. The final statewide taxes on alcohol and tobacco primarily support the state's General Fund, School Aid Fund, and a variety of health prevention programs and services.

Cities in neighboring states have more local tax options. For example, Cleveland, Ohio, retains a mixture of local and county taxes which diversifies its revenue streams. This includes a 2.5 percent city income tax, a state and county sales tax with a combined rate of 8 percent, a variety of excise taxes (e.g., motor fuel, alcohol, and tobacco), along with an 8 percent admissions tax on select sporting and entertainment venues within the city.

Table 1
Major Taxes Levied in Detroit

Type	Administration	Tax Base	Tax Rate
General Property Tax	Collected by the City of Detroit on behalf of the library, county, school district, intermediate school district, DIA, and Detroit Zoo	Assessed value of real and personal property	Homestead Millage Rate – 67.2737 mills Non-Homestead Millage Rate -- 85.2787 mills
City Income Tax (Resident)	City of Detroit	Income earned by residents	2.4%
City Income Tax (Non-Resident)	City of Detroit	Income earned within the city by non-residents	1.2%
City Income Tax (Corporations)	City of Detroit	Corporate income earned in the city (allocation based on property, sales, payroll)	2.0%
Casino Wagering Tax	City of Detroit & State of Michigan	Gross receipts from licensed casinos (MGM, MotorCity, Greektown)	City Share: 11.9% of adjusted gross receipts (rate varies based on state portion)
Uniform City Utility Users Tax	City of Detroit	Surcharge on electricity, gas, and telephone services	5.0%
Stadium, Convention Facilities, Hotels/Motels, and Auto Leasing Taxes	Wayne County	Short-term lodging rentals within the county (including Detroit), Convention Marketing, Stadium or Convention Facility Financing	Available Rooms (81-160 -3.0%; (160 rooms)-6.0% for convention facility development Convention and Tourism Marketing-3.5% (4.0% in 2031) Stadium and Convention Facility Financing-1.0% Restaurants and Hotels – 1.0% Automobile Leasing – 2.0%
Real Estate Transfer	Wayne County	Value of property sold or transferred	0.15%
State Sales and Use Taxes[59]	State of Michigan	Retail sales, use, storage, or consumption of tangible goods.	6.0%

Source: Citizens Research Council of Michigan. *Outline of the Michigan Tax System*, updated November 2025, https://crcmich.org/publications/outline-of-the-michigan-tax-system-39th

Background

Governments generally look to three types of taxes to generate revenues: income, property, and consumption. Consumption taxes, or general sales taxes, were put into place after the Great Depression in the mid-1930s. Revenues from property and income taxes were failing to generate sufficient revenues as unemployment rose and property values plummeted across the country. Both federal and state governments looked to sales taxes as a way to generate new revenues and diversify their revenue streams. While a national sales tax was under deliberation, the U.S. never adopted a national sales tax, leaving states to adopt their own.[a]

Michigan adopted its general sales tax in 1933 (the complementary use tax was adopted in 1937). The sales tax is imposed on the retailer for the privilege of making sales at retail. The use tax is imposed on the privilege of using, storing, and consuming certain tangible personal property, plus telephone, telegraph, and other leased wire communication services; used auto sales between individuals; and the use of transient hotel and motel rooms.

Usually sales and/or use taxes[17] are collected by the retailer on items bought or used. The retailer remits the taxes collected to the tax administrator. If a purchase is made outside the state, or outside the area in the case of a local sales tax, the consumer is liable for the complementary use tax, although remittances are often not audited, especially for smaller purchases.

All but four states authorize sales taxes at either the state or local level: Delaware, New Hampshire, Montana, and Oregon.[18] Alaska does not levy a state sales tax, but its local governments may levy local sales taxes.

Revenues from sales and use taxes are one part of a state or local government's tax structure. Sales and use tax revenues are second only to income taxes as a source of revenue for states.[19] Revenues from sales and use taxes help fund government operations and services, at both the state and local levels.

Michigan, which does not permit local sales taxes, levies both a state income tax and a state sales tax. A portion of the state sales tax is shared with local governments pursuant to the Constitution. The state levies a six-mill state property tax to fund K-12 public education; however, most property taxes are levied at the local level to support local government services.

Currently, 37 states allow at least some of their local governments to levy a

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a Some have argued that a U.S. federal sales tax was never adopted after the initial opposition from the Roosevelt Administration due to its regressivity. A federal sales tax was under consideration when the U.S. Congress was deliberating how to raise revenues to fund the costs rising as the U.S. increased its involvement in WWII. Also, supporters of fiscal federalism argued that sales taxes were under the jurisdiction of states. Some states had already enacted state sales taxes prior to the onset of the debate war funding local-option retail sales tax. How local sales taxes are structured differ across the states: variation exists in which local units are allowed to levy taxes, how many local units actually do levy taxes, and how broad a local tax's base is. Some states allow different types of local units to levy local-option sales tax, which can lead to overlapping local sales tax rates in some areas. Most of the local-option sales taxes across the country are administered at the state level.

Combined local (city plus county plus other taxing jurisdictions) tax rates range from a high of 5.91 percent in Denver, Colorado to several cities levying a one percent tax. Table 2 displays the state and local tax rates levied in 15 major cities in states near Michigan.

Table 2
State and Local Sales Tax Rates in Select Major Cities, as of July 1, 2021

City	State	Local	Total	National Rank
Chicago, IL	6%	4%	10%	3
Memphis, TN	7%	3%	10%	9
St. Louis, MO	4%	5%	10%	10
Nashville, TN	7%	2%	9%	15
Minneapolis, MN	7%	2%	9%	19
Atlanta, GA*	4%	5%	9%	24
Buffalo, NY	4%	5%	9%	29
Philadelphia, PA	6%	2%	8%	66
Cleveland, OH	6%	2%	8%	66
Milwaukee, WI	5%	3%	8%	70
Cincinnati, OH#	6%	2%	8%	71
Toledo, OH	6%	2%	8%	74
Columbus, OH	6%	2%	8%	81
Indianapolis, IN	7%	0%	7%	91
Pittsburgh, PA	6%	1%	7%	96

Notes:
* Most of Atlanta is in Fulton and DeKalb counties and is subject to an 8.9 percent sales tax. However, part of the city is in Cobb County and is subject to a total rate of 6 percent.

Most of Cincinnati is in Hamilton County and is subject to a 7.8 percent sales tax. However, part of the city is in Clermont County and is subject to a total rate of 6.75 percent.

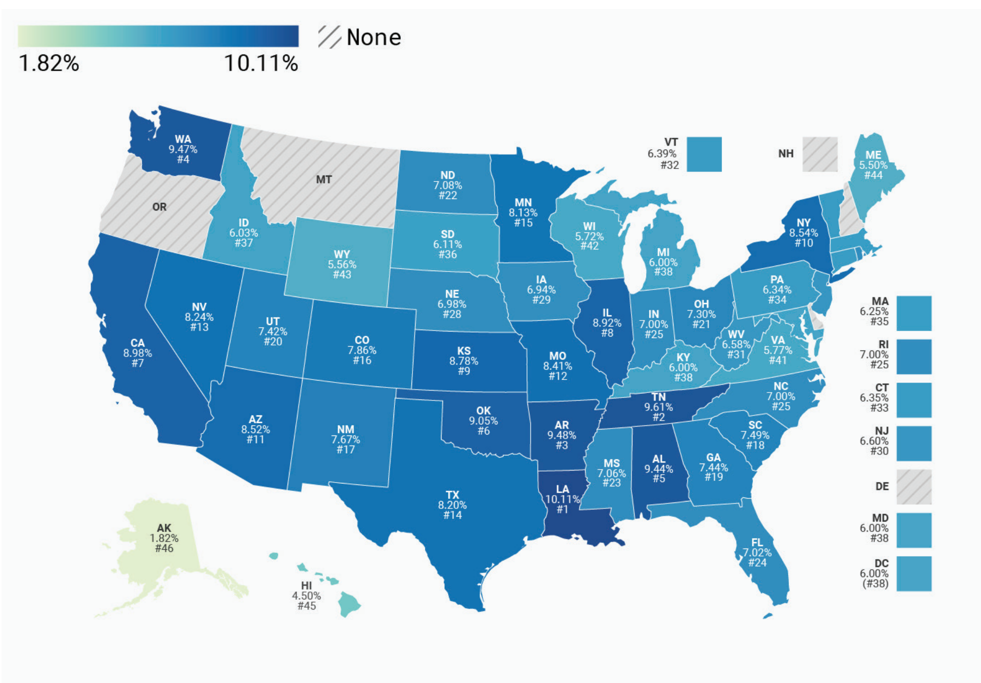
Source: Tax Foundation, *Sales Tax Rates in Major Cities, Midyear 2024*, https://taxfoundation.org/data/all/state/sales-tax-rates-by-city-2024/#:~:text=Louis%2C%20Missouri%2C%20has%20a%20local,tax%20for%20regional%20transportation%20expenditures

Across the country, the sales and use taxes provided 32 percent of state tax collections, and 13 percent of local collections in 2025.[20,21] The combined state and local sales taxes bring in about 24 percent of combined state and local collections, making sales tax revenues a significant source of revenue overall.[22] States determine how to allocate sales tax revenues through their appropriations process. Some portion of the revenues may be designated for specific purposes, such as school aid or revenues sharing, as is required by law in Michigan.

The structure of sales and use taxes vary widely between states. Not only do the tax rates vary, but there are also significant differences in each state's tax bases. Each state adopts its own sales and use tax laws identifying the taxpayer, and what is and is not subject to the tax. Every state determines whether their local governments may levy a sales tax. States and local governments can also exempt the transactions of certain entities or purchasers, such as the purchases by not-for-profit, or religious, organizations. Map 2 below shows the combined state and the average population-weighted local tax rates across the United States. Michigan's six percent sales tax rate, which does not include any local sales taxes, ranks 38th in the country. Seventeen states levied a combined state and local sales tax rate of seven percent or greater in 2025.

Map 2

Combined State and Average Local Sales Tax Rates and Rank, July 2025



Source: The Tax Foundation, State & Local Tax Rates as of July 1, 2025

Tax policy experts view consumption taxes, such as a well-designed sales tax, as stable and economically efficient. [b] The tax is paid once, at the time a good or product is purchased, or at the time a service is used.

Sales taxes levied at the local level provide income diversity for local governments, and if local sales taxes and state sales taxes share the same tax base, there is greater simplicity and efficiency in tax administration. Shared definitions of taxable items also help to contribute to a better collective understanding of retailers and purchasers.

b Reference to sales taxes will also generally also refer to use taxes

Local-Option Tax Issues to Consider

The lack of alignment of local revenue sources with the local economy is a challenge for Michigan's current local government revenue structure.

Communities lack the authority to levy taxes that capture the business activity taking place within their boundaries. While the local property tax revenues will reflect growth in property values, it will not produce revenue gains from increased business activity from bustling downtowns and job growth. Except in the few cities that levy their own city income tax, or in counties with hotel/motel or other tourism taxes, most Michigan local governments do not have the taxing authority to realize gains from rising incomes and increased retail and visitor activity. While hosting communities benefit when businesses bring in employees or visitors stay, they also must provide additional services. Without the option to levy a local sales tax, expenditures to host visitors increase the tax burdens of existing residents.

For example, many lakeshore communities in northern Michigan experience much larger populations in the summer, which require increased services such as public safety and trash collection. Local property taxes do not increase in the summer months simply because more people are staying in hotels in the area or staying at second homes. Also, many metro-Detroit suburbs (e.g., Warren and Livonia) are commerce hubs because they have a lot of businesses and jobs in their communities. Because they have not yet chosen to levy a city income tax or other local-option taxes, these cities do not capture revenue that would help pay for the services benefited by daytime workers who commute into their place of employment.

The local taxes permitted in other states are not always uniformly authorized for levy by a single level of government. They, alone or in combination with other taxes, may be authorized to city governments to fund municipal services, county governments to fund services across relatively small regions, or regional authorities to fund transit, museums, sports facilities, and other amenities for which the benefits span multiple jurisdictions.

When levied at the most local level of government (i.e., city, village, township level) local taxes can create administrative difficulties and local competition, introduce economic distortions by creating incentives for people to live or work or purchase items in jurisdictions with lower taxes, and intensify socioeconomic disparities across local units of government. (Local units with the least ability to raise funds from local property taxes generally have the least ability to raise funds from other taxes too). Some of these concerns over economic distortions, socioeconomic disparities, and local competition can be addressed by authorizing the levy of local-option taxes at the city, county, or regional level.

Access to a variety of local-option taxes may allow a particular government to tailor the taxes it levies on activities that reflect its economic strengths (e.g., retail or tourism). On the other hand, some local taxes could diminish a region's economic competitiveness and limit the state's ability to raise rates on state taxes. They increase the combined state and local tax rates in an area. However, when implementing a new local tax, the local tax mix can be designed to be revenue-neutral and allow for growth in the future. By combining a new local-option tax with a reduction of an existing tax (i.e., property tax relief), taxpayers could face no greater overall burden.

Local-option taxes create tax differentials between local units within a state. While local taxes allow jurisdictions to generate additional revenue from untapped sources (e.g., tourism), the revenue-generating capacity from local-option taxes is not evenly distributed across municipalities. Some communities are better suited to sales, use, and excise taxes (such as tourist activities that occur in communities along the Lake Michigan shoreline) while other communities may benefit from another type of local-option tax, such as economic development taxes, payroll taxes, or franchise fees, etc.

Local taxes increase administrative burdens on taxpayers and local government units. The local government must have the resources to collect and audit tax, as well as provide taxpayer assistance. Taxpayers will have to both understand their responsibilities and liabilities and pay attention to ongoing compliance issues.

Finally, expanding local taxes could make local governments more vulnerable to economic downturns, as many of the local-option taxes discussed are more closely tied to the economy and therefore more volatile than the property tax.

Perspectives on Sales and Use Taxes

In theory, well-designed sales and use taxes have several components.

- The taxes are levied on final personal consumption. Ideally, the tax base should be broad and include both tangible goods and services. Sales taxes may impose a greater burden on lower income households because they spend a greater portion of their income on current expenses; however, tax design elements and policies can help to decrease the regressivity of the tax.
- The taxes should be imposed on the product or service in the state or local government where it is consumed. Considerations should be made of whether there are incentives for residents of a state or local area to avoid sales and use taxes by purchasing goods or services outside of the taxing jurisdiction or online.
- The taxes should provide a sustainable and reliable source of revenue to support ongoing public services. Boosting the stability of sales tax revenues by not eroding the sales tax base through various exemptions can help when there are fluctuations in consumption during economically challenging times.
- The taxes should be simple to understand by taxpayers as well as consumers. Having a transparent and easy to administer tax will improve compliance and reduce tax collection and oversight costs.

Regressivity

Tax economists agree that the sales tax is generally regressive, imposing a greater economic burden on lower-income households than on higher-income households. A tax's regressivity can be determined by calculating the percentage of taxes paid relative to personal income. For example, a lower-income household will spend a larger percentage of its income on food and groceries than a household with a double amount of income. To address the regressivity of sales and use taxes, most states, including Michigan, exempt food for later consumption as well as prescription medications. Other exemptions might include exemptions for goods and services that cover basic necessities.

The taxation of services is one area that can mitigate regressivity. For example, in Michigan most personal and professional services are exempted from the tax adding to the regressivity of the state sales tax. To illustrate, a high-income household may be inclined to hire a lawn service instead of handling their own landscaping to allow more time for leisure activities. A lower-income household may not be able to afford a lawn service. They may have to purchase a lawnmower. Under Michigan law, the lawnmowing service is exempt from tax, but the lawnmower purchase is subject to the tax, leaving the lower-income household paying more in sales taxes than a household that has a lawn service for the same activity. If, as the example provided, landscaping services were taxable, higher-income households would probably pay for more sales taxes on their landscaping services than a lower-income household would pay on the total one-time lawnmower purchase.

Tax Avoidance and Tax Exportation

An aspect of sales taxes that often appeals to local policymakers is that such taxes are also ‘exported’ or paid by visitors to the geographic area through spending on dining, entertainment, lodging. Exported taxes may reduce the total tax burden on local residents.

The potential for tax avoidance is also an issue for local leaders to consider when thinking about a local sales tax. Sales and use taxes are imposed when a purchase is made or a service is rendered in a specific geographical location. Depending on state and local laws, sales tax rates can differ from one community, county, or one state to the next. With different rates imposed nearby, consumers may choose to cross geographical borders to make their purchases, take advantage of services, or attend events where sales and use taxes are lower. Tax avoidance by consumers can affect retailer retention, local employment, and general economic activity, if the disparity of tax rates between areas nearby is significant.

Use taxes, in addition to specific services and other purchases, are levied on purchases that are made outside of the geographical area where the product is delivered, or on certain rentals, leases, or other services. If a consumer makes a purchase in another state, and owes use tax, for example, states require the consumer to remit the use tax owed directly to the state. This element of the use tax was designed to address purchasers from crossing borders to purchase items where they are taxed less (i.e., cross-border tax avoidance). However, use taxes are not effective in mitigating tax avoidance well. The enforcement of the use tax is quite difficult, and nearly impossible on lower-priced purchases. Sales tax administrators have been confronting the issue of sales and use tax compliance for a long time. States first began seeing tax avoidance and loss of revenues as mail-order sales increased. Now out-of-state sales have become more of a pressure point for state and local revenue collectors with the growth in ecommerce. The issue of how states and online retailers have addressed the collection of sales taxes on interstate commerce is addressed later in this paper.

Should the City of Detroit consider pursuing a local sales tax, it will be important to also adopt a complementary local use tax mirroring the state use tax. If other jurisdictions do not levy sales and use taxes of their own, the use tax would address the circumstances when city residents purchase goods outside the city to avoid city taxation. As is required under the state use tax, a local use tax law would include a provision for residents to submit any additional use tax owed on items acquired outside city limits. Use tax compliance may be even more challenging in Detroit, given the undersupply of places for households to purchase everyday goods.

Sales Tax Competition & Neutrality

The addition of a local-option sales tax could not only impact individual consumer habits, but also potentially affect the decisions of retailers to relocate elsewhere to neighboring communities or states. A study of the impact of local sales tax rates on cross-border shopping by U.C. Irvine economist, Dr. David R. Agrawal, suggests that the United States' highly decentralized sales tax system leads to a wide variation in local tax rates. This influences the behavior of consumers, particularly when neighboring cities, counties, or states have different local tax rates. This phenomenon is known as tax-driven cross-border shopping.[23]

Due to consumers' sensitivity to tax differences, *neutrality* is a key concept to consider when implementing a local-option sales tax. Neutrality is defined as the criterion that taxes should be structured 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. Neutrality should be considered from both the perspectives of consumers and retailers. If a local-option sales tax is too high, it runs the risk of reducing a community's competitiveness and economic footprint.

Evolving Tax Base

Since states' initial adoption of sales taxes, the economy has changed from one based on manufacturing and production of goods to a more service-based economy. With the increase in professional and personal services offered (e.g., consulting, accounting, landscaping services, haircuts, and car washes), and the opportunity to spend more disposable income on services, consumers are buying fewer tangible goods. To go one step further, many goods previously in the form of a physical product, such as a movie, software disc, or video game, are now delivered in a digital format.

The tax base is also affected by any legislative changes that add or eliminate exemptions from the tax base or what purchasers are not subject to tax.[24] The most recent example is the exemption of sales tax on motor fuel that was adopted as part of the 2025 transportation funding package.[25]

Adequacy of Potential Revenues

Adequacy is an important concept to consider because the implementation of a higher sales tax rates may cause disruptions. It may affect decisions of retailers to locate in the city and consumers to shop in the city. City leaders should ask whether the potential revenues, as well as the political challenges of gaining the authoirty and voter approval are worth the effort. Adequacy is a subjective concept. Consideration of the adequacy of levying this local sales tax is judged relative to the goals of local policy makers and what they wish to fund: enhancing city services, diversifying city revenue streams, or providing tax relief for example.

Balance in Overall Mix of Local Revenues

Balance in the overall mix of taxes as revenue sources for a local government is achieved when the overall tax burden is spread over several different tax bases. Property, income, and sales should all contribute to the financing of government. A tax structure that is out of balance, one that relies too heavily upon one or two types of taxes, risks creating economic disincentives that could cause people and businesses to locate or to conduct business elsewhere and can put overall revenue levels at risk if one tax suffers an economic decline.

Michigan local governments rely heavily on property taxes to fund municipal services. Detroit, Grand Rapids, and a few other cities have created some balance by levying city income taxes. Except for a few minor excise taxes – for example, Detroit's Utility Users Tax, county hotel taxes, and Wayne County's rental car tax – Michigan local governments lack the authority to create balance by implementing local sales taxes; however, the state does share some state sales tax revenues with counties, cities, villages, and townships through the state's revenue sharing program.

Michigan's State Sales and Use Taxes

The sales tax is applied to the purchase of tangible goods or services in Michigan.[26] The separate use tax applies to some services, such as telecommunications or transactions where some item is used, such as an auto rental or accommodations.[27] It also applies when a non-taxed purchase is made out-of-state and the item is brought into Michigan, including purchases made online, by mail, or by phone from a seller without a physical or sufficient economic presence in the state.

Michigan retailers are required to submit the sales and use taxes collected on their sales to the Department of Treasury, as they have the privilege of selling at retail. The tax is applied to the gross proceeds of a transaction for use or consumption. The total sales tax rate is limited to six percent in the Michigan Constitution.[c] (The use tax rate is also six percent but is statutorily set.) Exemptions are allowed for purchases made by certain purchasers, such as not-for-profit organizations or the federal government. In addition, the sale of certain items is exempt from tax. The most notable exemptions include the sale of food not for immediate consumption or groceries, prescription medications, water, and sales to religious and other not-for-profit organizations.[28] The tax is applied at the final point of consumption, so business inputs are not taxed. This avoids taxes being applied at various stages during the production process, resulting in items being taxed multiple times. Tax economists describe multiple levels of taxation as tax pyramiding.

A final, but important, characteristic of Michigan's sales tax is that very few services are taxed. The tax was adopted when the general economy relied on few services. Today, many more professional and personal services are offered and the market for digital products is expanding. Because these services and items are not taxed, the state foregoes tax revenue. For instance, where previously, one would have purchased personal computer software using a disc and sales tax would apply to that disc. Now, the software is downloaded digitally and is not subject to tax. These shifts in the economy plus the ongoing adoption of various tax exemptions have eroded the original tax base. Many other states apply sales taxes to certain services, but Michigan has not modernized its tax base to the economy of today.[29]

The State of Michigan disburses over $10.6 billion (FY2024) in gross sales tax revenues as follows:[d]

Constitutional

- 15 percent of gross revenue generated from the four percent sales tax is dedicated for revenue sharing to cities, villages, and townships. These funds are distributed on a per capita basis. The City of Detroit receives 22 percent of the total constitutional earmark for local gov-

c Taxes on residential use of electricity, gas, and heating fuels are limited to four percent
d Use tax revenues are not distributed in the same way

ernment revenues sharing.
- 73.3 percent to the School Aid Fund to fund public schools and higher education.

Statutory

- An amount not specified as a percentage of total sales tax revenues is used for statutory state revenue sharing. Amounts to be shared among counties and among the cities, villages, and townships are decided through the annual appropriation process.
- 1.2 percent to the Michigan Comprehensive Transportation Fund to support public transportation programs
- 0.1 percent to the Qualitied Airport Fund and the State Aeronautics Fund
- 0.1 percent to the Health Initiative Fund to support policy planning and public information for AIDS and Hepatitis C.
- Any remaining collections (nearly 15 percent) are deposited in the state's General Fund for legislative appropriation.

Local Sales Taxes in Michigan

The Michigan Constitution and state laws govern what types of taxes local governments can levy. Michigan law authorizes some local-option taxes, but local governments continue to rely heavily on local property taxes. Cities may levy a local income tax, but only 24 Michigan cities currently do. The inability to levy sales taxes leaves local governments without a full complement of tax options from which to choose to create a balanced revenue stream.

Benefits of a Local-Option Sales Tax

Local governments gain several advantages with the ability to levy a local option sales tax.

First, the availability of a local sales tax increases revenue diversity for Michigan governments. Sales tax revenues, with a relatively stable economy, and a consistent tax base could improve the balance of revenue sources allowing local areas to take better advantage of their local economies. Counties, cities, villages, and townships are allocated a portion of the state sales tax revenue collections (known as state revenue sharing), but their revenue sources are primarily limited to property taxes, local income taxes, and user fees.

Second, diversification of the tax mix could benefit local governments with the prospect of less reliance on property tax revenues. Under Michigan's property tax system, local governments are challenged to capture the economic growth in their community due to the state's triple property tax limitations.[30] A local sales tax would allow local governments to benefit directly when retail activity grows in their communities. Of course, the opposite could also happen if retail activity declines.

Third, a local tax would lessen dependence on the state to share its tax revenues. Although the state shares its state sales tax revenue, the total amount of state revenue sharing payments can be undependable. The rational for the few local-option taxes available to Michigan's local governments is based on the historical custom that the state should act on behalf of local governments by collecting state taxes and sharing a portion of the revenues with its subdivisions. It was thought that having more than 1,800 local governments act independently to levy a variety of their own would result in confusion and inefficiency. With a single entity, the state, collecting taxes on behalf of the local governments would appear to alleviate those issues. However, centralized taxation and collections have left Michigan's local governments vulnerable to reductions in their state revenue sharing levels.

The constitutionally required sales tax revenue sharing required for cities, villages, and townships, has not fluctuated dramatically. The shared revenue tracks the overall trend in state sales tax collections. However, the annually appropriated statutory state revenue sharing has been inconsistent. These appropriations have been affected by state budget shortfalls and other legislative priorities. For more than two decades, statutory state revenue sharing payments have been far below levels legislatively set by the 1998 amendments to the Glenn Steil State Revenue Sharing Act of 1971.[31] Having a local sales tax as an additional revenue source would help to not only mitigate the risk that statutory revenue sharing payments will be cut during fiscally challenging times in the state, but it will also give local governments some agency and accountability over their own finances.

Fourth, a supplementary revenue source could provide local governments the resources to offer their residents general tax relief, especially in the state's counties and larger cities. A local sales tax could potentially capture economic activity from visitors and tourists from outside the area who frequent lodging, restaurants, and entertainment in the community. For instance, as Detroit becomes an attractive host for major sports tournaments, industry events, or concerts, those additional locally-generated revenues could be applied to programs that help to lower the overall property tax burden on city residents who are funding the services to host visitors, and potentially help to fund local property tax rebate programs or other resident tax relief programs. (It is worth noting here that an earlier study evaluated local-option admissions taxes to specifically focus on sports and cultural events. Tickets to these events are not currently subject to the state sales or use taxes.[32]) However, it is difficult to forecast revenues raised from visitor and tourist activities, especially as they are dependent on many unpredictable factors, such as the success of Detroit's sports franchises, highly attended corporate conventions, or a slower economy.

Legal Authority for Sales Taxes and Local Taxation in Michigan

Michigan's counties, cities, villages, and townships derive their authority to levy taxes through both the 1963 Michigan Constitution and state statutes. These laws stipulate the type of taxes that may be levied, the maximum tax rates and the items included or exempted from the tax bases. They also specify which types of local governments are authorized to levy certain types of taxes.

The legal authority to levy Michigan sales and use taxes, either at the state or the local level, spans across several constitutional provisions and state statues. While some of the legal provisions are quite specific, others contain some ambiguity. For instance, the original Constitution establishes the four percent limit on the sales tax rate to be paid by retailers. However, the Constitution only specifies that the legislature cannot impose a tax of greater than four percent on retailers' gross retail sales. It does not state whether the sales tax rate limit applies to only state sales taxes or if the limit applies to combined state AND local sales taxes.

After voters approved the 1963 Constitution, there was a question about whether local sales taxes were allowed by law. In 1970, the state Attorney General opined that the Michigan Constitution prohibits the state legislature from authorizing local governments to levy sales taxes.[33] The opinion relied on several constitutional provisions governing the types of taxes local governments are permitted to levy, both ad valorem property taxes and others, as well as constitutional provisions regarding the maximum sales tax rate, the disposition of state sales tax revenues (including references to the 1908 Constitution), and state revenue sharing.

Legal scholars have acknowledged that some ambiguity remains about whether local governments could be authorized to levy sales taxes under the existing language of the state Constitution as that authority remains legally untested.[34] The Constitution limits the sales tax rate, but it does not specify whether the rate limitation applies to only *state* sales taxes. Additionally, while the Constitution provides for sharing a percentage of sales tax revenues collected with local governments, it does not specify whether the sharing provisions would apply to any *local* sales tax revenues.

There has been no definitive legal decision on the matter other than the 1970 Attorney General opinion. Therefore, it behooves a local government to secure legal clarity on whether local governments may levy a local sales tax. To address the ambiguity, at a minimum the state legislature should adopt a statute providing authorization. To be even more certain, explicit authorization should be adopted in the 1963 Constitution. And finally, a local ordinance should be adopted, and as constitutionally required, be voter-approved before a local unit levies local sales taxes.

Constitutional Provisions Affecting Local-Option Sales Taxes

Several constitutional provisions apply to sales taxes and the authority of local governments to levy taxes other than property taxes.

Article VII, Sections 7 and 21 – Taxing Authority of Local Governments

Article VII of the 1963 Michigan Constitution authorizes counties, cities, and villages to adopt charters, or documents that define how each local governmental unit is structured – organization, powers, functions, elections, etc. These home rule powers include the authority to levy other (non-property) taxes for their purposes subject to the limitations outlined in statute.

Section 2 of Article 7 of the state Constitution provides to the extent here relevant, as follows:

> Any county may frame, adopt, amend or repeal a county charter in a manner and with powers and limitations to be provided by general law, which shall among other things provide for the election of a charter commission. The law may permit the organization of county government in form different from that set forth in this constitution and shall limit the rate of ad valorem property taxation for county purposes, and restrict the powers of charter counties to borrow money and contract debts. *Each charter county is hereby granted power to levy other taxes for county purposes subject to limitations and prohibitions set forth in this constitution or law.*

Article VII, Section 21 of the 1963 Constitution states,

> The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes and restrict the powers of cities and villages to borrow money and contract debts. *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.*

Local governments that do not have locally approved charters, including general law counties, general law villages, and all townships must follow the general provisions that are spelled out in state statutes.

Article IX, Section 8 – Limitation on Rate

Section 8 of Article IX of the 1963 Michigan Constitution limits the state legislature to impose a tax of no more than a six percent rate on retailers' gross taxable sales of tangible personal property. [35] However, two percent of the sales and use tax rate is earmarked for the State School Aid Fund per the 1994 constitutional amendment known as Proposal A.

Article IX, Section 31 – Local Voter Approval of New Taxes

Section 31 of Article IX of the 1963 Michigan Constitution includes an additional restriction for new local taxes and tax rate increases – local voter approval.[36] This provision, part of the 1978 Headlee Amendment, requires that voters in every local government approve any new taxes or increases in the rate of any taxes authorized prior to 1978.

Article IX, Sections 10 and 11 – State Revenue Sharing and Specific Earmarks

Section 10 of Article IX of the 1963 Michigan Constitution provides that 15 percent of four percent of *all* sales taxes are distributed per-capita to cities, townships, and villages. [37] Counties are not included in this constitutional revenue sharing distribution.

Section 8 of Article IX requires that 60 percent of the revenues collected from the four percent sales tax rate be deposited into the State School Aid Fund. [38] It also requires that all the proceeds of the two percent sales and use taxes enacted in 1994 as part of the Proposal A school finance reforms are to be deposited into the School Aid Fund.

Any new laws authorizing a local-option sales tax will have to consider existing constitutional and statutory earmarks. If the current constitutional and statutory earmarks are not adjusted, total collections for the local government levying a new local sales tax will be less than anticipated.

Legal Path to Authorizing and Adopting a Local Sales Tax in Michigan

The path to authorizing and adopting a local sales tax in Michigan is a challenging and lengthy one. Pursuing authorization requires careful attention to the legal process for obtaining constitutional approval, state legislative approval, local legislative approval, and finally, securing local voter approval.

Amending the Michigan Constitution

Consistent with the Attorney General opinion, providing room to increase the state sales tax rate, clarifying how local tax revenues would apply to existing constitutional earmarks, and clarifying whether a local government could levy a local sale tax would entail an amendment to the 1963 Constitution.

Proposed constitutional amendments can be placed on a general election ballot either by a joint resolution of the Michigan legislature (which requires a two-thirds vote by both chambers), or by a citizen-led initiative receiving the required signature threshold. In addition, the 1963 Constitution provides that the question of calling a constitutional convention be placed on the ballot every 16 years (Article XII, Section 3). The question appears on the November 2026 ballot. Should a majority of the electors approve calling a Constitutional Convention in 2026, the issue of local taxes and the sales tax limit could be addressed during the convention, among other topics.

State Legislative Authorization

As the 1963 Michigan Constitution was drafted in Article VII, Sections 2 and 21, drafters attempted to differentiate the taxing powers of local governments operating under locally-approved charters and those that continue to operate as general law local governments. The Constitution attempted to grant home rule charters more self-governance powers, including taxing authority, than general law units.[39]

The issue of whether local governments may adopt and levy their own local taxes became a point of contention in the past because the City of Detroit adopted an income tax in 1962 without state authorization. Consequently, despite the constitutional authority granted to home rule counties, cities, and villages could not levy taxes other than property taxes. Public Act 243 of1964 was enacted to prohibit any new non-property taxes for cities and villages if they were not in place prior to 1964.[40] The relevant part of Public Act 243 of 1964 states:

> *Except as otherwise provided by law and notwithstanding any provision of its charter, a city or village shall not impose, levy or collect a tax, other than an ad valorem property tax, on any subject of taxation, unless the tax was being imposed by the city or village on January 1, 1964.*

This has been interpreted to mean that local units of government could only levy a sales tax with express legislative authorization.[41] (The existing constitution is silent on this matter.)

Michigan law does authorize city income taxes and some local excise taxes. Excise taxes are consumption taxes but imposed on a specific good or activity such as a package of cigarettes, a bottle of spirits, or an entrance ticket to a concert venue. Frequently referred to as "sin" taxes, revenues collected from excise taxes are typically assigned for specific expenditures related to that good or activity.

Michigan's local-option taxes are authorized as uniform laws that define the tax base, administrative responsibilities, the disposition of revenues, and the permissible tax rates for any local government qualified and choosing to levy the tax. Sometimes the laws are written to identify which governments are eligible to levy the tax. For instance, the Uniform City Utility Users Tax Act specifies that "The governing body of *a city having a population of 600,000 or more* … may levy, assess, and collect from those users in that city a utility users tax …." Currently, only the City of Detroit qualifies for this threshold.[42,e]

The question for the cities or counties is merely whether a tax should be levied subject to the parameters and details included in the state act. Local governments have no discretion over determining the tax base or other elements of the tax.

The laws written in this way include Uniform City Income Tax Act, the Local Casino Gaming Tax, County 9-1-1 Charges, Accommodations (Hotel-Motel) Taxes, Convention and Tourism Marketing Fees, the Uniform City Utility Users Tax, Stadium and Convention Facility Tax, the County Real Estate Transfer Tax, and a variety of taxes levied in lieu of property taxes to promote economic development.

Local Legislative Approval

Once a state law is in place to permit local governments to levy a local sales tax, the local government's legislative body must also adopt an ordinance in compliance with law.

Local Voter Approval

The local government's legislative body also will have to place the question of a new tax before voters for approval, pursuant to Article IX Section 31, of the 1963 Constitution. This requirement applies to the enactment of any new taxes or any increases in the tax rates of existing taxes above the rates that were authorized in 1978.

The process for holding an election includes not only the cost of placing the question on the ballot, but a significant educational campaign to ensure that voters understand how a new tax will work. Residents, businesses, and taxpayers may want to understand how the local government will use the new revenues. It will be important for local policymakers to discuss those goals with their community.

e The threshold has been adjusted as the City of Detroit's population has changed over the course of time

Ecommerce and the Streamlined Sales Tax Agreement

Tax administration – collection, enforcement, and auditing of tax filings – is another important consideration for those considering enacting a local sales tax. Understanding the issue of *nexus* is essential.[f] Nexus, in sales tax law, refers to the connection a business has to a state (or a local government) and determines whether that business (who is liable for sales taxes) is the actual sales taxpayer) is subject to tax. Historically, only if a business entity had a physical presence in a state, or nexus, was it subject to the state's sales tax laws. Until 2019, when Michigan updated its legal definition of nexus, a retailer with no brick-and-mortar facilities in Michigan was not required to remit sales taxes under federal law.

With ecommerce accelerating, understanding how federal interstate commerce law affects cross- border sales will be important in the context of adopting new local sales and use taxes.

In 2018, the U.S. Supreme court issued a ruling that the then physical nexus requirement in place was unsound and incorrect in a landmark decision, South Dakota v. Wayfair, Inc. (138 S. Ct. 2080 (2018)).[43] The ruling recognized that both the technological advances in the retail industry and the physical nexus requirements under two earlier U.S. Supreme Court decisions regarding nexus and ecommerce created market distortions rather than resolved them (*Bella Hess and Quill*).[44,45]. The *Wayfair* decision cleared a path for states (as well as local governments) to collect sales taxes from out-of-state retailers for online transactions, based on the geographical location of delivery.

Michigan updated its definition of physical nexus to include economic nexus in 2019. [46] As there are currently no existing local sales taxes, there was no need for a local definition of economic nexus.

If the Michigan Legislature authorizes a local-option sales tax, it will also have to determine if local governments must abide by the state's definition of economic nexus or if a different definition for local nexus will be written into the authorizing state laws. Some states with local sales taxes have separate state and local definitions of economic nexus. Having non-uniform state and local definitions of the threshold for economic nexus would complicate the tax system significantly, for both the taxpayer (especially the smaller remote sellers) and the tax administrator.

After the *Wayfair* decision, sales tax compliance continued to be burdensome to the business community given the variance of sales tax rates and administration across states and local governments. State and local governments also need to capture ecommerce activity to both sustain sales tax collections as ecommerce grows. States were becoming increasingly concerned that the U.S. Congress might act to limit them in collecting taxes on ecommerce sales.

f For a more in-depth discussion of the legal path of nexus, see Appendix A

To address perspectives of both state and local governments and businesses, a group led by the National Governors Association and the National Conference of State Legislatures worked alongside the business community to simplify sales tax collection and administration. Together this group modernized and simplified sales tax administration in a system called the Streamlined Sales Tax Agreement (SSUTA).[47] States may voluntarily join this agreement, easing their challenges in collecting sales tax revenues from retailers with no physical presence in the state.

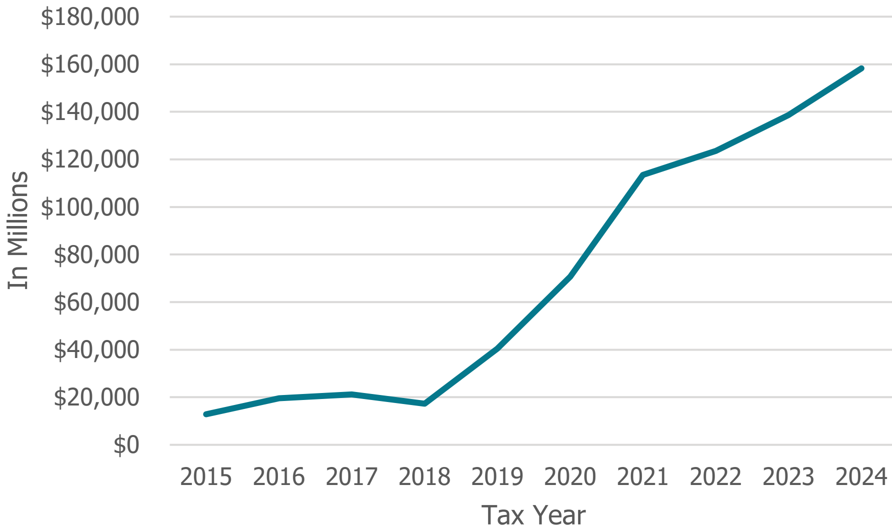
In 2004, the Michigan Legislature endorsed the state's membership in the voluntary SSUTA. Ongoing participation in the SSTUA simplifies sales tax compliance for out-of-state retailers, encouraging their activity in Michigan and providing online access to such retailers for Michigan residents. The revenue collected from out-of-state transactions has increased and is expected to increase over time. If the state does not continue its participation in the SSUTA, retailers will face a greater compliance burden. Moreover, the SSUTA contains specific provisions on sales tax administration that must be addressed in any authorization for a local sales tax.

The following are the most important provisions that apply to all states party to the agreement.

- State level administration and collection of state and local sales and use taxes.
- Uniformity in the state and local sales tax bases.
- Uniformity of major sales tax base definitions.
- Central, electronic registration system for all member states.
- Simplification of state and local sales tax rates.

Because Michigan does not authorize local sales taxes and has a fixed statewide sales tax rate, compliance for out-of-state-sellers is relatively simple. Should Michigan pursue a uniform local sales tax option for cities or counties, the administration requirements for local sales taxes under the SSUTA will have to be met for the state to continue to be a member of the SSTA. Not participating in the SSTA would bring significant administrative and collection challenges, and potentially a loss of sales tax revenue to the state. Chart 3 shows that Michigan state sales tax collections from out-of-state retail sales have risen from $12.9 million in 2015 to $158.3 million in 2024. [48]

Chart 1
Streamline Sales Tax Payments Made to Michigan, 2015-2024



Source: Data Warehouse-Streamline Sales Tax, Prepared by the Office of Revenue and Tax Analysis, Michigan Department of Treasury, September 8, 2025

For a more detailed discussion of the history and consequences of the *Wayfair* decision, see Appendix A.

Current Perspectives of Local Governments

As noted, many of the state's local government leaders are concerned about the future of their communities' fiscal health. They fear that they will be unable to maintain or improve upon their existing public services and infrastructure, especially in densely populated areas. Given that Michigan's local governments have an imbalanced array of revenue resources – primarily local property and income taxes – fiscal managers have pointed to local sales or excise taxes as a way to increase and diversify local revenues. However, the needs and economies of every local government are not the same. Some taxes are better suited to more populated urban areas with high traffic, retail activity, and visitors, while other taxes would be a better fit for a rural community with fewer commercial establishments. Moreover, the services the local government may need to fund also range depending on the local economy and demographics.

A local sales tax would better suit cities such as Detroit, Grand Rapids, and Saginaw, but would not generate significant revenues in rural townships or villages because they usually have smaller economic bases and minimal retail activity. Tax administration will be inefficient relative to the revenues generated from a local sales tax. A densely populated county or large city would be the most likely candidate. With this observation, as policymakers consider authorizing local sales taxes, they should also consider alternative revenue sources to benefit the range of economies and demographic needs across the state's local governments.

Local government leaders confirmed this approach in a recent survey. In September 2025, the Center for Local, State and Urban Policy (CLOSUP) published the results of their annual Michigan Public Policy Survey (MPPS) identifying perceptions of local government leaders on revenue inadequacy.[49] Survey data revealed that while most local government leaders believe the state's current funding system would not allow them to maintain or improve city services, they do not collectively see new local taxes as the best path. While 57 percent would support at least one new local tax option if given state authority, this is down from 66 percent in 2016.

This survey of 1,328 Michigan local government leaders presents a concerning fiscal picture of what they see in the future. Only 29 percent of officials statewide believe the current funding system will allow local governments to maintain existing services in the future – down from 40 percent in 2016 and 43 percent in 2012. This level of uncertainty is most pronounced among leaders of large jurisdictions (30,000+ residents), where just 18 percent believe they can maintain current service levels.

Support for local taxes varies among statewide leaders in comparison to leaders of larger jurisdictions. Statewide, local government leaders in smaller, more rural communities, suggested the following options were ones they were most likely to tap to increase local tax revenues in the future:

- raising property tax millage rates (33 percent),
- imposing new local taxes on alcohol and tobacco (26 percent), and
- increasing local hotel or tourism taxes (26 percent).

Leaders in the largest cities are nearly twice as likely to support local excise taxes on local lodging, alcohol, tobacco, and visitor activities. This illustrates that while there is not a consensus statewide, larger jurisdictions show greater support for local consumption taxes.

Table 3
Statewide and Large Jurisdictions' Support for Local Taxes

Local Tax Option	Statewide Support	Support in Large Jurisdictions (>30,000 Pop.)
Local Hotel/Tourism Tax	26%	52%
Local Tax on Alcohol, Tobacco, etc.	26%	42%
Local Sales Tax	11%	25%

Source: Unversity of Michigan, Geral R. Ford School of Public Policy, The Center for Local, State, and Urban Policy, Michigan Public Policy Survey, *Growing consensus among Michigan local government leaders on revenue inadequacy, but declining support for local tax options,* September 2025.

The hesitancy in implementing new taxes could reflect how challenging it is to adopt new local taxes. As outlined in this report, several hurdles will need to be overcome before a new local tax can be levied. However, the City of Detroit may be able to take an approach that recognizes the varied interests around the state. This is a key point to take from the survey results: given the variety of needs and characteristics across the state, a *one-size-fits-all* solution may not be ideal for all of Michigan's municipalities. Hence, considering a selection of local taxes for Detroit and other municipalities could be a more palatable solution to addressing municipal revenue needs across the state. In previous reports, the Research Council has suggested that the state's municipal finance system be evaluated and reformed.

Analysis of Proposed Local-Option Sales Tax

As noted above, the legal pathway to impose local sales and use taxes is daunting – completing the steps for constitutional, state statutory, and local authorization. It is also important to emphasize the importance of addressing the specific attributes of the tax as a proposal is being developed.

Designing the Taxes

As part of the process of drafting uniform acts for local sales and uses taxes (as is the pattern in Michigan) the following should be included:

General Sales or Specific Excise Taxes

As local policymakers consider local option sales taxes, they would be well-served to collaborate with a variety of local government leaders to clarify which specific types of local consumption tax options will be available. Alternatives to a sales tax include excise taxes on particular items, such as alcohol or tobacco, or entrance tickets to entertainment venues, for example. The discussion that follows is focused on general, broad-based local sales and use taxes.

Tax Bases

Retaining membership in the Streamlined Sales Tax Agreement (SSUTA) should be a priority. Michigan's participation in the SSUTA requires the state and local sales tax bases to be the same. Although this is a tax design component that improves simplicity and administration of the tax, it will preclude local governments from providing specific exemptions they may want through the sales and use taxes, unless those exemptions are adopted for both state and local taxes. A wholistic reexamination of the state sales and use tax bases is overdue. Expansion of the state tax base also would expand the local tax base.

Administration

Additionally, to mitigate the burden of sales tax collections for out-of-state sellers and avoid challenges to the U.S. Commerce Clause, SSUTA requires local sales taxes to be collected at the state level. This has both benefits and costs for local governments. While there is administrative efficiency for state-level collection, local governments most likely would have to include an administrative fee for collection services as they budget revenues from a new tax.

It makes little sense for Michigan to leave the SSUTA to create different state and local tax bases. Collections from ecommerce are certain to grow and it is unlikely that the state or city could maintain collections of the tax on out-of-state sales. As shown in Chart 1, collections of state streamlined sales taxes totaled over $150 million in 2024.

Disposition of Revenues

It will also be important to state the purposes for which revenues collected may be used. Local policymakers may wish to select some specific purposes that appeal to local residents to gain more support for additional local taxation. In Detroit, these purposes could include funding for its post-bankruptcy pension debts, street maintenance, increases in public safety personnel, or property tax relief.

Potential Revenues

Estimating revenues that a Michigan local government could collect by levying local sales and use taxes is recognized by tax analysts as notoriously difficult. Not only is accurate data of what amount-of-purchases-are-made-where unavailable due to Michigan's sales tax collection system, but the complexity of the sales and use tax bases does not lend themselves to the way consumer or business spending information is collected by public data collecting agencies. The Michigan Department of Treasury collects revenues on a statewide basis. It cannot identify tax collections by a county or municipality. Retailers, both brick-and-mortar and e-commerce, do not report the locations where sales are made or taxes are collected. Sales at restaurant franchises and stores that are part of national chains are reported from single locations.

This leaves tax revenue estimates to be inferred from relevant economic data. If spending data were publicly accessible, it may have been possible to estimate potential sales tax revenue by purchasing activity by geographical location. Remote sales would also have to be captured by delivery location. Very little information is available at the city level, even for a city the size of Detroit.

As previously discussed, with a local sales tax rate higher in only one or a few nearby jurisdictions, consumers will more easily be able to shop across borders. The Research Council did not have a way to model cross-border shopping to identify use taxes that would be owed. Finally, spending on items in the city by suburbanites and tourists, exported taxes, are also difficult to estimate and can vary from year to year depending on events and the economy.

In light of these limitations, three methods were used to calculate a range of revenue potential from a one percent local sales tax in the City of Detroit. (These calculations do not assume that there is any change to state revenue sharing payments, per the legal ambiguity noted earlier).

- *Estimated Sales and Use Taxes Paid Per-Capita*: The first calculation estimates the location of state sales tax collections based on where people live. It relies on general spending information that does not take into account income or geographical differences.
- *Estimated Sales and Use Taxes Paid by City Households*: The second calculation estimates the location of state sales tax collections based on household spending. This analysis, also based on imperfect data,

excludes tourist or visitor expenditures on Michigan sales taxable items.

- *Estimate of the Revenue Generated by a One-Percent Sales and Use Tax in Detroit Based on Retail Spending as a Percentage of the Sales and Use Tax Spending Base*: The third estimate relies on a proxy factor to address the lack of data on expenditures on taxable purchases within Detroit. While again an imperfect estimate, this method may capture a greater share of exported taxes paid in the city and taxes paid by those in higher-income households.

Per-Capita Sales and Use Taxes Paid in Detroit

Using a naive, but practical, assumption that per-capita spending is spread evenly across the state's population is one method for estimating sales tax revenues from a 1 percent sales tax in the city. However, this methods geography overestimates what Detroit households would pay in sales taxes annually.

The assumption that all state households pay the same amount of sales taxes is suspect. The sales tax is regressive, meaning the taxes total a greater portion of low-income households' incomes than households with higher incomes. Higher-income households tend to spend more on taxable items. Given that the average household income for Detroit of $56,528 is much lower than the statewide average of $96,299 expenditures by Detroit residents on taxable items are likely to be less than those in other areas.

Also, the opportunities to make major sales-taxable purchases in Detroit are limited. Higher-priced goods, such as home appliances, furniture, new automobiles, and electronics, which raise large amounts of sales tax revenues, mostly must be purchased outside the city. If nearby counties or cities do not levy local sales taxes, they will benefit from the out-of-Detroit purchases. If a local sales tax is levied in Detroit alone, payment of use taxes will be nearly impossible to enforce, so the city would lose this revenue. The few grocery stores located in Detroit generate tax revenues only on the non-grocery purchases. On the positive side, visitors to the city may contribute more by dining at restaurants, shopping at boutiques, and buying souvenirs in and around Detroit's stadiums and concert venues. The city may also gain from taxes paid online purchases delivered to Detroit addresses.

Notwithstanding these caveats, per-capita estimates may provide an upper boundary for other estimates. Taking the FY2024 total state sales and use tax collections of $12.2 billion, the estimated amount of per-capita sales/use tax revenue is $1,204. The city's population is 6.3 percent of the state total. A one percent local sales tax within Detroit would raise $127.7 million per year (see Table 4). In the Research Council's view, however, given the caveats outlined, this would clearly be an aspirational estimate.

Table 4
Estimated Per-Capita Sales and Use Taxes Paid in Detroit

	FY2024 Michigan State Sales and Use Tax Revenues	$12,204,862,000
Divided by	2024 Estimated Michigan Population	10,140,000
Equals	Per-capita Sales and Use Tax Revenues	$1,204
Times	2024 Estimated Detroit Population	638,644
Equals	Sales Tax Revenue for a 1% Rate in City of Detroit	$127,714,532

Source: Citizens Research Council of Michigan, Outline of the Michigan Tax System, November 2025, U.S. Census Bureau

Estimated Sales and Use Taxes Paid by City Households

The second estimate of potential revenues from a local sales tax in the city uses the average spending a Detroit household would spend on retail goods. ESRI estimates Detroiters spend $16,727 per household on retail goods. Each household would generate about $167 of sales tax on retail goods in a year, and collectively all households would generate $42.3 million of tax revenues each year (see Table 5).

This method is also imperfect, but it does provide some information and likely a lower bound for the revenues to be collected. Because the data ESRI uses relies on information collected by the Census Bureau, it does not exactly match purchases subject to the state sales and uses taxes in Michigan and may exclude such sales taxable purchases by households of food away from home and apparel. It also will not capture expenditures on sales-taxable activities and purchases by visitors and tourists in Detroit. Finally, it may miss purchases of autos or home appliances, for example.

Table 5
Estimated Sales and Use Taxes Paid by City Households

	Average Household Spending on Retail Goods by Detroit Residents	$16,727
Times	1% Tax	0.01
Equals	Tax Generated by Each Household	$167
Times	Number of Households in Detroit	253,207
Equals	Sales Tax Revenue for a 1% Sales Tax in the City of Detroit	$42,370,662

Source: American Consumer Survey (Vintage 2023; five-year estimates) and ESRI, 2025 Retail Goods Average Household Spending

Estimate of the Revenue Generated by a One-Percent Sales and Use Tax in Detroit Based on Retail Spending as a Percentage of the Sales and Use Tax Spending Base

The final estimate of the total revenues the City of Detroit may collect with a one percent local sales tax attempts to improve on the method used in the prior subsection by capturing a broader swath of sales and use tax revenues not included in the ESRI retail sales data. Under this approach, the Research Council estimates that a local sales tax at one percent may raise nearly $72 million annually (see Table 6).

This approach draws on state-level average household retail spending data from ESRI and on sales and use tax collections from the State of Michigan and five comparison states – Georgia, Indiana, Missouri, Ohio, and Pennsylvania – to estimate actual state tax revenues generated from Detroit. For each state, average retail spending by household is multiplied by the number of households in the state to estimate total retail spending statewide. Next, total sales and use tax revenue is divided by the relevant state sales tax rate to calculate the total state spending base on which sales and use taxes are paid.

As would be expected, the full sales tax spending base in each state is significantly higher than the retail spending estimate shows in Table 5. To gain a more accurate revenue estimate, the retail spending estimate for each state is divided by the calculated sales tax spending base. These calculations are shown in Table 7 in Appendix B. Estimated retail spending as a percentage of the sales tax spending base ranged from 69 percent in Missouri to 53 percent in Indiana. At 59 percent, Michigan's calculated household spending on taxable purchases falls in the middle of these other states.

The proxy that Michigan's retail spending represents roughly 59 percent of the state's sales and use tax spending base is applied to ESRI's estimates of retail sales per household in Detroit. Applying this ratio inflates the estimate for sales and use taxes generated per household from $167 (based only on the ESRI retail sales estimate) to $284 (which is $167 divided by that ratio of 0.59).

Again, these estimates are imprecise and can only give us a general idea of the potential range of tax revenues given data unavailability on geographically specific spending on items and activities subject to Michigan's sales tax. The potential total sales taxes of $284 per household per year to generate state sales and use tax revenue seems a reasonable estimate. It remains hard to know how that translates to Detroit, how many Detroit residents make taxable purchases outside of the city, and how much of a Detroit tax would be exported to suburbanites and tourists making taxable purchases in Detroit.

Table 6
Estimate of the Revenue Generated by a One-Percent Sales and Use Tax in Detroit Based on Retail Spending as a Percentage of the Sales and Use Tax Spending Base

	Estimated retail spending as a percentage of the sales tax spending base (see Appendix B)	59%
Times	Average Household Spending on Retail Goods by Detroit Residents	$16,727
Equals	Sales and Use taxes generated per household in Detroit	$284
Times	Number of Households in Detroit	253,207
Equals	Sales Tax Revenue for a 1% Sales Tax in the City of Detroit	$71,892,580

Source: American Consumer Survey (Vintage 2023; five-year estimates) and ESRI, 2025 Retail Goods Average Household Spending

To validate the proxy percentage of 59 percent used to estimate city sales tax revenue, the Research Council looked at five states with cities similar to Detroit (Atlanta, Georgia, Cleveland, Ohio, Indianapolis, Indiana, Pittsburg, Pennsylvania, and St. Louis, Missouri). These areas share a strong manufacturing base and all but Atlanta are in the Midwest. The Research Council took the ratio of average household spending in each of the five states that would total the annual sales and use tax collections in those states. The percentages ranged from 53 to 67 percent, with Michigan at 59 percent. Given that Michigan's percentage falls in the middle of that range, the Research Council has confidence that this ratio is a fair proxy to use for estimating potential Detroit sales tax revenues. Not knowing how purchasing in Detroit compares to the state as a whole continues to cause uncertainty.

Take Aways

The range of estimates from these three calculations underscores the challenge in estimating revenues from local sales and use taxes. The revenue estimates for a potential one percent sales and use tax range from $42.3 million based on household retail spending to $128 million based on a per capita estimate of state sales tax revenue generation. The per-capita estimate is aspirational and should not be relied upon.

Using only the city's household spending is a less complex calculation, but most likely misses a good portion of sales and use tax revenues generated from visitor and tourist activity.

Using a statewide ratio of average Michigan household taxable purchases offers a reasonable basis for estimating potential revenue from a one percent local sales tax in Detroit. While this approach cannot perfectly match consumer spending on taxable items, or account for visitor and tourist activity, it provides the best available estimate given existing data limitations. Accordingly, policymakers should consider a revenue range of approximately $42.3 million to $71.2 million annually from a one percent local sales tax.

Typically, unless specifically earmarked by law, sales tax revenues are deposited in the general fund to be disbursed according to annual appropriations. While a uniform tax statute could specify certain types of expenditures, it will not necessarily direct what programs or services will be funded. Local policymakers should consider their goals and communicate the programs a new local sales tax would support. Given that some of the tax will be exported, services that support visitor activity are an area that might meet more public acceptance: public safety, infrastructure investment, refuse collection, etc. Tax revenues could also support reducing the tax burden of community residents, such as funding for property tax relief programs, or public parks and recreation. Decisions on what to fund will be bound by the actual revenue collections from a new tax.

Alternatives to a Local Sales Tax Option

The impetus for considering authorizing a local sales tax option for Michigan's local governments, and especially the City of Detroit, arises for two reasons. First, as the Research Council has documented in several reports, local governments face many challenges in sustaining revenues to provide public services under their existing revenue raising options, property taxes, city income taxes, and state revenue sharing.[50] A local sales tax option would permit communities to secure additional revenues to capture growth in retail activity, including those made by visitors and increased business activity.

Second, the addition of a local sales tax option gives local governments more diversity in their revenue streams. However, given the challenging legal pathway to authorizing local governments to levy local sales taxes, alternative paths to address local government finance should be considered. Of course, each alternative has its own challenges.

Raising the Statewide Sales Tax Rate Will Increase Amounts Available for Revenue Sharing

In Michigan, counties, cities, villages, and townships receive a portion of the revenues collected from the state sales tax. An option for local governments is to join with others to recommend an increase in the non-school portion of the state sales tax rate from four percent to five percent, statewide. With a statewide sales tax increase, revenue sharing payments will rise for all cities, villages, and townships (and potentiall counties). The City of Detroit, if the total state sales tax rate were seven percent and distributions were based on the current methodologies, would receive an additional $60 million (see Table 7). Note, an increase to the sales tax rate will still require an amendment to the state constitution. Any changes to statutory revenue sharing would also require state legislative action.

Table 7

Projected City, Village, and Township Revenue Sharing with a Detroit City Sales Tax of One Percent

Dollars in millions

	FY2026 Projected Revenue Sharing
Statewide CVT Revenue Sharing	$1,743.34
Each 1% of Sales Tax Raises CVT Revenue Sharing	$348.67
Detroit's Share if the State Sales Tax Rate is 5%	$297.88
Increase Over Current Allocation at 4%	$59.58

Source: Michigan Department of Treasury, Constitutional and Statutory Revenue Sharing Payments, FY 2025 Actuals and FY 2026 Projected - P.A. 22 - May Consensus

Reforming and Broadening the Sales Tax and Use Tax Base May Mitigate the Need to Raise the Rate

Several states have embarked on reforming and modernizing their state sales taxes. Since Michigan adopted its sales tax in 1933, the general economy has evolved from one based on the purchases of tangible goods to one which includes the delivery of digital products, and more services, both professional and personal. Reviewing the tax base to update its definitions and to what the tax applies can increase revenues, potentially without increasing rates significantly. Over time, many exemptions have been adopted, further eroding the tax base. By broadening the base to recognize modern retail activity and revising exemptions, it may be possible to capture new revenues to share with local governments and potentially avoid a significant rate increase. Amendments to the sales tax base and capturing new revenues would require state law changes. Those benefiting from currently exempt sales will not easily support tax base modernization efforts.

Adding Amusement Activities and Ticket Sales to State Sales and Use Taxes Could Bring Revenues to Cities with Entertainment Venues

Because Michigan's sales tax does not currently apply to admission tickets to events, the state could amend the state sales tax law to subject admission tickets to the state sales tax. This change may also bring additional revenues to other Michigan cities that host events and entertainment centers if there is geographic distribution of revenues raised from this addition.[51] Revenue from adding admission ticket sales to the sales tax base will not necessarily bring additional revenues to the City of Detroit unless the law specifies how revenue from ticket sales within a city or geographic area could be captured and allocated to that location. The state legislature would have to amend and adopt the changes to the state's Sales and Use Tax Acts.

Adopting a New Local Excise Tax Could Generate Special Purpose Revenues

A local excise tax instead of a local general sales tax is another pathway to increasing local revenues. While similar to consumption taxes, excise taxes are imposed on a specific product or activity and the revenue collected usually funds a related program. The authorization path for the adoption and approval will not require a constitutional amendment but will require state and local legislative approval and a local vote. *An excise tax, such as the admission tax mentioned earlier, will add diversity to a community's revenue base, but it does require that the tax base be well defined and that the program funded is specified in law. Revenues from a local excise tax on alcohol and tobacco sales, for example, would mostly like be applied to a local smoking cessation initiative, for example, and not be used for general city operations.*

Choosing Not to Pursue a New Local Tax Option Could Be an Opportunity for Municipal Finance Reform

Addressing future revenue needs for local governments need not be by levying an additional local tax. There are other options to pursue. As with all operations looking at program areas to improve efficiency, effectiveness and costs can help to free up revenues within a local unit. In addition, completing a review of the state's municipal finance system as a whole could be a worthwhile endeavor to address some of the structural fiscal challenges faced by Michigan's local governments. *Embarking on an evaluation and reform of the state's municipal finance structure is a demanding endeavor that will take state support, proactive leadership, and dedication from all levels of government to be successful.*

Conclusion

As Michigan's local governments, especially its largest cities and counties, seek to diversify their revenue sources and take advantage of growing local economies, a local sales tax option may be a good fit. The legal path to authorizing a local sales tax is a formidable task, however, and no city, even the City of Detroit, should make the effort without widespread support. The approval path includes changing the Michigan Constitution, adopting a state statute authorizing local governments to levy local sales taxes, passing a local ordinance, and finally, securing an affirmative local vote. Drafting of legislation should include reviewing the requirements that must be met if the state is to remain a member of the Streamlined Sales Tax Agreement which facilitates collection of sales and use taxes from out-of-state sellers with economic nexus in Michigan. The advantage of the agreement is that it not only helps Michigan capture increasing ecommerce activity, it also would simplify the tax collection and administration of local sales taxes for those cities and counties who would ultimately levy them. The decision by a local government – county, city, or otherwise – on whether to pursue a local sales tax, if authorized, should take a careful assessment of their local economy and fiscal needs.

Some alternatives to establishing a local sales tax option could also be used to increase local revenues. They include increasing the statewide sales tax rate and capturing additional constitutional revenue sharing, modernizing the state sales tax base, and evaluating existing exemptions, including on amusements and entertainment tickets, and the taxability of digital products and services, or choosing an entirely different revenue enhancement policy.

The ability to estimate how much a one percent local sales tax in Detroit is quite difficult, given the lack of data on household spending and visitor activity that jives with the state's sales and use tax laws. The Citizens Research Council attempted three methods to calculate an approximate revenue estimate of what the city could expect to raise from a one percent local sales tax. If the city moves forward on a local sales tax effort, the Research Council recommends the City of Detroit exercise prudence when using the estimates in this report. Not only are the revenue estimates imprecise, they do not appear to generate enough for the effort it would take to adopt, levy, and administer the tax. A one percent sales tax Detroit could raise between approximately $42 and $72 million annually, recognizing that these estimates are contingent on growth in the local economy, retail activity, and any specific statutory provisions. With the Utility Users Tax raising $37.1 million (FY2024), the approximate lower bound estimate for a one percent local sales tax is only slightly more. The upper bound estimate of approximately $72 million is only about five percent of the City of Detroit's current General Fund Budget.

Appendix A: The Nexus Standard Redefined: *Bella Hess* to *Quill* to *Wayfair*

Article 1, Section 8, of the U.S. Constitution contains a clause that give the U.S. Congress the authority to regulate commerce between the states, such as ecommerce or mail-order sales. Briefly stated, the Commerce Clause prohibits states from discriminating against interstate commerce and requires that state laws are not unduly burdensome against those who engage in interstate commerce.

This law underpins the concept of nexus – where a retailer has significant connection to a taxing jurisdiction such as Michigan or the City of Detroit and therefore is subject to that jurisdiction's tax laws.

The concept of *nexus* is especially important in sales tax law as ecommerce grows. Nexus refers to the connection a business has to a state and therefore how, or if, it is subject to the state's taxes. Every state must adopt its own definition of nexus for the purposes of sales taxes. The definition has changed from one requiring physical nexus to one of economic nexus as commerce has expanded from mail order sales to on-line sales.

Out-of-state sales, such as those made by mail, have existed for a long time. As e-commerce activity expanded in the 1990's, more and more purchases were being made by households and businesses online – meaning purchases could be made across state, and international boundaries. Because the incidence of the sales tax falls on the retailer or seller, as ecommerce sales grew, states and local governments levying sales taxes were forgoing sales tax revenue. States could not require sellers without a physical presence in the state to remit sales taxes. Purchasers, while liable for state use taxes, often did not comply or were even aware of their obligations under the use tax – and tax collection agencies did not have the capacity to enforce collections.

The U.S. Commerce Clause prohibited a state from imposing the duty of use tax collection and payment upon a seller whose only connection with customers was by common carrier or by mail.[52] In 1967, before the full onset of e-commerce, the U.S. Supreme ruled against the State of Illinois's Department of Revenue's effort to require the collection of sales and use tax from National Bellas Hess, Incorporated. National Bellas Hess, a mail order company incorporated in Delaware, did not have any physical presence or local sales personnel in the State of Illinois. [53]The Court opined that the requirement that National Bellas Hess collect sales taxes from their Illinois customers where National Bellas Hess had no physical presence (nexus) in Illinois, was an unconstitutional burden upon interstate commerce.

Following that ruling, states began to push harder on out-of-state retailers to collect and remit sales taxes. States were losing more sales tax revenue due to growing sales by out-of-state retailers. Retailers, while appreciative of expanding markets, found complying with state and local state taxes – different rates, exemptions, etc. – impossible and costly.

The U.S. Supreme Court again addressed the issue of physical nexus. in 1992: *Quill Corporation v. North Dakota*.[54] This decision went a bit further by writing that the U.S. Congress could adopt legislation changing how physical nexus. is defined and allow states to collect sales taxes from online retailers. However, the U.S. Congress failed to resolve the issue, and states adopted their own specific statutes to apply to internet sales. Congress did, however, pass Internet Tax Freedom Act in 1998 to avoid slowing the growth of the internet interstate electronic commerce.[55] The states continued to press Congress to address how states could collect sales taxes from ecommerce retailers. With no resolution, states began adopting their own statutes with the intent of presenting laws that required online and out of state retailers to collect sales taxes to the U.S. Supreme Court for judicial review.

In 2018, in the decision rendered in *South Dakota v. Wayfair, Inc.* (138 S. Ct. 2080 (2018)), the physical nexus requirement was ruled unsound and incorrect.[56] Recognizing both the technological advances in the retail industry, and that the physical nexus requirements under Bella Hess and Quill created market distortions rather than resolved them, the *Wayfair* decision cleared a path for states to collect sales taxes from out-of-state sales. With the Wayfair decision, states can now require retailers to collect sales or use taxes on items delivered in their state, if the retailer has *economic nexus*.[57] In response to the *Wayfair* decision, many states have turned to an economic presence standard for creating sales tax nexus. Michigan updated its definition of economic nexus in 2019.[58] There is currently only a state-level definition of economic nexus in Michigan. Other states with local income taxes have local nexus definitions. Having different definitions of economic nexus complicates the tax system significantly, for both the taxpayer (especially the smaller remote sellers) and the tax administrator. The Streamlined Sales Tax Agreement effort is helping states and online retailers reduce the complexity of sale tax collection and administration to encourage compliance with sales and use tax laws in states across the country.

Appendix B – Estimated Retail Spending as a Percentage of the Sales and Use Tax Bases

	State-level Average Household Retail Spending	$29,173
Times	Number of Households in Michigan	4,107,809
Equals	Total Average Statewide Household Spending	$119,837,112
	Total State Sales and Use Tax Revenue	$12,204,862,000
Divided by	State Sales Tax Rate (6% in Michigan)	0.06
Equals	Total Estimated Taxable Purchases	$203,414,367
	Total Retail Spending Statewide	$119,837,112
Divided by	Estimated Taxable Purchases	$203,414,367
Equals	Total Estimated Household Retail Spending as a Percentage of the State Sales Tax Base	59%

Chart 8
Comparison of Household Taxable Purchases in States

City	Number of State Households*	State Sales Tax Rate (%)	State Sales Tax Revenue, Adjusted ($000)	Average State House-hold Spending	Statewide Tax Base (Purchases)	Total State Household Spending	Proxy: Ratio of State Household Spending to State Tax Base
Atlanta, GA	4,150,138	4.00	$ 8,320,361	$31.31	$ 208,009,025	$129,920,070	0.62
Cleveland, OH	4,917,309	5.75	$15,640,329	$29.25	$ 272,005,722	$143,841,123	0.53
Indianapolis, IN	2,754,811	7.00	$10,570,026	$28.82	$ 151,000,371	$79,385,389	0.53
Pittsburgh, PA	5,324,209	6.00	$14,760,853	$31.12	$ 246,014,217	$165,684,060	0.67
St. Louis, MO	2,556,271	4.23	$ 4,553,244	$29.25	$ 107,641,702	$74,770,927	0.69
Detroit, MI	4,107,809	6.00	$12,204,862	$29.17	$ 203,414,367	$119,837,112	0.59
Detroit -1%	4,107,809	6.00	$12,204,862	$29.17	$ 203,414,367	$119,837,112	0.59

Source: Citizens Research Council analysis of data from several sources: The Tax Foundation FY2022; ESRI (vintages 2023 and 2025)

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