



## **Background Briefing**

# **MICHIGAN REVENUE**

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**Fiscal information in this briefing is based on January 2010 Consensus Revenue Estimates.**

# Revenue Sources

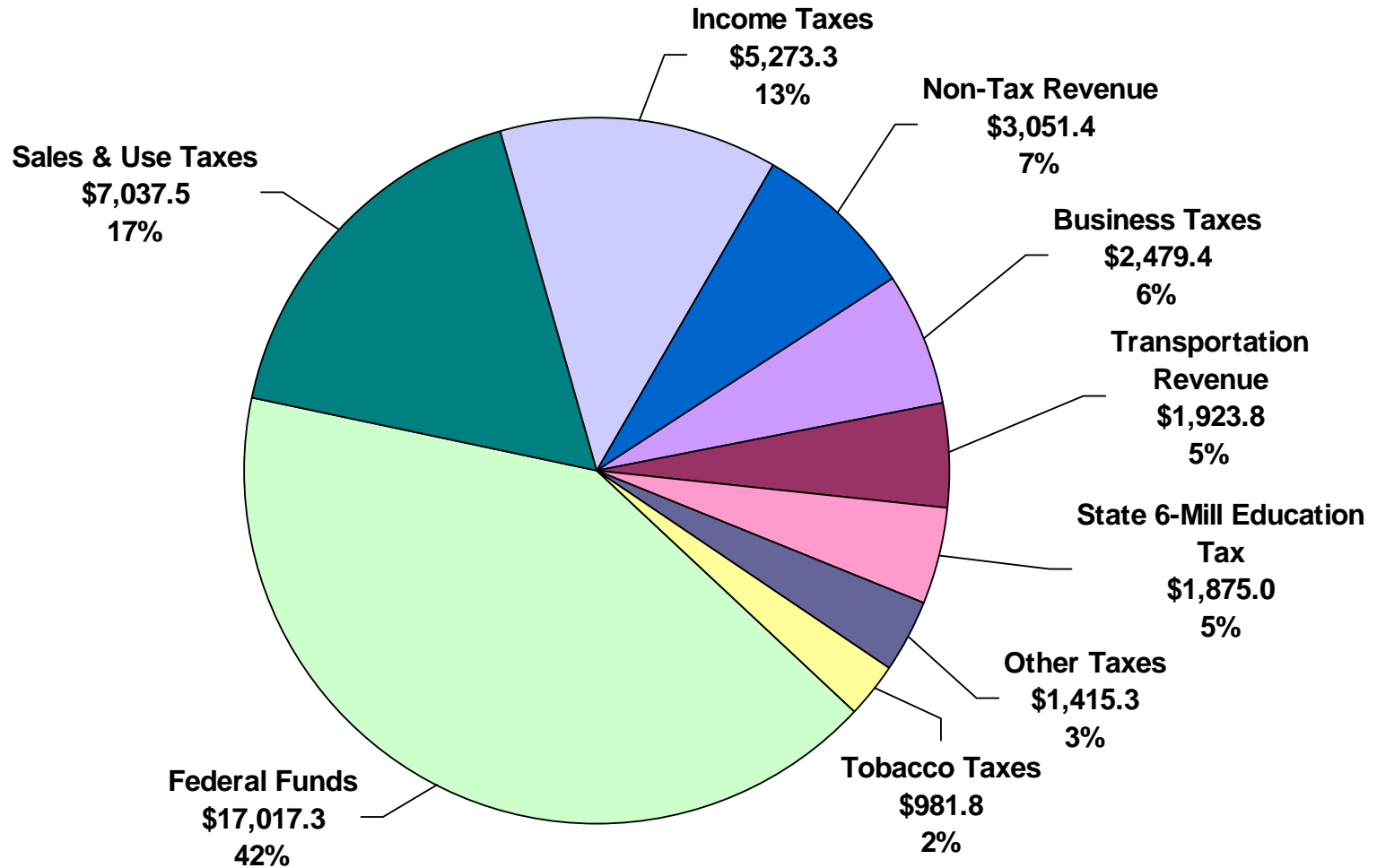
- **Total FY 2009-10 Michigan revenue is estimated at \$41,054.8 million**
  
- **Three largest sources of revenue are:**
  - **Federal funds**
  
  - **Sales and use taxes**
  
  - **Income taxes**

# Earmarked Revenue and Major State Funds

- **Earmarking: dedication or restriction of an amount or percentage of revenue from a source to a specific fund or purpose**
- **Revenue not earmarked is GF/GP revenue**
- **Major state funds**
  - **School Aid Fund (SAF) for K-12 Education**
  - **GF/GP appropriated for any/all budget areas**
  - **Transportation Fund for transportation services**

# State of Michigan Revenue

FY 2009-10 Total = \$41,054.8 million



# **MAJOR STATE TAXES**

# Major State Taxes

- **Sales and use taxes**
- **Income tax**
- **Business taxes**
  - **Michigan Business Tax (MBT)**
  - **Insurance tax**
  - **Casino Wagering Tax**
- **State property taxes**
  - **State education tax (SET)**
  - **Real estate transfer tax (RET)**

# Sales and Use Taxes

- **Sales Tax**
  - 6% levied on retail sale of tangible personal property for use or consumption
  - Exemptions: food, prescription drugs
  - Disposition
    - 73.3% to SAF
    - 24.2% to local units (revenue sharing)
    - 1.3% transportation fund
  
- **Use Tax**
  - 6% levied on some services, telephone/utility services, motor vehicle leases and private sales, hotels/motels
  - Complements sales tax
  - Disposition
    - 67% to GF/GP
    - 33% to SAF

# Income Tax

- **Base starts with federal adjusted gross income**
- **CY 2006 = 3.9%; rate increased to 4.35% effective October 1, 2007; rate will be decreased 0.1% per year beginning October 1, 2011 then reduced to 3.9% effective October 1, 2015**
- **\$3,600 personal exemption; child/special exemptions**
- **Property tax credit: refundable credit for homeowners and renters**
- **Disposition in FY 2009-10**
  - **Approximately 66% to GF/GP**
  - **Approximately 33% to SAF**



# Business Taxes

- **Michigan Business Tax (MBT)**
  - **Effective January 1, 2008; replaced SBT; provides for Personal Property Tax (PPT) cut**
  - **Taxes business income (4.95%) and gross receipts less purchases from other firms (0.80%)**
  - **Numerous credits**
  - **21.99% surcharge (excludes insurance companies or financial institutions) of taxpayer's MBT liability before credits**
    - **Limited to \$6 million per taxpayer per tax year (TY)**
    - **27.7% surcharge on financial institutions for TY 2008; 23.4% for TY 2009 and beyond (not limited or capped)**
    - **Surcharge will be repealed January 1, 2017, if, during 2014, 2015, or 2016, Michigan personal income increases**
  - **Includes revenue limit**
  - **For amounts above revenue limit**
    - **60% returned to taxpayers**
    - **40% deposited into Budget Stabilization Fund**

# Business Taxes

- **Disposition of MBT:**
  - Schools are held harmless from State and local PPT cuts
  - SAF receives MBT earmark
    - \$729 million in FY 2008-09
    - Beyond FY 2008-09 earmark adjusted for inflation
  - Remaining MBT revenue is GF/GP
- **Insurance Tax**
  - Levied on gross premiums of out-of-state insurance companies
  - Effective tax rate increased from 1.07% to 1.25% beginning January 1, 2008
  - Disposition of Insurance Tax: GF/GP

# State Property Taxes

- **State Education Tax (SET):**  
6-mill tax on taxable value of homestead property
- **Real Estate Transfer Tax (RET):**  
0.75% of fair market value of real property
- **Disposition of SET and RET: SAF**

# Recently Enacted Tax Changes

- **Income Tax**
- **Alternative Energy**
  - **Credit for low income households for qualified home improvements and purchases of clean/renewable energy**
  - **Estimated to decrease revenue by**
    - \$16.0 million in FY 2008-09**
    - \$46.0 million in FY 2009-10**

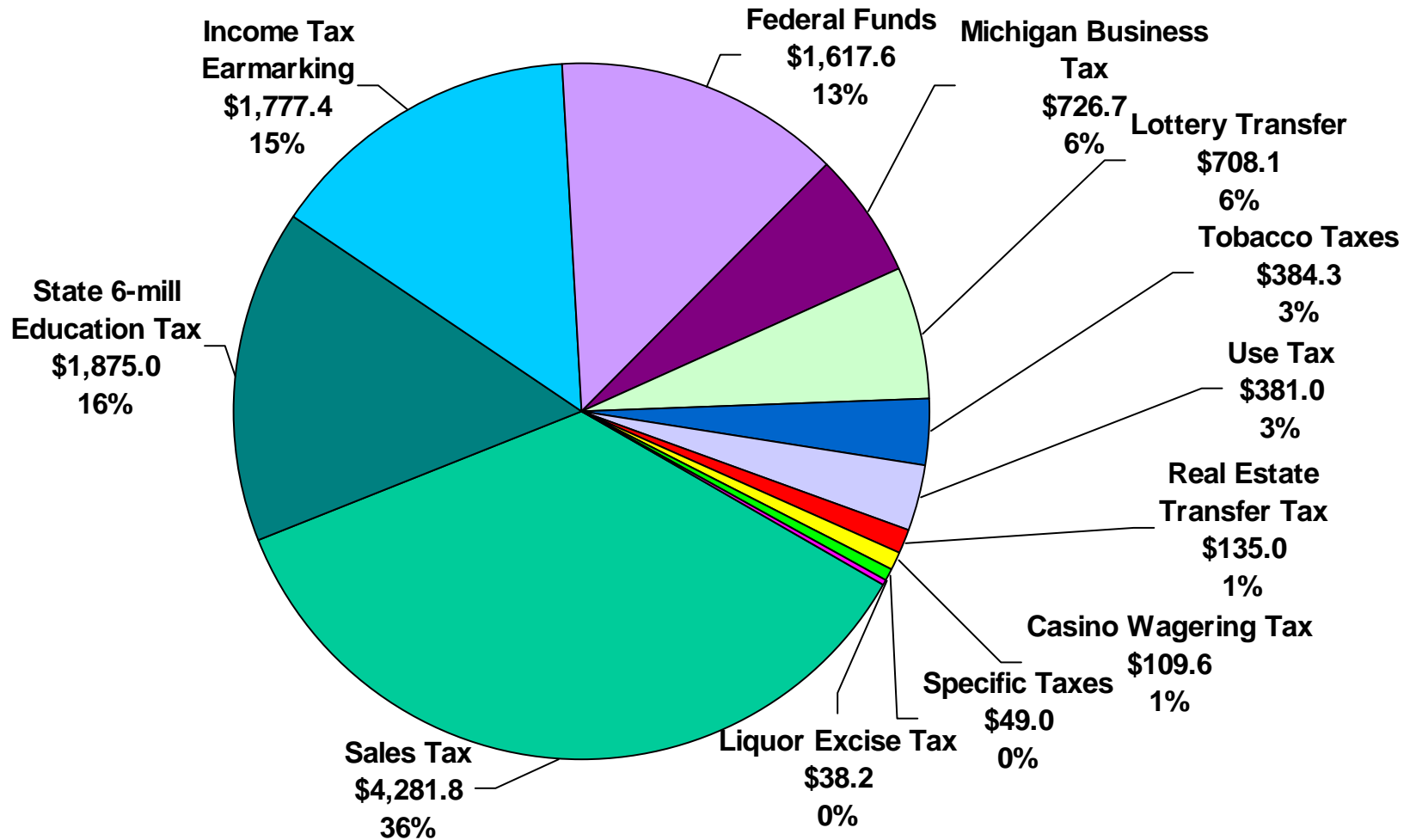
# **MAJOR STATE FUNDS**

# Major State Funds

- **School Aid Fund (SAF)**
  - Used for K-12 education
  - Major sources include sales and use tax, income tax, and state 6-mill education tax
  
- **General Fund/General Purpose (GF/GP)**
  - Appropriated for any/all budget area(s)
  - Major sources include income tax and SBT/MBT
  
- **Transportation Fund**
  - Used for transportation services
  - Major sources include federal funds, licenses and permits, and gasoline tax

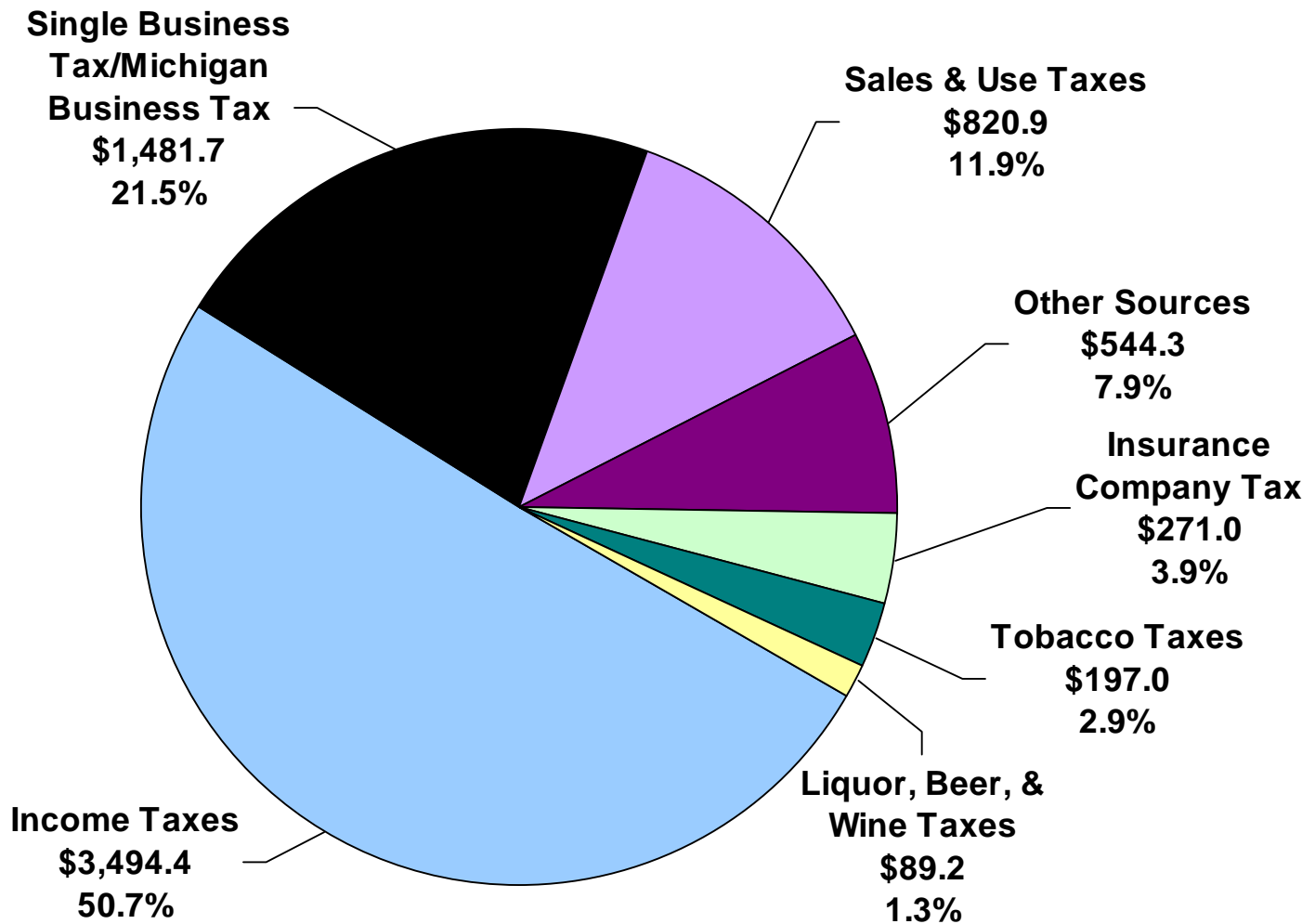
# School Aid Fund Revenue

FY 2009-10 Total = \$12,075.7 million



# GF/GP Revenue

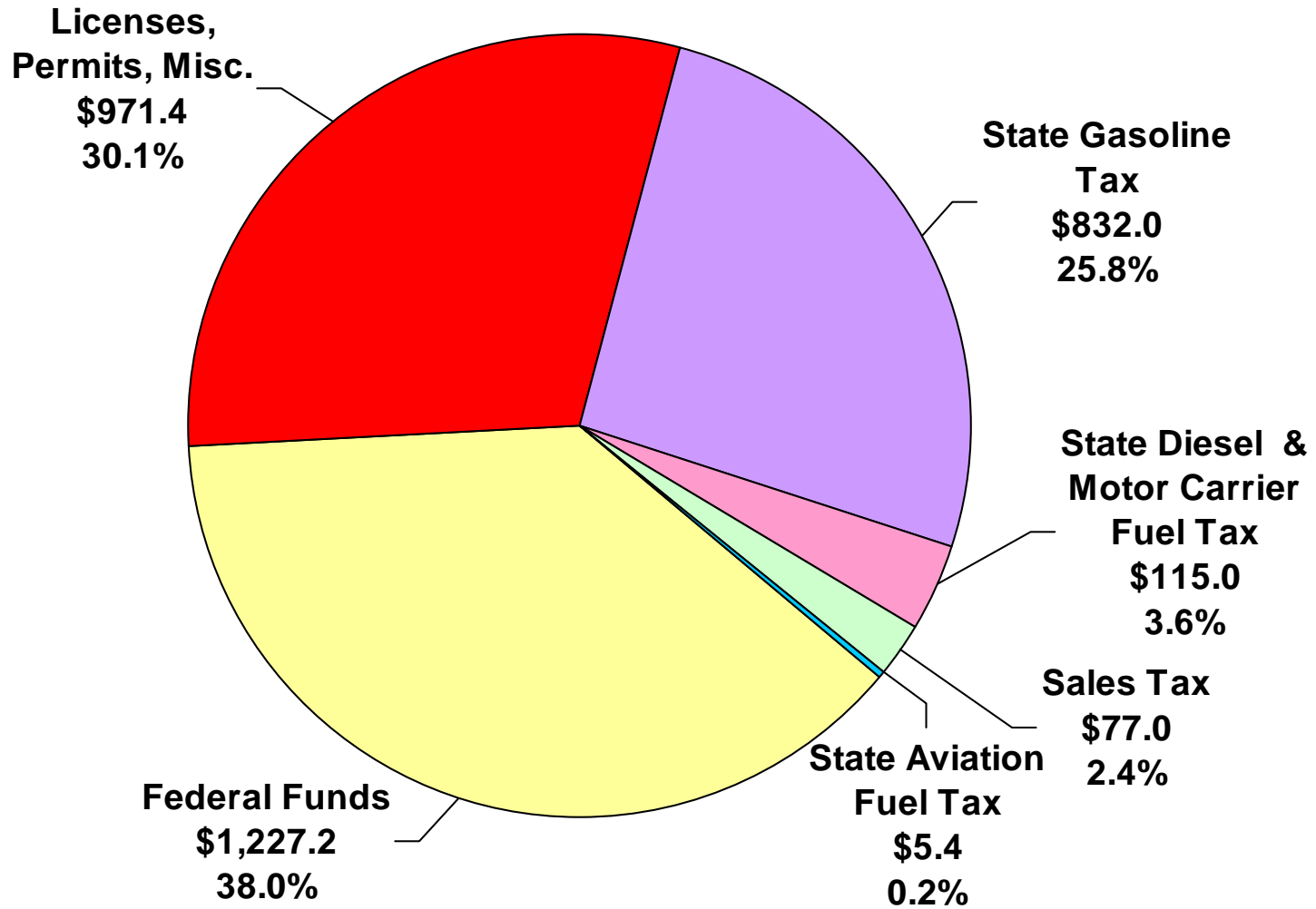
FY 2009-10 Total = \$6,898.5 million





# Transportation Revenue

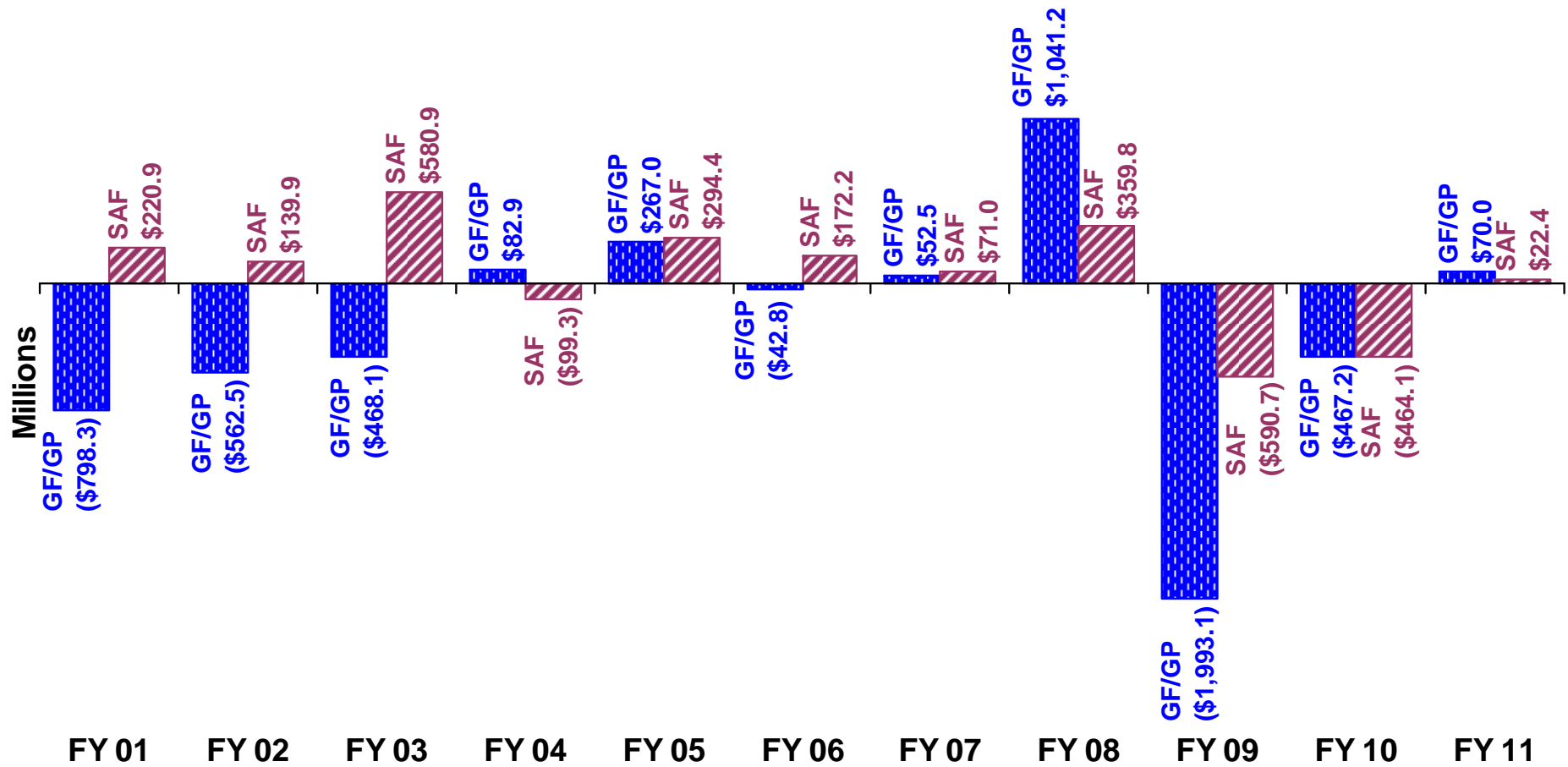
FY 2009-10 Total = \$3,228.0 million



# Trends in GF/GP and SAF Revenue

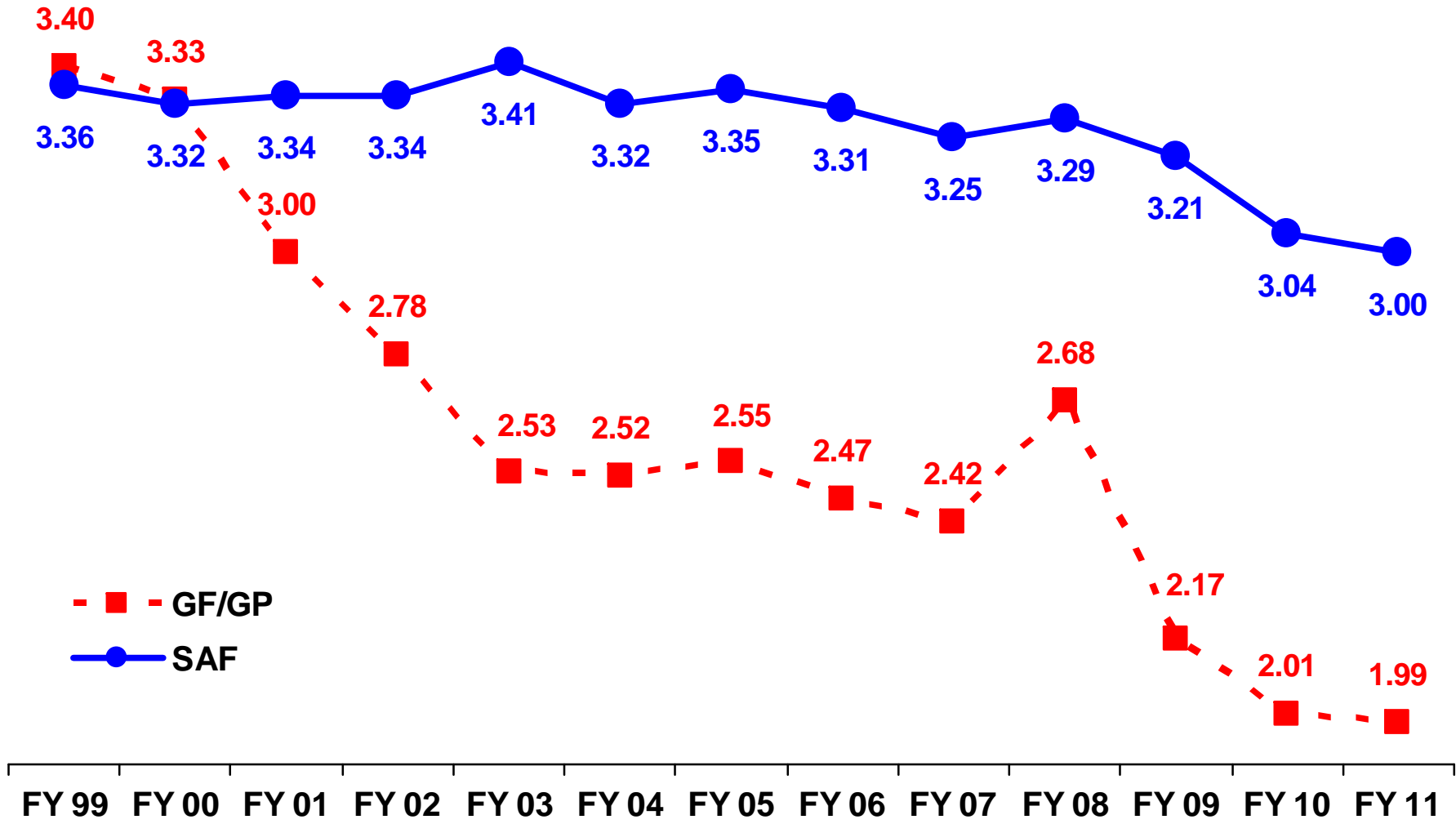
- **Change in revenue from previous fiscal year:**
  - **GF/GP revenue**
    - Significant decline FY 2000-01, FY 2001-02, and FY 2002-03
    - FY 2007-08 increase due to tax changes
    - Recession reduces FY 2008-09 and FY 2009-10 revenue
  - **SAF revenue**
    - Small growth FY 2000-01 and FY 2001-02
    - FY 2002-03 increase due to SET 1-mill reduction/timing change
    - FY 2007-08 increase due to tax changes
    - Recession reduces FY 2008-09 and FY 2009-10 revenue
  
- **As a % of Michigan personal income (relative to Michigan's economy):**
  - **GF/GP revenue**
    - Decline from 3.4% in FY 1998-99 to 2.0% in FY 2010-11
  - **SAF revenue**
    - Decline from 3.4% in FY 1998-99 to 3.0% in FY 2010-11

# Revenue Change From Previous Fiscal Year



# GF/GP and SAF Revenue

As a % of Michigan Personal Income



--■-- GF/GP  
—●— SAF

# Revenue: House Fiscal Agency Role

- **Prepare House Fiscal Agency forecast as part of consensus estimates**
  - National and state economic forecast
  - GF/GP and SAF forecast
- **Review and estimate fiscal impact of bills discussed in Tax Policy committee**
- **Prepare documents for House members**
  - Revenue Source and Distribution: January and May
  - Revenue Review: Quarterly

**For more information about Michigan  
Revenue, contact:**

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