MICHIGAN

State: Michigan
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Part One. Overview

Michigan has a fairly traditional state and local tax system with one exception. Rather than a tax on corporate income, Michigan uses a modified value added tax. As shown in Exhibit 1, the state's largest revenue source is the income tax, which accounts for 36 percent of all state taxes (1999-2000 data). The second largest revenue source is the sales and use tax, which accounts for 33 percent of all state taxes. Michigan also relies heavily on business taxes (the Single Business tax), property taxes (state education and utilities property taxes), and excise taxes to generate revenues.

Total revenue in 1998 was $40.1 billion, and total taxes were $21.5 billion ranking the state eighth among the 50 states in both categories. Per capita revenue in 1998 was $4,081, ranking the state 24th among the states. State taxes per capita were $2,161, ranking Michigan sixth among the states.

As shown in Exhibit 2, Michigan relies a little more on the sales tax and a little less on the income tax than does the average state. The Michigan general sales tax accounted for 35.7 percent of total state taxes, and the income tax for 29.8 percent of state taxes (1988 census data). The national averages were 32.9 percent and 33.9 percent, respectively. The data shows that Michigan relies more on the corporate income tax than does the average state, but this is misleading as Michigan uses a modified value-added tax in lieu of a corporate income tax.

Michigan has made a number of changes in the state-local tax system in the last decade. The most significant change was the school finance reform measure, known as Proposal A, which was approved by the voters in 1994. This proposal significantly reduced local school property taxes and replaced those taxes with a 2 percent (from 4 percent to 6 percent) increase in the state sales and use taxes, a 6-mill state education tax, a 0.75 percent real estate transfer tax, a 50 cent increase in the tax on cigarettes (from 25 cents to 75 cents per pack), along with a new tax (16 percent of wholesale price) on tobacco products, and a 6 percent use tax on interstate telephone service. The proposal also included a reduction in the state income tax rate from 4.6 percent to 4.4 percent and a provision limiting annual assessment increases on each parcel of property to 5 percent or the rate of inflation, whichever is lower (when the property is sold, it is reassessed at 50 percent of market value).

Other tax changes, most of which are discussed below, include a 23-year phase-out of the Single Business Tax (SBT) at 0.1 percentage points per year beginning in 1999, a 5-year phased reduction in the personal income tax rate from 4.4 percent to 3.9 percent (in 2004), the elimination of the state inheritance (replaced by an estate pickup tax) and intangibles taxes, several increases in the personal income tax exemption, increased child and senior citizen income tax exemptions, an increase in the exemption for pension income, and a number of changes to the SBT, including changes in the apportionment formula, increased credits for small businesses, the elimination of payroll taxes from the tax base, and a reduction in the rate from 2.35 percent to 2.3 percent. There was also a 4 cent increase in the state gasoline tax (from 15 cents to 19 cents per gallon) and increases in motor carrier diesel fuel taxes and truck registration fees in 1997.

Part Two. Personal Income Tax

(M.C.L. Sec. 206.1 et seq.; M.S.A. 7.557 (101) et seq.; 1967 PA 281; Sec. 7 of Article 9, state constitution.)

Because of a constitutional prohibition against a graduated income tax, Michigan is one of only six states that levies a flat rate personal income tax. The tax was enacted at a rate of 2.6 percent in 1967, and there have been a number of changes in the rate over the years.

In addition to the state income tax, 22 Michigan cities levy an income tax, including Detroit, Flint, Grand Rapids, and Lansing. The rates on residents and corporations vary from 2.9 percent in Detroit to 1 percent in all but three of the other cities. Nonresidents are taxed at 50 percent of the resident rate. The Detroit income tax rate is being reduced to 2 percent over the next nine years. Total collections of the city income tax were about $550 million in 1998.

Tax Base

The tax is levied on the federal adjusted gross income of individuals, estates and trusts, with certain adjustments.

Additions

Additions include all or part of:

- interest income from state/local obligations other than Michigan, and certain other exclusions from federal adjusted gross income; and
- refunds received under the Michigan Education Trust Act for a terminated advance tuition payment contract.

Subtractions

Subtractions include personal and dependency exemptions indexed to inflation ($2,800 for 1999 and $2,900 for 2000), special exemptions for dependents ($600 per child under 19 years of age), the handicapped, senior citizens, and certain unemployment compensation recipients. Also excluded are all or part of:

- interest income from federal government obligations;
- armed forces compensation;
- public retirement or pension benefits; private retirement or pension benefits limited to $33,630 for the 1998 tax year ($67,260 for a joint return); limits are indexed each year;
- political contributions up to $50 ($150 for a joint return);
- advance tuition payments made under the State Education Trust Act;
- beginning with 1998 tax year, up to $7,500 ($15,000 for a joint return) of interest, dividends, or capital gains earned by a senior citizen: maximum deduction reduced by pension deduction claimed;
- income earned and interest, dividends, and capital gains received by residents of a renaissance zone. Special provisions exist for estates and trusts;
- claims for recovered assets received by Holocaust victims.

Credits

Credits against tax liability are as follows:

Homestead property taxes

- Limited to $1,200, figured as follows:
- general taxpayers -- 60 percent of taxes in excess of 3.5 percent of household income;
- senior citizens, paraplegic, hemiplegic, quadriplegic, or totally and permanently disabled or deaf -- 100 percent of taxes in excess of 0 to 3.5 percent of household income, varying with size of household income;
- special computations for certain servicemen, veterans or their spouses, blind persons, farmers, and senior citizens whose rent exceeds a certain percent of income.

Property taxes on rented homesteads

Property taxes on rented homesteads assumed to equal 20 percent of gross rent paid (10 percent in certain subsidized housing projects). Credit reduced by proportion of income from welfare. Credit reduced by 10 percent at $73,650 income and by another 10 percent for each additional $1,000 of income.

Farmland property taxes

Available to farmers who have entered into an agreement not to develop their land for another use for a minimum of 10 years. For individuals, partnerships, S corporations and grantor trusts, credit is 150 percent of taxes in excess of 7 percent of household income.

City income taxes

Tax Paid	*Credit Received*
$100 or less	20% of tax paid
$150.01-$150	$20 plus 10% of amount over $150
Over $150	$25 plus 5% of amount over $150 (up to$10,000)

Contributions

- Limited to lesser of 50 percent of qualifying gifts or $150 ($200 on joint returns; $5,000 for estates or trusts):
- Michigan colleges, universities, public broadcast stations, public libraries, artwork, state museums or archives,
- community foundations,
- food banks and shelters for homeless persons.

Expenditures made for rehabilitation of a historic resource

- Equal to 25 percent of qualified expenditures reduced by the credit received under section 47(a)(2) of the Internal Revenue Code.

Income tax paid to another state

- Income tax paid to another state.

Home heating costs for low-income families (excluding dependent full-time students)

- Credit varies with household income, number of exemptions, and heating costs.

Prescription drugs

Maximum credit of $600 for any amount above 5 percent of household income for persons 65 years of age or older whose household income does not exceed 150 percent of federal poverty income.

College tuition tax credit

Limited to returns with adjusted gross income less than $200,000. In order to qualify for the credit, a Michigan college or university must not have increased tuition and fees by more than the percent increase in the United States Consumer Price Index in the previous tax year. The credit per student is the lesser of: (1) 8 percent of the tuition and fees paid to attend a qualifying Michigan college or university; or (2) $375.

Rates

The rate for tax year 2000 and 2001 is 4.2 percent. = The rate will be reduced by 0.1 percentage point each year after 2001 to a rate of 3.9 percent in 2004 and thereafter.

Collections and Disposition

As shown in Exhibit 3, the personal income tax generated $8.4 billion in revenue in fiscal year 1999-2000, about 36 percent of total state taxes.

The Michigan Department of Treasury, Bureau of Revenue administers the tax. The annual return and payment is due April 15. Estimated tax declarations and payments are due on the 15th of April, June, September, and January.

The proceeds of the tax are deposited to the General Fund and 23 percent of gross collections before refunds are allocated to the state School Aid Fund through December 31, 1999. Beginning January 1, 2000, this percentage will increase to offset the reduction in income tax rate through tax year 2004. The percent allocations will be: 23.5 percent in 2000; 24.1 percent in 2001; 24.7 percent in 2002; 25.3 percent in 2003; and 25.9 percent in 2004 and thereafter.

Part Three. Sales Tax

(M.C.L. Sec. 205.51 et seq.; M.S.A. 7.521 et seq.; 1933 PA 167; Section 8, state constitution)

The sales tax was enacted in 1933 at a rate of 3 percent. The rate was increased to 4 percent in 1960 and 6 percent in 1994. Food and prescription drugs were exempted from the tax base in 1974. In each case these changes were the result of a constitutional amendment.

Tax base

The tax is levied on the gross proceeds from retail sale of tangible personal property for use or consumption. It is also levied on certain conditional and installment lease sales; sales to consumers of electricity, gas, and steam; and sales to persons in real estate construction and improvement business.

Exemptions

Certain sales with the following characteristics are exempt from taxation, as follows:

Exemptions based on status of purchaser:

- property not purchased for resale by various nonprofit organizations and used primarily to carry out the organization's purposes;
- property sold to churches for noncommercial purposes and certain vans and buses used to transport persons for religious purposes;
- food sold to enrolled students by an educational institution not operated for profit;
- property affixed to the real estate of nonprofit hospitals and nonprofit housing;
- certain property sold to commercial radio and television station licensees;
- vehicles not purchased for resale which are used by nonprofit corporations organized exclusively to provide a community with ambulance or fire department service;
- property purchased with scrip by inmates in correctional or penal institutions;
- textbooks sold by a school to kindergarten through 12th grade students;
- vehicles which are purchased by nonresident active military personnel for titling in his or her home state;
- property purchased for use in a "qualified business activity" as defined in the Enterprise Zone Act;
- property sold to certain businesses engaged in a high technology activity;
- property sold to the federal government or to an instrumentality thereof;
- tangible personal property for fund-raising purposes purchased by certain nonprofit organizations with calendar year sales of less than $5,000;

- trucks and trailers owned by motor carriers engaged in interstate commerce to the extent of out-of-state usage;

Exemptions based on item purchased:

- copyrighted motion picture films, newspapers, and periodicals classified as second class mail;

- hearing aids, contact lenses if prescribed for a specific disease precluding the use of eyeglasses, prosthetic devices, and eyeglasses prescribed by an ophthalmologist, optometrist, or optician; prescription drugs for human use;

- food for human use not prepared for immediate consumption; beverage containers to the extent of any deposits;

- railroad cars, locomotives, and accessories;

- vehicles to the extent of any refund of the purchase price because the vehicle is returned pursuant to the automobile lemon law;

- commercial advertising elements;

- food or drinks not artificially heated or cooled that is sold from a mobile facility or vending machine, except milk, noncarbonated beverages containing 10 percent or more juice content, and fresh fruit; tax may be paid on either sales of non-exempt vended food or sum of 45 percent of all vended sales other than carbonated beverages plus 100 percent of carbonated beverage sales;

- water delivered through water mains or in bulk tanks in amounts over 500 gallons;

- personal property for resale, for lease if rental receipts are subject to use tax, and for demonstration purposes; and

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

Exemptions based on transaction type:

- certain food or tangible personal property purchased with federal food stamps;

- property which is part of a drop shipment; and

- property which results in uncollectible debt.

Exemptions based on status of seller:

- certain vending machine merchandise to the extent of any commissions paid to certain tax-exempt organizations; and

- property on an isolated basis by property owners not required to have a sales tax license.

Exemptions based on the use of the property or service:

- tangible personal property purchased by a person engaged in constructing, altering, repairing, or improving real estate if it is to be affixed or made a structural part of a sanctuary;

- specially-ordered commercial vessels of at least 500 tons engaged in interstate commerce and fuel, provisions, and supplies therefor;

- property used in production of horticultural or agricultural products as a business enterprise;

- property used or consumed in industrial processing;

- certain property used to provide any combination of telecommunications services which are subject to the Michigan use tax;

- certain products, equipment, machinery, and utilities used or consumed by an industrial laundry;

- grain drying equipment and natural or propane gas used to fuel the equipment for agricultural purposes; and

- computer equipment for data transfer by companies whose business includes publishing doctoral dissertations and information archiving and sells the majority of its products to non-profit organizations exempt from the federal income tax.

Rates

The tax rate is 6 percent (state constitutional limitation). The sales tax can be considered two taxes, a 4 percent tax and a 2 percent tax. The 4 percent tax is established by law within the confines of a 4 percent limitation placed in the State Constitution. The 4 percent rate is the maximum rate that may be set by the legislature. The voters approved the remaining 2 percent tax rate in 1994. Because the State Constitution states that this additional tax shall be imposed, the 2 percent tax is the minimum rate that must be levied by the legislature.

Collections and Disposition

As shown in Exhibit 4, the sales tax generated $6.35 billion in revenue in fiscal year 1999-2000, about 27 percent of total state taxes.

The Michigan Department of Treasury, Bureau of Revenue administers the tax.

For most taxpayers: payment is due by 15th day of month following sale, with a discount for early remittance. For very large taxpayers (those with sales tax liability, or use tax liability, or both, of $720,000 or more during the prior calendar year): make two payments each month. Unlike most taxpayers, both payments are related to the sales of the current month. The first payment is due by the 15th of the month and is equal to the lesser of (a) 50 percent of the tax liability for the same month in the prior calendar year or (b) 50 percent of actual liability for current month reported, plus a reconciliation payment equal to the difference between previous month's liability minus tax already paid for that month. The second payment is due by the last day of the month and is equal to the lesser of (a) 50 percent of the tax liability for the same month in the prior calendar year or (b) 50 percent of actual liability for current month reported.

The proceeds of the tax are distributed as follows: 73.3 percent to School Aid Fund; 23.7 percent to units of local; 1.7 percent to General Fund; and 1.3 percent to Comprehensive Transportation Fund.[1]

Issues

As in most states, the key sales (and use) tax issue concerns the taxation of mail order and e-commerce sales. By some estimates e-commerce is increasing more than 200 percent annually and is expected to surpass mail order sales in 2000. This potential growth in e-commerce will force states to review their laws carefully in order to preserve the sales tax base. The Senate Fiscal Agency has estimated that in 1999, taxation of e-commerce would raise about $77 million from taxation of business to consumer sales and $119 million from taxation of mail order sales. (Business-to-business e-commerce sales are much larger than business to consumer sales, but many of these sales would be exempt.) These are revenues that would be collected from the current sale tax if consumers did not have access to mail order and the Internet to make purchases of goods and services. While the potential State revenue currently lost from the failure to tax e-commerce is relatively low- about 1 percent, the rapid growth projected for e-commerce sales could change these numbers quickly.

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[1]The 6 percent Sales Tax rate consists of a 4 percent rate which took effect in 1960, and an additional rate of 2 percent. Sixty percent of the revenue from the 4% rate, together with 100 percent of the revenue from the additional rate of 2 percent (60% of 4% + 100% of 2% = 73.3%) is constitutionally dedicated to the School Aid Fund. Another 35.6 percent (15 percent constitutionally, 20.6 percent statutorily (21.3 percent when lag in payment schedule is accounted for)) of the revenue from the 4 percent rate only (35.6% of 4% + 0% of 2% = 23.7%) is dedicated to cities, villages, and townships for revenue sharing.

Before policymakers are able to reach a rational solution regarding the taxation of the Internet, it is necessary to develop a clearer quantitative picture of the current impact and the future direction of e-commerce than currently exists. There is no lack of information about the phenomenal growth in e-commerce over the last four years. Projections for the next four years indicate no deceleration in the growth of the industry. Currently, however, most of the information measuring e-commerce is produced by firms that make a living providing advice and data about the current state and future direction of e-commerce. These firms have an interest in creating the most optimistic picture possible regarding the e-commerce market, and can be expected to have an inherent bias toward suggesting that the e-commerce market is large and rapidly growing. One thing that is common to all projections is that the growth rate associated with e-commerce is enormous and estimates today far outpace estimates that were made just two years ago.

This rapid growth and the potential erosion of the State tax base could make the State tax treatment of e-commerce sales the major State fiscal issue of the next millennium.

There is currently no pending legislation in the State of Michigan that addresses the issue of Internet taxation. However, Michigan and three other states will be part of a pilot project that will hire a private firm to work with retailers to collect use taxes on Internet and remote sales and then distribute the revenue to the states. The state is also promoting heavily requirements already in law that residents remit to the state the tax due on items purchased from the Internet and mail order companies. The state income tax form includes instructions and a line for remitting taxes on Internet and mail order sales.

Part Four. Use Tax

(M.C.L. Sec. 205.91 et seq.; M.S.A. 7.555(1) et seq.; 1937 PA 94; Section 8 of Article 9, state constitution.)

The use tax was enacted in 1937 as a companion to the sales tax at a rate of 3 percent. The rate was increased to 4 percent in 1960 and 6 percent in 1994.

Tax Base

The tax is levied for the privilege of using, storing, and consuming certain tangible personal property, plus the services of telephone, telegraph, and other leased wire communications; used auto sales between individuals; and use of transient hotel and motel rooms. Designed to complement the Sales, Mobile Home Trailer Coach, Aircraft Weight, Watercraft Registration, and Snowmobile Registration Taxes.

The tax is applied to the purchase price of tangible personal property or service.

Exemptions

Certain sales with the following characteristics are exempt from taxation, as follows:

Exemptions based on status of purchaser:

- property purchased for resale, for demonstration, or for lend-lease to a public or parochial school offering drivers education;

- property of a nonresident brought into Michigan on a temporary basis and not used in non-transitory business activity for a period exceeding 15 days;

- property sold to the federal government or to an instrumentality thereof, the American Red Cross and its chapters and branches, and departments, institutions, or subdivisions of state government;

- property sold to nonprofit organizations used primarily for the organization's purposes;

- property sold to churches for noncommercial purposes and certain vans and buses used to transport persons for religious purposes; certain property sold to commercial radio and television station licensees;

- vehicles purchased in another state by nonresident active military personnel and upon which a sales tax was paid in the other state;

- vehicles not purchased for resale which are used by nonprofit corporations organized exclusively to provide a community with ambulance or fire department service;

- property donated by a manufacturer to certain tax exempt organizations;

- property purchased by a specified relative of seller; parts, excluding shop equipment and fuel, affixed to certain passenger and cargo aircraft owned or used by a domestic air carrier;

- the storage, use, or consumption of certain trucks, trailers, and parts affixed thereto used by interstate motor carriers.

Exemptions based on item purchased:

- property which Michigan is prohibited by federal law from taxing; copyrighted motion picture films, newspapers, and periodicals classified as second class mail;

- vehicles purchased in another state and delivered to Michigan or purchased in Michigan but for use outside Michigan;

- hearing aids, contact lenses if prescribed for a specific disease precluding the use of eyeglasses, prosthetic devices, and eyeglasses prescribed by an ophthalmologist, optometrist, or optician;

- water delivered through water mains or bulk tanks of at least 500 gallons;
- certain components of water and air pollution control facilities; aircraft operating under a federal certificate which have a maximum takeoff weight of at least 12,500 pounds and used solely to transport cargo or commercial passengers;
- railroad cars, locomotives, and accessories;
- certain property purchased for resale as promotional merchandise; prescription drugs for human use;
- food for human use not prepared for immediate consumption;
- deposits on returnable beverage containers;
- international and WATS line telephone calls;
- commercial advertising elements;
- assessments for hotel or motel rooms imposed pursuant to accommodations taxes;
- partial exemption (from two percentage points of the tax rate): consumption for residential use of electricity, natural gas, and home heating fuel;
- prepaid telephone cards, prepaid authorization numbers, and charge for Internet access;
- storage, use, and consumption of investment coins and bullion.

Exemptions based on transaction type:

- property upon which the Michigan Sales Tax has been paid;
- property upon which sales or use tax was paid in another state or local unit of another state if that tax was at least equal to the Michigan use tax and the other state has a reciprocal exemption for Michigan taxes paid;
- property, possession of which was taken outside Michigan and the value of which does not exceed $10 during one calendar month;
- certain food or tangible personal property purchased with federal food stamps;

Exemptions based on the use of the property or service:

- tangible personal property purchased by a person engaged in constructing, altering, repairing, or improving real estate if it is to be affixed or made a structural part of a sanctuary;

- property used in production of horticultural or agricultural products as a business enterprise;

- property used or consumed in industrial processing;

- specially-ordered commercial vessels of at least 500 tons engaged in interstate commerce, and fuel, provisions, and supplies therefor;

- certain machinery and equipment used to provide any combination of telecommunications services;

- certain products, equipment, machinery, and utilities used or consumed by an industrial laundry after December 31, 1997;

- computer equipment for data transfer by companies whose business includes publishing doctoral dissertations and information archiving and sells the majority of its products to non-profit organizations exempt from the federal income tax.

Rates

The tax rate is 6% (state constitutional limitation) Like the Sales Tax, the Use Tax can be considered two different taxes. The 4% tax was established by law to parallel the Sales Tax rate. The voters approved the remaining 2% tax rate in 1994.

Because the State Constitution states that this additional tax shall be imposed, the 2% tax is the minimum rate that must be levied by the legislature.

Collections and Disposition

As shown in Exhibit 4, the sales tax generated about $1.4 billion in revenue in fiscal year 1999-2000, about 6 percent of total state taxes.

The Michigan Department of Treasury, Bureau of Revenue administers the tax.

For most taxpayers: payment is due by 15th day of month following sale, with a discount for early remittance. For very large taxpayers (those with sales tax liability, or use tax liability, or both, of $720,000 or more during the prior calendar year): make two payments each month. Unlike most taxpayers, both payments are related to the sales of the current month. The first payment is due by the 15th of the month and is equal to the lesser of (a) 50% of the tax liability for the same month in the prior calendar year or (b) 50% of actual liability for current month reported, plus a reconciliation payment equal to the difference between previous month's liability minus tax already paid for that month. The second payment is due by the last day of the month and is equal to the lesser of (a) 50% of the tax liability for the same month in the prior calendar year or (b) 50% of actual liability for current month reported.

The proceeds of the tax are distributed as follows: 67% to State General Fund; 33% to State School Aid Fund.

Part Five. Business Privilege Taxes

M.C.L. Sec. 208.1 et seq.

Single Business Tax

Michigan does not levy a corporate income tax. Michigan levied such a tax from 1967 to 1976, when it was replaced by a modified value added tax known as the Single Business Tax (SBT). In 1975, the Michigan legislature approved PA 228, radically changing Michigan's system of taxing business. The corporate income tax and seven other taxes were replaced by the SBT. The Michigan SBT is unique because it is the only value-added tax (VAT) currently levied in the United States. Compared to taxes levied on profits, value-added taxation uses a completely different approach, using the value firms add to products as the tax base. The value a firm adds to a product is the sales price less the cost of materials used in production. The Michigan SBT uses the addition method to calculate the tax base, adding up the various components of value added; profit, compensation paid, interest paid, and depreciation with a major deduction for capital investment. For tax years beginning after December 31, 1999, the deduction for capital investments is replaced by an investment tax credit (described below). Business conducted in the state is subject to the tax even if the business does not have a physical presence in the state.

The calculation of the tax base begins with the federal taxable income of the business entity and is subject to the following adjustments:

- add back most federal tax deductions; e.g., compensation paid, depreciation; loss carryback/forward; interest, dividends, royalties paid, income taxes paid, certain capital gains.

- deduct certain items included in federal taxable income; dividends, interest, royalties received, certain capital losses.

- add the loss or deduct the gain attributable to another taxable business, to the extent included in federal taxable income.

- add rent paid or deduct rent received if attributable to a sale/lease-back arrangement for federal income tax purposes only.

The entire tax base is allocated to Michigan if business activity is confined to the state. Otherwise for 1999, the base is apportioned according to sales (90 percent), property (5 percent), and payroll (5 percent), with exceptions for certain types of businesses. (Until 1991, the tax based was apportioned in the same manner as the corporate income tax; one-third sales, one-third property, and one-third payroll. In 1991, PA 77 was enacted, phasing in an apportionment formula of 50 percent sales, 25 percent property, and 25 percent payroll. In 1995, PA 282 and 283 were enacted phasing in the current apportionment formula.)

Exemptions

Exemptions are allowed for:

- first $45,000 of tax base, plus up to $48,000 for partnerships and small corporations, with reductions as business income increases;
- governmental agencies;
- most "persons" exempt from federal income taxes;
- nonprofit cooperative housing corporations;
- a portion of disability insurance premium of insurers;
- agricultural producers;
- sales of nursery stock (trees, shrubs, plants) to a nursery dealer, grown by the seller; and
- certain revenues and expenses of farmers cooperatives.

Exclusions

Exclusions are allowed:

- if the adjusted tax base excludes 50 percent of gross receipts plus certain adjustments;
- if compensation paid exceeds 63 percent of the tax base.
- for unemployment insurance, worker's compensation, and FICA taxes (deducted from compensation).

Credits

Credits are allowed for:

- up to 100 percent of the tax liability for small businesses with low profits;

- up to 20 percent of the tax liability for "Subchapter S" corporations and unincorporated businesses;
- 5 percent of state property taxes on state assessed utilities;
- 50 percent of certain contribution, up to a limit;
- federal unemployment penalty taxes paid by new Michigan employers;
- amounts paid for worker's compensation supplemental cost of living payments;
- business activity in certain areas related to high technology, or in an enterprise zone or renaissance zone;
- 50 percent of investments in certain minority venture capital companies;
- investment and job creation as determined by the Michigan Growth Authority. This credit expires December 31, 2003;
- apprenticeship training
- 10 percent of investments in brownfield redevelopment zones;
- 25 percent of qualified expenditures made for rehabilitation of a historic resource;
- for tax years beginning after December 31, 1999, 0.85 percent of the capital expenditures physically located in the state adjusted by the proportion of the SBT rate in effect in the year of the capital investment divided by the pre-1999 rate of 2.3 percent.

The exclusions, exemption, and credits are expected to reduce revenues by $1.6 billion in fiscal year 1999-2000. The most costly are; capital acquisition deduction (credit), $339 million; excess compensation reduction, $330 million; gross receipts reduction, $187.5 million; small business credit, $128.8 million; compensation exemption (unemployment insurance, worker's compensation, and FICA taxes), $126.7 million; business loss deduction, $ 113 million; nonprofit organizations, $112 million.[2]

Rates

Prior to 1999, 2.3 percent; alternative tax of 2 percent of adjusted business income for eligible small businesses; insurance companies are subject to a tax of 1.3 percent of adjusted receipts. PA 115 reduces the SBT tax rate by 0.1 percent annually beginning January 1,

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[2] Executive Budget Tax Expenditure Appendix, Fiscal Year 2000, Michigan Department of Treasury, March 24, 2000.

1999. The rate reductions will only go into effect if the State's Rainy Day Fund reports an ending balance for the prior fiscal year of more than $250 million. This will effectively phase out the SBT over a 23-year period. Blended rates are required for fiscal-year-end or short-period returns. The alternative tax is not directly affected by the rate reduction.

Report and Payment

The annual tax return is due by April 30. Estimated quarterly returns and payments are due the last day of April, July, October, and January if estimated tax liability for year is over $600, or if expected adjustments for capital acquisitions of dispositions are over $100,000; due dates are adjusted for taxpayers with fiscal years other than calendar year. A taxpayer with annualized apportioned gross receipts, plus CAD recapture, of less than $250,000 is not required to file a return.

Collections and Disposition

As shown in Exhibit 5, the SBT generated by $2.4 billion in revenue in fiscal year 1999-2000, about 10 percent of total state taxes. All of the proceeds of the tax are allocated to the state's general fund.

Issues

Apportionment of Capital Acquisition Deduction (*Jefferson Smurfit* Case)

In 1995, amendments were made to the SBT which were designed to improve the business climate by providing favorable tax treatment to Michigan based companies. These amendments changed the apportionment formula to place more weight on the sales factor and limited the capital acquisition deduction (CAD) to investments located in Michigan. The legislation also included a "fallback" provision that would change the apportionment formula in the event the changes in the CAD were found unconstitutional.

The table below summarizes the relevant statutory changes.

Year	*Statute*	*Fallback Provisions*
1997	Apportionment formula: 80% sales, 10% property, 10% payroll	Apportionment formula: 50% sales, 25% property, 25% payroll CAD: All assets wherever located
1998	Apportionment formula: 80% sales, 10% property, 10% payroll CAD: Michigan assets only	Apportionment formula: 60% sales, 20% property, 20% payroll CAD: All assets wherever located

1999	Apportionment formula: 90% sales, 5% property, 5% payroll CAD: Michigan assets only	Apportionment formula: 70% sales, 15% property, 15% payroll CAD: All assets wherever located

In *Jefferson Smurfit*, the Court of Claims found the revised CAD unconstitutional. Should the court be upheld on appeal, the fallback provisions will be triggered. The result will be that many Michigan based businesses will be facing substantial retroactive tax increases and out-of-state companies will be granted large tax refunds.

Michigan business organizations are currently working with the Michigan Department of Treasury to id~~entify altern~~atives that will limit the tax liability and retain the changes to the apportionment formula.

Capital Acquisition Deduction Replaced by Investment Tax Credit

For tax years beginning after December 31, 1999, PA 115 replaces the current capital acquisition deduction (CAD) with a Michigan investment tax credit (ITC). The ITC credit is nonrefundable but may be carried forward for nine years. The amount of the credit is calculated by multiplying net capital investments made in Michigan by .85 percent, annualized for the tax rate change, i.e. multiplied by a percentage determined by dividing the tax rate for the tax year in which the credit is claimed by 2.3 percent.

Example: Assume a 12-month return ending December 31, 2000, with a tax rate of 2.1 percent and net capital investments of $100,000.00

Investment Tax Credit =

$$\frac{\text{Tax Rate}}{2.3\%} \times 0.85\% \times \text{Capital Investments}$$

OR

Investment Tax Credit =

$$\frac{2.1\%}{2.3\%} \times 0.85\% \times \$100{,}000.00 = \$776.00$$

The ITC is not available if a gross receipts reduction to the adjusted tax base is taken to arrive at the tax liability. In addition, the credit is reduced whenever a reduction to the adjusted tax base is taken for compensation in excess of 63 percent of the tax base. Depreciation must continue to be added to the tax base to the extent deducted in arriving at business income.

Constitutionality

In *Trinova Corp. v Michigan Department of Treasury*, 111 SCt 818 (1991), the United States Supreme Court held that Michigan's single business tax does not violate the Commerce Clause or Due Process Clause of the Fourteenth Amendment of the United States Constitution. The Court stated that the single business tax meets the Court's test for sustaining a Commerce Clause challenge, by being a tax that:

- is applied to an activity with a substantial nexus with the taxing state;
- is fairly apportioned;
- does not discriminate against interstate commerce; and
- is fairly related to the services provided by the state.

Neither does the tax violate due process requirements because there is a "minimal connection between the interstate activities and the taxing State, and a rational relationship between the income attributed to the State and the intrastate values of the enterprise." In Caterpillar v Department of Treasury, 440 Mich 400 (1992), plaintiffs brought an action in Court of Claims against the Department of Treasury, Revenue Division, seeking a refund of all single business taxes paid between 1981 and 1984. Plaintiffs claimed that the capital acquisition deduction permitted under the Single Business Tax Act burdens interstate commerce in violation of the Commerce Clause of the U.S. Constitution. The court held the capital acquisition tax to be unconstitutional and disallowed its application beginning September 30, 1989. The Court of Appeals affirmed the decision to grant prospective relief and ruled that the language of the deduction provision that produces a discriminatory effect should be removed. The Michigan Supreme Court reversed by holding that the capital acquisition deduction of the Single Business Tax Act does not violate the Commerce Clause of the United States Constitution. The Michigan Supreme Court determined that:

- a nexus exists between the plaintiff Caterpillar Corporation and the state of Michigan;
- the methods of apportionment are fair;
- no facts were presented indicating substantial misappropriation or distorted results;
- no evidence was introduced of discriminatory purpose or effect; and,
- the plaintiffs received benefits fairly related to services provided by the state.

Oil and Gas Severance Tax

(M.C.L. Sec. 205.301 et seq.; M.S.A. 7.351 et seq.; 1929 PA 48)

Basis of Tax and Year of Adoption

The tax is levied on the gross cash market value of oil and gas severed (extracted from the ground). An exemption is provided for some hydrocarbon fuels eligible for federal tax credits and acquired pursuant to royalty interests sold by the state.

The tax was enacted in 1929.

Rates

The tax rate is 6.6 percent for oil, 5 percent for gas, and 4 percent for oil and gas severed from stripper wells and marginal properties.

Collections and Disposition

As shown in Exhibit 5, collections in fiscal year 1999-2000 were $46 million.

The Michigan Department of Treasury, Bureau of Revenue administers the tax, and the proceeds are deposited in the state General Fund. In addition, the greater of 2 percent or $1 million is allocated to the Orphan Well Fund, if the unexpended balance in the fund is less than $3 million.

Foreign Insurance Company Retaliatory

(M.C.L. Sec. 500.440a through M.C.L. Sec. 500.476c; M.S.A. 24.1440(1)-24.1476 (3); 1956 PA 218)

Basis of Tax and Year of Adoption

The tax is levied on the gross premiums of out-of-state insurance companies, with certain exclusions.

Rates

The tax rate on foreign insurers is an amount equal to taxes and other costs which would be imposed upon a Michigan insurer doing business in the foreign insurer's state or taxation imposed by the Michigan Single Business Tax, whichever is higher.

The tax rate on unauthorized insurers is 2 percent.

Collections and Disposition

As shown in Exhibit 5, collections in fiscal year 1999-2000 were $203 million (includes SBT paid by insurance companies).

The Michigan Department of Treasury administers the retaliatory tax, Bureau of Revenue and the tax on unauthorized insurers is administered by the Michigan Department of Consumer and Industry Services, Insurance Bureau.

The proceeds of the tax are deposited in the state General Fund.

Horse Race Wagering

(M.C.L. Sec. 431.301 through M.C.L. Sec. 431.336; M.S.A. 18.966 (336); 1995 PA 279)

Basis of Tax and Year of Adoption

The tax is levied on the amounts wagered by pari-mutuel methods on interstate and inter-track simulcasts of thoroughbred, standard-bred, quarter horses, Appaloosa and Arabian horse racing.

The tax was enacted in 1933.

Rate

The tax rate is 3.5 percent.

Collections and Disposition

As shown in Exhibit 5, collections in fiscal year 1999-2000 were $13.5 million.

The tax is administered by the Michigan Department of Agriculture, Racing Commissioner, and the proceeds of the tax are deposited in the Agriculture Equine Industry Development Fund. This fund is used to encourage the breeding of horses of all breeds in this state and the ownership of such horses by residents of this state to provide for sufficient numbers of high quality race horses of all breeds to participate in licensed race meetings in this state; to promote the positive growth and development of high quality horse racing and other equine competitions in this state as a beneficial business and entertainment activity for residents of this state; and to establish and preserve the substantial agricultural and commercial benefits of the horse racing and breeding industry to the state of Michigan.

Corporate Organization

(M.C.L. Sec. 450.2062; M.S.A. 21.200 (1062); 1972 PA 284)

Basis of Tax and Year of Adoption

For domestic companies the tax is levied on their authorized capital stock. For foreign companies the tax is levied on the capital stock attributable to Michigan.

The tax was enacted in 1891.

Rates

The tax rate is $50 for the first 60,000 shares and $30 for each additional 20,000 shares of stock for both domestic and foreign companies.

Collections and Disposition

Collections in fiscal year 1999-2000 were $7.5 million.

The tax is administered by the Michigan Department of Consumer and Industry Services, Corporation, Securities, and Land Development Bureau.

The proceeds of the tax are deposited in the state General Fund.

State Casino Gambling

(M.C.L. Sec. 432.201 through M.C.L. Sec. 432.216; M.S.A. 18.969 (201)-18.969(216); Initiated Law of 1996.)

Basis of Tax and Year of Adoption

The tax is levied on the adjusted gross receipts of a gaming licensee.

The tax was enacted in 1996.

Rates

The tax rate is 18 percent, which can be levied as a state tax only or as a state (8.1 percent) and local tax (9.9 percent). Currently the only casinos are located in Detroit, and both the state and the city levy a tax.

Collections and Disposition

Collections in fiscal year1999-2000 were about $48 million.

The tax is administered by the Michigan Department of Treasury, Michigan Gaming Control Board, and the proceeds of the tax are distributed as follows:

- 55 percent of 18 percent state tax or 100 percent of 9.9 percent local tax to City of Detroit;

- 45 percent of 18 percent state tax or 100 percent of 8.1 percent state tax to state School Aid Fund.

Airport Parking Excise

(M.C.L. Sec. 207.371 to M.C.L. Sec. 207.383; M.S.A. 7.559(101)-7.559(113); 1987 PA 248)

Basis of Tax and Year of Adoption

The tax is levied on the amount charged for the privilege of parking at a regional airport, which is defined as an airport that serves 4,000,000 or more passengers annually. This limits the tax to the Detroit Metropolitan Wayne County Airport.

The tax was adopted in 1987.

Rates

The tax rate is 30 percent.

Collections and Disposition

Collections in fiscal year 1999-2000 were about $18 million.

The Michigan Department of Treasury, Bureau of Revenue administers the tax.

The proceeds of the tax are earmarked for the state Airport Parking Fund.

Commercial Mobile Radio Service

(1999 PA 78)

Basis of Tax and Year of Adoption

The tax is levied as a service charge for each CMRS connection that has a billing address in the state.

The tax was adopted in 1999.

Rates

The rate is 55 cents per month until June 28, 2001, and 52 cents per month thereafter.

Collections and Disposition

Collections in fiscal year 1999-2000 were about $12.3 million.

The Michigan Department of Treasury, Bureau of Revenue collects the tax. Each CMRS supplier of retailer who bills the customer retains 0.5 cents to cover the costs of billing and collection.

The proceeds of the tax are deposited in the CMRS emergency telephone fund. All monies collected and deposited in the fund are to be distributed as follows:

- $.25- CMRS suppliers for providing and installing equipment;
- $.10- equally to counties with 9-1-1 plan in place;
- $.15- on a per capita basis to counties with a 9-1-1 plan in place;
- $.015- public safety agencies for training 9-1-1 personnel;
- $.03- Department of State Police to fund priority issues of 9-1-1 coverage (until 2 years after effective date of act.

Part Six. Excise Taxes

The State of Michigan imposes taxes on tobacco products, beer, wine, liquor, and motor fuel.

Each of these taxes is discussed below.

Tobacco Products

(M.C.L. Sec. 205.241 et seq.; M.S.A. 7.411 (31) et seq.: 1993 PA 327)

The tax is imposed on cigarettes, cigars, non-cigarette smoking tobacco, and smokeless tobacco. The current tax replaced the cigarette tax, which was adopted in 1947 and repealed as of May 1, 1994. The Michigan Department of Treasury collects the tax from tobacco wholesalers.

Rates

The rate on cigarettes is 37.5 mills per cigarette or 75 cents per pack. The rate on all other tobacco products is 16 percent of the wholesale price.

Collections and Disposition

As shown in Exhibit 4, the tax generated about $603 million in fiscal year 1999-2000. The proceeds of the tax are distributed as follows.

Cigarette Tax

- 63.4 percent to School Aid Fund,
- 25.3 percent to General Fund,

- 6 percent to Michigan Healthy Fund,
- 5.3 percent to Health and Safety Fund.

Other Tobacco Products

- 94 percent to School Aid Fund,
- 6 percent to Michigan Healthy Fund.

Issues

Because of Michigan's high tax rate, smuggling, both organized and casual, of cigarettes from Canada and other lower tax states has been a problem. Adding to the problem of enforcing the tax was the absence of any physical identification on the cigarette packs of the tax being paid, as is present in most other states.

In response to this problem, on September 1, 1998, the state began a program of requiring tax stamps on each pack of cigarettes. With over a year of experience with the new program, it is clear that stamps have had a beneficial effect on enforcement and revenues and appear to have significantly reduced the level of smuggling. Fiscal year 1998-99 revenues increased 8.7 percent from the previous year. The long-term decline in tobacco consumption would likely have reduced revenues by about 2 percent during the same period without the stamp program. This suggests that the cigarette stamp program saved the state about $60 to $65 million.

Beer

(M.C.L. Sec. 436.1409; M.S.A. 18.1175 (409); 1998 PA 58)

The tax is levied on beer manufactured or sold in Michigan. A credit is allowed for beer shipped out-of-state for sale or consumption or sold to a military installation or Indian reservation. An exemption is provided for beer consumed on the manufacturing premises or that is damaged and not offered for sale.

The tax was adopted in 1933. The former statute was repealed and replaced by 1998 PA 58.

Rates

A tax of $6.30 per barrel is imposed, with a $2 per barrel credit for brewers producing less than 20,000 barrels annually. The rate has not been changed since 1966, when it was reduced from $6.61 per barrel.

Collections and Disposition

The tax generated $44 million in fiscal year 1999-2000. The tax is administered by the Liquor Control Commission (Department of Consumer and Industry Services) and the proceeds of the tax are distributed to the state General Fund. (Historical collections for beer and wine tax combined are shown in Exhibit 4).

Wine

(M.C.L. Sec. 436.1301; M.S.A. 18.1175 (301); 1998 PA 58)

The tax is levied on wine sold in Michigan. A credit is allowed for wine shipped out-of-state for sale and consumption or sold to a military installation or on an Indian reservation. An exemption is allowed for sacramental wine used by churches.

The tax was adopted in 1933. The former statute was repealed and replaced by 1998 PA 58.

Rates

The following rates are imposed:

- wines made from imported grapes with 16 percent alcohol or less - 13.5 cents per liter;
- wines made from imported grapes with 16 percent alcohol or more - 20 cents per liter;
- wines made in Michigan from domestic grapes or fruit - 1 cent per liter; and
- mixed spirit drinks - 48 cents per liter.

Collections and Disposition

The tax generated about $6 million in fiscal year 1999-2000. The tax is administered by the Liquor Control Commission (Department of Consumer and Industry Services), and the proceeds of the tax are distributed to the state General Fund.

Liquor

(M.C.L. Sec. 436.2201 through M.C.L. Sec. 436.2207; M.S.A. 18.1175 (1201)-18.1175 (1207); 1998 PA 58)

The tax is levied on the retail price of spirits

The tax was adopted in 1957 and revised in 1959, 1972, and 1985. The former statutes were repealed and replaced by 1998 PA 58.

Rates

A rate of 12 percent is levied on spirits sold for on-premise consumption and a rate of 13.85 percent is levied on spirits sold for off-premise consumption.

Collections and Disposition

As shown in Exhibit 4, the tax generated $79.5 million in fiscal year 1999-2000. The tax is administered by the Liquor Control Commission (Department of Consumer and Industry Services), and the proceeds of the tax are distributed as follows:

- General Fund - 4 percent;
- School Aid Fund - 4 percent;
- Liquor Purchase Revolving Fund (for distribution to local governments) - 1.85 percent; and
- Convention Facility Development - 4 percent.

Liquor Revolving Fund

(Liquor Markup) (M.C.L. Sec. 436.1233; M.S.A. 18.1175 (233); 1998 PA 58)

Michigan is a monopoly state with all retailers purchasing liquor from the state. The state generates revenue (or the state profit) by marking up the wholesale price of liquor before it is sold to retailers

The profit from the sale of liquor is not ordinarily defined as a tax. However, the markup mechanism exhibits characteristics of a tax. The principal feature providing the rationale for treating the markup as a tax are (1) the final price paid by the consumer includes the markup and cannot be avoided, just as is the case with the sales and use taxes; (2) the markup is applied as a uniform increase on the wholesale price; (3) the revenues generated are well above the cost to regulate the liquor industry; and (4) the revenues generated are deposited into the state General Fund rather than into a specific fund for regulatory purposes.

The "tax" was adopted in 1933. The former statute was repealed and replaced by 1998 PA 58.

Rates

Uniform prices are set by the Liquor Control Commission that will return a gross profit of not less than 51 percent or more than 65 percent. Currently, the full 65 percent markup from the wholesale price (cost) is applied to set the retail price of liquor. A discount of 17 percent is deducted from the price to set the cost of liquor for retail sales outlets.

Collections and Disposition

The markup (tax) generated about $105 million in revenue in fiscal year 1999-2000. The markup is administered by the Liquor Control Commission and the proceeds are deposited in the state General Fund.

Transportation Taxes

A special category of excise taxes is transportation taxes. The state levies taxes on gasoline, diesel fuel, motor carrier fuel, liquefied petroleum gas, and aviation gas. Registration fees are imposed on motor vehicles, watercraft, and snowmobiles.

Gasoline

(M.C.L. Sec. 207.101 et seq.; M.S.A 7.291 et seq.; 1927 PA 150; Sec. 9 of Article 9, state constitution.

The tax is levied on gasoline sold or used in operating vehicles on public highways.

Exemptions

There is an exemption for gasoline used in

- vehicles owned by state or federal governments;
- vehicles owned or leased and operated by units of local governments; or
- school buses owned and operated by private nonprofit parochial, or denominational schools, colleges, or universities.

Refunds

A refund of the tax is allowed on gasoline purchased for

- a purpose other than the operation of a vehicle on public highways;
- five or more person capacity vehicles operated under a municipal franchise;
- passenger vehicles used to transport school children; or
- community action agencies.

The tax was adopted in 1925.

Rates

The rate is 19 cents per gallon.

Collections and Disposition

As shown in Exhibit 6, the tax generated $932 million in revenue in fiscal year 1999-2000. The tax is administered by the Bureau of Revenue, Department of Treasury, and the proceeds of the tax are deposited in the Michigan Transportation Fund and distributed as follows.

- 2 percent to Recreation Improvement Fund;
- $5 million to Critical Bridge Fund; and
- $3 million to Rail Grade Crossing Account;

  Transportation Economic Development Fund (appropriated annually);

- 10 percent to Comprehensive Transportation Fund; of the remainder,
- 39.1 percent to State Trunkline Fund;
- 39.1 percent to county road commissions; and
- 21.8 percent to cities and villages.

Diesel Fuel

(M.C.L. Sec. 207.121 et seq. [Editor's note: these sections have been repealed]; M.S.A. 7.316 (1) et seq.; 1951 PA 54)

The tax is applied to diesel fuel sold or used in operating vehicles on public highways.

Exemptions

An exemption is allowed for diesel fuel used in or for

- vehicles owned by the state or federal government;
- vehicles owned or leased by units of local government;
- school buses owned and operated by private nonprofit parochial, or denominational schools, colleges, or universities;
- off-highway use
- home heating oil;
- export;

- as other than motor fuel; or
- for use in trains.

Refunds

A refund of taxes is provided for diesel fuel purchased for use in ten or more capacity vehicles operated under a municipal franchise.

Rates

The rate is 15 cents per gallon with a 6 cent discount for vehicles taxed under the Motor Carrier Fuel Tax.

Collections and Disposition

The tax generated about $87 million in revenue in fiscal year 1999-2000. The tax is administered by the Bureau of Revenue, Department of Treasury, and the proceeds of the tax are deposited in the Michigan Transportation Fund and distributed as follows. (Exhibit 6 provides a history of diesel fuel and motor carrier diesel fuel combined).

- 2 percent to Recreation Improvement Fund;
- $5 million to Critical Bridge Fund;
- $3 million t Rail Grade Crossing Account;

  Transportation Economic Development Fund (appropriated annually);
- 10 percent to Comprehensive Transportation Fund;

  Of the remainder,
- 39.1 percent to State Trunkline Fund;
- 39.1 percent to county road commissions;
- 21.8 percent to cities and villages.

Issues

Michigan is one of the few states in the nation that levy a sales tax on motor fuel and include federal motor fuel taxes as part of the sales tax base. To compensate for this additional cost, the Diesel Fuel tax was amended in 1980 to include a 6 cent-per-gallon discount for fuel use in a vehicle bearing a motor carrier permit. A companion Motor Carrier Fuel Tax Act was enacted to effectively change the diesel fuel tax from a tax paid on fuel purchased in the state to a tax paid on fuel used in the state. This change allowed the state to impose for the first time a tax on fuel purchased out-of-state but used on Michigan roads. Truckers driving in Michigan could no longer avoid the tax by purchasing fuel in another state.

The interaction of these two taxes requires motor carriers to pay the diesel fuel tax at the pump.

When a motor carrier purchases diesel fuel, the purchase is subject to the Diesel Fuel Tax, the Motor Carrier Tax, and the Sales Tax. Motor carriers pay the 9 cents per gallon Diesel Fuel tax at the point of purchase (at the pump). The Sales Tax adds 6 cents to the purchase price. Finally, the Motor Carrier Fuel Tax is levied at 21 cents per gallon with a 15 cent per gallon credit for fuel purchased in Michigan (9 cents for the effective rate of the Diesel Fuel Tax plus 6 cents for the Sales Tax), resulting in a net tax rate of 6 cents per gallon. Motor carriers who travel out-of-state file quarterly returns to reconcile Michigan taxes paid at the pump with the fuel used for travel in Michigan. An additional tax is owed if more fuel is used than the amount on which taxes were paid or a refund is made if less fuel is used in Michigan than the amount on which taxes have been paid.

Motor Carrier Fuel

(M.C.L. Sec. 207.211 et seq.; M.S.A. 7.340 (1) et seq.; 1980 PA 119)

The tax is levied on motor fuel used in operating vehicles on public highways.

The tax was enacted in 1980.

Rates

The tax rate is 21 cents per gallon with a 15-cent credit for fuel purchased in Michigan. Motor carriers taxed under thus act are also pay the diesel fuel tax, for a total tax rate of 15 cents per gallon.

Collections and Disposition

The tax generated about $51 million in revenue in fiscal year 1999-2000. The tax is administered by the Bureau of Revenue, Department of Treasury, and the proceeds of the tax are deposited in the Michigan Transportation (see gasoline tax).

Motor Carrier Privilege

(M.C.L. Sec. 478.1 through M.C.L. Sec. 478.7; M.S.A. 22.560-22.565 (1); 1923 PA 254)

The tax is levied on vehicles operated on highways by common and contract carriers.

The tax was enacted in 1923.

Rates

The tax is $100 per vehicle except for trucks and tractors used exclusively for transporting household goods, for which the tax is $50.

Collections and Disposition

As shown in Exhibit 6, the tax generated $4 million in revenue in fiscal year 1999-2000. The tax is administered by the Department of Consumer and Industry Services, Public Service Commission and the proceeds are deposited in the Michigan Transportation Fund (see Gasoline Tax).

Certain additional fees are administered by the Department of State police, and the proceeds are deposited in the Truck Safety Fund.

Liquefied Petroleum Gas

(M.C.L. Sec. 207.151 et seq. [Editor's note: these sections have been repealed]; M.S.A 7.317 (1) et seq.; 1953 PA 147)

The tax is levied on liquefied petroleum gas sold or used in operating vehicles on public highways.

The tax was enacted in 1953.

Rates

The tax rate is 15 cents per gallon.

Collections and Disposition

As shown in Exhibit 6, the tax generated $1.1 million in revenue in fiscal year 1999-2000. The tax is administered by the Bureau of Revenue, Department of Treasury, and the proceeds of the tax are deposited in the Michigan Transportation Fund (see gasoline tax).

Aviation Gasoline

Basis of Tax and Year of Adoption

The tax is levied on fuel sold or used for powering aircraft.

The tax was enacted in 1929.

Rates

The tax rate is 3 cents per gallon. A refund of 1.5 cents per gallon is allowed for airline operators on interstate scheduled operations.

Collections and Disposition

As shown in Exhibit 6, the tax generated about $8 million in revenue in fiscal year 1999-2000. The tax is administered by the Bureau of Revenue, Department of Treasury, and the proceeds of the tax are deposited in the Aeronautics Fund.

Aircraft Weight

(M.C.L. Sec. 259.77; M.S.A 10.177; 1945 PA 327.)

Basis of Tax and Year of Adoption

The tax is levied on the greater of maximum gross weight or maximum takeoff weight and is in lieu of all other general property taxes on aircraft.

The tax was enacted in 1923.

Rates

The tax rate is one cent per pound.

Collections and Disposition

The tax generated about $100,000 in revenue in fiscal year 1999-2000.

The tax is administered by the Michigan Department of Transportation, Aeronautics Commission, and the proceeds of the tax are deposited in the Aeronautics Fund.

Snowmobile Registration

(M.C.L. Sec. 257.1504; M.S.A. 9.3200; 1968 PA 74 [Editor's note: this Act was repealed in 1995].)

Basis of Tax and Year of Adoption

The tax is levied on every snowmobile registered in Michigan.

The tax was enacted in 1968.

Rates

The registration fee is $22 for three years.

Collections and Disposition

The tax generated about $900,000 in revenue in fiscal year 1999-2000.

The tax is collected by the Michigan Department of State and enforced by the Department of Natural Resources (DNR), and county sheriffs.

The proceeds are distributed to the General Fund and not less than 50 percent of the receipts are appropriated to the DNR for planning, construction, maintenance, and acquisition of trails for snowmobile use.

Watercraft Registration

(M.C.L. Sec. 324.80115 through M.C.L. Sec. 324.80128; M.S.A. 13A.80115-13A.80128; 1995 PA 58)

Basis of Tax and Year of Adoption

The tax is determined by the length of the boat and is in lieu of the general property tax.

Exemptions

Exemptions are allowed for:

- lifeboats;
- hand propelled vessels 16 ft. or less;
- non-motorized canoes not used for rental or commercial purposes;
- all-terrain vehicles;
- rafts, surfboards, and swim floats; and
- vessels used temporarily on state waters.

The tax was enacted in 1967. The former statute (1967 PA 303) was repealed and replaced by 1995 PA 58.

Rates

Registration is for a three-year period. The rates for motor boats (in feet) are as follows.

Boat length (in feet)	*Tax*
Under 12	$14

Over 12, less than 16	17
Over 16, less than 21	42
Over 21, less than 28	115
Over 28, less than 25	168
Over 35, less than 42	244
Over 42, less than 50	280
Over 50	448

There are separate rates for pontoon boats and motorized canoes, non-powered vessels 12 ft or more, and vessels carrying freight and passengers for hire.

Collections and Disposition

The tax generated $10 million in revenue in fiscal year 1999-2000.

The tax is collected by the Michigan Department of State and enforced by the Department of Natural Resources (DNR), and county sheriffs.

The proceeds of the tax are distributed as follows.

- 17.5 percent to State Waterways Fund;
- 33.5 percent to Harbor Development Fund; and
- 49 percent to marine Safety Fund.

Motor Vehicle Registration

(M.C.L. Sec. 257.801 through M.C.L. Sec. 257.810; M.S.A. 9.2510-9.2510; 1949 PA 300)

The tax is based on the weight or the value (sales price) of the vehicle. In the case of large trucks, the tax is based on the elected gross vehicle weight, which is the empty weight of a vehicle or combination of vehicles plus the weight of the maximum load the owner has elected to carry. The tax is levied in lieu of general property and other taxes.

The tax was enacted in 1905.

Rates

Personal passenger vehicles purchased new, or vehicles of the 1984 model year or later which are subsequently resold as used, are assessed the following rates.

Base List Price	*Tax in First Year of Ownership*
$0-$6,000	$30

$6,001-$7,000	33
$7,001- $30,000	33, plus $5 for each $5,000 above the $7,000 base list price
$30,000+	0.5 percent of base list price

These rates are adjusted annually in accordance with the increase in state personal income. During the second, third, and fourth year of ownership, the tax on such vehicles is reduced by 10 percent from the prior year's level and then remains constant from the fifth year on.

Pickup trucks and vans less than 5,000 pounds, passenger cars, and motor homes purchased before October 1, 1983 are assessed on the basis of the following schedule (in pounds) in lieu of a value tax.

Weight (in pounds)	*Tax*
0-3000	$29
3,001-3,500	32
3,501-4,000	37
4,001-4,500	43
4,501-5,000	47
5,001-5,500	52
5,501-6,000	57
6,001-6,500	62
6,501-7,000	67
7,001-7,500	71
7,501-8,000	77
8,001-8,500	81
8,501-9,000	86
9,001-9,500	91
9,501-10,000	95
10,000+	add 90 cents per pound

Commercial pickup trucks under 5,000 pounds are assessed on the basis of weight (pounds) as follows.

Weight (in pounds)	*Tax*
0-4,000	$39
4,001-4,500	44
4,501-5,000	49

Trucks weighing 8,000 pounds or less and tow trucks are assessed on the basis of weight (pounds) as follows ($38 minimum; fee per $100 pounds).

Weight (in pounds) *Tax*

0-2,500	$1.40
2,501-4,000	1.76
4,001-6,000	2.20
6,001-8,000	2.72
8,001-10,000	3.25
10,001-15,000	3.77
15,000+	4.39

For trucks weighing 8,000 pounds or less towing a trailer or for trucks weighing over 8,000 pounds, a flat fee is levied based on elected gross weight (shown below in pounds).

Weight (in pounds)	*Tax*
0-24,000	$ 491
24,001-26,000	558
26,001-28,000	558
28,001-32,000	649
32,001-36,000	744
36,001-42,000	874
42,001-48,000	1,005
48,001-54,000	1,135
54,001-60,000	1,268
60,001-66,000	1,398
66,001-72,000	1,529
72,001-80,000	1,660
80,001-90,000	1,793
90,001-100,000	2,002
100,001-115,000	2,223
115,001-130,000	2,448
130,001-145,000	2,670
145,001-160,000	2,894
over 160,000	3,117

There are varied rates for specialized vehicles such as buses and taxicabs, motorcycles, certain farm equipment, ambulances and hearses, and moving vans.

Collections and Disposition

As shown in Exhibit 6, the tax generated about $757 million in revenue in fiscal year 1999-2000.

The tax is collected by the Michigan Department of State with certain fees collected by the Department of Natural Resources.

The proceeds of the registration fees are deposited in the Michigan Transportation Fund (see gasoline tax); certain fees are deposited in the Scrap Tire regulation Fund.

Issues

Until 1983, automobile registration fees were based on the weight and age of the vehicle. These fees were determined using a schedule of fees that required occasional revision to reflect inflation, changing funding needs, and automobile market changes.

Automobile registration fees were not a high growth item prior to 1983. PA 439 of 1982 changed the basis for collecting automobile registration fees from weight-based to price based. Individual owners of motor vehicles built since 1984 pay an initial registration fee of 0.5 percent of the list price of the vehicle (the base sticker price) for the first registration, with a minimum fee of $30. The fees decrease by 10 percent for each of the next three years and then remain constant.

Registration fee amounts for owners of used automobiles depend on the model year of the vehicle. Registration fees on automobiles of model years prior to 1984 continue to be based on weight. Registration fees on automobiles of model years 1984 or later are price and age based.

Because they are based on the vehicle price, motor vehicle ad valorem tax revenues depend on the number of vehicle registrations, the age of the autos, and the price of the vehicles. Changing registration fees from a weight-based system to a price-based system fairly effectively protects the state from the erosion of revenues experienced as cars became lighter. As the price of automobiles increases, revenues increase to keep pace with inflation.

Michigan Underground Storage Tank Environmental Tax

(M.C.L. Sec. 324.21101 et seq.; P.A 1988 PA 518; 1994 PA 451)

Basis of Tax and Year of Adoption

The tax is levied on all refined petroleum products sold in Michigan.

The tax was enacted in 1988.

Rate

The rate is seven-eighths cents per gallon.

Collections and Disposition

As shown in exhibit 6, collections in fiscal year 1999-2000 were about $60 million.

The tax is collected by the Bureau of Revenue, Department of Treasury and is administered by the Department of Natural Resources and an 11-member advisory Board.

The proceeds of the tax are allocated to the Michigan Underground Storage Tank Assurance Fund. The purpose of the fund is to assist operators of underground storage tank systems to meet their financial requirements provided for in the Solid Waste Disposal Act.

Part Seven. State Property Taxes

The property tax is the main source of revenue for most local governments, but the state also levies 12 separate taxes on various forms of property. The largest of these taxes are: State Education, State Real Estate Transfer, Utility, and Estate.

State Education

(M.C.L. Sec. 211.901 et seq.; M.S.A. 7.557 (31) et seq. 1993 PA 331.)

This tax was enacted as part of the 1993-1994 school finance reform legislation as a partial replacement for local school property taxes.

Basis of Tax and Year of Adoption

The tax is levied on the taxable value of real and personal property not other wise exempted. Taxable value cannot increase in any one year by more than 5 percent or the rate of inflation, whichever is less, excluding new and improved property (additions and losses). When transferred or sold, property is reassessed at its state equalized value, which is 50 percent of true cash value. The methodology used to assess personal property virtually assures that a parcel's assessed and taxable values will be the same. In contrast, the aggregate of real property reflected a gap of over 14 percent between assessed and taxable values in 1999.

Because of the constitutional limit on property tax assessments, local governments must keep track of both the state-equalized value of property and the taxable value of property, a measure not used prior to 1994.

Exemptions

Numerous exemptions exist, notably:

- certain property owned by nonprofit religious, charitable, or educational organizations;
- government property;
- property subject to specific state taxes (e.g., railroad and telephone property, intangibles, motor vehicles);

- property subject to specific local taxes in lieu of property taxation, such as commercial forest land; mobile homes; low grade iron ore; certified industrial, commercial, technological, commercial housing facilities;

- certain household property, personal business property and mechanic's tools;

- personal property used in agricultural operations;

- inventory property;

- special manufacturing tools (dies, jigs, fixtures, molds, etc.);

- solar, water or wind energy conversion devices (pre-1984);

- property in transit located in a public warehouse, dock or port facility; and

- property located in a renaissance zone, except for the portion of tax attributable to special assessments, taxes levied for the payment of general obligation bonds, intermediate-school-district wide enhancement mills and local school district sinking fund millages.

Credits

Credits are allowed for property taxes paid: see Personal Income Tax.

The tax was enacted in 1993 but did not take effect until the approval of a constitutional amendment in 1994.

Rates

The tax rate is 6 mills (6$ per $1000 of taxable value).

Collections and Disposition

As shown in Exhibit 7, collections in fiscal year 1999-2000 were $1.35 billion.

The tax is collected by township, city, and county treasurers and administered by the Michigan Department of Treasury.

The proceeds of the tax are deposited in the State School Aid Fund.

Utility Property

(M.C.L. Sec. 207.1 et seq.; M.S.A. 7.251 et seq., 1905 PA 282; Sec. 5 of Article 9, State Constitution)

Basis of Tax and Year of Adoption

The tax is levied on the taxable value of all property of telephone and telegraph, railroad, car loaning, sleeping car, and express car companies including franchise owned and used in connection with doing business in Michigan.

Railroads receive a credit equal to 25 percent of the expenditures for maintenance and improvement of rights-of-way in Michigan, if certain conditions are met.

The tax was enacted in 1905.

Rates

The tax rate is the average statewide general property tax paid by other business property in Michigan.

Collections and Disposition

As shown in Exhibit 7, collections in fiscal year 1999-2000 were about $156 million.

The tax is assessed by the Michigan Department of Treasury, State Tax Commission, and collected by the Michigan Department of Treasury, Bureau of Revenue.

The proceeds of the tax are deposited to the state General Fund.

State Real Estate Transfer

(M.C.L. Sec. 207.521 et seq.; M.S.A. 7.456 (21) et seq. 1993 PA 330)

Basis of Tax and Year of Adoption

The tax is levied on the fair market value of the written instrument used to transfer the title of property.

The tax was enacted in 1993 as part of the school finance reform package but did not take effect until the approval of a constitutional amendment in 1994 (Proposal A).

Exemptions

The following types of transfers are exempt from taxation.

- transfers of less than $100;
- transfers of land outside Michigan;
- transfers which the state is prohibited by federal law from taxing;

- security or an assignment or discharge of a security interest;
- transfers evidencing a leasehold interest;
- personal property;
- transfers of interests for underground gas storage purposes;
- transfers where a governmental unit is the grantor;
- transfers involving foreclosure by a governmental unit;
- certain interspousal transfers;
- transfers ordered by a court if no consideration is ordered;
- transfers to straighten boundary lines if no consideration is paid;
- transfers to correct a title flaw;
- land contracts in which title does not pass until full consideration is paid;
- transfers of mineral rights;
- creation of joint tenancies if at least one joint tenant already owned the property;
- sales agreements entered into before enactment of the tax;
- transfers to persons considered to be "single employers" under the internal revenue code; and
- transfers to a bankruptcy trustee, receiver, or administrator;

Rates

The tax rate is 0.75 percent ($3.75 per $500) of total value. (Counties also levy, under separate authority, a tax of 0.11 percent ($0.55 per $1,000 on the total value of property transfers).

Collections and Disposition

As shown in Exhibit 7, collections in fiscal year 1999-2000 were about $254 million.

The tax is collected by the county treasurer and administered by the Michigan Department of Treasury, Bureau of Revenue.

The proceeds of the tax are deposited in the state School Aid Fund.

Estate

(M.C.L. Sec. 205.201 et seq.; M.S.A. 7.561 et seq.; 1899 PA 188)

Basis of Tax and Year of Adoption

The tax is levied on the value of the gross estate as determined under the federal internal revenue code.

The tax was enacted in 1899 and referred to as the Inheritance Tax until amended by PA 54 of 1993, which in effect repealed the Inheritance Tax.

Rates

The tax imposed is equal to the maximum allowable federal credit for state inheritance taxes paid.

Collections and Disposition

As shown in Exhibit 7, collections in fiscal year 1999-2000 were about $177 million.

The tax is administered by the Michigan Department of Treasury, Bureau of Revenue, and the proceeds of the tax are deposited in the state General Fund.

Commercial Forest

(M.C.L. Sec. 324.51101 through M.C.L. Sec. 324.51120; M.S.A. 13A.51101.13A.51120: 1995 PA 57.)

Basis of Tax and Year of Adoption

The tax is levied on lands placed in commercial forest reserve and the cash value of the timber located on the land, and is in lieu of the general property tax.

The tax was enacted in 1925. The former statute (1925 PA 94) was repealed and replaced by 1995 PA 57.

Rates

There are two methods of taxation.

- Specific: $1.10 per acre (state also pays $1.20 per acre to each county within which acreage is located).

- Withdrawal: $1.00 per acre application fee, plus per acre penalty equal to per acre average ad valorem tax on timber cutover real property in the township where the property is located times the number of years (to a maximum of 7 years or 15 years, depending upon when the property was determined to be commercial forest) that the property was subject to the tax.

Collections and Disposition

As shown in Exhibit 7, collection in fiscal year 1999-2000 were about $3 million.

The tax is administered by the Department of Natural Resources, the township assessors, and township and county treasurers.

The proceeds of the tax are distributed to local units of government in the same proportion as the General Property Tax except that the school operating portion is paid to the State School Aid Fund.

Private Forest

(M.C.L. Sec. 324.51301 et seq.; M.S.A. 13A.51301; 1995 PA 57.)

Basis of Tax and Year of Adoption

The tax is levied on lands placed in commercial forest reserve and the cash value of the timber located on the land, and is in lieu of the general property tax.

The tax was enacted in 1917. The former statute (1917 PA 86) was repealed and replaced by 1995 PA 57.

Rates

- Specific: $1 per acre

- Stumpage: 5 percent of value of timber cut.

- Withdrawal: 5 percent of value of timber on the stump.

Administration and Disposition

The tax is administered by the Department of Natural Resources, the township assessors, and township and county treasurers.

The proceeds of the tax are distributed to local units of government in the same proportion as the General Property Tax except that the school-operating portion is paid to the State School Aid Fund.

Industrial Facilities

(M.C.L. Sec. 207.551 et seq.; M.S.A. 7.800 (1) et seq.; 1974 PA 198.)

Basis of Tax and Year of Adoption

The tax is in lieu of general property taxation for up to 12 years after completion of facilities granted exemption certificates within plant rehabilitation or industrial development districts. The tax is levied on restored or replacement facility: taxable value of facility, excluding land and inventory, in year prior to granting of exemption certificate. New or speculative facility: current taxable value of facility, excluding land and inventory. There is a partial exemption for facility located in a renaissance zone.

The tax was enacted in 1974.

Rates

- Restored facility: same as the local property tax rate.

- New or replacement Facility: (if granted before January 1, 1994) one-half of 1993 school operating taxes plus one-half of other property taxes except state education tax; (if granted after December 31, 1993) one-half of all taxes other than the state education tax plus the state education tax.

Certificate applicants and the granting municipality must enter into an agreement before the State Tax Commission can approve an exemption certificate.

Collections and Disposition:

As shown in Exhibit 7, collections in fiscal year 1999-2000 were $159 million.

The administration is the same as for the general property tax. The local legislative body and State Tax Commission must approve issuance of certificate with concurrence of Michigan Strategic Fund.

The proceeds of the tax are distributed on same basis as general property tax except that all or part of school district share is credited to the School Aid Fund.

Technology Park Facilities

(M.C.L. Sec. 207.701 et seq.; M.S.A. 7.800 (101) et seq.; 1984 PA 385)

Basis of Tax and Year of Adoption

The tax is in lieu of general property taxation for up to 12 years after completion of facilities granted exemption certificates within technology park districts. There is a partial exemption for facilities located in a renaissance zone. The tax is levied on the current state-equalized value of the facility, excluding land.

Rates

The tax rate is one-half of 1993 school operating taxes plus one-half of other property taxes, except the state education tax.

Administration and Disposition

The administration is the same as General Property Tax. The local legislative body must approve issuance of certificate. Authority to issue certificates expired on December 31, 1993, but an exemption then in effect continues until expiration of certificate.

The proceeds of the tax are distributed on same basis as general property tax except that all or part of the school district share is credited to the School Aid Fund.

Mobile Home Trailer Coach

(M.C.L. Sec. 125.1041; M.S.A.5.278 (71); 1959 PA 243)

This tax is a local tax but because some of the revenue accrues to the State School Aid Fund it is included in this guide.

Basis of Tax and Year of Adoption

The tax is levied on occupied mobile homes in licensed mobile home parks, and is in lieu of the general property tax.

The tax was enacted in 1959.

Rate

The tax rate is $3 per month per occupied mobile home.

Collections and Disposition

The tax generated $3.1 million in fiscal year 1999-2000.

The tax is collected by the township or city treasurer and the proceeds are allocated as follows: $2 to the State School Aid Fund; 50 cents to the county; and 50 cents to the municipality.

Low Grade Iron Ore Specific

(M.C.L. Sec. 211.621 et seq.; M.S.A. 13.157 (1) et seq.; 1951 PA 77)

This tax is a local tax but because some of the revenue accrues to the State School Aid Fund, it is included in this guide.

Basis of Tax and Year of Adoption

The tax is levied on the rated annual capacity of production and treatment plants and gross ton value of ore, and is lieu of the general property tax.

The tax was enacted in 1951.

Rates

Prior to full production: rated annual capacity times 0.55 percent of value per gross ton, times percent completion of plant.

Full production: 5-year average production times 1.1 percent of value per gross ton.

Collections and Disposition

The tax generated $1.5 million in fiscal year 1999-2000.

The tax is collected by the township or city treasurer and administered by the Michigan Department of Natural Resources, Geological Division.

The proceeds of the tax are distributed to local units in the same proportion as the general property tax except the school portion of the tax is paid to the State School Aid Fund.

Enterprise Zone Facilities

(M.C.L. Sec. 125.2101 et seq.; M.S.A. 3.540(301) et seq.; 1985 PA 224)

This tax is a local tax but because the state has a role in its administration, it is included in this guide.

Basis of Tax and Year of Adoption

The tax is levied on the state-equalized value of real and personal property of a qualified business exclusive of exemptions, and is in-lieu of the general property tax for up to 10 years after a business is certified as a qualified business. There is a partial exemption for facility located in a renaissance zone.

The tax was enacted in 1985.

Rate

- Qualified business: one-half of the statewide average property tax rate on commercial, industrial, and utility property.

- Certain other businesses: the local property tax rate, with credits that can reduce rate to statewide average property tax rate.

Collections and Disposition

The tax is collected and administered in the same manner as the general property tax except the issuance of certification of a business requires approval of Michigan Enterprise Zone Authority.

The proceeds are distributed to the local unit in which the qualified property is located, with certain exceptions.

Neighborhood Enterprise Zone Facilities

(M.C.L. Sec. 207.771 et seq.; M.S.A. 7.800(171) et seq.; 1992 PA 147.)

This tax is a local tax but because the state has a role in its administration it is included in this guide.

Basis of Tax and Year of Adoption

The tax is in lieu of the general property taxation for up to 12 years after rehabilitation or completion of facility granted exemption. A partial exemption is allowed for a facility located in a renaissance zone.

The tax base depends on the type of facility as follows:

- Rehabilitated facility: the tax is levied on the state-equalized value of the facility in the year prior to granting of exemption certificate, excluding land.

- New facility: the tax is levied on the state-equalized value of the facility.

The tax was enacted in 1992.

Rates

New or rehabilitated facility:

- Homesteads: one-half of the state average rate paid by other homestead or qualified agricultural property;

- Nonhomesteads: one-half of the state average rate paid by other commercial, industrial, and utility property.

Collections and Disposition

The tax is administered in the same manner as the general property tax.

The proceeds of the tax are distributed on same basis as general property tax except that all or part of school district share is credited to the School Aid Fund

Part Eight. Tax Administration

The Commissioner of Revenue and the staff of the Bureau of Revenue are responsible for the administration and enforcement of Michigan's tax laws, including those governing the income tax, sales tax, use tax, single business tax, motor fuel taxes, cigarette and tobacco taxes, intangibles tax, estate tax, airport parking tax, convention facilities tax, and severance tax. The Bureau has about 600 employees with offices located in Michigan and throughout the United States.

Please note that the Bureau of Revenue has been reorganized as is described below. The functions described below are based on the old organization structure and are still accurate, but have been divided among new centers and divisions. For example, there is no longer a Single Business Tax Division, but the description of the functions is accurate; they have now been divided among several centers such as tax processing and customer service.

Audit Division

The purpose of the division is to maintain a high level of taxpayer voluntary compliance. This is accomplished through a concentrated program of taxpayer contact designed to achieve results in four key areas: conduct tax audits, provide global enforcement presence, ensure high standards, and promote taxpayer relations. The Audit Division coordinates and directs activities of auditors located throughout Michigan, California, Illinois, New Jersey, New York, Ohio, and Texas.

Discovery and Tax Enforcement Division

This division conducts programs to identify non-filers or under-reporters of Michigan taxes. This is accomplished by utilizing data supplied by other divisions, state agencies, and the federal government. The purpose of these programs is to identify businesses and individuals that may be subject to these taxes and to educate them on the tax requirements and the correct reporting procedures.

The Discovery Section also coordinates the Voluntary Disclosure Program. This program is designed to allow taxpayers to voluntarily come forward to report unpaid taxes and pay the tax and interest due without the payment of penalty. This is only for taxpayers who have not filed returns, have not been previously contacted by the Department, or are not currently under audit by the department and otherwise meet the statutory requirements.

The Tax Fraud Section assists the Michigan State Police Treasury Enforcement Team in the investigation and prosecution of tax fraud cases. It acts as a liaison and coordinates efforts on criminal and civil fraud matters with other federal, state, and local agencies.

Individual Taxes Division

This division administers the Individual Income Tax, Estate Tax, and Intangibles Tax (which was repealed effective January 1, 1998) to ensure compliance with the related tax laws. The division is divided into two sections: Operations and Technical.

The Operations Section includes several different functions, the largest of which is processing current year income tax returns. The section also is responsible for auditing and processing farmland preservation credits, scheduling computer operations and developing technological enhancements, and administering the Michigan Estate Tax.

The Technical Section has several functions: processing prior year income tax returns, net operating loss returns, and handling requests for informal conferences; reissuing undeliverable income tax re funds returned by the post office and incorrect refunds returned by taxpayers; processing requests for copies of cashed income tax warrants and processing stop payment requests; answering inquiries regarding the application of Michigan individual taxes; providing technical assistance to tax practitioners through publications, meetings, and tax schools; and representing the Division at informal conferences, tax tribunal hearing, and trials. The section is also responsible for updating all tax forms related to individual taxes; assessing Michigan income tax due as a result of an IRS audit; processing non-obligated spouse forms and handling the offset of income tax refunds against tax liabilities or other state debts. Automated clerical services are also provided such as preparing and mailing over 80,000 pieces of correspondence to taxpayers and maintaining and operating the Form-2-Me program.

Legal and Hearings Division

This division performs three distinct functions:

- Holds informal conferences on disputed tax liabilities, as well as denial of refund claims, denial of homestead exemptions, city utility users tax, and city income tax.
- Prepares plain-language explanations of Michigan tax laws for the Department, the general public, and tax practitioners, and researches tax issues and drafts rules, letter rulings, and Revenue Administrative Bulletins.
- Determines which tax information is confidential, who may have access to it and for what purposes, and manages the release of any confidential tax information.

Motor Fuel IFTA/Motor Carrier, Tobacco Taxes, and Registration Division

Registration-Business Taxes

- Registers and licenses all taxpayers liable for Michigan business taxes administered by the Michigan Department of Treasury and the Michigan Employment Security Agency.

- Updates addresses and business discontinuance dates.

Motor Carrier Fuel Tax

- Annually licenses and issues fuel decals for motor carriers for instate or interstate (IFTA) operations.

- Examines quarterly returns and issues refunds and deficiency notices.

- Transfers fuel taxes collected on behalf of other states and Canadian provinces under the International Fuel tax Agreement (IFTA).

- Refunds 6 cent credits for sales tax on fuel purchased in Michigan by licensed motor carriers.

Motor Fuel Taxes

- Annually licenses all suppliers (pipeline terminal operators) and wholesalers who sell fuel tax exempt.

- Issues annual exemption certificates, and licenses to export and haul liquid fuel.

- Examines gasoline, diesel, and liquefied petroleum gas returns.

- Issues refunds and deficiency notices.

- Annually licenses retail and marine diesel dealers and processes their tax returns.

- Issues refunds to end-users for off-road use of fuel.

Tobacco Products Tax

- Distributes tax stamps to be affixed to cigarette packs (as of May 1, 1998).

- Annually licenses manufacturers, wholesalers, vending machine operators, and unclassified acquirers of tobacco products.

- Issues vending machine decals.

- Examines monthly returns and issues refunds and deficiency notices.

Severance Tax

- Examines returns and issues refunds for tax on oil and natural gas production.
- Handles requests to reclassify oil wells as marginal wells or stripper wells, which are subject to lower tax rates.

Public Utilities Tax

This division issues and collects assessments on properties owned by public utilities as determined by the State Tax Commission.

Revenue Administrative Services Division

This division provides support services to the Bureau of Revenue and taxpayers. This division is generally the first contact for the public and provides essential document services to the Bureau.

The Transfer Files, Central Files, and Microfilm unit provide document management services for the Department.

The Problem Resolution Office and Taxpayers Services Section provide telephone and account problem services, as well as training for the general public. Their goal is to improve voluntary compliance through dissemination of information.

Sales, Use, and Withholding Taxes Division

This division administers three major tax acts: the Sales Tax Act, Use Tax Act, and withholding provisions of the Income Tax Act. The division is also responsible for administering several minor taxes and fees: the State Convention Facility Development Act, the Airport Parking Tax Act, the environmental protection regulatory fee collection provisions of Natural Resources and Environmental Protection Act, and unredeemed beverage container collection and distribution provisions of the beverage Containers Act.

Single Business Tax Division

This division provides the administrative and processing functions for the state's major business tax. The SBT is applicable to every person, of a minimum size, conducting a business activity in the state. The division also administers the Retaliatory Tax on Foreign Insurers, and the State Real Estate Transfer Tax, and is responsible for the collection of the State Education Property Tax.

Department of Treasury Reorganization

As a result of a review of Department of Treasury operations by Deloitte Consulting the Department of Treasury has announced a new organizational structure, effective October 30, 2000.

The Department will be reorganized into two major program areas: Tax Administration and Oversight, and Administrative Services.

The Bureau of Revenue will become a part of the Tax Administration and Oversight program. The reorganization will change the Bureau from an organization structured by the type of tax administered to an organization structured to focus on customer needs and process efficiencies.

Financial and Administrative Services

The Chief Information Officer position and Information Services Division will report directly to the Deputy Treasurer. In addition, a new Bureau of Program and Performance Management has been created. This bureau, formed from existing staff redeployed from other areas of the department, will focus on development and monitoring of project management, program development and budgeting.

The Main Support Services and Reconciliation Division and the Accounting Division will be combined. Also the Forms and Print Management office, which is responsible for contract management, publications printing, and distribution, will report to the Purchasing Division. Finally, three of the four offices currently reporting to the Deputy Treasurer will be reassigned to Bureaus, with one office, Internal Audit, reporting directly to the Treasurer.

Bureau of Revenue Reorganization

The Bureau of Revenue is reorganized as follows:

- Tax Processing Center is responsible for inputting data into tax and revenue systems and processing all tax returns.

- Customer Service Center is the central management point for taxpayer contacts. The three divisions are Constituent Education, Customer Contact, and Special Services.

- Constituent Education Division is a new division focusing on internal and external education. The division is responsible for developing training curriculum for all Revenue staff on all areas pertaining to their jobs. The division will also develop training programs for taxpayers, tax preparers and all other external customers to promote tax compliance and customer relations. The division will also develop tax forms and instructions.

- Customer Contact Division is responsible for responding to all taxpayer inquiries by phone, correspondence, or email. The Division will utilize new customer relationship management software to provide quicker, more accurate responses to customer questions.

- Special Services Division is responsible for providing answers to highly technical taxpayer questions and resolving complex tax problems.

- Tax Compliance Center is responsible for all compliance programs including the audit and discovery functions.

- Office of Legal & Hearings is responsible for providing legal research and advice to the Commissioner's office and all divisions within the Bureau of Revenue.

- Office of Policy and Research Development is responsible for providing strategic planning for all revenue functions and expertise on policy matters that may arise in the areas of tax processing, tax administration, audit policy, audit selection, and education.

See Appendix A for the new organization charts for the Department of Treasury and the Bureau of Revenue.

Part Nine. Audits and Appeals

Tax Audits

Most tax returns are accepted as filed. Some returns are chosen for audit by a random computer search.

If an income tax return is chosen for audit, the taxpayer may be asked to verify information, which can usually done by phone or mail. A personal interview is usually not necessary.

If a business tax return and records are selected for audit, and an interview or visit to the business is required, the taxpayer has the right to:

- ask that the audit take place at a reasonable time in a convenient location;

- represent his/her self, have some accompany them or, with authorization have a third party represent them in their absence;

- receive copies of the audit workpapers that show how the auditor calculated in change in taxes due;

- meet with the auditor to discuss the report; and

- meet with the auditor's supervisor to discuss any changes made to taxes due that the taxpayer disagrees with.

If a taxpayer owes taxes after an audit, the department will take the following steps:

- accept full payment of the undisputed portion of the amount due after audit;

- issue a Notice of Intent to Assess for the taxes due. If the taxpayer disagrees with the amount due they can request an informal conference within 30 days of receipt of the notice; and

- thirty days after the Notice of Intent to Assess is sent the department will issue a Bill for Taxes Due (final assessment), unless correcting information has been received.

At any time during the billing process the taxpayer may call department to request monthly payments.

If the taxpayer does not make a payment or payment arrangements within 35 days of the final assessment, the department may take enforcement actions that include referring the debt to the Michigan Automated Collection System or intercepting the taxpayer's paycheck of levying their bank account.

The department will also:

- intercept any money the state owes the taxpayer (such as an income tax refund) and apply it to the debt;

- apply penalty and interest for as long as there is a tax balance (all payments are applied first to interest, then to penalty, then to tax); and

- place liens on the taxpayer's home, business, or personal property.

If at anytime the department believes the taxpayer plans to sell or hide property to avoid seizure, they will issue a jeopardy assessment or lien that will freeze assets. This will prevent the taxpayer from withdrawing money from bank accounts or transferring the title of any property. If the taxpayer wishes to sell property, the department will send a representative to the sale to accept payment of the liability.

Tax Appeals

There are several ways that tax assessments or rulings can be appealed. Tax appeals can be made through the Michigan Department of Treasury, the Michigan Tax Tribunal or the courts.

These are the steps in the appeals process:

Request an informal conference with a Department of Treasury referee within 30 days of receiving a Notice of Intent to Assess. The following information must be included in the request:

- The amount of tax in dispute;

- An explanation of the complaint;

- Payment of any portion of the tax bill that is in dispute.

A hearing date and place is set that is convenient for all parties.

- The taxpayer may bring an attorney or other representative or have someone represent them if unable to attend.

- The taxpayer may record the hearing, but must notify the department first.

The referee will make a recommendation to the commissioner of revenue who will review the file, make a final decision, and notify the taxpayer.

The taxpayer may appeal the commissioner's decision to either:

- The Michigan Tax Tribunal within 35 days, which requires payment of the undisputed amount, or

- The Court of Claims (Ingham Circuit Court) within 90 days, which requires payment of the full amount of the assessment.

Decisions of the Tax Tribunal or the Court of Claims may be appealed to the Court of Appeals and ultimately to the Michigan Supreme Court.

Penalty on an assessment will be waived if the taxpayer can show reasonable cause for the failure to pay on time. Reasonable cause may be serious illness or death, a fire or natural disaster, or criminal acts against the taxpayer. Requests for waiver must be made in writing.

If a taxpayer has a problem with their tax account that has not been corrected by the above procedures, they may write to:

The Taxpayer Advocate
Michigan Department of Treasury
Treasury Building
Lansing, MI 48922

Part Ten. Conclusion

Since 1991, Michigan has enacted numerous tax cuts that have affected most of the state's major revenue sources, including the personal income tax, single business tax, property tax, inheritance tax (eliminated), and intangibles tax (eliminated). These cuts have reduced state and local tax revenues by an estimated $3.5 billion (Fiscal year 1999-2000). In addition, new taxes have been added and the rates of others raised as part of the school finance reform package that was enacted in 1994. Principally, the rates of the sales and use tax and cigarette tax were raised, and a state education tax on property, a real estate transfer tax, and a tobacco product tax were added.

As a result of all the action on the tax front in recent years and the impact on future revenue growth, it is unlikely that there will be any significant tax changes in the next few years. The major remaining tax issues are the taxation of Internet commerce (see discussion above) and personal property tax on machinery and equipment. There may also be some interest in adding a state earned income tax credit to supplement the federal credit.

Exhibits

Exhibit 1. Michigan State Government Taxes, Fiscal Year 1999-2000 (Preliminary)

Source	*Amount (millions)*	*% of Total Taxes*
Personal Income Tax	$8,403.0	36.0%
Consumption Taxes		
Sales	$6,350.0	27.2%
Use	$1,358.0	5.8%
Tobacco	$603.0	2.6%
Beer & Wine	$50.0	0.2%
Liquor	$79.5	0.3%
Business Taxes		
Single Business	$2,362.0	10.1%
Insurance Company Premium	$203.0	0.9%
Oil and Gas Severance	$46.0	0.2%
Horse Race Wagering	$13.4	0.1%
Airport Parking	$18.2	0.1%
Commercial Mobile Radio	$12.3	0.1%
Transportation Taxes		
Gasoline	$913.9	3.9%
Diesel Fuel	$86.9	0.4%
Weight	$757.2	3.2%
Aviation Fuel	$7.7	0.0%
Liquified Petroleum	$1.1	0.0%
Property Taxes		
State Education	$1,350.0	5.8%
Real Estate Transfer	$254.0	1.1%
Utility Property	$156.0	0.7%
Industrial and Commercial Facilities	$159.0	0.7%
Commercial Forest	$2.6	0.0%
Private Forest	N/A	
Technology Park Facilities		0.0%
Mobile Home Trailer Coach	$3.1	0.0%
Low Grade Iron Ore Specific	N/A	
Enterprise Zone Facilities	N/A	
Neighborhood Enterprise Zone Facilities	N/A	
Other Taxes		
Liquor Markup	$105.0	0.4%
Casino Gaming	$48.2	0.2%
Airport Parking	$18.0	0.1%
Commercial Mobile Radio	$12.3	0.1%
Total Taxes	$23,373.4	100.0%

Exhibit 2. Michigan State Government Taxes: Comparison with U.S. and Other Great Lakes States, Fiscal Year 1998

Source	***% of Total Taxes***						
	Michigan	*Indiana*	*Illinois*	*Minnesota*	*Ohio*	*Wisconsin*	*U.S.*
Individual Income Tax	29.8	41.7	35.3	41.3	39.5	45.3	33.9
General Sales Tax	35.7	32.4	28.3	28.2	31.4	27.3	32.9
Selective Sales Tax	9.1	12.8	17.8	14.7	15.8	13.8	15.0
Corporate Income Tax	11.1	9.5	9.9	6.5	4.3	6.1	6.6
Other Taxes	14.3	3.6	8.6	9.3	9	7.5	11.6
Total Taxes	100.0	100.0	99.9	100.0	100.0	100.0	100.0

Source: U.S Census Bureau, Census of Governments.

Exhibit 3. Personal Income Tax Collections (millions)

Fiscal Year	*Amount*
1980	$1,912.1
1981	$2,036.0
1982	$2,289.7
1983	$2,766.4
1984	$3,255.6
1985	$3,241.4
1986	$3,151.8
1987	$3,350.3
1988	$3,573.9
1989	$3,766.2
1990	$3,907.7
1991	$4,667.1
1992	$4,892.6
1993	$5,180.0
1994	$5,529.1
1995	$5,473.1
1996	$5,868.4
1997	$6,400.4
1998	$6,793.1
1999	$7,394.0
2000	$8,403.0
Annual Rate of Change	7.7%

Exhibit 4. Consumption Taxes (millions)

Fiscal Year	*Sales*	*Use*	*Tobacco*	*Beer & Wine*	*Liquor*
1980	$1,504.0	$232.3	$141.2	$50.7	$37.2
1981	$1,595.0	$245.7	$152.8	$51.4	$39.0
1982	$1,570.4	$247.4	$188.0	$52.3	$39.2
1983	$1,699.0	$279.5	$242.1	$51.5	$39.2
1984	$1,925.0	$317.3	$241.0	$51.7	$39.3
1985	$2,139.2	$340.9	$241.0	$52.1	$41.3
1986	$2,283.1	$390.8	$236.5	$53.1	$41.3
1987	$2,348.4	$397.8	$237.4	$54.2	$40.9
1988	$2,464.0	$399.7	$264.5	$53.3	$39.8
1989	$2,615.2	$475.9	$267.0	$51.6	$60.2
1990	$2,671.3	$473.9	$255.3	$52.1	$62.4
1991	$2,671.9	$474.3	$259.2	$51.7	$64.6
1992	$2,738.1	$480.0	$246.0	$49.1	$65.4
1993	$2,905.7	$529.5	$243.6	$48.8	$66.5
1994	$3,775.3	$725.1	$395.7	$48.6	$66.0
1995	$4,884.2	$942.9	$619.4	$49.9	$65.3
1996	$5,171.6	$1,034.9	$580.8	$48.7	$68.5
1997	$5,389.8	$1,092.2	$546.0	$48.3	$68.0
1998	$5,617.3	$1,159.3	$566.0	$50.3	$73.1
1999	$5,901.7	$1,283.0	$615.1	$47.8	$77.0
2000	$6,350.0	$1,358.0	$603.0	$50.0	$79.5
Annual Rate of Change	7.5%	9.2%	7.5%	-0.1%	3.9%

Exhibit 5. Business Taxes (millions)

Fiscal Year	*Single Business Tax*	*Insurance Co. Premium*	*Oil & Gas Severance*	*Horse Racing*	*CPI*
1980	$1,076.0	$148.6	$46.9	$27.3	
1981	$942.3	$111.0	$82.7	$24.4	
1982	$943.2	$105.2	$90.7	$22.0	
1983	$999.7	$101.6	$78.7	$21.1	
1984	$1,289.2	$101.8	$75.7	$21.5	
1985	$1,372.7	$117.0	$56.5	$21.9	
1986	$1,521.9	$148.6	$48.3	$19.6	
1987	$1,497.6	$138.9	$48.3	$20.6	111.7
1988	$1,804.1	$43.9	$43.6	$20.0	116.1
1989	$1,845.4	$76.6	$43.2	$20.8	122.3
1990	$1,798.6	$78.6	$45.6	$20.6	128.6
1991	$1,573.7	$176.0	$48.9	$19.9	133.1
1992	$1,685.1	$178.3	$41.3	$20.0	135.9
1993	$1,791.1	$188.2	$40.1	$18.9	139.6
1994	$2,035.4	$194.4	$33.5	$17.4	144
1995	$2,130.4	$213.6	$27.2	$14.8	148.6
1996	$2,187.4	$206.0	$36.8	$8.6	152.5
1997	$2,224.3	$182.4	$41.2	$11.6	156.3
1998	$2,349.1	$142.6	$31.0	$12.7	159.8
1999	$2,360.5	$199.5	$24.2	$13.3	164.4
2000	$2,362.0	$203.0	$46.0	$13.5	
Annual Rate of Change	4.0%	1.6%	-0.1%	-3.5%	

Exhibit 6. State Transportation Taxes

Fiscal Year	Gasoline	Diesel Fuel	Weight	Aviation Fuel	Liquified Petroleum	MUSTFA
1980	448.2	25.6	236.3	3.4	0.4	
1981	417.5	20.1	211.0	3.5	0.5	
1982	431.0	31.7	213.5	2.9	0.8	
1983	433.1	36.5	237.7	3.0	1.1	
1984	529.0	40.4	255.9	3.3	1.3	
1985	569.7	45.4	286.7	3.9	1.3	
1986	595.8	47.9	300.0	4.3	1.1	
1987	604.5	50.7	315.6	5.2	1.0	
1988	619.0	52.1	363.2	5.6	0.9	
1989	634.0	54.1	397.0	5.6	0.9	
1990	626.2	53.3	409.8	6.8	4.0	52.2
1991	622.9	53.1	420.2	6.2	1.0	50.7
1992	631.0	54.6	441.8	6.6	1.0	51.8
1993	657.2	66.7	462.5	7.4	1.1	51.1
1994	659.1	69.0	494.3	7.8	1.1	57.6
1995	682.5	73.6	521.2	7.8	0.8	53.6
1996	681.6	80.3	564.4	8.0	1.1	58.0
1997	737.3	83.9	597.0	6.7	1.1	60.3
1998	904.5	118.4	665.3	6.9	1.0	57.5
1999	931.7	134.7	710.2	8.4	1.0	58.5
2000	931.5	138.3	757.2	7.7	1.1	59.8
Annual Rate of Change	3.7%	8.8%	6.0%	4.2%	5.2%	1.4%

Exhibit 7. State Property Taxes (millions)

Fiscal Year	State Education	Real Estate Transfer	Utility	Inheritance/ Estate	Industrial and Commercial Facilities	Commercial Forest
1980			$96.4	$50.4	$16.1	$0.2
1981			$101.5	$55.4	$21.5	$0.2
1982			$107.3	$57.7	$24.1	$0.3
1983			$110.6	$64.2	$33.4	$0.8
1984			$114.8	$62.4	$40.1	$0.7
1985			$111.8	$62.7	$44.0	$0.7
1986			$118.4	$78.3	$51.3	$0.1
1987			$114.2	$84.5	$76.5	$0.1
1988			$128.8	$93.8	$68.7	$0.7
1989			$138.9	$103.9	$73.8	$0.8
1990			$144.1	$124.4	$61.7	$1.2
1991			$145.7	$119.6	$62.4	$0.9
1992			$147.5	$207.8	$58.8	$1.3
1993			$152.4	$163.3	$52.1	$0.9
1994	$ 446.9		$124.2	$57.0	$86.8	$0.1
1995	$1,064.5	$91.1	$130.1	$73.7	$106.6	$1.5
1996	$1,110.6	$161.2	$138.6	$87.0	$121.8	$5.0
1997	$1,156.1	$192.8	$149.6	$79.5	$117.5	$3.4
1998	$1,256.9	$227.9	$156.8	$110.4	$115.3	$2.4
1999	$1,273.5	$261.7	$150.3	$174.9	$136.5	$2.6
2000	$1,350.0	$254.0	$156.0	$177.0	$159.0	$2.7
Annual Rate of Change	4.9%	12.0%	2.4%	6.5%	12.1%	13.9%

Appendix

Author Biography

Robert Kleine is vice president and senior economist at Public Sector Consultants. He is the firm's chief advisor on fiscal affairs, is a nationally recognized authority on taxation, school finance, economic forecasting, and economic development, and a professor of graduate courses at Michigan State University on public finance. He has been with PSC since 1985, working extensively with state and local governments and nonprofit agencies in the areas of economic development, transportation, revenue forecasts, economic impact analyses, school consolidation, charter schools, gaming, and the development of financing alternatives for public transit, the arts, and other public purposes.

Mr. Kleine is former director of the Office of Revenue and Tax Analysis in the Michigan Department of Management and Budget. He also served as a senior fellow at the Advisory Commission on Intergovernmental Relations in Washington DC in 1976-77 and 1984-85. He holds a bachelor's degree in economics and history from Western Maryland College, studied business administration at American University, and has an M.B.A. (finance) from Michigan State University.