



**House
Legislative
Analysis
Section**

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ALLOW CITY INCOME TAX INCREASE

Senate Bill 709 (Substitute H-5)
First Analysis (12-1-88)

RECEIVED

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Sponsor: Sen. John J.H. Schwartz
Senate Committee: Finance
House Committee: Taxation

Mich. State Law Library

S.B. 709 (12-1-88)

THE APPARENT PROBLEM:

The City Income Tax Act allows cities of under one million population to adopt an ordinance taxing residents and corporations at one percent and nonresidents at one-half of one percent. Sixteen such cities levy the tax. (The city of Detroit, with a population over one million, has its own income tax provisions, which allow a higher rate.) In 1987, the legislature granted the city of Battle Creek, at its request, special permission to seek voter approval of a higher rate in order to meet severe, long-term infrastructural needs. Officials from the city of Grand Rapids now seek similar permission to raise its local income tax. Representatives of the city government cite a decade of dramatic cuts, including a 25 percent reduction in city personnel, and a history of recent operating deficits. Recent budget cuts have forced damaging reductions in the police and fire departments. Officials say there is public support in the area for an increase in taxes to save vital city services. Two other major Michigan cities, Flint and Saginaw, also seek the ability to ask voters to raise income taxes should it become necessary. Both have suffered from serious revenue losses in recent years and have very high unemployment rates.

THE CONTENT OF THE BILL:

The bill would amend the City Income Tax Act to allow some cities currently levying an income tax to increase the maximum rate on corporations and resident individuals to one-and-one-half percent and the maximum rate on nonresident individuals to three-quarters of one percent. However, the rate charged nonresidents could not exceed one-half the rate charged residents. The rate increase would have to be approved by a majority of the qualified electors voting on the question. The cities that could increase their income tax rate would be those with a population of more than 140,000 and less than one million and those with a population of more than 65,000 and less than 100,000 in a county with a population under 300,000. (This is understood to apply only to Grand Rapids, Flint, and Saginaw.)

MCL 141.503 et al.

HOUSE COMMITTEE ACTION:

The Senate-passed bill dealt with expanding the personal exemptions allowed under the city income tax.

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bill would allow three Michigan cities with severe budget problems to ask the voters to raise the city income tax. It would allow these cities an additional tool in dealing

with severe budget problems. In the case of Grand Rapids, it would allow for the restoration of essential public safety expenditures. The bill would not impose taxes on a community; it simply allows local voters to decide whether an income tax increase is an acceptable means of dealing with local government fiscal problems. A similar grant of authority was made to the city of Battle Creek in 1987.

Against:

The bill would raise income taxes not only on city residents, but on nonresidents who earn a living in the city. Some people believe it is intolerable that their taxes can be raised without their being able to exercise any influence over the decision. To allow residents of a city to raise the taxes of nonresidents is unjust. At the very least, either nonresidents should be allowed to vote on the increase in income taxes or the nonresident rate should remain the same.

Response: Citizens are often subject to taxes on which they cannot vote (or exercise influence). Nonresident property owners do not determine property tax rates, for example, and people who earn income in other states must pay taxes to those states without a vote. As a practical matter, allowing nonresidents to vote on an issue that is vital to residents but of little concern to them could make it impossible for a city to determine how to meet its own needs. Further, some people argue that the city income tax, as a payroll tax, should be levied equally on resident and nonresident alike. It is only an ancient compromise dating back a quarter of a century that allows nonresidents this special treatment.

Against:

Some people argue that the bill should be limited to the city of Grand Rapids, which is the prime mover and principal advocate for the tax increase. The other cities should introduce and justify their own bills.

Response: Actually, it would make more sense to grant all cities the authority to raise income taxes with a vote of the people. That would allow local units to make their own decisions about how to solve their own problems. It can be a tough decision politically for city officials or state representatives to fight in the legislature for the right to put an income tax increase before local voters. Cities that do not have people willing to do that must suffer. Yet all central cities in the state desperately need additional revenues.

POSITIONS:

The Michigan Municipal League testified in support of the substitute. (11-30-88)

Officials from the cities of Grand Rapids and Flint testified in favor of the bill before the House Taxation Committee. (11-30-88)