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BILL ANALYSIS

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Senate Bill 451 (as enrolled) (Public Act 223 of 1987)**Sponsor:** Senator John J. H. Schwartz, M.D.**Senate Committee:** Finance**House Committee:** Taxation**Date Completed:** 3-15-88***RATIONALE***

Currently, there are 17 cities in Michigan that levy an income tax on residents. These cities also levy an income tax on nonresidents who work within the boundaries of the cities. If a city wishes to levy an income tax, its governing body must adopt an ordinance which incorporates the provisions of the uniform city income tax ordinance as written in the City Income Tax Act. The ordinance allows a city of under 1 million population to levy a 1% tax on corporations and residents and .5% on nonresidents; a city with over 1 million population (i.e., Detroit) may levy 2% on corporations, 3% on residents, and 1.5% on nonresidents.

Officials in Battle Creek would like to be allowed to put to a vote a proposal to increase the rate of the city's income tax. Currently, Battle Creek imposes a 1% rate on residents and corporations and a .5% rate on nonresidents. City officials claim that because the city nearly doubled in size after an annexation in 1983, there is a critical need to raise revenues to address the needs of the city's infrastructure.

Further, an amendment to the City Income Tax Act in 1982 contained provisions that allowed the city of Highland Park, under certain conditions, to raise city income tax rates if approved by the voters (and the increase was approved). A similar provision was enacted in 1984 to allow the city of Hamtramck to raise its income tax rate; however, the proposal was defeated by the voters. Some people feel that Hamtramck should once again be allowed to ask the voters whether they wish to raise the city's income tax rate.

CONTENT

The bill would amend the City Income Tax Act to allow a city with a population of over 50,000, that had annexed an area containing over 20 square miles in the previous six years (Battle Creek), to increase the city income tax rate, with voter approval, to not more than 1.4% on residents and corporations and .7% on nonresidents. The bill would require the approval of the city's resident electors before it could raise its income tax. The ballot proposal submitted to the electors would have to state that the increase could be levied for no longer than 13 years. The proposal would have to be approved by the voters before July 1, 1988, to become effective.

The bill also would allow a city (Hamtramck) to raise its income tax rate from 1% to up to 2% on residents and corporations, and from .5% to up to 1% on nonresidents, if approved by the city's residents before November 15, 1988. The bill provides that in order for the city to be eligible to raise its income tax, the following would have had to occur in the previous year:

- The city levied over 22 mills for city purposes and for payment of court-ordered judgments.
- The city levied over 65 mills for all purposes.
- The city levied an income tax.

MCL 141.503 et al.

FISCAL IMPACT

Fiscal information on the enrolled version of the bill is not available.

ARGUMENTS***Supporting Argument***

The city of Battle Creek nearly doubled its size in a 1983 annexation. The city, while the 20th largest in population, is the third largest in area. A study by the city of the city's needs over the coming decade reveals that a substantial amount of revenue will be needed to deal with the city's infrastructure, in addition to current problems with roads and drains that threaten to worsen if not addressed. The bill would give the city a chance to go to the voters to ask for a portion of the needed revenue, and thus handle the problems without help from the State or Federal government.

The city of Hamtramck, completely surrounded by the cities of Detroit and Highland Park, through little fault of its own finds itself under continuing pressure caused by an eroded tax base. The closing of the Dodge Main plant, the area's chronic high unemployment, and a declining population have all contributed to the fiscal troubles. The city needs to try once again to convince the voters to tax themselves so that the city's budget can be righted.

Opposing Argument

The bill would contribute to an unjust situation that is at odds with our democratic process. To allow the residents of a city to increase the taxes of nonresidents, without the nonresidents' having any say in the matter, would be totally unfair and would invite the claim of taxation without representation. By being able unilaterally to force nonresidents to pay increasing income tax rates, city residents could supplement their city's revenues without having to convince nonresidents of the need for the increase. This would leave nonresidents powerless to act while the size of their pay checks decreased—a form of government-sanctioned thievery.

While these cities need to be allowed to help themselves, a proposal such as that contained in the bill should include a provision to give nonresidents the opportunity to exercise their right to vote on proposed tax increases.

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Opposing Argument

How much of a city's services, in dollars, does a nonresident really use? To imply that nonresidents who work in a city eight hours a day make extensive use of city-funded services and should therefore pay for them is a tenuous argument upon which to justify taking a percentage or an increasingly larger percentage of their income. While it must be conceded that certain services (police and fire protection, for instance) are there if needed, they are seldom used by nonresidents. In addition, many other services (such as water and sewer) are funded through property taxes which have been levied on the building or place of employment and paid for by the nonresident's employer. Further, stating that everyone who uses city services should pay for them ignores the fact that a city's residents have a voice in how this income tax revenue will be spent but nonresidents have none.

Response: Nonresident taxes are levied because people who spend eight to 12 hours a day five days a week working in a city use many city-funded services. If a city is experiencing revenue shortages and the provision of essential services is threatened, why shouldn't everyone who uses those services be required to pay for them? And why should a nonresident who pays only half the rate of a resident be allowed to vote with full force? Allowing nonresidents to vote on an issue for which they may feel little sympathy, even though the question may be vital to the city's residents, could make it impossible for cities to establish or raise income taxes in the future.

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