



**House
Legislative
Analysis
Section**

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CITY INCOME TAX AMENDMENTS

House Bill 4587 and 4589 as introduced
House Bill 4588 (Substitute H-2)
First Analysis (5-23-95)

Sponsor: Rep. Harold S. Voorhees
Committee: Tax Policy

THE APPARENT PROBLEM:

The City Income Tax Act allows a city to impose an excise tax on resident individuals and corporations and on non-resident individuals employed in the city. Currently, 22 cities have an income tax. To impose the tax, a city's governing board must adopt an ordinance incorporating by reference the uniform city income tax ordinance provided in Chapter 2 of the City Income Tax Act. The ordinance must state the rate of the tax. With some exceptions, the rate in cities under one million population is one percent for corporations and resident individuals and one-half of one percent for non-resident individuals. (A city with a population over one million -- Detroit -- is permitted to levy three percent on residents, two percent on corporations, and one-and-one-half percent on non-residents.) The act provides a process whereby petitioners can force a referendum to be held on the adoption of a tax prior to its taking effect. Some people believe cities should be allowed to adopt an income tax rate lower than that called for in the statute, which is not now possible, and that a vote should be required in all cases before a tax is adopted. There has also been discussion of allowing the local tax to be collected with the state income tax. Some officials from the city of Wyoming, which is said to be investigating an income tax, have expressed an interest in such changes. Legislation has been introduced to accomplish them.

THE CONTENT OF THE BILLS:

The bills would amend the City Income Tax Act (MCL 141.501) in the following ways:

House Bill 4587 would allow the governing body of a city to impose an income tax at a lower rate than one percent on corporations and residents and one-half of one percent on non-residents. If a tax was imposed at a lower rate, the rate on non-resident individuals could not exceed one-half the rate on corporations and resident individuals.

House Bill 4588 would permit a city levying an income tax to enter an agreement with the Department of Treasury under which the department could administer, enforce, or collect the tax on behalf of the city. The taxes collected would be kept in a separate account and paid to the city, except that the department could retain an amount equal to the actual costs, which would be deposited in the general fund. The amount to be retained would be included in the agreement. This provision would apply beginning with the 1996 tax year.

House Bill 4589 would require that any income tax imposed after January 1, 1995, be approved by voters in the city.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, House Bills 4587 and 4589 would have no fiscal impact on the state. House Bill 4588 would allow the Department of Treasury to retain some portion of any city income taxes it collected for a city, based on its actual costs. House Bill 4587 could decrease revenue to a city if it decided to switch to the lower tax rate. House Bill 4588 could increase revenues to local units to the extent collection by the treasury department reduced the costs of local units and improved collections. House Bill 4589 could increase costs to local units adopting an income tax since it would require an election to be held beforehand that is not required now (although referendums can be compelled). (5-16-95)

ARGUMENTS:

For:

House Bill 4587 would provide cities adopting a city income tax with more flexibility in establishing the rate of the tax by permitting a rate lower than the one percent on corporations and residents and one-half of one percent on non-residents that is

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mandatory now. This is consistent with the concept of local control. It may well be the case that a city would want to replace property tax revenue or raise additional revenue through a city income tax, but not need the amount of revenue that would be generated by the current required rates. House Bill 4589 would require the prior approval of city voters in implementing a city income tax. The process now typically involves the city council imposing a tax and then facing a referendum. It would be better policy, and better for public attitudes towards government, if the law required the election prior to the adoption of the tax. Such an approach is consistent with the philosophy that taxes should only be increased with voter approval, and it also would help to improve the climate of elections on city income taxes by reducing the sense that the tax was being "forced down the throats" of the people by city officials.

For:

Under House Bill 4588, a city could enter an agreement to have the Department of Treasury administer, enforce, or collect the tax on behalf of the city. The department could retain an amount equal to its actual costs. This provision contains the potential for simplifying the administration of the tax for cities and saving them money. It would be permissive; a city could decide whether or not to enter such an agreement. The department has said it supports this idea in concept, although such a proposal would need to be worked out more fully before its practicality could be determined.

Against:

Some people believe that non-residents subject to a city income tax should be allowed to vote in elections establishing the tax. Otherwise, this is a classic case of taxation without representation.

Response:

Citizens are often subject to taxes on which they cannot vote. Non-resident property owners do not determine property tax rates. People must pay income taxes to states in which they are not residents. It is also not clear how, as a practical matter, such an election could be conducted or how the qualifications of non-resident voters could be determined.

POSITIONS:

The Michigan Municipal League supports the bill. (5-19-95)

The Mayor of the City of Wyoming has indicated his support for the bill. (5-19-95)

The Department of Treasury supports the bills in concept. (5-19-95)