Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4587 (as reported without amendment)
House Bill 4589 (as reported without amendment)
Sponsor: Representative Harold S. Voorhees
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 11-20-95

RATIONALE

Currently there are 22 cities in Michigan that levy an income tax. The City Income Tax Act allows a city to impose an income tax on resident individuals and corporations and on nonresident individuals employed in the city. 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 1,000,000 population must be 1% for corporations and resident individuals and .5% for nonresident individuals. (A city with a population over 1,000,000–Detroit–is permitted to levy 3% on residents, 2% on corporations, and 1.5% on nonresidents. Highland Park levies 2% on residents and 1% on nonresidents, and Saginaw levies 1.5% and .75%.) It has been pointed out that some cities that currently levy the 1%/.5% income tax, and others that may wish to establish a city income tax in the future, might want to levy a rate that is lower than the 1%/.5% rate but still sufficient to meet their needs.

Further, the Act provides a process whereby the question of adopting the Uniform City Income Tax Ordinance must be submitted to the voters of a city, if petitioners collect the qualified signatures of at least 10% of the number of registered voters who voted in the last municipal election. It has been suggested that a city that does not now have an income tax should be prohibited from imposing an income tax unless approved by the voters.

CONTENT

House Bill 4587

The bill would amend the City Income Tax Act to impose the tax at a rate lower than the current levy of 1% on residents and corporations and .5% on nonresidents if the governing body of a city adopted a resolution to impose the tax at a lower rate. If the tax were imposed at a lower rate, the rate on nonresidents could not exceed one-half of the rate on residents and corporations.

House Bill 4589

The bill would amend the City Income Tax Act to provide that beginning January 1, 1995, a city would be prohibited from imposing an income tax unless the city already had an income tax in effect; or, the imposition of an income tax were approved by the city's registered voters.

MCL 141.611 (H.B. 4587)
Proposed MCL 141.502a (H.B. 4589)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

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 1% on corporations and residents and .5% on nonresidents that is now mandatory. 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.

Supporting Argument

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.

Supporting Argument

The bills would have no effect on those cities (Detroit, Saginaw, and Highland Park) that levy a rate greater than the 1%/.5% now levied by the other cities that collect an income tax. Currently, the language in the Act that authorizes those cities to levy a rate above 1%/.5% states that each city may levy "a rate of not more than... [the rate allowed]". This means, then, that if those cities wish to reduce their current income tax rates, they may do so without statutory changes.

Legislative Analyst: G. Towne

FISCAL IMPACT

House Bill 4587

The bill would allow cities to adopt a resolution to lower their city income tax rates. Cities that lowered their income tax rates would decrease city income tax collections and, with almost a two-year lag, lower their revenue sharing payments. The revenue sharing loss incurred by these cities would be distributed to other cities, townships, and villages.

This bill would have no fiscal impact on the State.

House Bill 4589

The bill would raise revenue for cities that voted for an income tax, through city income tax collections and revenue sharing payments. The revenue sharing gain incurred by these cities would cause decreased revenue sharing payments for other cities, villages, and townships.

This bill would have no fiscal impact on the State.

Fiscal Analyst: R. Ross