

# Legislative Analysis

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## CITY INCOME TAX CHECKOFFS

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**Senate Bill 53 (Substitute H-1)**

**Sponsor: Sen. Gretchen Whitmer**

**House Bill 4120 (Substitute S-2)**

**Sponsor: Rep. Joan Bauer**

**Senate Committee: Finance**

**House Committee: Tax Policy**

**Complete to 8-20-07**

## A SUMMARY OF SENATE BILL 53 AS REPORTED FROM HOUSE COMMITTEE AND HOUSE BILL 4120 AS PASSED BY THE SENATE

Senate Bill 53, in combination with House Bill 4120, would allow cities with income taxes to create tax checkoffs for charitable and public safety purposes.

The bills would amend the City Income Tax Act to permit a city that imposes an income tax to amend its income tax ordinance after January 1, 2007, to create a tax checkoff. The checkoff would permit taxpayers to contribute a specified amount (deducted from any refund or added to any liability) to a restricted fund (the "Checkoff Fund") within the General Fund of the city. A Checkoff Fund would be used for charitable or public safety purposes. The purpose(s) of the fund would have to be specified in the ordinance creating the checkoff and clearly printed on the annual income tax return or in the accompanying instruction book.

An amount equal to the amount of money contributed through the checkoff would be deposited each year in the Checkoff Fund, minus an amount, up to ten percent of the cumulative contributions for the year, to cover implementation of the checkoff. Money in a Checkoff Fund at the close of a year would remain in the fund and not lapse to the General Fund of the city or any other city fund. The city treasurer would direct the investment of the Checkoff Fund.

Senate Bill 53 would create a new Section 36 in Chapter 2 of the act to describe checkoff programs. House Bill 4120 (S-2), as amended and passed by the Senate, would create a new Section 10 in Chapter 1 to allow for the adoption of amendment to a city's income tax ordinance creating a checkoff. An ordinance would have to specify in which tax years the checkoff applied and the one or more specific charitable or public safety purposes for which checkoff contributions could be used. House Bill 4120 specifies that any city that had already included one or more checkoffs on its annual return form before January 1, 2007 would be considered to have complied with the provisions of the new sections of law, and those checkoffs would be considered ratified, binding, and enforceable.

The two bills are tie-barred to one another, meaning that neither could take effect unless both were enacted.

MCL 141.510 and 141.536

### **FISCAL IMPACT:**

These bills would have no State fiscal impact and would have a minimal fiscal impact on the cities that have a city income tax.

### **BACKGROUND INFORMATION:**

The City Income Tax Act permits cities to levy an excise tax on income following adoption of an ordinance incorporating Chapter 2 of the act (MCL 141.601 to MCL 141.699). Voter approval is required for taxes first imposed after January 1, 1995. The table below shows the cities that impose an income tax, along with the year adopted, and tax rates.

| City                | Year<br>Adopted | Tax Rate |             |                  |
|---------------------|-----------------|----------|-------------|------------------|
|                     |                 | Resident | Corporation | Non-<br>Resident |
| Albion              | 1972            | 1.0%     | 1.0%        | 0.5%             |
| Battle Creek        | 1967            | 1.0%     | 1.0%        | 0.5%             |
| Big Rapids          | 1970            | 1.0%     | 1.0%        | 0.5%             |
| Detroit             | 1962            | 2.5%     | 1.0%        | 1.25%            |
| Flint               | 1965            | 1.0%     | 1.0%        | 0.5%             |
| Grand Rapids        | 1967            | 1.3%     | 1.3%        | 0.65%            |
| Grayling            | 1972            | 1.0%     | 1.0%        | 0.5%             |
| Hamtramck           | 1962            | 1.0%     | 1.0%        | 0.5%             |
| Highland Park       | 1966            | 2.0%     | 2.0%        | 1.0%             |
| Hudson              | 1971            | 1.0%     | 1.0%        | 0.5%             |
| Ionia               | 1994            | 1.0%     | 1.0%        | 0.5%             |
| Jackson             | 1970            | 1.0%     | 1.0%        | 0.5%             |
| Lansing             | 1968            | 1.0%     | 1.0%        | 0.5%             |
| Lapeer              | 1967            | 1.0%     | 1.0%        | 0.5%             |
| Muskegon            | 1993            | 1.0%     | 1.0%        | 0.5%             |
| Muskegon<br>Heights | 1990            | 1.0%     | 1.0%        | 0.5%             |
| Pontiac             | 1968            | 1.0%     | 1.0%        | 0.5%             |
| Port Huron          | 1969            | 1.0%     | 1.0%        | 0.5%             |
| Portland            | 1969            | 1.0%     | 1.0%        | 0.5%             |
| Saginaw             | 1965            | 1.5%     | 1.5%        | 0.8%             |
| Springfield         | 1989            | 1.0%     | 1.0%        | 0.5%             |
| Walker              | 1988            | 1.0%     | 1.0%        | 0.5%             |

**Source:** Citizens Research Council of Michigan, "Outline of the Michigan Tax System." January 2007.

Currently, nine of the 22 cities that impose an income tax are known to permit taxpayers to donate the amount of any overpayment to the city. This includes Albion (operational expenses), Hamtramck (no specified purpose), Ionia (youth recreation, the local library, and the local theater), Grand Rapids (purchasing American flags placed on veterans graves), Muskegon (Muskegon Recreation Center), Muskegon Heights (youth recreation), Pontiac (no specified purpose), Saginaw (fireworks), and Walker (the Comstock Park, Grandville, and Kenowa Hills Education Foundations).

## **POSITIONS:**

The Department of Treasury has indicated support for the bills. (8-8-07)

The Michigan Municipal League has indicated support for the bills. (8-8-07)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.