

Legislative Analysis



INCOME TAX CHECKOFFS FOR CITIES

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House Bill 4120 as introduced
Sponsor: Rep. Joan Bauer
Committee: Tax Policy

First Analysis (2-7-07)

BRIEF SUMMARY: The bill would permit cities that impose an income tax to create a checkoff program enabling taxpayers to contribute funds to the city.

FISCAL IMPACT: The bill would have no fiscal impact on the state or local units of government.

THE APPARENT PROBLEM:

Under the City Income Tax Act, 22 cities in the state levy an excise tax on the income of resident individuals and businesses and non-resident individuals employed within the city. To levy the tax, cities must adopt an ordinance incorporating Chapter 2 of the City Income Tax Act (MCL 141.601 to MCL 141.699). For income taxes first imposed after January 1, 1995, voter approval is also required. Reportedly, cities spend a significant amount of money printing and sending refund checks that, for many individuals, are not significant amounts. (As an example, officials with the City of Lansing testified in committee that it sends out approximately 35,000 refund checks where the amount is less than \$20). For some cities, the cost to process returns and issue refund checks nearly equals the amount to be refunded. At a time when cities throughout the state have faced severe budget constraints stemming, in part, from revenue sharing reductions, constraints on the growth of property taxes, and increased costs of providing services, additional funding for city services (whether through spending reductions or increased revenue) is at a premium. It has been suggested that cities be permitted to establish an income tax checkoff program to help provide funding for city services.

THE CONTENT OF THE BILL:

The bill would amend the City Income Tax Act to permit cities that impose an income tax to amend their income tax ordinances 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 within the General Fund of the city. The purpose of the fund would have to be specified in the ordinance creating the checkoff and clearly printed on the annual income tax return or the accompanying instruction book.

MCL 141.510

BACKGROUND INFORMATION:

The table below shows the cities that impose an income tax, along with the year adopted, and the tax rates.

City	Year Adopted	Tax Rate		
		Resident	Corporation	Non-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 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.

ARGUMENTS:

For:

The bill accomplishes two major purposes: (1) reducing the costs of administering city income taxes, and (2) providing additional funding for city services. First, despite the increased use of direct deposit by individuals receiving an income tax refund, cities spend a significant amount of money to process returns and issue paper refund checks. In many instances, the refund is only a few dollars and the printing and postage costs are nearly equal to the amount of the refund itself. From a city's perspective, it makes little sense to spend \$5 to issue a \$5 refund check. It is believed that an income tax checkoff would encourage taxpayers to donate that refund to the city, thereby saving city (i.e. taxpayer) funds. Secondly, the bill potentially increases funding for city services that might otherwise be reduced or eliminated altogether. This enables users of a particular service to financially support that service (making the checkoff akin to a "fee" rather than a "tax"). While the bill doesn't specify how checkoff funds are to be spent, funds could be

used to support any number of local services, including public safety, parks and recreation, or human services.

Against:

It's not clear why the bill is necessary. Currently, nine of the 22 cities that impose an income tax 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). It's likely that these cities are establishing their donation programs under their home rule authority.

Response:

The City Income Tax Act contains no explicit reference to creating a checkoff program. Amending the act would, at the very least, clarify that donation programs (checkoffs) are permitted.

POSITIONS:

The Michigan Municipal League supports the bill. (2-7-07)

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