

Legislative Analysis



DETROIT CITY INCOME TAX

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5105

Sponsor: Rep. Steve Tobocman

Committee: Tax Policy

Complete to 9-5-07

A SUMMARY OF HOUSE BILL 5105 AS REPORTED FROM COMMITTEE

The bill would amend the City Income Tax Act to specify that the income tax rate in the City of Detroit would be 2.5 percent on resident individuals and 1.25 percent on nonresident individuals, effective July 1, 2007. Under the bill, the process that allows for Detroit's individual tax rate to be lowered each year (unless certain statutory conditions are met) would no longer apply after June 30, 2007.

The rates specified in the bill are the current city income tax rates in Detroit that have been in place since 2004.

The City Income Tax Act permits the City of Detroit to impose an income tax on corporations, city residents, and nonresidents working in the city. Under the act, the maximum rate imposed on corporations is two percent. (The current corporation rate is one percent.) Before July 1, 1999 the rate imposed on individuals was three percent for residents and 1.5 percent for nonresidents. Public Act 500 of 1998 began reducing the maximum allowable individual income tax rates, beginning July 1, 1999 and occurring on each July 1 thereafter, by 0.1 percentage point until the resident rate was reduced to two percent. (Although the rate reductions were to occur on July 1, presumably to coincide with the beginning of the city's fiscal year, the city testified that where two different rates were in effect during a single calendar year, they were combined into a single rate. For instance, the first adjustment under Public Act 500 reduced the income tax rate from 3 percent to 2.90 percent on July 1; accordingly, a rate of 2.95 percent was set for that entire calendar year.)

The scheduled rate reductions have been suspended in recent years, however. The act allows a suspension of the rate reduction if the city applies to the State Administrative Board and demonstrates that three of the following conditions are present:

- Funds from the city's rainy day fund have been withdrawn during the previous two fiscal years or the fund has a balance of zero.
- The city's income tax revenue growth rate is 0.95 or less.
- The local tax base growth rate is 80 percent or less of the statewide tax base growth rate.

-- The city's unemployment rate is 10 percent or higher according to the most recent available statistics from the Michigan Jobs Commission.

Since 2004, the City of Detroit's income tax rate has remained at 2.50 percent on residents and 1.25 percent on nonresidents because the city has successfully applied for and received determinations from the State Administrative Board that at least three qualifying conditions were present. The city does not expect to receive such a determination for calendar year 2008, however. The city anticipates it will have a reduced income tax rate (2.4 percent residents/1.2 percent nonresidents) for calendar year 2008 if the bill is not enacted.

Under the bill, the provisions dealing with the conditions that allow a halt in rate reductions would be eliminated and the rates as of July 1, 2007 (2.50 percent on resident individuals and 1.25 percent on nonresident individuals) would be fixed.

MCL 141.503

FISCAL IMPACT:

This bill would have no state fiscal impact. The City of Detroit imposes a local income tax on residents and nonresidents. Each 0.1 percentage point for residents (and 0.05 percentage point for nonresidents) equates to approximately \$11 million on a full year basis.

POSITIONS:

The Department of Treasury indicated neutrality on the bill. (9-5-07)
The City of Detroit testified in support of the bill. (9-5-07)

Legislative Analyst: Chris Couch
Shannan Kane
Fiscal Analyst: Rebecca Ross

■ 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.