

# Legislative Analysis



## DETROIT CITY INCOME TAX

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**House Bill 5105 (Substitute H-2, adopted 9-25-07)**

**Sponsor: Rep. Steve Tobocman**

**Committee: Tax Policy**

**Revised Summary**

**Complete to 10-5-07**

### **A REVISED SUMMARY OF HOUSE BILL 5105 (H-2 AS ADOPTED 9-25-07)**

The bill would amend provisions in the City Income Tax Act that establish the maximum income tax rate that a city with a population of more than 750,000 (Detroit) may levy and collect on residents and non-resident individuals working in the city. Before July 1, 1999, Detroit's income tax rate was three percent on resident individuals and 1.5 percent on nonresidents, a rate approved by city voters in 1981. However, Public Act 500 of 1998 mandated annual incremental reductions until the maximum allowable rate of two percent on resident individual and one percent nonresidents was reached. That law also provided for the suspension of the otherwise required incremental reduction in any year in which at least three of four specified adverse economic conditions were present. In recent years, some scheduled reductions have been suspended due to economic conditions with the result that the City of Detroit's income tax rate since 2004 has remained at 2.5 percent on resident individuals and 1.25 percent on non-resident individuals.

Under the H-2 Substitute version of the bill, the provision requiring incremental reductions in the City of Detroit's maximum income tax rate (Section 3(2)(b)) would not apply after June 30, 2007, and related provisions providing for the suspension of further reductions would be eliminated. As of July 1, 2007, the maximum income tax that a city with a population of more than 750,000 (Detroit) could levy and collect would be:

"a rate of not more than the maximum rate that was approved by a majority of the qualified electors voting on the question on June 23, 1981 on resident individuals. The tax rate imposed on nonresident individuals shall be 50% of the tax rate imposed on resident individuals each year."

On June 23, 1981, Detroit city voters approved an increase in the city income tax to three percent on resident individuals and 1.5 percent on nonresidents in a special election authorized by Public Acts 60 and 61 of 1981 (House Bills 4541 and 4594). Accordingly, three percent on resident individuals and 1.5 percent on nonresident individuals would be the new statutory maximum set by the bill. However, Detroit would not have to impose the maximum rate. The actual rate levied is determined by ordinance.

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.

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