

Legislative Analysis



DETROIT CITY INCOME TAX

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House Bill 6557

Sponsor: Rep. Bert Johnson

Committee: Appropriations

Complete to 12-1-10

A SUMMARY OF HOUSE BILL 6557 AS INTRODUCED 11-10-10

Generally speaking, the bill would set the maximum income tax rate in the City of Detroit at 3 percent for resident individuals and 1.5 percent for nonresidents as of January 1, 2011.

The current maximum rates in the city are 2.5 percent for residents and 1.25 percent for nonresidents.

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 3 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 rates reached two percent on resident individuals and one percent on nonresidents. 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. (Public Act 209 of 2007 legislatively suspended the rate reductions for the 2008 and 2009 calendar years, leaving the 2007 rate in place for those years.)

In addition to setting the new maximum rates, the bill would delete the provisions that describe the economic and fiscal conditions that allow the city to apply to the State Administrative Board to prevent the otherwise scheduled reduction in rates.

MCL 141.503

FISCAL IMPACT:

For the 2010-11 fiscal year (beginning July 1, 2010), the city of Detroit is estimating collections of \$215.0 million from the city income tax, 95% of which would come from individuals. Although the corporate income tax rate would remain at 1.0%, the bill would increase the individual income tax rates by 20%, which translates into about \$40 million

on a full fiscal year basis. However, because the rate increase would not take effect until January 1, 2011, the additional revenue realized in FY2010-11 would be less than half of this amount.

As a result of the higher city income tax collections, the city income tax credit on the Michigan individual income tax would also increase (albeit by a smaller amount), leading to a small decline in state income tax revenue.

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