Michigan Tax Reform Proposal

Overall Tax and Budget Plan

- $1.5 billion in spending cuts and structural reforms
- $400 million to finally start addressing unfunded OPEB liability
- A simple, fair, and efficient tax system with a net tax cut and significant business tax relief

Corporate Income Tax

Making Michigan Competitive

- Replaces MBT with a 6% corporate income tax
- No gross receipts tax
- No surcharge
- No complicated calculations
- No credits, deductions, or exemptions
- No winners at the expense of losers

Simple

- Take federal taxable income
  (with a couple of adjustments, if applicable)
- Multiply by 6%
- If you're a small business, multiply by 1.8% instead
- Insurance companies and financial institutions continue to pay their own tax as under the MBT

Fair

- Only applies to companies filing as C corps—pass-through entities like S corps, LLCs, partnerships and sole proprietors already pay tax on business income under the personal income tax
- Only applies to profits—if you didn't make money, you don't have to pay tax
- Consistent with tax treatment of personal income
- Eliminates the tax preferences that create winners and losers under the current system

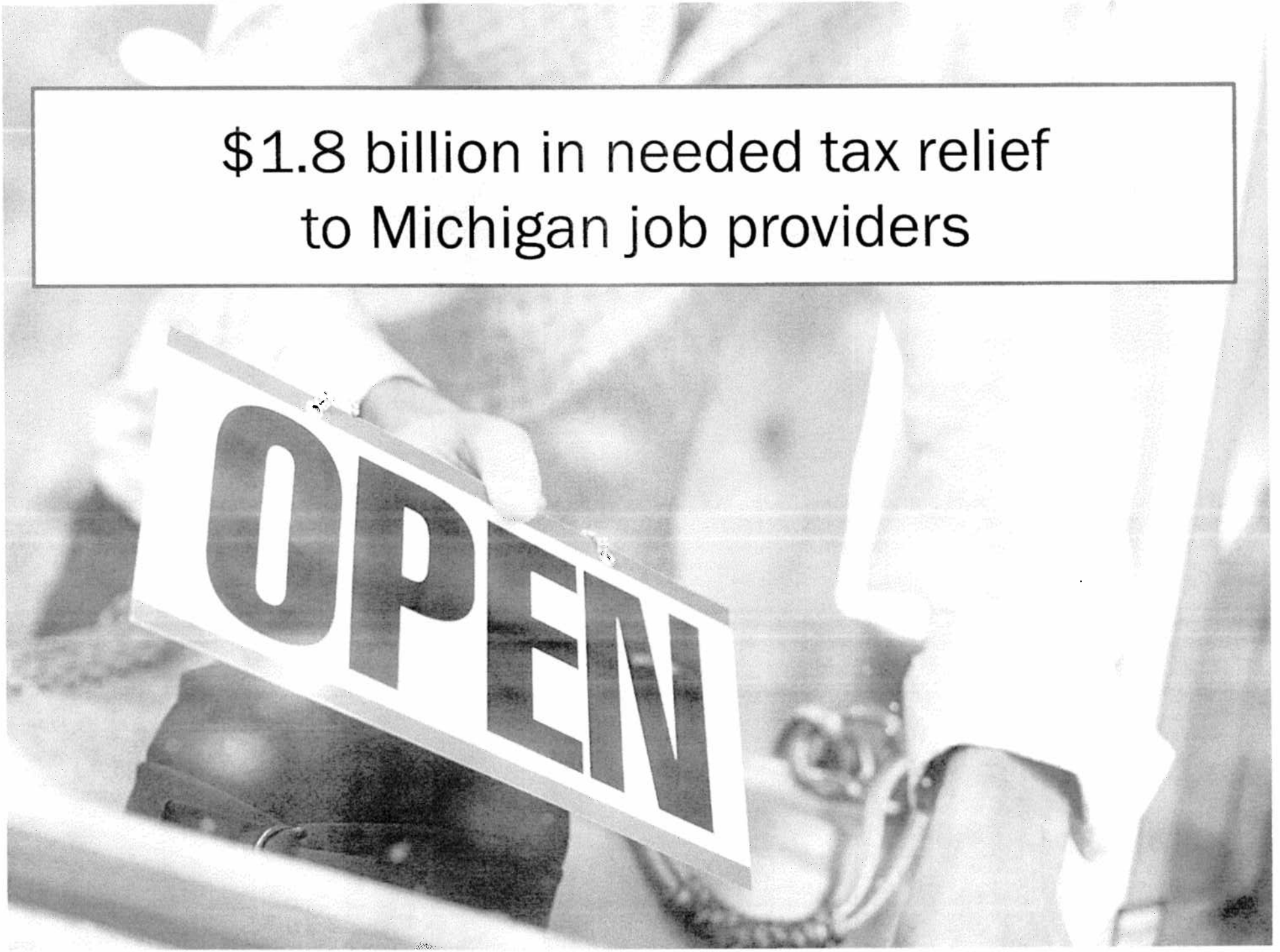
Efficient

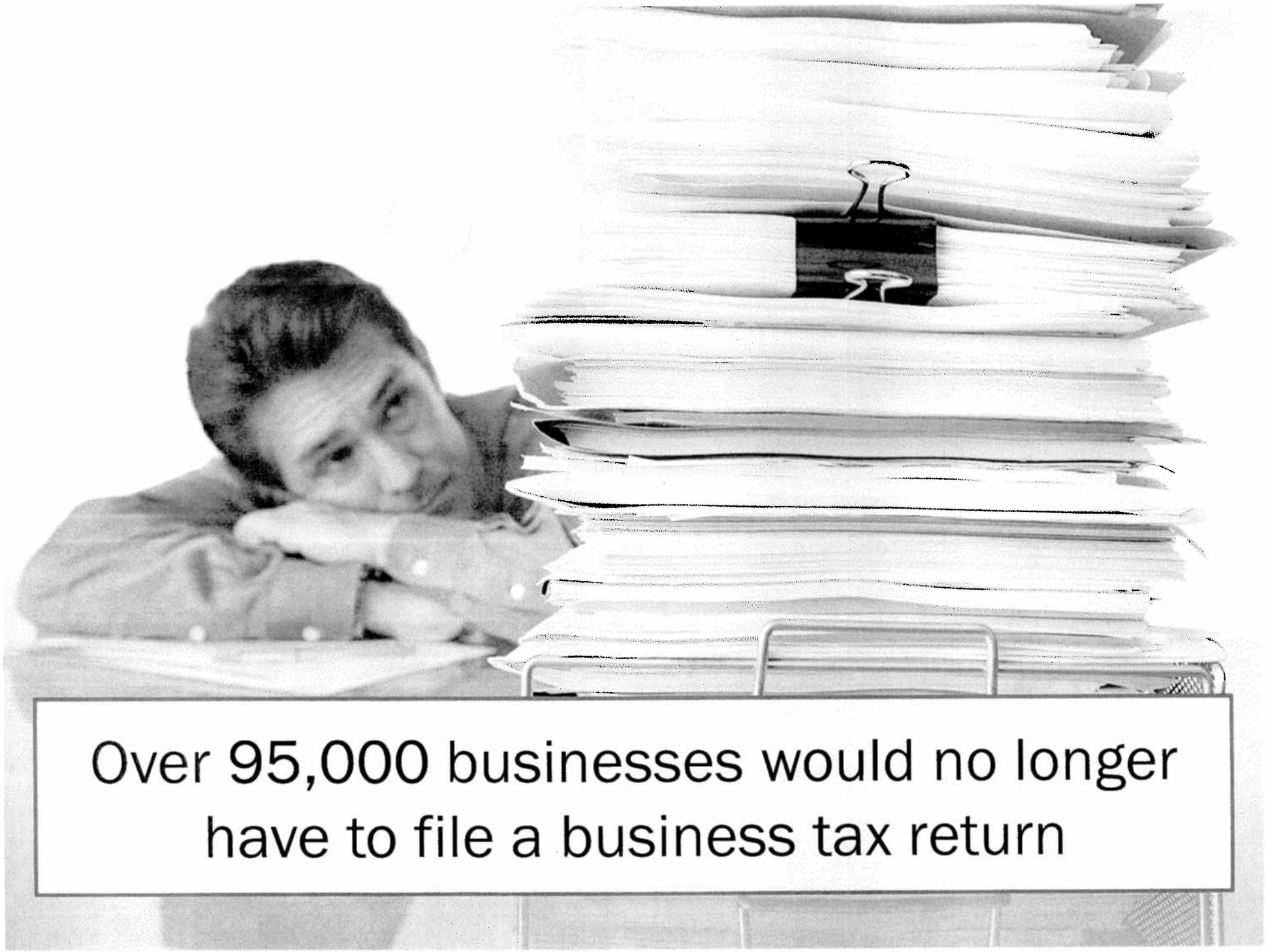
- A simple tax means the costs of compliance and administration are low
- The elimination of tax preferences means the state will no longer penalize businesses that don't have a voice in Lansing
- All businesses will have an equal opportunity to prosper and grow

Promises Kept and Increased Transparency

- Previously-awarded incentives such as MEGA, Brownfield, Film, and advanced battery credits will be honored

- In the future, all economic development incentives will be subject to the annual appropriations process and the same level of scrutiny that all other spending decisions receive


$1.8 billion in needed tax relief
to Michigan job providers
OPEN


Over 95,000 businesses would no longer
have to file a business tax return

Other Side of the Ledger

Eliminating preferences for some/preserving rate reduction for all

- The proposal generates $1.44 billion in revenue by eliminating most tax preferences under the individual income tax
- Existing preferences have unfairly distorted the tax burden under the personal income tax and created a system of winners and losers
- All taxpayers would see a reduction in the income tax rate from 4.35% to 4.25%. This reduction is currently scheduled to occur on 10/1/11
- Revenue from future scheduled rate reductions would be deposited into a fund to provide additional long-term tax and fee relief where most needed

Simple, Fair, & Efficient

- Would eliminate most tax preferences including the exemption for retirement income

- Certain base reductions and credits such as the personal exemption, 100% social security exemption, and homestead property tax credit would be retained in order to provide relief to lower income individuals

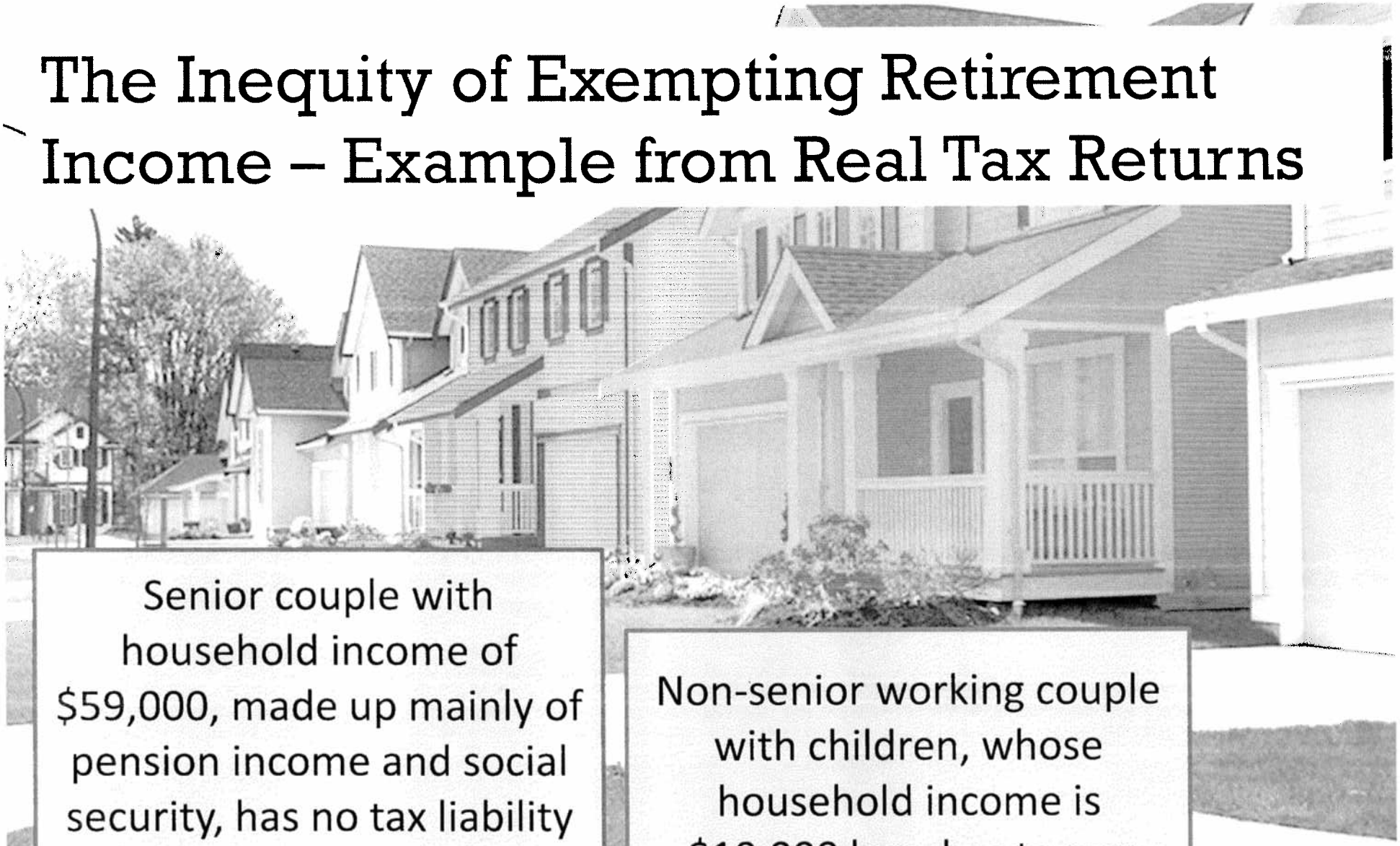
- The homestead property tax credit would be set at a single rate of 80% for qualifying taxpayers

- Specific additional relief for military personnel, veterans, and individuals with disabilities would be retained

It's a matter of fairness

- Treats working and non-working seniors the same
- Treats working seniors and non-senior pensioners the same
- Treats pensioners and working families the same
- Treats 401k recipients and pensioners the same
- All recipients still receive a deferred tax benefit
- It's all income. $100 from a pension is no different than $100 from a job

The Inequity of Exempting Retirement Income – Example from Real Tax Returns



Senior couple with household income of $59,000, made up mainly of pension income and social security, has no tax liability and actually receives a check of several hundred dollars back from the state

Non-senior working couple with children, whose household income is $10,000 less, has to pay over one thousand dollars in Michigan income tax

The Inequity of Exempting Retirement Income - By the Numbers

- Michigan is one of only 3 states that impose an income tax that exempt most or all pension income from state income tax
- In 2008, on average, seniors with under $50,000 in AGI had no income tax liability and received money back from the state
- In comparison, non-seniors making between $45,001 and $50,000 in AGI had an average income tax liability of $1,300
- In total, the net effective tax rate for all seniors based on AGI in 2008 was 0.48% compared to 2.95% for non-seniors
- To put that into perspective, a senior with AGI between $175,001 and $200,000 paid the same effective tax rate as a non-senior making between $35,001 and $40,000
- AGI does not include roughly $20 billion in federally exempt social security benefits that MI seniors receive

It's not where you started; it's where you land

It's not where you started; it's where you land…

- Michigan would continue to have a lower personal income tax burden than the majority of states

It's not where you started; it's where you land…

- Even after these proposed changes, the average senior couple would have no tax liability until their income exceeded $41,000

It's not where you started; it's where you land…

Michigan's rate would continue to be extremely competitive, relative to its neighbors

Midwest States	Individual Income Tax
Illinois	5.00%
Indiana	3.40%
Michigan	**4.25%**
Minnesota	5.35% - 7.85%
Ohio	0.618% - 6.24%
Wisconsin	4.6% - 7.75%

It's not where you started; it's where you land…

- According to the Council on State Taxation model, this proposal would move Michigan from 30th to 16th lowest state and local business tax burden

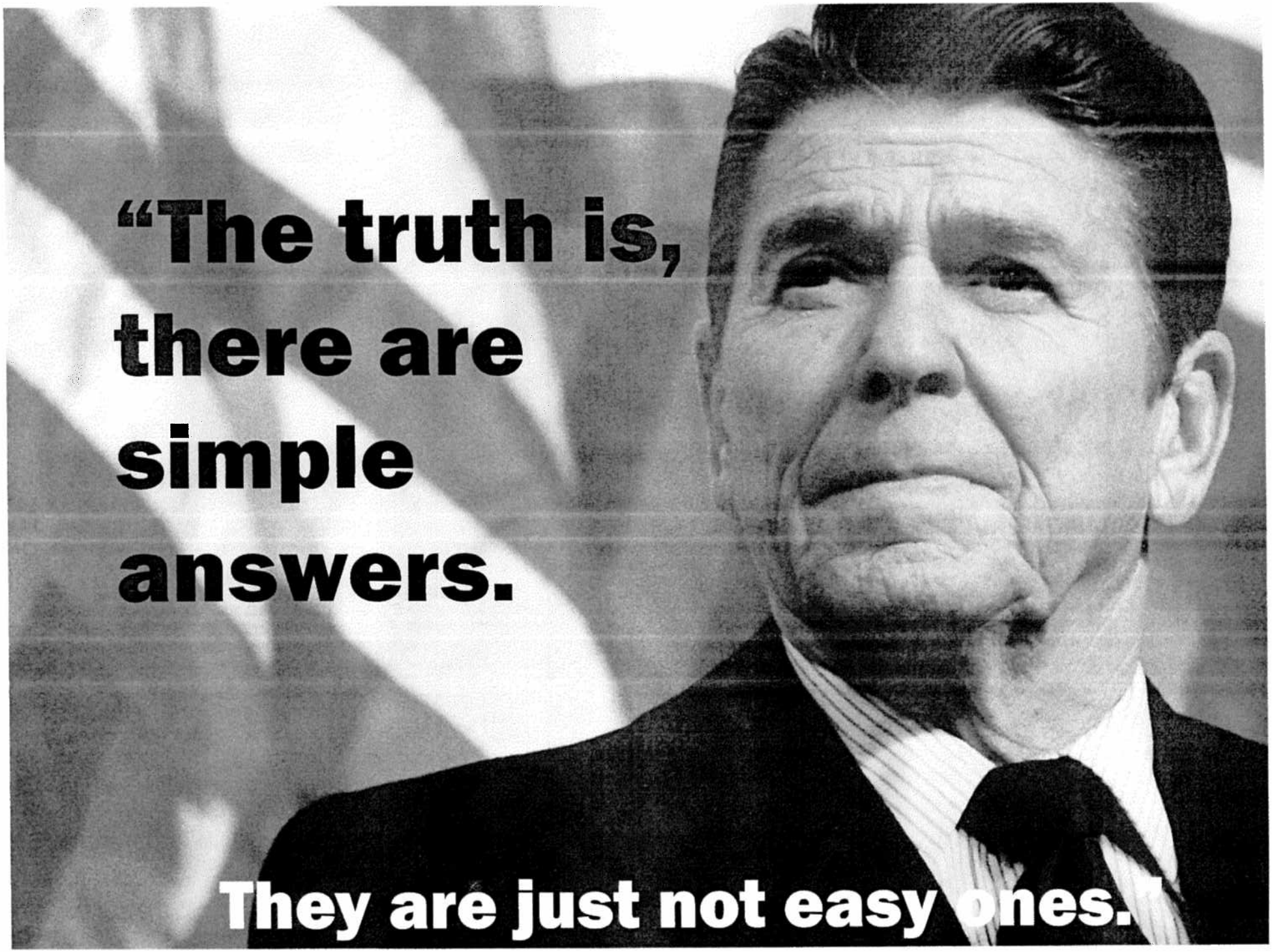
It's not where you started; it's where you land…

Michigan would have the lowest corporate income tax rate in the Midwest

Midwest States	Corporate Income Tax
Illinois	9.50%
Indiana	8.50%
Michigan	**6.00%**
Minnesota	9.80%
Ohio	CAT
Wisconsin	7.90%

Why we're doing this

- To create an environment for job growth
- To treat all individuals and businesses fairly
- To simplify our tax system and get back to basics (Filling out a tax return shouldn't require an advanced degree)
- To put Michigan back on the map


"The truth is, there are simple answers.
They are just not easy ones."

STATE OF MICHIGAN
GOVERNOR

Taxpayer Examples

Governor's Income Tax Proposal - Taxpayer Examples

Examples of Impact of Eliminating and Reducing Tax Credits, Deductions, and Exemptions

Tax Rate Lowered to 4.25% and Pension Deduction Eliminated

Personal Exemption Phased Out and EITC Repealed

Homestead Property Tax Credit at 80% for Seniors and General with Lower Income Limits

Based on 2010 Tax Law

	Retired Senior Couple	Working Nonsenior Couple	Retired Senior Single	Working Nonsenior Single
Income				
Pension	$17,500	$0	$19,240	$0
Social Security (1)	$24,000	$0	$14,160	$0
Earned Income (wages/salaries)	$0	$41,500	$0	$33,400
Other Income	$0	$0	$0	$0
Total Income	$41,500	$41,500	$33,400	$33,400
Property taxes	$2,000	$2,000	$2,000	$2,000
Current Tax Law:				
Current personal and special exemptions	$11,800	$7,200	$5,900	$3,600
Current taxable income x 4.35%	$0	$1,492	$0	$1,296
Refundable credits				
Homestead property tax credit	$548	$329	$831	$499
EITC	$0	$0	$0	$0
Net income tax under current law	**-$548**	**$1,164**	**-$831**	**$798**
Effective Tax Rate	-1.32%	2.80%	-2.49%	2.39%
Proposed Tax:				
New personal exemption/deduction amount (2)	$7,200	$7,200	$3,600	$3,600
Tax = new taxable income x 4.25%	$438	$1,468	$885	$1,287
New refundable credits (3)	$438	$438	$885	$685
Net income tax under proposal	**$0**	**$1,020**	**$0**	**$602**
Effective Tax Rate	0.00%	2.46%	0.00%	1.80%
Net increase (decrease) from current law	**$547**	**($144)**	**$831**	**($196)**

Notes

1. Social Security levels represent typical levels for a senior couple and senior single.
2. Subtractions are maintained except for reduction in pension deduction, senior investment income, and miscellaneous. Exemption amount for 2010 was $3,600, and the exemption for 2011 is $3,700.
3. Homestead credits reduced with phaseout between $61,000 and $70,000.

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

Governor's Income Tax Proposal - Taxpayer Examples
Examples of Impact of Eliminating and Reducing Tax Credits, Deductions, and Exemptions
Tax Rate Lowered to 4.25% and Pension Deduction Eliminated
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Homestead Property Tax Credit at 80% for Seniors and General with Lower Income Limits
Based on 2010 Tax Law

	Single Retired Senior	Single Retired Senior	Retired Senior Couple	Retired Senior Couple	Retired Senior Couple	Retired Senior Couple
Income						
Pension (1)	$5,400	$21,000	$10,000	$20,000	$48,000	$85,000
Social Security (1)	$7,600	$13,400	$16,000	$22,000	$27,000	$25,000
Earned Income (wages/salaries)	$0	$0	$10,000	$0	$0	$10,000
Other Income	$0	$0	$0	$0	$2,500	$1,200
Total Income	$13,000	$34,400	$36,000	$42,000	$77,500	$121,200
Property taxes (2)	$1,800	$4,000	$3,000	$2,250	$5,550	$3,500
Current Tax Law:						
Current personal and special exemptions	$5,400	$5,400	$11,800	$11,800	$11,800	$11,800
Current taxable income x 4.35%	$0	$0	$0	$0	$0	$0
Refundable credits						
Homestead property tax credit	$1,200	$1,200	$1,200	$780	$720	$0
EITC	$0	$0	$0	$0	$0	$0
Net income tax under current law	**-$1,200**	**-$1,200**	**-$1,200**	**-$780**	**-$720**	**$0**
Effective Tax Rate	-9.23%	-3.49%	-3.33%	-1.86%	-0.93%	0.00%
Proposed Tax:						
New personal exemption/deduction amount (3)	$3,600	$3,600	$7,200	$7,200	$7,200	$7,200
Tax = new taxable income x 4.25% (4)	$77	$740	$544	$544	$1,840	$3,783
New refundable credits (5)	$1,076	$1,200	$1,200	$824	$0	$0
Net income tax under proposal	**-$1,000**	**-$461**	**-$656**	**-$80**	**$1,840**	**$3,783**
Effective Tax Rate	-7.69%	-1.34%	-1.82%	-0.19%	2.37%	3.12%
Net increase (decrease) from proposal	**$201**	**$740**	**$544**	**$700**	**$2,560**	**$3,783**

Notes:
1. Median taxable pension was $13,500 and typical Social Security benefit about $14,000 single and $24,000 joint.
2. Average property tax paid for HPTC claimant for 2009 was approximately $2,500.
3. Subtractions are maintained except for reduction in pension deduction, senior investment income, and miscellaneous. Exemption amount for 2010 was $3,600, and the exemption for 2011 is $3,700.
4. Personal exemption is phased out beginning at $75,000(s)/$150,000(j) over $25,000(s)/$50,000(j) interval.
5. Homestead credits reduced with phaseout between $61,000 and $70,000.

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Governor's Income Tax Proposal - Taxpayer Examples

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Tax Rate Lowered to 4.25% and Pension Deduction Eliminated

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Homestead Property Tax Credit at 80% for all with Lower Income Limits

Based on 2010 Tax Law

	Single Retired Senior	Retired Senior Couple	Retired Senior Couple	Married Couple with two Children	Single Filer Renter (1)	Married Couple with five Children
Income						
Pension	$21,000	$10,000	$49,000	$0	$0	$0
Social Security	$13,400	$16,000	$27,000	$0	$0	$0
Earned Income (wages/salaries)	$0	$10,000	$0	$32,000	$39,000	$48,500
Other Income	$0	$0	$2,500	$2,400	$0	$0
Total Income	$34,400	$36,000	$77,500	$34,400	$39,000	$48,500
Property taxes	$4,000	$3,000	$5,550	$1,840	$1,890	$2,125
Current Tax Law:						
Current personal and special exemptions	$5,900	$11,900	$11,900	$15,800	$3,600	$28,200
Current taxable income x 4.35%	$0	$0	$0	$818	$1,540	$883
Refundable credits						
Homestead property tax credit	$1,200	$1,200	$720	$382	$189	$257
EITC	$0	$0	$0	$461	$0	$0
Net income tax under current law	**-$1,200**	**-$1,200**	**-$720**	**-$25**	**$1,351**	**$627**
Effective Tax Rate	-3.49%	-3.33%	-0.93%	-0.07%	3.46%	1.29%
Proposed Tax:						
New personal exemption/deduction amount (2)	$3,600	$7,200	$7,200	$14,400	$3,600	$25,200
Tax = new taxable income x 4.25% (3)	$740	$544	$1,840	$850	$1,505	$990
New refundable credits (4)	$1,200	$1,200	$0	$509	$252	$342
Net income tax under proposal	**-$461**	**-$656**	**$1,840**	**$341**	**$1,253**	**$648**
Effective Tax Rate	-1.34%	-1.82%	2.37%	0.99%	3.21%	1.34%
Net increase (decrease) from proposal	**$740**	**$544**	**$2,560**	**$366**	**($98)**	**$22**

Notes:

1. Assumed that renter pays $700/month in rent.
2. Subtractions are maintained except for reduction in pension deduction, senior investment income, and miscellaneous. Exemption amount for 2010 was $3,600, and the exemption for 2011 is $3,700.
3. Personal exemption is phased out beginning at $75,000(s)/$150,000(j) over $25,000(s)/$50,000(j) interval.
4. Homestead credits reduced with phaseout between $61,000 and $70,000.

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Homestead Property Tax Credit at 80% for all with Lower Income Limits

Based on 2010 Tax Law

	Retired Senior Couple	Single Parent with two Children (1)	Married Couple with one Child (2)	Married Couple with two Children	Married Couple with three Children	Married Couple with two Children
Income						
Pension	$20,000	$0	$0	$0	$0	$0
Social Security	$22,000	$0	$0	$0	$0	$0
Earned income (wages/salaries)	$0	$22,000	$45,255	$55,000	$110,000	$250,000
Other Income	$0	$0	$0	$250	$1,500	$0
Total Income	$42,000	$22,000	$45,255	$55,250	$111,500	$250,000
Property taxes	$2,250	$1,440	$2,250	$3,000	$3,500	$4,500
Current Tax Law:						
Current personal and special exemptions	$11,800	$12,000	$11,400	$15,600	$19,800	$15,600
Current taxable income x 4.35%	$0	$486	$1,473	$1,726	$3,989	$10,196
Refundable credits						
Homestead property tax credit	$780	$402	$400	$840	$0	$0
EITC	$0	$429	$0	$0	$0	$0
Net income tax under current law	**-$780**	**-$396**	**$1,073**	**$1,085**	**$3,989**	**$10,196**
Effective Tax Rate	-1.86%	-1.80%	2.37%	1.96%	3.58%	4.08%
Proposed Tax:						
New personal exemption/deduction amount (3)	$7,200	$10,800	$10,800	$14,400	$18,000	$0
Tax = new taxable income x 4.25% (4)	$544	$478	$1,464	$1,736	$3,974	$10,625
New refundable credits (5)	$624	$538	$533	$853	$0	$0
Net income tax under proposal	**-$80**	**-$60**	**$931**	**$883**	**$3,974**	**$10,625**
Effective Tax Rate	-0.19%	-0.27%	2.06%	1.60%	3.56%	4.25%
Net increase (decrease) from current law	**$700**	**$336**	**($142)**	**($202)**	**($15)**	**$429**

Notes:

1. Assumed that single parent earns $11.00/hour, works 2,000 hours per year, and rents at $600 per month.
2. Income is median household income for Michigan household. Average property tax paid for HPTC claimant for 2009 was approximately $2,500.
3. Subtractions are maintained except for reduction in pension deduction, senior investment income, and miscellaneous. Exemption amount for 2010 was $3,600, and the exemption for 2011 is $3,700.
4. Personal exemption is phased out beginning at $75,000(s)/$150,000(j) over $25,000(s)/$50,000(j) interval.
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