

Legislative Analysis



DETROIT CITY INCOME TAX: ALLOW CITY TO RAISE NONRESIDENT RATE TO RESIDENT RATE

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House Bill 4808

Sponsor: Rep. LaMar Lemmons, III

Committee: Tax Policy (Motion to Discharge)

Complete to 6-29-05

A SUMMARY OF HOUSE BILL 4808 AS INTRODUCED 5-18-05

House Bill 4808 would amend the City Income Tax Act to permit the City of Detroit to amend its income tax ordinance, beginning July 1, 2005, to increase the nonresident rate so that it equals the resident rate. The rate change would not be effective until it was also approved by city voters. Currently, the nonresident rate is one-half of the resident rate.

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. Prior to 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 reaches two percent.

For the city's FY 2005-2006, the corporate rate will be 1 percent, the resident rate will be 2.5 percent, and the nonresident rate will be 1.25 percent. The scheduled rate reductions have been suspended in recent years; 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- Funds from the city's rainy day fund have been withdrawn during the previous two fiscal years or the fund has a balance of zero.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.

FISCAL IMPACT:

This bill would permit the City of Detroit to increase the nonresident income tax rate to the resident rate. If the City increased the nonresident rate to the resident rate, the City's income tax revenue would increase by an estimated \$100 million on a full year basis.

BACKGROUND INFORMATION:

Mayor Kilpatrick's proposed FY 2005-2006 budget for the City of Detroit includes income tax revenue of \$272.6 million, which is \$38.4 million (12.4 percent) less than income tax revenue that had been anticipated for the FY 2004-2005 budget. However, estimated collections for FY 2004-2005 are \$275.5 million, 11.4 percent less than the budgeted amount for that year. This means projected FY 2005-2006 revenue is 1.1 percent less than FY 2004-2005 estimated collections. The table below shows city income tax revenue since FY 1996-1997, and is taken from a report on the city's proposed 2005-2006 budget by the city's Auditor General.

*Detroit City Income Tax Revenue
(Millions of dollars)*

| Fiscal Year | Budgeted Revenue | Actual Revenue | Actual Over/Under Budget | | Increase/Decrease from Prior Year | |
|--------------------|-------------------------|-----------------------|---------------------------------|-------------------|--|-------------------|
| | | | Amount | Percentage | Amount | Percentage |
| 1997 | 337.6 | 332.9 | -4.7 | -1.4 | -2.9 | -0.9 |
| 1998 | 351.5 | 361.6 | 10.1 | 2.9 | 28.7 | 8.6 |
| 1999 | 368.0 | 370.4 | 2.4 | 0.7 | 8.8 | 2.4 |
| 2000 | 379.9 | 378.3 | -1.6 | -0.4 | 7.9 | 2.1 |
| 2001 | 387.4 | 341.0 | -46.4 | -12.0 | -37.3 | -9.9 |
| 2002 | 384.8 | 323.5 | -61.3 | -15.9 | -17.5 | -5.1 |
| 2003 | 323.5 | 310.9 | -12.6 | -3.9 | -12.6 | -3.9 |
| 2004 | 311.1 | 290.6 | -20.5 | -6.6 | -20.3 | -6.5 |
| 2005* | 319.0 | 275.5 | -43.5 | -13.6 | -15.1 | -5.2 |
| 2006 | 275.1 | N/A | N/A | N/A | N/A | N/A |

* For FY 2005, actual revenue collections are estimated amounts

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