

Legislative Analysis



DETROIT CITY INCOME TAX

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House Bill 5105

Sponsor: Rep. Steve Tobocman

Committee: Tax Policy

Complete to 9-6-07

A REVISED SUMMARY OF HOUSE BILL 5105 AS INTRODUCED 8-8-07

The bill would amend the City Income Tax Act to specify that beginning July 1, 2007 the income tax rate in the City of Detroit would be 2.5 percent on resident individuals and 1.25 percent on nonresident individuals. Under the bill, the process that allows for the individual tax rate to be lowered each year would no longer apply after June 30, 2007.

(The rates specified in the bill are the current city income tax rates in Detroit.)

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.) 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 was reduced to two percent.

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- Funds from the city's rainy day fund have been withdrawn during the previous two fiscal years or the fund has a balance of zero.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.

Under House Bill 5105, the provisions dealing with the conditions that allow a halt in rate reductions would be eliminated since the rate as of July 1, 2007 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.

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■ 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.