INTRODUCTION

The personal income tax affects virtually every individual in Michigan and generates approximately $6.7 billion per year for the state, accounting for over 53 percent of General Fund/General Purpose revenue and over 19 percent of School Aid Fund revenue. Each year, the Legislature considers bills that address a wide variety of issues affecting the collection and disposition of income tax revenues. This report will provide legislators with a history of changes to the income tax since its inception and an overview of the current provisions, placing the current provisions in a historical context.

The first section of the publication provides historical background leading to adoption of the income tax in 1967. In the second section, changes to the tax's provisions are summarized. The third and fourth sections demonstrate how the amount of revenue collected through the income tax has changed over time and how that revenue has been distributed. Finally, some themes related to the history of the tax are noted. Although this publication focuses on the personal income tax, some attention is devoted to the corporate and financial institution income taxes which were repealed in 1975.

Figures and tables in this publication show how the tax rate, the personal exemption, and revenue collections have changed over time. Appendices A and B detail historical income tax collections and compare current income tax law in Michigan to current income tax law in the 49 other states.

To maintain narrative continuity, the text of this report generally does not cite specific public act numbers. This information can be easily referenced in Appendix C, which presents in chronological order each public act which has made changes to the income tax. This report accounts for all policy changes made through the end of 1998 as well as the tax rate cut passed at the beginning of the 1999-2000 legislative session.

ADOPTION OF THE MICHIGAN INCOME TAX

Debate Over the Income Tax

The structure of a future state income tax was one of the most controversial issues addressed by the Constitutional Convention of 1961-62. Many delegates to the convention favored allowing a graduated income tax due to its progressive nature, but the majority of delegates would agree only to an income tax with a "flat-rate" structure.[1]

Opponents of a graduated income tax argued that the federal income tax's graduated structure should not be duplicated at the state level and that a "flat rate" structure would be more attractive to business.[2] Richard Van Deusen asserted that "there is nothing better for the state image than a bar to a graduated income tax."[3] Robert Hodges rebutted, "You are not only nailing down your philosophy of taxation, you are also nailing the coffin lid on this constitution."[4]

In the end, the proponents of a "flat-rate" tax were successful in forbidding enactment of a graduated income tax. Article IX, Section 7 of the 1963 Constitution states, "No income tax graduated as to rate or base shall be imposed by the state or any of its subdivisions." Attempts were made in 1967, 1972, and 1976 to amend the State Constitution to allow for a graduated income tax, but in each case the proposal was overwhelmingly defeated by the state's voters.

After taking office in 1963, Governor George Romney proposed a comprehensive tax revision that included a "flat-rate" income tax. His proposal was not acted upon until the state faced the prospect of a deficit in 1967.[5]

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[1] Willis F. Dunbar and George S. May, *Michigan: A History of the Wolverine State* (Grand Rapids: Eerdmans, 1995), 569.

[2] Albert Sturm, *Constitution Making in Michigan: 1961-62*, (Ann Arbor: Institute of Public Administration, University of Michigan, 1963), 223-4.

[3] Sturm, 224.

[4] Sturm, 224.

[5] Dunbar and May, 577.

The Michigan income tax was adopted only after a lengthy debate involving Governor Romney and the two houses of the Legislature. The initial debate over the tax was summarized by Gongwer News Service in the following manner:

> The House and Senate tax committees today heard demands that the proposed State tax on personal income be lower, higher, graduated, constitutionally limited and discarded in favor of legalized bingo.[6]

Given the range of positions on the income tax, it is not surprising that it took five and a half months of debate before the state income tax was signed into law on July 20, 1967. *The Detroit News* characterized the final tax package as a "hybrid beast" due to the extensive negotiation necessary to ensure its adoption and asserted that "the move was inevitable in this complex social-service government age."[7] *The Detroit Free Press*, meanwhile, stated,

> For the short range, the greatest benefit is that the governor's austerity budget, with austerity spelled d-i-s-a-s-t-e-r, does not have to go into effect. The state can maintain its work.
>
> But over the long range, the fact of tax reform itself is the most important achievement. The errors committed in haste, ignorance or anger can be corrected. The formulas can be adapted to meet changing climates and changing needs. After the high hurdle of a reform package which included an income tax, these are easy.[8]

Historical Background

Relative to other states, Michigan adopted the personal income tax quite late. In 1911, two years before the federal income tax was adopted, Wisconsin became the first state to adopt a personal income tax. By 1920, nine states had adopted a personal income tax. During the 1920s and 1930s, the number of states levying a personal income tax increased to thirty-one.

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6 Gongwer News Service *Michigan Report*, "Indicates Tax Reform Package Will Debut in Senate" (February 27, 1967), 1.

7 *Detroit News*, "A Hybrid Tax Package" (July 2, 1967), 12B.

8 *Detroit Free Press*, "After Years of Talking, Tax Reform Is a Reality" (July 3, 1967), 6A.

In 1966, thirty-four states and the District of Columbia were levying an income tax, while one state (South Dakota) that had previously levied an income tax had repealed it.[9] Currently, forty-three states and the District of Columbia levy an income tax.[10]

Although Michigan did not adopt an income tax until 1967, there were numerous proposals to do so prior to 1967. Amendments to the 1908 Constitution that would have authorized an income tax with various restrictions with respect to rates, exemptions, and the disposition of proceeds were proposed and defeated by the voters in 1922, 1924, 1934, and 1936. In addition, many personal income tax bills were proposed and rejected by the Legislature.[11] These unsuccessful tax proposals included a proposal in 1957 by six-term governor G. Mennen Williams who urged the state to adopt both a graduated income tax and a corporate income tax. Instead, the business activities tax was adopted. This proposal to adopt both a graduated income tax and a corporate income tax was precipitated by state fiscal crises in the late 1950s that culminated in a "payless payday" for state employees on May 5, 1959.[12]

Constitutional Questions

Opposition to Governor Williams' plan demonstrated a persistent problem with interpretation of the uniformity provisions of the 1908 Constitution. It was unclear as to whether, under these provisions, the Legislature had the power to levy a graduated income tax or an income tax that included any provisions for exemptions or credits. These questions were addressed in a 1963 State Supreme Court decision, in the *Constitution of the State of Michigan of 1963*, and in opinions of the attorney general.

[9] Prior to 1966, West Virginia had adopted, repealed, and readopted the income tax. Source: Advisory Commission on Intergovernmental Relations and Milton C. Taylor, "The Personal Income Tax" in *Michigan Tax Study: Staff Papers* (Lansing, 1956), 487.

[10] Source: Federation of Tax Administrators, 1998. For a list of states imposing a tax on personal income and the year in which the tax was enacted see Appendix B.

[11] Taylor, 488.

[12] Dunbar and May, 560-66.

In 1963, a class action suit brought against the City of Detroit asked the court to declare as unconstitutional — based on provisions of the 1908 Constitution — the city's income tax ordinance. The State Supreme Court ruled in 1963 that an income tax is an excise or specific tax, rather than an ad valorem tax as the plaintiffs argued, and that, under the provisions of the 1908 Constitution (the 1963 Constitution had not yet taken effect), the city had sufficient legal standing to levy the tax.[13]

As noted above, Michigan's 1963 Constitution prohibited a graduated income tax. In 1964 and 1965 rulings, however, in response to requests by members of the Legislature, the attorney general opined that cities may tax residents and nonresidents at different rates; the Legislature may grant exemptions from an income tax; natural persons, corporations, and financial institutions may be classified as taxpayers; and different rates and exemptions may apply to each class.[14]

13 *Dooley v. City of Detroit,* 370 Mich. 194 (1963).

14 OAG 4295, May 14, 1964, *Biennial Report*, 1963-1964, 393. OAG 4415, February 25, 1965, and OAG 4428, March 31, 1965, *Biennial Report*, 1965-1966, 27, 51.

CHANGES TO THE MICHIGAN INCOME TAX

The Income Tax as Originally Enacted

Michigan's income tax, as originally enacted by Public Act 281 of 1967, included the following provisions:

- Federal adjusted gross income, with several adjustments, as the base for the personal income tax;
- A tax rate of 2.6 percent on personal income;
- A personal exemption of $1,200;
- A sliding scale credit for city income taxes with a maximum credit of $10,000;
- A credit for property taxes paid and a renter's credit that allowed renters to impute their property tax liability;
- A credit for income taxes paid to other states;
- A tax rate of 5.6 percent on corporate income;
- A tax rate of 7.0 percent on profits of financial institutions;[15] and
- Distribution of 17 percent of net collections to local units on a per capita basis with one-half of the total amount being distributed to counties and one-half of the total amount being distributed to cities, villages, and townships.

The state personal income tax became effective October 1, 1967. The income taxes on corporations and financial institutions took effect January 1, 1968.

[15] The income taxes on corporations and financial institutions replaced the business activity and bank shares taxes.

Table 1

Changes to the Personal Income Tax Rate

	Legislation	Tax Rate		Effective
ORIGINAL TAX RATE	**1967 PA 281**		**2.60%**	**10/01/67**
INCREASE RECOMMENDED BY GOVERNOR MILLIKEN IN HIS 1971 BUDGET MESSAGE DUE TO PROJECTED BUDGET DEFICIT. INCREASE SET TO EXPIRE 8/1/72 UNLESS CONSTITUTIONAL AMENDMENTS INSTITUTING PROPERTY TAX REDUCTION AND GRADUATED INCOME TAX WERE SUBMITTED TO THE PEOPLE.	**1971 PA 76**	**INCREASED TO**	**3.90%**	**08/01/71**
PROPOSED AMENDMENT WAS REJECTED, BUT 3.90% TAX RATE REMAINED IN PLACE UNTIL 1975	1972 PA 181			
INCREASED UNTIL 7/1/77 WHEN RATE WAS SET TO DECREASE TO 4.40%. INCREASE NECESSITATED BY REVENUES LOST DUE TO EXEMPTION OF FOOD AND PRESCRIPTION DRUGS FROM SALES TAX [1]	**1975 PA 19**	**INCREASED TO**	**4.60%**	**05/01/75**
PROVISION THAT WOULD HAVE ROLLED RATE BACK TO 4.40% WAS ELIMINATED. HOLDING RATE AT 4.60% WAS PRECIPITATED BY SLOWER ECONOMIC RECOVERY THAN HAD BEEN PREDICTED [2]	1977 PA 44			
RATE WOULD HAVE BEEN TEMPORARILY RAISED TO 4.70% TO FUND CONSTRUCTION OF NEW PRISONS, BUT WAS TIED TO BALLOT PROPOSAL E WHICH WAS REJECTED BY THE STATE'S VOTERS IN NOVEMBER 1980. RATE REMAINED AT 4.60%	1980 PA 250			
RATE INCREASED UNTIL 9/30/82. INCREASE INSTITUTED DUE TO PROJECTED BUDGET DEFICITS RESULTING FROM TWIN RECESSIONS OF THE EARLY 1980S [3]	**1982 PA 155**	**INCREASED TO**	**5.60%**	**04/01/82**
RATE ROLLED BACK	**1982 PA 155**	**DECREASED TO**	**4.60%**	**10/01/82**
RATE INCREASED, BUT SET TO DECREASE OVER TIME. INCOME TAX RATES TIED TO STATE UNEMPLOYMENT RATE. INCREASE INSTITUTED DUE TO PROJECTED BUDGET DEFICITS RESULTING FROM TWIN RECESSIONS OF THE EARLY 1980S	**1983 PA 15**	**INCREASED TO**	**6.35%**	**01/01/83**
RATE DECREASED	**1983 PA 15**	**DECREASED TO**	**6.10%**	**01/01/84**
DECREASE TO 5.35% WOULD HAVE BEEN EFFECTIVE 1/1/85. RATE REDUCED EARLIER THAN PLANNED; SEE 1984 PA 221	1983 PA 15			
DECREASE TO 5.10% WOULD HAVE BEEN EFFECTIVE 10/1/86. RATE REDUCED EARLIER THAN PLANNED; SEE 1984 PA 221	1983 PA 15			

. . . . . continued on next page

Table 1

Changes to the Personal Income Tax Rate

continued from previous page . . . . .

	Legislation	Tax Rate		Effective
Earlier-than-scheduled rate decrease was the result of "... an improving economy, which has helped the state recover, coupled with the dissatisfaction of the taxpayers with current tax policies ..." [4]	**1984 PA 221**	**decreased to**	**5.35%**	**09/01/84**
Rate decrease due to certification by state treasurer that legislated accounting requirements had been met [5]	**1983 PA 15**	**Decreased to**	**5.10%**	**11/11/85**
Decrease to 4.60% would have been effective October 1, 1987. Rate reduced earlier than planned; see 1986 PA 16	1984 PA 221			
Decrease due to improvement in state's economy. [6] Further decrease would have taken effect if fiscal year 1986 revenue requirements had been met	**1986 PA 16**	**decreased to**	**4.60%**	**04/01/86**
Decrease was part of the school finance reform plan contained in Proposal A which was approved by voters in March 1994. It offset a portion of the increase in sales tax rate from 4.0% to 6.0%. Rate would have increased to 6.0% had proposal been rejected	**1993 PA 328**	**decreased to**	**4.40%**	**05/01/94**
Incremental decrease	**1999 PA 2**	**decreased to**	**4.30%**	**01/01/2000**
	1999 PA 3	**decreased to**	**4.20%**	**01/01/2001**
	1999 PA 6	**decreased to**	**4.10%**	**01/01/2002**
	1999 PA 4	**decreased to**	**4.00%**	**01/01/2003**
	1999 PA 5	**decreased to**	**3.90%**	**01/01/2004**

NOTES:

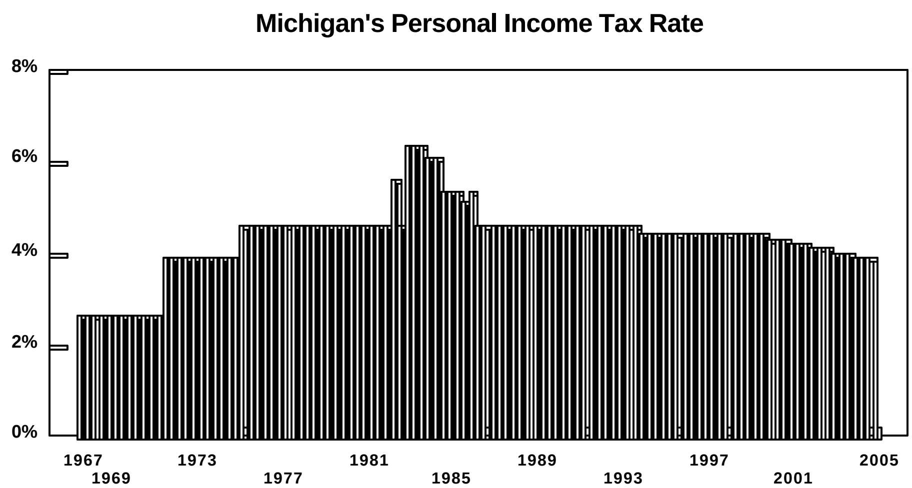
1 House Legislative Analysis Section, Analysis of House Bill 4354 (June 10, 1975).
2 House Legislative Analysis Section, Analysis of House Bill 4055 (May 20, 1977).
3 Senate Analysis Section, Analysis of Senate Bill 190 (April 20, 1982) and House Legislative Analysis Section, Analysis of House Bills 4092 and 4093 (April 6, 1983).
4 Senate Analysis Section, Analysis of Senate Bill 660 (July 20, 1984), 1.
5 House Legislative Analysis Section, Analysis of Senate Bill 77 (February 12, 1986).
6 House Legislative Analysis Section, Analysis of Senate Bill 77 (February 12, 1986).

Personal Income Tax Rate

The tax rate on personal income has changed 15 times since 1967. Most of the changes were made in the early- to mid-1980s. These changes included a number of temporary tax rate increases instituted in response to the fiscal crises caused by the twin recessions of 1980 and 1981-82. The rate remained constant for seven years, from 1987 until 1994, and then decreased from 4.6 percent to 4.4 percent as part of the school finance reform package associated with Proposal A.

Finally, the first business of the 90th Legislature was to enact legislation which will lower the tax rate to 3.9 percent over a time period beginning in 2000. Rate changes are displayed in **Table 1** and **Figure 1**. A chronology of *all* changes to the income tax is available in Appendix C.

Figure 1



Source: House Fiscal Agency compilation

In summary, increases in the income tax rate have been made on three occasions to deal with economic slowdowns and/or the threat of budget deficits. The 1971 increase to 3.9 percent was never repealed, while the increases of the early 1980s were reversed when economic conditions improved.

The remaining two changes to the income tax rate were associated with other changes in the state's tax structure. The 1975 tax rate increase to 4.6 percent was necessitated by the exemption of food and prescription drugs from the sales tax, and the 1994 decrease to 4.4 percent was in conjunction with school finance reform and a 2 percent increase in the sales tax rate.

Corporate Income Tax Rate

The tax rate on corporate income was increased from 5.6 percent to 7.8 percent effective August 1, 1971 by the same legislation that increased the tax rate on personal income. The rate remained at 7.8 percent until the tax on corporate income was repealed by 1975 legislation. The repeal of the tax on business income coincided with the institution of the single business tax.

Financial Institutions Income Tax Rate

The tax rate on financial institutions income was increased in 1971 from 7.0 percent to 9.7 percent effective August 1, 1971. This tax (and six others) was also repealed by 1975 legislation and replaced by the single business tax which became effective Janaury 1, 1976.

Exemptions/Credits

The remaining provisions of the income tax can be classified as either tax exemptions or tax credits. Because a tax exemption (or deduction) reduces taxable income while a tax credit reduces liability, the difference in the amount of actual tax reduction between the two is significant. A $100 tax credit reduces the tax paid by exactly $100. A tax exemption, however, reduces the tax paid by an amount equal to $100 times the tax rate.

Personal Exemption

A prominent feature of the personal income tax is the standard exemption that applies to the taxpayer and his or her dependents. This exemption has been increased eight times since 1967 and is currently indexed to inflation. The exemption was increased from $1,200 to $1,500 beginning January 1, 1974. The value of the personal exemption remained $1,500 for 13 years, until 1987. The personal exemption was then increased four times by 1987 legislation: to $1,600 for tax year 1987, to $1,800 for tax year 1988, to $2,000 for tax year 1989, and to $2,100 for tax year 1990.

Legislation passed in 1995 increased the exemption twice more, to $2,400 and $2,500 for tax years 1995 and 1996 respectively, and indexed it to inflation. The 1995 legislation allowed for an additional $250 based on the results of the May 1995 revenue estimating conference, but this increase was not implemented. These increases in the personal exemption were made because the state was in danger of exceeding the constitutional revenue limit.[16] This revenue increase was due to the Federal Tax Reform Act of 1986, which had the effect of increasing the Michigan income tax base.[17]

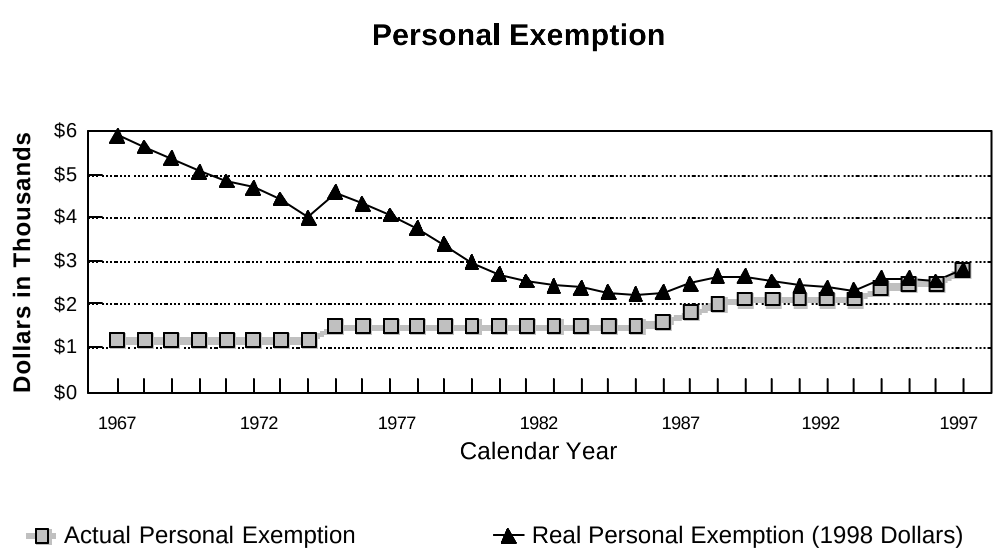
[16] House Legislative Analysis Section, Analysis of Senate Bill 29 et al. (April 21, 1995), 2.

[17] Office of Revenue Tax Analysis, Michigan Department of Treasury, *Michigan's Individual Income Tax: 1994* (September 1996), 4.

The most recent personal exemption increase was a $200 increase (on top of the inflation-adjusted value) which became effective for the 1998 tax year, making the 1998 value of the index-adjusted personal exemption $2,800. The inflation index will likely not increase the value of the exemption for the 1999 tax year but will probably increase its value by $100 for the 2000 tax year. For most years after the 2000 tax year, there will be an inflation adjustment of $100 per year in the value of the personal exemption if inflation remains at recent levels.

Indexing the personal exemption to inflation corrects the historical problem of the exemption losing value over time due to inflation. **Figure 2** illustrates this erosion in the exemption's value. In 1998 dollars, the original $1,200 personal exemption had an approximate value of $5,800. The value of the exemption declined to a low of approximately $2,200 (in 1998 dollars) in 1986. Now that the personal exemption has been indexed to inflation, its real value will remain roughly constant.

Figure 2



Source: House Fiscal Agency compilation

Other Adjustments

Other adjustments to federal adjusted gross income originally included the following:

Additions:

- Interest income from state or local obligations other than Michigan and
- Certain other exclusions from federal adjusted gross income.

Subtractions:

- Interest income from federal government obligations (which the state cannot legally tax) and
- Armed forces compensation.

A number of deductions have been added to the income tax's structure and will be detailed later in this report.

City Income Tax Credit

Prior to 1970, the percentage of city income taxes qualifying for the credit was calculated on a sliding scale based on taxes paid that varied from 5 percent to 20 percent, and the maximum credit was $10,000. For tax years 1970 and 1971, the city income tax credit was changed to provide that the credit would be 12 percent of city income taxes paid up to a maximum of $15. A sliding scale similar to the original credit and the maximum credit of $10,000 were restored by 1971 legislation. These provisions of the city income tax credit remain in effect today. The credit is computed as follows:

If total city income taxes paid are:	***The credit is:***
$100 or less	20% of taxes paid
$100 to $150	$20 plus 10% of the excess over $100
Over $150	$25 plus 5% of the excess over $150, but the total credit cannot exceed $10,000

Property Tax Credits

The original property tax credit was based on the amount of property tax paid and was computed as follows:

If total property taxes paid were:	***The credit was:***
Not over $100	20% of the property taxes
Over $100 but not over $150	$20 plus 15% of the excess over $100
Over $150 but over over $200	$27.50 plus 10% of the excess over $150
Over $200 but not over $10,000	$32.50 plus 5% of the excess over $200, but the total credit cannot exceed $10,000

The original credit allowed a taxpaying renter to claim the same credit by imputing 17 percent of rent paid as the amount of property tax paid.

The original provisions were changed in 1970 so that the credit was equal to a straight 12 percent of property tax paid up to a maximum of $15. The maximum property tax credit was eliminated, and a method of calculating the credit similar to the original provisions was adopted by 1971 legislation. Under this legislation, the value of the credit varied from 4 percent to 20 percent of property taxes paid.

With the exception of an increase in the maximum allowable credit, the property tax credit in its current form was instituted in 1973. That credit is equal to 60 percent of the amount that property tax paid exceeds 3.5 percent of household income.

The 1973 act also provided new property tax credits to blind persons and senior citizens as well as eligible servicemen, veterans, and widows of veterans. These credits were similar to the general homestead property tax credit but allowed for greater tax relief. The limit for any property tax credit was $500. Legislation passed in 1974 allowed the same credit for quadriplegic and paraplegic persons as the credit senior citizens can claim.[18] A separate property tax credit for disabled persons was also created in 1974.

[18] Hemiplegic persons were added to the list of eligible persons in 1996.

The maximum property tax credit was increased to its current level of $1,200 with legislation in 1975. Servicemen, veterans, and widows of veterans who rent were allowed a tax credit based on 17 percent of rent in 1978. Legislation in 1980 reduced the amount of the property tax credit allowed for recipients of Aid to Families with Dependent Children (AFDC) and General Assistance (GA) by the percentage of their income attributable to those sources.

Extending the provisions which reduce property tax credits for AFDC and GA recipients, 1982 legislation also reduced the property tax credit for households with income exceeding $65,000 (indexed for inflation beginning in 1982) in tax years 1980-83 and provided an added credit for senior citizens who rent. Senior citizens with rent of greater than 50 percent of income in 1982, 45 percent of income in 1983, and 40 percent of income each year thereafter may claim a credit based on the amount of their income attributable to rent. The maximum credit for seniors was set at $1,200.

Legislation passed in 1984 extended the provisions reducing property tax credits for recipients of AFDC and GA and high income households. For 1986, the income threshold at which the credit began to be reduced was set at $73,650, and the inflation index was eliminated. This legislation also extended the provisions reducing the credit for recipients of AFDC and GA. A number of subsequent acts extended the provisions reducing the credit both for recipients of AFDC and GA and for high income households, and the provisions are currently effective indefinitely.

Finally, the amount of rent paid that can be imputed was increased from 17 percent to the current rate of 20 percent as part of the school finance reform package contained in Proposal A of 1994.

To review the current provisions, the standard homestead property tax credit is equal to 60 percent of the amount by which property taxes paid (or 20 percent of rent paid) exceed 3.5 percent of household income. For households with income of more than $73,650, the credit is reduced by 10 percent plus an additional 10 percent for each $1,000 of income in excess of $73,650. The credit is, therefore, phased out entirely for households with income of $82,650 or more.

Credits claimed by recipients of public assistance, meanwhile, are reduced by the percentage of household income made up by public assistance payments. Property tax credits are refundable; that is, the amount of the tax credit can exceed tax liability.

Senior citizens are eligible for a property tax credit with different provisions. This alternate credit is equal to the full amount by which property taxes paid exceed a specified percentage of household income. This percentage is determined as follows:

Household income:	***Percentage:***
$3,000 or less	0.0%
Over 3,000 but less than $4,000	1.0%
Over $4,000 but less than $5,000	2.0%
Over $5,000 but less than $6,000	3.0%
Over $6,000	3.5%

For example, a household with income of $20,000 would receive a credit equal to the amount by which the property tax paid exceeded $700 (3.5% of $20,000) with a maximum of $1,200.

Senior citizens who rent may claim a credit equal to the amount by which their total rent paid exceeds 40 percent of their household income. Paraplegic, hemiplegic, and quadriplegic individuals are eligible for the same credit as senior citizens. The following are eligible for a property tax credit with alternate provisions: disabled persons; eligible servicemen, veterans, and widows; and blind persons.

All property tax credits are limited to a maximum of $1,200.

Credit for Income Taxes Paid to Other States

The original tax credit applied to the full amount of income taxes paid to another state or the District of Columbia. For nonresidents of Michigan, the credit was allowed only if the state to which the taxes were paid offered a reciprocal credit. Legislation in 1978 and 1979 expanded this credit to include income taxes paid to Canada.

Other Credits and Exemptions

Since the income tax's adoption, a large number of credits and exemptions have been added to the tax's structure. Some of these new credits and exemptions have subsequently been repealed, but the majority of them remain in effect. The new credits and exemptions are presented below in the order in which they were originally adopted.

- *Higher Education/Public Contributions Credit*

  Legislation approved in 1968 allowed a tax credit equal to 50 percent of any charitable contribution made to the general fund of an institution of higher education in the state. The credit was limited to a maximum of $100 or 20 percent of the taxpayer's liability, whichever was less.[19]

  Public libraries were added as an acceptable recipient of the contribution for purposes of the tax credit by 1972 legislation. That legislation also provided for the maximum credit for these contributions to be $200 in the case of a married couple filing a joint return. The credit was extended with 1974 legislation to include contributions to various types of nonprofit organizations whose purpose was to benefit institutions of higher education for tax years 1974 to 1980.

  Contributions to public broadcast stations became eligible for the credit via legislation passed in 1979. Additionally, the cutoff dates in the 1974 legislation were removed. Provisions applying the credit to a gift of art work to the state or a municipality or a contribution to the Art in Public Places Fund were approved in 1980. A 1988 act added the state museum and archives to the list of eligible recipients and removed provisions restricting the credit's amount based on the taxpayer's total income tax liability.

- *Deduction of Pension and Retirement Benefits*

  Legislation approved in 1969 provided for the deduction of retirement and pension benefits from public retirement systems created by the State of Michigan. A deduction for benefits from any retirement or pension system was allowed by 1974 legislation with the maximum deduction for these benefits set at $7,500 for a single taxpayer and $10,000 for a joint return.

[19] For corporations and financial institutions, the maximum credit was the lesser of $5,000 and 10 percent of tax liability.

The deduction of benefits from the public retirement system of another state, conditional on that state offering a reciprocal deduction, was allowed by 1980 legislation. To the extent that they are included in federal adjusted gross income, social security benefits were exempted by 1984 legislation.

The limits on the deduction were raised to $30,000 (single return) and $60,000 (joint return) by 1994 legislation which also provided that senior citizens could deduct up to $1,000 of dividend and interest income for a single return and $2,000 for a joint return. The provisions of the act tied these limits to inflation. These changes were part of a tax cut package designed to avoid exceeding the state constitutional revenue limit.[20]

The maximum amount of dividends and interest senior citizens could deduct was raised by 1995 legislation to $3,500 for a single return and $7,000 for a joint return for tax year 1997. Separate legislation in 1995 set the limits at $7,500 and $15,000, respectively, for tax year 1998 and subsequent years. These limits remained indexed to inflation. The rationale behind this deduction of investment income is to treat workers who save for retirement on their own in a manner more similar to the treatment of those workers who receive benefits from an employer-run pension or retirement system.[21]

- *Deduction for Political Contributions*
  A tax deduction for contributions to political parties and candidates was allowed by 1971 legislation; the deduction was not to exceed $50. Legislation passed in 1978 authorized a deduction of $100 for married couples filing a joint return.

- *Business Inventory Credit*
  With 1973 legislation, businesses were granted a credit equal to 25 percent of the property tax on the inventory of their personal property. The percentage was increased, and an additional credit related to the corporate franchise fee was allowed for businesses with no inventories, by legislation adopted in 1974. This credit was eliminated by 1975 legislation in conjunction with the adoption of the single business tax to replace the corporate income tax.

[20] House Legislative Analysis Section, Analysis of House Bill 4801 et al. (June 14, 1994), 2.

[21] House Legislative Analysis Section, Analysis of House Bill 4358 et al. (March 7, 1996), 5.

- *Additional Personal Exemption*
  An additional exemption of $1,500 — equal to the standard personal exemption — was granted by 1974 legislation for persons who are paraplegic or quadriplegic. This exemption was extended to persons who are hemiplegic, to deaf persons, and to disabled persons, senior citizens, and individuals who receive 50 percent or more of their income from unemployment compensation by legislation approved in 1976, 1984, and 1987, respectively. The 1987 act also incrementally decreased the amount of the additional exemption to $1,400 for the 1987 tax year, $1,200 for the 1988 tax year, $1,000 for the 1989 tax year, and $900 for 1990 and subsequent tax years.

- *Farmland Development Credit*
  In 1974, the Farmland and Open Space Preservation Act created a tax credit equal to the amount of property tax which exceeds 7 percent of household income for farmers who pledge to keep their land in agricultural production for ten years. The credit can also be claimed by owners of certain nonfarm open space lands.

- *Credit for Sales Tax Paid on Food and Prescription Drugs*
  Legislation passed in 1974 provided a tax credit for sales tax paid on food and prescription drugs by families with incomes less than $15,000. The credit was not, however, based on actual sales tax paid, but rather on a schedule which estimated the tax paid solely from household income. The credit was effective only for the 1974 tax year since food and prescription drugs were exempted from the sales tax by voter approval of a constitutional amendment in November 1974.

- *Single Business Tax Credit*
  With the adoption of the single business tax (SBT) — a modified value-added tax which replaced the corporate income tax in 1975 — a credit equal to up to 20 percent of SBT liability was created. The percentage decreased to 10 percent as business income increased. This credit was adopted to offer tax relief to unincorporated businesses subject to both the personal income and single business taxes.[22] The credit was modified for the 1977 tax year and repealed for subsequent tax years with the credit being incorporated into the provisions of the SBT.

[22] Advisory Commission on Intergovernmental Relations, *The Michigan Single Business Tax: A Different Approach to State Business Taxation* (Washington, D.C.: 1978), 9.

' *Home Heating Assistance Credit*

Currently, this tax credit (determined by either a standard or an alternative calculation) is effective through the 2000 tax year. The standard tax credit is calculated by ascertaining the standard allowance from tables provided by the Michigan Department of Treasury which are based upon household income and family size. The standard allowance is then reduced by 3.5 percent of household income to determine the standard credit. A taxpayer whose heating costs are included in his or her rent must reduce the calculated standard credit by 50 percent.

The alternative credit is available only to taxpayers whose income and family size meet certain criteria (in 1998, $9,774 maximum income for zero or one exemption claimed and $12,764 maximum income for two or more exemptions claimed). The alternative credit in 1998 is equal to 70 percent of up to $1,404 of actual heating costs. The maximum allowable amount of heating costs is tied to inflation and is adjusted each year.

The current provisions state that the credit is effective only if the total amount of federal Low Income Home Energy Assistance Program block grant funds received by the state (in the Family Independence Agency budget) during the fiscal year ending in the applicable tax year is more than $20 million. If the amount is less than $62 million, the credit is to be reduced by the percentage shortfall of the block grant funds. In 1998, federal funding was less than this amount, and taxpayers could claim only 82 percent of the amount calculated under the provisions above.

Like the homestead property tax credit, the home heating assistance credit is refundable (except for individuals whose heat costs are included in their rent); the excess credit is paid in the form of an energy draft which can then be used to pay heat providers.

' *Alternative Energy Device Credit*

A tax credit for households which installed alternative energy devices was created by legislation passed in 1978. The credit was set at 25 percent of the first $2,000 of the cost of installation and 15 percent of the next $8,000 of costs. These percentages decreased over the life of the program, which was to expire after the 1983 tax year.

The provisions of the credit were clarified by 1979 legislation, and 1983 legislation both extended the credit through the 1988 tax year and increased the percentage of costs which could be claimed by taxpayers. The credit was again extended by 1988 legislation, but became ineffective following the 1991 tax year.

- *Gleaning Credit*
  Farmers who permitted nonprofit organizations to glean (collect leftover crops after normal harvesting) their crops were granted a tax credit equal to 10 percent of the wholesale value of the gleaned crops by 1982 legislation. The credit became ineffective at the end of 1985, but was subsequently reenacted in 1986 and increased to 20 percent of the value of the crops. The credit became ineffective once again for years after 1988.

- *Michigan Education Trust Deduction*
  The Michigan Education Trust Act created the country's first prepaid tuition program.[23] Under this act, parents can pay tuition in advance to any four-year state college or university. Legislation passed in 1986 made these payments deductible for state income tax purposes. This legislation also specified that payments which are subsequently refunded to the taxpayer must then be added back to taxable income.

- *Community Foundation/Homeless Shelter Credits*
  A credit equal to 50 percent of any contribution to a community foundation was established through 1988 legislation. Provisions for the maximum amount of the credit are identical to those for contributions to institutions of higher learning and other public organizations. Community foundations are organizations which attract contributions to support charitable activities within a specific geographic area and meet certain other requirements. The original act provided for the credit only through 1991, but the credit was subsequently extended by three different public acts and is currently effective indefinitely. Legislation in 1991 created an additional credit with the same provisions for contributions to homeless shelters, food kitchens, food banks, and other organizations with similar purposes.

[23] House Legislative Analysis Section, Analysis of House Bill 5505 (January 5, 1987), 5.

- *Prescription Drug Credit*
  A credit for the cost of prescription drugs for low-income seniors was allowed by 1988 legislation. Senior citizens with household incomes less than 150 percent of the poverty level are eligible for the credit, which is equal to the amount by which the senior's prescription drug costs exceed five percent of her or his income up to a maximum of $600. For married people who are both age 65 or older, the maximum credit is $1,200.

- *Medical Care Savings Account Credit*
  The Medical Care Savings Account Act provides an alternative to traditional health care insurance plans. Under the alternative plan, an employer switches health coverage for an employee from a traditional plan to a high-deductible catastrophic policy and deposits the savings into an account for the employee's use. Legislation passed in 1994 authorized a credit for the employee equal to 3.3 percent of the funds contributed to such an account by or on behalf of an employee. The act provided, however, that this tax credit would expire upon adoption of a similar program at the federal level. A federal program was subsequently adopted, and the state credit became ineffective beginning with fiscal year 1998.[24]

- *Tuition Credit*
  A tax credit was established effective beginning with the 1995 tax year which was equal to 4 percent of tuition and fees paid to a college or university in the state. The amount of the credit was limited to $250, and it is available only to taxpayers with household incomes less than $200,000.

  Additionally, the credit can only be claimed for tuition and fees paid to a college or university which increases its tuition rates at less than the rate of inflation. The provision was meant to "encourage colleges and universities to restrain tuition increases and seek other ways to deal with rising costs besides requiring more from students and their families."[25] The amount of the credit was increased to 8 percent of tuition and fees up to a maximum of $375 by 1997 legislation.

[24] State of Michigan, *Executive Budget Tax Expenditure Appendix: Fiscal Year 1997-98*, 57.

[25] House Legislative Analysis Section, Analysis of Senate Bill 29 et al. (April 21, 1995), 5.

- *Headlee Amendment Refund Credit*
  A credit for all taxpayers equal to 2.67 percent of income tax liability attributable to income earned from January 1, 1995 through September 30, 1995 was effective for the 1995 tax year only. The credit was created because the state was projected to exceed the revenue limit of 9.49 percent of the state's total personal income in the previous year. This provision was placed in the State Constitution in 1978 by the Headlee Amendment.[26]

- *Renaissance Zones*
  Renaissance zones were created by legislation passed in 1996. Within these zones, businesses and individuals are exempt from most state taxes. The tax exemptions are intended to "infuse economic vitality into these depressed areas by promoting the creation of businesses, jobs, and neighborhoods."[27] The exemption for the personal income tax was implemented by separate legislation passed in 1996. To be eligible, an individual must have resided in a renaissance zone for at least 183 days in the given tax year. The credit can be claimed for up to 15 years (the length varies by individual zone) with a phase-out period during the final three years.

- *Child Deduction*
  Additional deductions for children — on top of the personal exemption — were established in 1997. For children younger than seven years old, the deduction is $600, and for children ages seven to twelve, the deduction is $300. This new deduction was intended to help offset the costs of child care and was effective beginning with the 1998 tax year.[28]

- *Historic Restoration Credit*
  Legislation passed in 1998 created a tax credit equal to 25 percent of qualified expenditures made for the rehabilitation of a historic resource, as approved by the Michigan Historic Center. This credit supplements a similar federal credit; to claim the state credit, a taxpayer must be eligible for the federal credit, and the amount of the federal credit must be deducted from the amount of the state credit. Further, the credit is reduced if the taxpayer sells the historic resource less than five years after the credit is claimed.

[26] House Legislative Analysis Section, Analysis of House Bill 4994 (February 26, 1996).

[27] House Legislative Analysis Section, Analysis of Senate Bill 668 et al. (December 27, 1996), 10.

[28] House Legislative Analysis Section, Analysis of House Bill 4872 et al. (July 19, 1997), 4.

The above list of changes to the income tax is by no means complete. The changes which have been detailed include those with the most significant revenue and/or policy implications.

A number of changes in adjustments to incomes have not been discussed here. Some of these changes — as well as some of the changes which have been presented — were in response to changes in the federal tax code. In particular, the Federal Tax Reform Act of 1986 had a substantial impact on Michigan's income tax.[29] More recently, the Federal Taxpayer Relief Act of 1997 affected the state income tax.[30] Lastly, there have been many technical, administrative, and clarifying changes over the life of the tax.

[29] See Office of Revenue and Tax Analysis, Michigan Department of Treasury, *Michigan's Individual Income Tax: 1994* (September 1996), 20-21 for a list of the changes instituted by the act and Michigan's response to these changes.

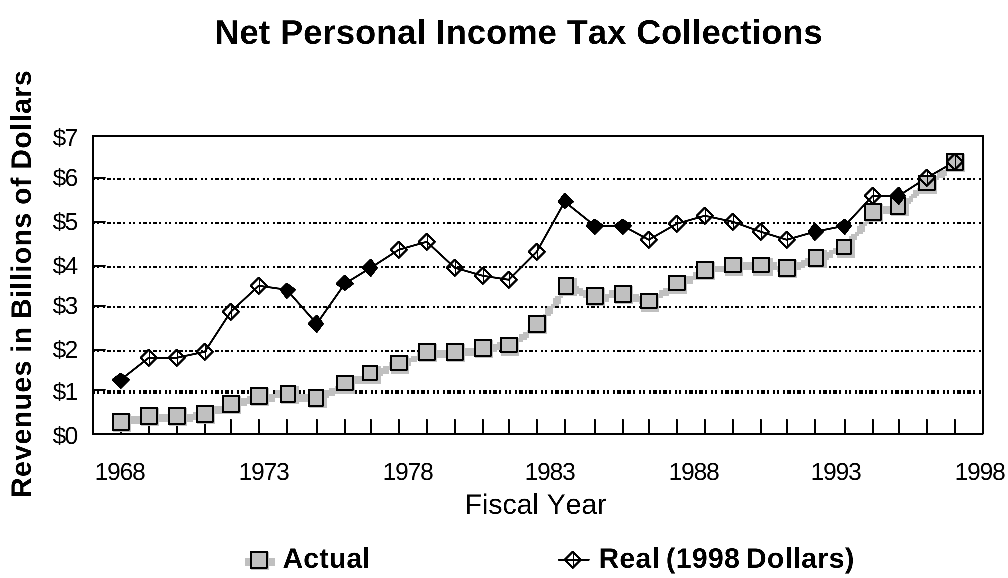
[30] See Jay Wortley, Senate Fiscal Agency, *Federal Taxpayer Relief Act of 1997* (March 1998), 9-11 for a discussion of the provisions of the act which impacted Michigan taxes.

INCOME TAX COLLECTIONS

In detailing a number of the changes to the income tax's structure, references have been made to fluctuations in the level of revenue collected. This section of the report provides a graphical presentation of personal income tax collections over time. Appendix A contains a table which lists actual revenue figures, including those for the corporate and financial institution income taxes.

Net personal income tax collections (gross collections minus refunds) are shown in **Figure 3**. This measure represents the total amount of income tax resources which can be spent by the state in a given fiscal year. As **Figure 3** illustrates, net collections have generally increased over time. When inflation is controlled for, however, the stream of revenue fluctuates quite dramatically. In particular, there are noticeable increases in collections due to the tax rate increases that became effective during or shortly before fiscal years 1972, 1976, and 1983.

Figure 3



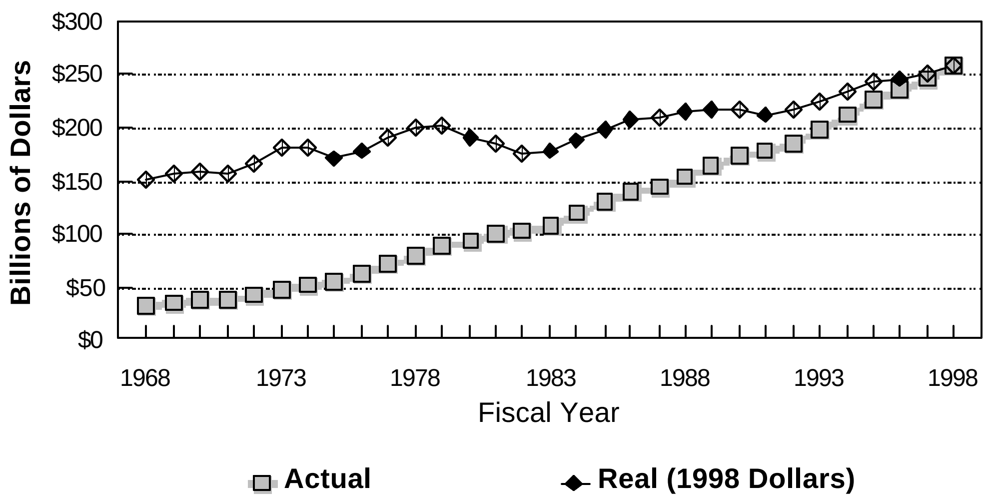
Source: Annual Report of the State Treasurer, various years, and House Fiscal Agency calculations

Additionally, there are periods of sharp decline in net collections. These valleys in the revenue cycle correspond to the national recessions of the mid-1970s, the early 1980s, and the early 1990s. The downturn in collections in the 1980s is particularly severe. This is due to the fact that Michigan experienced an economic slowdown which was significantly worse than that of the rest of the country; in fact, Michigan actually experienced two recessions during this time period.

As presented in **Figure 4,** total personal income in the state is the driving force behind changes in the amount of revenue collected through the income tax. Real personal income declined significantly during the three economic downturns which resulted in falling income tax collections. Conversely, due to personal income growth, income tax collections have grown — on average — during the late 1980s and 1990s despite no increases in the tax rate.

Figure 4

Michigan Total Personal Income

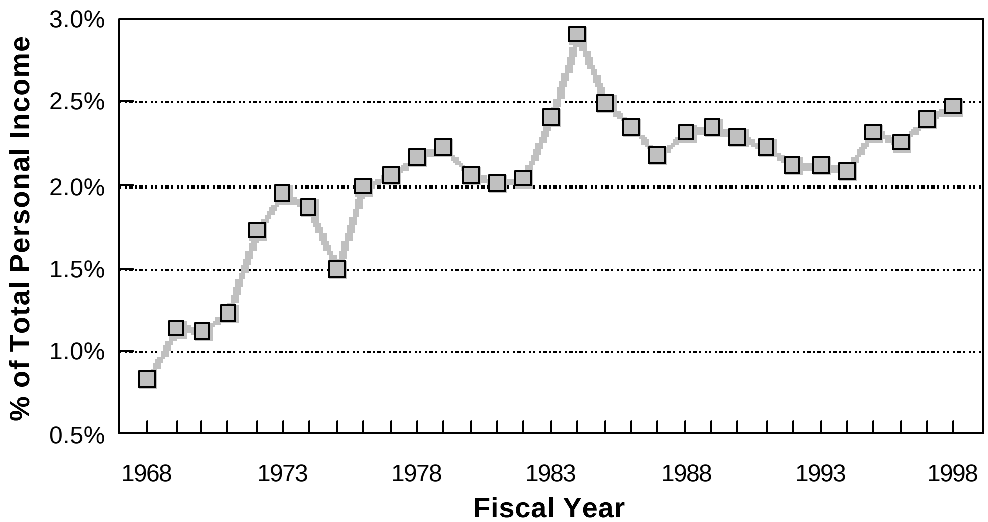


Source: Bureau of Economic Analysis, U.S. Department of Commerce and House Fiscal Agency calculations

Figure 5 presents net personal income tax revenue as a percentage of the state's total personal income. This rate has never exceeded 3 percent, demonstrating that the burden of Michigan's income tax is significantly reduced by credits and exemptions in the state and federal tax codes.

Figure 5

Effective Tax Rate



Source: House Fiscal Agency calculations

DISTRIBUTION OF TAX COLLECTIONS

Statutory Distributions

The original Income Tax Act provided that 17 percent of net collections were to be distributed to local units of government. The remaining revenue collected from the income tax went to General Fund/General Purpose (GF/GP). When the income tax rate was increased from 2.6 to 3.9 percent by 1971 legislation, the percentage distribution to local units of government was decreased from 17 percent to 11.5 percent of gross collections. In effect, the reduction ensured that local governments would get the same amount of revenue they would have received at the lower tax rate and that any increase in revenue resulting from the tax rate increase accrued to GF/GP. In a similar manner, legislation passed in 1983 adjusted the percent distribution to local governments when there were numerous temporary tax rate changes in 1982 and 1983.

As part of a plan to eliminate a projected deficit, $112.2 million in state revenue sharing payments were delayed by Executive Order 1992-10. This included delaying $35.9 million in income tax revenue to be distributed to local government units, which was accomplished by 1992 legislation.

The amount of income tax revenue distributed to local governments was reduced four times in the early 1990s:

- Reduced by $24.1 million for fiscal year 1993 (1992 legislation),
- Reduced by $48.1 million for fiscal year 1994 (1993 legislation),
- Reduced by $50.6 million for fiscal year 1995 (1994 legislation), and
- Reduced by $55.8 million for fiscal year 1996 (1995 legislation).

Beginning with fiscal year 1997, income tax revenue is no longer dedicated to local revenue sharing payments. Instead, a bipartisan revenue sharing tax force was created, and revenue sharing payments were consolidated into the sales tax.

As part of the school funding plan associated with Proposal A of 1994, 14.4 percent of gross revenue was dedicated to the School Aid Fund (SAF). The percent of gross income tax revenue dedicated to the SAF was increased to the current rate of 23 percent by 1995 legislation. The 1999 tax cut package included legislation ensuring that the amounts of funds earmarked for the SAF will be unaffected by the rate decreases. This "hold harmless" provision sets the SAF earmark at 1.012 percent divided by the existing tax rate (1.012 percent divided by the current tax rate of 0.044 equals 23 percent).

Designated Contributions

On three occasions, public acts have been adopted to allow taxpayers to designate some portion of either their tax liability or tax refund toward a specific cause.

- *State Campaign Fund*
  The Campaign Finance Act of 1976 included provisions for designation of \$2 (\$4 in the case of a joint return) of tax liability by a taxpayer to the State Campaign Fund — the proceeds of which are used to publicly finance state-level campaigns. The amount of the designation was increased to \$3 (\$6 in the case of a joint return) by 1993 legislation.

- *Children's Trust Fund*
  Legislation passed in 1982 allowed taxpayers to designate up to \$2 (\$4 in the case of a joint return) of their refund toward the Children's Trust Fund — the purpose of which is to prevent child abuse and neglect. The limit on the amount of the contribution was removed by 1985 legislation, and 1996 legislation allowed taxpayers who do not receive a refund to increase their tax payment in order to make a contribution.

- *Nongame Fish and Wildlife Trust Fund*
  As a result of 1989 legislation, taxpayers were allowed to designate \$2 or more of their refund toward the Nongame Fish and Wildlife Fund. This fund's purpose is to support research and management programs targeted at protecting endangered species. Legislation passed in subsequent years extended the program, permanently removed the program's sunset provision, and allowed taxpayers who do not receive a refund to increase their tax payment in order to make a contribution.

CONCLUSION

While it is difficult to make generalizations about the income tax's history, there are three themes which should be noted:

First, since it was first proposed in the 1920s, there has been widespread resistance to the state income tax. A number of events illustrate this aversion:

- The income tax was not adopted until 1967, almost half a century after it was initially proposed. Voters rejected the tax on four occasions, and not even the financial crisis of the late 1950s could induce legislators to accept the tax.

- When provisions were placed in the State Constitution of 1963 to address the possibility of an income tax, a majority of the delegates were so opposed to a graduated income tax that they felt it prudent to restrict future policymakers from adopting such a tax.

- The state's voters rejected a graduated income tax on three separate occasions.

- When faced with ballot proposals which would have increased the income tax, the state's voters have, on both occasions, rejected the increase. In 1980, voters were unwilling to approve a temporary increase to fund the construction of prisons, and in 1994 voters opted for a sales tax increase rather than an income tax increase.

Second, income tax revenues are highly cyclical in nature. Recessions have historically caused severe drops in real personal income which have in turn caused large decreases in income tax collections. While income tax revenues have grown steadily since the recession of the early 1990s, an economic downturn in the future would likely have similar consequences.

Third, the provisions of the income tax have, in general, become more complex over time. Of the new credits and exemptions which have been added to the tax's structure, only a few have subsequently been repealed. More frequently, the credits and exemptions have been expanded.

APPENDICES

Appendix A

Historical Michigan Income Tax Collections

(Net Collections in Millions of Dollars)

Fiscal Year	Personal Actual	Personal Real (FY 1998 Dollars)	Corporation Actual*	Financial Institutions Actual*
1968	$262.9	$1,242.0	$38.5	$1.5
1969	391.7	1,759.4	210.4	6.4
1970	411.5	1,745.1	185.0	9.6
1971	472.4	1,911.1	151.2	11.5
1972	731.3	2,864.8	259.0	13.4
1973	921.5	3,438.7	357.8	13.4
1974	965.7	3,273.9	299.5	16.6
1975	821.1	2,521.7	235.7	11.9
**1976	1,218.2	3,519.9	166.0	8.1
1977	1,440.7	3,922.8		
1978	1,700.7	4,326.0		
1979	1,948.3	4,492.2		
1980	1,924.1	3,905.8		
1981	2,033.1	3,715.1		
1982	2,109.5	3,589.9		
1983	2,600.0	4,274.5		
1984	3,462.8	5,468.3		
1985	3,221.8	4,906.8		
1986	3,281.2	4,877.6		
1987	3,149.8	4,552.1		
1988	3,571.3	4,956.9		
1989	3,870.8	5,128.6		
1990	3,961.0	4,998.6		
1991	3,951.9	4,747.7		
1992	3,920.0	4,571.6		
1993	4,183.7	4,735.5		
1994	4,412.9	4,867.1		
1995	5,247.2	5,629.3		
1996	5,365.7	5,599.8		
1997	5,934.7	6,032.8		
***1998	6,409.0	6,409.0		

NOTES:

* Corporation and Financial Institutions income taxes were repealed in 1975; minor adjustments to net collections were made after fiscal year 1976.

** Fiscal year 1976 contained five quarters. The figures have been adjusted downward by 20% to reflect this.

*** Estimate from January 1999 Consensus Revenue Estimating Conference

Sources: a) Actual collections: Annual Report of the State Treasurer*, various years; b) Real collections: HFA calculations (consumer price index from Bureau of Labor Statistics, U.S. Department of Commerce*

Appendix B

STATE INDIVIDUAL INCOME TAX PROVISIONS FOR TAX YEAR 1999 (as of January 1, 1999)

	TAX RATE RANGE (PERCENT)	INCOME BRACKETS (NUMBER)	INCOME BRACKETS (LOWEST-HIGHEST $)	PERSONAL EXEMPTIONS SINGLE	PERSONAL EXEMPTIONS MARRIED	PERSONAL EXEMPTIONS DEPENDENTS	Fed. Income TAX DEDUCT	ENACTED
Alabama	2.0 - 5.0	3	500 - 3,000 (b)	1,500	3,000	300	*	1933
Alaska	--- No State Income Tax (Repealed 1979) ---							1949
Arizona	2.87 - 5.04	5	10,000 - 150,000 (b)	2,100	4,200	2,300		1933
Arkansas	1.0 - 7.0 (e)	6	2,999 - 25,000	20	40	20 (c)		1929
California (a)	1.0 - 9.3	6	5,131 - 33,673 (b)	70	140	253 (c)		1935
Colorado	5.0	1	--- Flat rate ---	--- None ---				1937
Connecticut	3.0 - 4.5	2	6,250 - 6,250 (b)	12,000	24,000	0 (f)		1969
Delaware	2.6 - 6.4	7	2,000 - 60,000	100	200	100 (c)		1917
Florida	--- No State Income Tax ---							
Georgia	1.0 - 6.0	6	750 - 7,000 (g)	1,500	3,000	2,500		1929
Hawaii (h)	1.6 - 8.75	8	1,500 - 20,500 (b)	1,040	2,080	1,040		1901
Idaho	2.0 - 8.2	8	1,000 - 20,000 (i)	2,750	5,500	2750 (d)		1931
Illinois	3.0	1	--- Flat rate ---	1,650	3,300	1650 (j)		1969
Indiana	3.4	1	--- Flat rate---	1,000	2,000	1,000		1963
Iowa (a)	0.36 - 8.98	9	1,148 - 51,660	40	80	40 (c)	*	1934
Kansas	4.1 - 6.45	3	15,000 - 30,000 (b)	2,250	4,500	2,250		1933
Kentucky	2.0 - 6.0	5	3,000 - 8,000	20	40	20 (c)		1936
Louisiana	2.0 - 6.0	3	10,000 - 50,000 (b)	4,500	9,000	1,000 (k)	*	1934
Maine (a)	2.0 - 8.5	4	4,150 - 16,500 (b)	2,750	5,500	2,750		1969
Maryland	2.0 - 4.85	4	1,000 - 3,000	1,850	3,700	1,850		1937
Massachusetts	5.95	1	--- Flat rate ---	4,400	8800	1,000		1916
Michigan (a)	4.4	1	--- Flat rate ---	2,800	5600	2,800		1967
Minnesota (a)	6.0 - 8.5	3	17,250 - 56,680 (l)	2,550	5,100	2,550 (d)		1933
Mississippi	3.0 - 5.0	3	5,000 - 10,000	6,000	9,500	1,500		1912
Missouri	1.5 - 6.0	10	1,000 - 9,000	1,200	2,400	1,200	* (m)	1917
Montana (a)	2.0 - 11.0	10	2,000 - 69,000	1,580	3,160	1,580	*	1933
Nebraska (a)	2.62 - 6.99	4	2,400 - 26,500 (n)	88	176	88 (c)		1967
Nevada	--- No State Income Tax ---							
New Hampshire	--- State Income Tax is Limited to Dividends and Interest Income Only ---							1923
New Jersey	1.4 - 6.37	6	20,000 - 75,000 (o)	1,000	2,000	1,500		1976
New Mexico	1.7 - 8.2	7	5,500 - 65,000 (p)	2,750	5,500	2,750 (d)		1933
New York	4.0 - 6.85	5	8,000 - 20,000 (b)	0	0	1,000		1919
North Carolina	6.0 - 7.75	3	12,750 - 60,000 (q)	2,750	5,500	2,750 (d)		1921
North Dakota	2.67 - 12.0 (r)	8	3,000 - 50,000	2,750	5,500	2750 (d)	* (r)	1919
Ohio	0.673 - 6.799 (y)	9	5,000 - 200,000	1,050	2,100	1,050 (s)		1971
Oklahoma	0.5 - 6.75 (t)	8	1,000 - 10,000	1,000	2,000	1,000	* (t)	1915
Oregon (a)	5.0 - 9.0	3	2,250 - 5,700 (b)	124	248	124 (c)	* (u)	1930
Pennsylvania	2.8	1	--- Flat rate ---	--- None ---				1971
Rhode Island	--- 26.5% of Federal Tax Liability ---							1971
South Carolina (a)	2.5 - 7.0	6	2,310 - 11,550	2,750	5,500	2750 (d)		1922
South Dakota (z)	--- No State Income Tax ---							
Tennessee	--- State Income Tax is Limited to Dividends and Interest Income Only ---							1931
Texas	--- No State Income Tax ---							
Utah	2.30 - 7.0	6	750 - 3,750 (b)	2,063	4,125	2063 (d)	* (v)	1931
Vermont	--- 25% of Federal Tax Liability (w) ---							1931
Virginia	2.0 - 5.75	4	3,000 - 17,000	800	1,600	800		1916
Washington	--- No State Income Tax ---							
West Virginia (z)	3.0 - 6.5	5	10,000 - 60,000 (b)	2,000	4,000	2,000		1961
Wisconsin	4.77 - 6.77 (x)	3	7,500 - 15,001	0	0	50 (c)		1911
Wyoming	--- No State Income Tax ---							
District of Columbia	6.0 - 9.5	3	10,000 - 20,000	1,370	2,740	1,370		1947

Appendix B
NOTES

(a) Seven states have statutory provisions for automatic adjustment of tax brackets, personal exemptions, or standard deductions to the rate of inflation. Nebraska indexes the personal exemption amounts only.
(b) For joint returns, the tax is twice the tax imposed on half the income.
(c) Tax credits.
(d) These states allow personal exemptions or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemption.
(e) A special tax table is available for low-income taxpayers reducing their tax payments.
(f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over $52,500.
(g) The tax brackets reported are for single individuals. For married households filing separately, the same rates apply to income brackets ranging from $500 to $5,000; and the income brackets range from $1,000 to $10,000 for joint filers.
(h) For tax years beginning after 2000, the tax rates range from 1.5% to 8.5% for the same tax brackets.
(i) For joint returns, the tax is twice the tax imposed on half the income. A $10 filing fee is charge for each return and a $15 credit is allowed for each exemption.
(j) For tax years beginning in 2000, the personal exemption amounts increase to $2,000.
(k) Combined personal exemption and standard deduction.
(l) The tax brackets reported are for single individuals. For married taxpayers filing jointly, the same rates apply to income brackets ranging from $25,220 to $100,200. An additional 0.5% tax is applied to certain income levels.
(m) Limited to $10,000 for joint returns and $5,000 for individuals.
(n) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under $4,000 to over $46,750.
(o) The tax brackets reported are for single individuals. A separate schedule is provided for married households filing jointly which ranges from 1.4% under $20,000 to 6.37% for income over $150,000.
(p) The tax brackets reported are for single individuals. For married individuals filing jointly, the rate ranges from 1.7% under $8,000 to 8.5% over $100,000. Married households filing separately pay the tax imposed on half the income.
(q) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from $21,250 to $100,000. An additional middle income tax credit is allowed.
(r) Taxpayers have the option of paying 14% of the adjusted federal income tax liability, without a deduction of federal taxes. An additional $300 personal exemption is allowed for joint returns or unmarried head of households.
(s) Plus an additional $20 per exemption tax credit.
(t) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets ranging from $2,000 to $21,000. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
(u) Limited to $3,000.
(v) One half of the federal income taxes are deductible.
(w) If Vermont tax liability for any taxable year exceeds the tax liability determinable under federal tax law in effect on December 31, 1995, the taxpayer will be entitled to a credit of 106% of the excess tax.
(x) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from $10,000 to $20,000.
(y) Rates reported are for tax year 1998; the 1999 rates will not be determined until July 1999.
(z) Adopted but subsequently repealed income tax. Tax was readopted by West Virginia.

Sources: The Federation of Tax Administrators from various sources and the Advisory Committee on Intergovernmental Relations

Appendix C
Changes to the Michigan Income Tax

1922 Ballot Proposal [HJR 1]

Would have amended Article 10, Section 3 of the Michigan Constitution of 1909 to allow for an income tax but was rejected by voters on November 7, 1922 (For: 180,176; Against: 320,269).

1924 Ballot Proposal [Initiatory Proposal]

Would have amended Article 10, Section 3 of the Michigan Constitution of 1909 to allow for an income tax but was rejected by voters on November 4, 1924 (For: 216,437; Against: 913,833).

1934 Ballot Proposal No. 5 [Initiatory Proposal]

Would have amended Article 10, Sections 3 and 7 of the Michigan Constitution of 1909 to abolish the uniform rule of taxation and permit an income tax for public schools but was rejected by voters on November 3, 1934 (For: 245,648; Against: 798,193).

1936 Ballot Proposal No. 4 [Initiatory Proposal]

Would have amended Article 10, Section 3 of the Michigan Constitution of 1909 to prohibit certain real and personal property taxes and to provide for an income tax but was rejected by voters on November 3, 1936 (For: 382,262; Against: 1,032,384).

1963 Article IX, Section 7 of the Constitution of Michigan of 1963

"No income tax graduated as to rate or base shall be imposed by the state or any of its subdivisions."

Appendix C
Changes to the Michigan Income Tax

1967 PA 281 [SB 89] THE INCOME TAX ACT OF 1967

Imposed a tax rate of 2.6 percent on persons (beginning October 1, 1967), 5.6 percent on corporations (beginning January 1, 1968), and 7 percent on financial institutions (beginning January 1, 1968); repealed the business activities and bank shares taxes.

Allowed a sliding scale credit for city income taxes and for property taxes and allowed renters to impute their property tax liability.

Provided that 17 percent of the net collections of the individual income tax be shared with local units on a per capita basis and allocated one-half of the amount to counties and one-half to cities, townships, and villages.

1967 Ballot Proposal No. 1 [SJR G]

Would have amended Article IX, Section 7 of the Michigan Constitution of 1963 to permit the state to impose a graduated income tax but was rejected by voters on November 15, 1968 (For: 614,826; Against: 2,025,052).

1968 PA 132 [HB 4027]

Made technical changes regarding the distribution of tax proceeds.

1968 PA 315 HB 3585

Provided that if national banking associations are determined by judicial action to be exempt from the tax, then state banks would also be exempt.

Authorized a credit for part of any charitable contribution made to the general fund of an institution of higher learning within the state.

1969 PA 332 [SB 486]

Made a series of technical, clarifying, and administrative changes.

1970 PA 101 [SB 1084]

Reduced the property tax and city income tax credits; provided that for calendar year 1970 and fiscal year 1971, the tax credit is 12 percent of city income taxes or property taxes paid but not more than $15.

Appendix C
Changes to the Michigan Income Tax

1970 PA 140 [SB 1507]

Updated the reference to the United States Internal Revenue Code to December 31, 1969.

Rewrote the definition of "taxable income" so that the language used is uniform as it applies to individuals, corporations, financial institutions, and resident estates or trusts.

Provided that income taxable both within and without the state, if for purely personal services by an individual, is not allocated and apportioned as is such income from other business activity.

Imposed a penalty payment of interest at the rate of 3/4 of 1 percent per month on deficiencies in quarterly estimated payments.

1970 PA 233 [SB 181]

Corrected a problem which arose from language in 1970 PA 101 which was not clear on the method which fiscal year taxpayers would use in calculating their property and city income tax credits.

Allowed fiscal year taxpayers to prorate when computing property and city income tax credits for fiscal year 1970 on the basis of the number of months of the fiscal year falling in 1969 and the number falling in 1970.

1971 PA 16 [HB 4143]

Redefined compensation as that defined in the Internal Revenue Code.

Updated the reference to the Internal Revenue Code to December 31, 1970.

1971 PA 25 [SB 178]

Accelerated the tax payment from July 31 to June 30 for all taxpayers other than individuals, estates, or trusts; provided that 1/4 of the estimate must be paid at the time of filing a yearly estimate.

Appendix C
Changes to the Michigan Income Tax

1971 PA 76 [SB 616]

Increased the tax rate, beginning August 1, 1971, to 3.9 percent for individuals, 7.8 percent for corporations, and 9.7 percent for financial institutions.

Changed the property tax credit and city income tax credit to a form similar to that in effect in 1968 and changed the method of determining allocation to local governments.

Set the expiration for the act as August 1, 1972 unless constitutional amendments on property tax reduction for schools and a graduated income tax proposal were submitted to the people (see 1972 PA 181).

1971 PA 150 [SB 273]

Created a deduction, not in excess of $50 per year, for a contribution to a political party or candidate beginning 1972.

1972 PA 181 [SB 1178]

Provided for continuation of the rate of 3.9 percent beyond August 1, 1972.

1972 PA 332 [SB 1280]

Defined what constitutes a college contribution.

1972 Ballot Proposal No. 4 [Initiatory Proposal]

Would have amended Article 9, Section 7 of the Michigan Constitution of 1963 to permit the state to impose a graduated income tax and allow the legislature to authorize political subdivisions to levy a graduated income tax but was rejected by voters on November 7, 1972 (For: 959,286; Against: 2,102,744).

1973 PA 20 [HB 4207]

Appendix C
Changes to the Michigan Income Tax

Beginning in 1974, increased the personal exemption to $1,500.

Granted all Michigan business firms a credit against their income tax equal to 25 percent of the property tax on the inventory portion of their personal property.

Changed property tax relief provisions to relate the amount of taxes paid on a principal residence to total household income from all sources.

1974 PA 12 [HB 5316]

Allowed each blind spouse in a household to claim a blind homestead tax exemption.

Provided additional property tax relief to paraplegic and quadriplegic persons.

1974 PA 33 [HB 5154]

Provided a more restrictive definition of bank holding companies for income tax purposes and clarified the definition and tax status of such companies.

1974 PA 62 [HB 5363]

Made the employer trustee for the state with respect to income tax withholding.

1974 PA 116 [HB 4244]

Provided a tax credit equal to the amount of property tax which exceeds 7 percent of household income to farmers who pledge to keep their land in agricultural production for ten years and to owners of certain non-farm, open-space lands (Farmland and Open Space Preservation Act).

1974 PA 125 [HB 4208]

Appendix C
Changes to the Michigan Income Tax

Set up a credit schedule for sales tax paid on food and prescription drugs by families with incomes less than $15,000 a year.

Increased the inventory property tax credit from 25 percent in tax year 1973 to 32 percent in 1974, 39 percent in 1975, and an additional 6 percent each year until the credit reached 75 percent in tax year 1981.

Allowed a credit equal to 20 percent of the corporate franchise fee for those businesses which have no inventories except materials and supplies valued at $1,500 or less.

1974 PA 156 [SB 1219]

Redefined "senior citizen" under the property tax relief act of 1973 to include the unmarried remaining spouse of a person who was at least 65 years old at the time of death.

1974 PA 211 [SB 1363]

Allowed for advance payment of a property tax credit to low-income seniors; blind persons; and eligible servicemen, veterans, and widows.

1974 PA 217 [HB 4856]

Permitted recipients of private pensions plans and disability benefits to deduct up to $7,500 on a single tax return and $10,000 on a joint return.

1974 PA 290 [SB 79]

Allowed, for the years 1974 through 1980, a credit for a charitable contribution to a non-profit corporation, fund, foundation, or trust operated exclusively to benefit institutions of higher learning.

1974 PA 308 [SB 1319]

Required the state to pay a daily interest rate of 9 percent per annum for each day an income tax refund is delayed beyond June 30.

1975 PA 19 [HB 4354]

Appendix C
Changes to the Michigan Income Tax

Increased the tax rate from 3.9 percent to 4.6 percent beginning May 1, 1975. Tax rate was set to drop to 4.4 percent after July 1, 1997.

1975 PA 94 [SB 62]

Increased the penalty for late payment of income taxes.

1975 PA 98 [SB 592]

Required that income taxes withheld by employers accrue to the state on the last day of the month in which they are withheld.

1975 PA 168 [HB 4293]

Permitted paraplegics, quadriplegics, senior citizens, eligible servicemen or veterans, eligible widows, or blind persons with incomes less than $10,000 to defer payment of summer homestead taxes until the following February 15.

Appendix C
Changes to the Michigan Income Tax

1975 PA 225 [HB 5290]

Altered the distribution of state income taxes available to municipalities and counties under the State Revenue Sharing Act of 1971.

1975 PA 233 [HB 5085]

Repealed the financial institutions and corporate income taxes in conjunction with the enactment of the single business tax (1975 PA 228).

Created a tax credit for individuals subject to both the income and single business taxes.

1975 PA 298 [SB 856]

Made administrative changes related to the statement of compensation paid and taxes withheld required of employers.

1975 PA 320 [SB 142]

Increased the maximum allowable property tax credit from $500 to $1,200 beginning January 1, 1976.

1976 PA 388 [SB 1570]

Created the Campaign Finance Act which allowed taxpayers to designate $2 ($4 in the case of a joint return) of their tax liability toward the State Campaign Fund.

1976 PA 78 [HB 6003]

Amended the Farmland and Open Space Preservation Act to remove the requirement of an on-site appraisal by the state tax commission in order to qualify for the farmland development credit.

1976 PA 379 [HB 5694]

Permitted a property tax credit on a tax return two years after the year the credit is claimed.

1976 PA 434 [HB 6645]

Updated the reference to the federal Internal Revenue Code to November 15, 1976.

Appendix C
Changes to the Michigan Income Tax

1976 PA 435 [HB 6657]

Amended the additional income tax exemption to include hemiplegics.

1976 Ballot Proposal D [Initiatory Petition]

Would have amended Article 9, Section 7 of the Michigan Constitution of 1963 to permit the state to impose a graduated income tax but was rejected by voters on November 2, 1976 (For: 897,780; Against: 2,332,513).

1977 PA 1 [SB 4]

Required submission of income tax forms to the Taxation Committee for format approval.

Altered the definition of household income that is used in computing the property tax credit.

1977 PA 44 [HB 4055]

Maintained the tax rate at 4.6 percent, overriding the legislated July 1, 1977 decrease to 4.4 percent.

1977 PA 163 [HB 4176]

Required tax forms to include a summary of the state's tax revenues and expenditures by major category.

1977 PA 291 [SB 642]

Eliminated the income tax credit based on single business taxes paid beginning with the 1978 tax year.

1978 PA 43 [SB 5]

Exempted state and federal energy assistance grants to low-income and senior-citizen households.

1978 PA 321 [SB 311]

Provided a tax credit for an eligible serviceman, veteran, or widow in the case that the individual rents a homestead.

Appendix C
Changes to the Michigan Income Tax

1978 PA 458 [HB 4142]

Provided an income tax credit for the 1978 tax year to assist poor families with high home heating bills.

1978 PA 503 [HB 5254]

Made it a felony to make a false income tax return with the intent to defraud the state. Imposed a penalty of up to two years in jail and a $5,000 fine.

Set a misdemeanor penalty for failing to make a return.

1978 PA 554 [SB 1333]

Increased the maximum allowable deduction for political contributions from $50 to $100 for married couples filing a joint return.

1978 PA 589 [SB 641]

Permitted state residents who work in Canada to claim a credit for income taxes paid to a province and not claimed on the federal income tax form beginning in 1979.

1978 PA 605 [HB 6112]

Provided credits for the purchase and installation of solar, wind, or water energy conservation devices in residences.

1979 PA 30 [SB 371]

Allowed a retroactive credit for Canadian taxes paid in 1978.

1979 PA 41 [HB 4379]

Expanded the credit for the purchase and installation of energy conservation devices.

1979 PA 126 [HB 4726]

Allowed a credit for heating fuel costs for low-income homesteads for 1979 and 1980. The credit was based on a formula related to income and the number of exemptions claimed.

Appendix C
Changes to the Michigan Income Tax

1979 PA 132 [HB 4714]

Provided for separate payment of the homestead property tax credit.

Revised the computation of certain rental credits.

1979 PA 199 [HB 4492]

Allowed a credit for contributions to certain public broadcast stations.

Removed the cutoff date on certain other contributions.

1980 PA 169 [HB 4717]

Provided for administration under the Revenue Act of 1941, as amended.

1980 PA 227 [SB 487]

Would have allowed an added credit for certain renters whose rent exceeds 40 percent of income but was tie-barred to SB 923 which was not enacted.

1980 PA 250 [HB 5833]

Updated the reference to the Internal Revenue Code to November 14, 1979.

Would have temporarily increased the tax rate to 4.7 percent for the purpose of constructing new prisons but was contingent upon 1980 Ballot Proposal E which was rejected by voters on November 4, 1980 (For: 1,288,999, Against: 2,202,042).

1980 PA 253 [SB 1170]

Would have tied the personal exemption to inflation and provided a credit to low-income senior citizens who are owners of homesteads but was contingent upon 1980 Ballot Proposal C (SJR X) which was rejected by voters on November 4, 1980 (For: 894,441; Against: 2,583,253).

1980 PA 352 [HB 5594]

Reduced the homestead property tax credit by the proportion of income received from Aid to Families with Dependent Children (AFDC) or General Assistance (GA) payments in 1980 and 1981 only.

Appendix C
Changes to the Michigan Income Tax

1980 PA 452 [HB 5904]

Decreased payments to counties by $7 million in fiscal year 1981 only.

1980 PA 475 [SB 851]

Allowed a credit for artwork contributions to certain public and nonprofit entities.

1980 PA 517 [SB 1048]

Allowed for the deduction of public retirement system benefits from another state provided that the other state offers a reciprocal deduction.

1981 PA 43 [HB 4175]

Would have ensured that senior citizens whose rent exceeds 40 percent of their income receive a tax credit equal to the difference but was contingent upon 1981 Ballot Proposal A (HJR G) which was rejected by voters on May 19, 1981 (For: 560,924; Against: 1,451,305).

1981 PA 135 [HB 4631]

Allowed a deduction for certain unemployment compensation benefits repaid to an employer in 1980 only.

1981 PA 152 [HB 4410]

Extended and enlarged the home heating credit through 1983.

Narrowed the homestead definition.

1982 PA 155 [SB 190]

Increased the tax rate to 5.6 percent over the time period of April 1, 1982 through September 30, 1982.

1982 PA 169 [HB 5209]

Appendix C
Changes to the Michigan Income Tax

Made certain corporate officers personally liable for withholding payments due from a corporation.

Required employers to furnish copies of exemption certificates for certain employees.

1982 PA 208 [HB 4668]

Added a credit for farmers who allowed produce to be gleaned and donated as food for tax years 1982 through 1984.

1982 PA 211 [HB 5609]

Allowed a taxpayer to designate up to $2 of any refund ($4 on a joint return) to the Children's Trust Fund.

1982 PA 240 [HB 5506]

Included in taxable income the federal "marriage penalty" deduction.

1982 PA 269 [HB 5353]

Reduced the property tax credit for households with income greater than $65,000.

Extended the reduction of the property tax credit for households with public assistance income.

Provided an added credit for senior citizens with rent over 50 percent of income in 1982, 45 percent in 1983, and 40 percent thereafter.

1982 PA 387 [HB 6139]

Updated the reference to the Internal Revenue Code to November 15, 1982.

1982 PA 480 [HB 5210]

Omitted the disallowance of credit for delinquent property taxes.

1982 PA 515 [HB 5211]

Appendix C
Changes to the Michigan Income Tax

Allowed certain farmers and commercial fisherman to file annual estimates. Required payments therewith under certain conditions.

Appendix C
Changes to the Michigan Income Tax

1983 PA 15 [HB 4092]

Increased the tax rate to 6.35 percent retroactive from January 1, 1983 and dedicated 0.25 percentage points of the increase to a special fund (created by 1983 PA 14) to permit the state treasurer to allow several funds to operate under generally accepted accounting principles.

Required the rate increase to decline to a maximum of 1.5 percentage points on January 1, 1984, to a maximum of 0.75 percentage points on January 1, 1985, and to a maximum of 0.5 percentage points on October 1, 1986. The rate was required to decrease further if unemployment decreased at a rate sufficient to effectuate a formula equating 0.5 percent of the unemployment rate with 0.1 percent of the income tax rate.

1983 PA 99 [HB 4459]

Added language to the tax revenue sharing formula to take into account collections under the three income tax rates in effect successively during the last quarter of 1982 and the first quarter of 1983 in order to prevent local governments from losing $10.7 million.

1983 PA 189 [HB 4181]

Authorized a taxpayer receiving a refund to credit $2 or more of the refund to the Nongame Fish and Wildlife Fund.

1983 PA 190 [HB 4622]

Extended the credit for the purchase and installation of energy conservation devices. The act also increased the size of the credits.

1984 PA 36 [HB 4971]

Restructured and extended the home heating tax credit through 1986.

1984 PA 221 [SB 660]

Decreased the tax rate to 5.35 percent (beginning September 1, 1984) and 4.6 percent (beginning October 1, 1987).

Appendix C
Changes to the Michigan Income Tax

1984 PA 265 [SB 39]

Allowed for the transfer of up to $46 million from the state accounting and fiscal responsibility account to the Counter-Cyclical Budget and Economic Stabilization Fund.

1984 PA 283 [SB 876]

Updated the reference to the Internal Revenue Code to November 15, 1984.

1984 PA 284 [SB 583]

Allowed taxpayers to deduct Social Security benefits from taxable income to the extent that the benefits are included in their federal adjusted gross income.

1984 PA 285 [HB 4636]

Continued through 1985 the reduction in property tax credits claimed by recipients of public assistance.

Specified that child support payments from noncustodial parents, which are sometimes passed through custodial parents in public assistance checks, are not to be considered public assistance and may not be used to reduce property tax credits.

Continued through 1984 the reduction in property tax credits for those who earn more than $65,000 a year.

1984 PA 415 [SB 241]

Allowed deaf persons to claim a $1,500 exemption in addition to the $1,500 standard personal exemption beginning in 1985.

1984 PA 417 [SB 818]

Extended the gleaning tax credit program for the period of December 31, 1984 through December 31, 1995.

Appendix C
Changes to the Michigan Income Tax

1984 PA 419 [SB 870]

Specified that contributions to a public broadcast station may be claimed as a tax credit only if the station is located within Michigan.

Provided that contributions made to a nonprofit organization, fund, foundation, trust, or association organized and operated exclusively for the benefit of the institutions of higher learning may be claimed as a tax credit only if the institution is located within the state.

1985 PA 145 [HB 4322]

Allowed taxpayers to designate a portion of their income tax refunds through 1994 to the Nongame Fish and Wildlife Fund unless the fund's assets exceeded $6 million beforehand. The nongame checkoff had been scheduled to end with the 1984 tax year.

1985 PA 156 [HB 4876]

Allowed taxpayers to designate that $2 or more of their income tax refund should go to the Children's Trust Fund. The checkoff program had been limited to $2 per refund.

1985 PA 158 [HB 4998]

Made credits for heating fuel costs in excess of certain percentages of household income comply with federal guidelines for minimum poverty standards.

1985 PA 187 [SB 550]

Extended through 1986 provisions that reduce property tax credits claimed by recipients of public assistance and by persons who earn more than $73,650 a year (increased from $65,000).

1985 PA 211 [SB 441]

Amended the Revenue Act to require the interception of a taxpayer's income tax refunds for application to the taxpayer's liabilities to the state, including support liabilities, and to provide for an allocation of the refund to a joint taxpayer's nonobligated spouse.

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Changes to the Michigan Income Tax

1986 PA 16 [SB 77]

Decreased the tax rate to 4.6 percent beginning April 1, 1986.

1986 PA 130 [HB 4494]

Reenacted and enhanced the expired gleaning tax credit program through December 31, 1988. Under the act, farmers may receive tax credits equal to 20 percent of the wholesale value of crops they allow to be gathered by charitable organizations after normal harvesting is completed.

1986 PA 160 [HB 4788]

Amended the Farmland and Open Space Preservation Act to require that a person applying for a credit under that act against the income tax or single business tax include with the application a copy of a receipt showing payment of property taxes for the year for which the credit is claimed or the prior year. If a copy of the receipt is not included, the tax credit check may be issued to the appropriate county treasurer to be credited toward the delinquent tax and fees.

1986 PA 286 [SB 737]

Repealed specific uses for refund credits to the Nongame Fish and Wildlife Trust Fund.

1986 PA 315 [SB 59]

Allowed taxpayers to deduct from taxable income the amount of a payment made for an advance tuition payment contract under the Michigan Education Trust Act (1986 PA 316).

1987 PA 88 [SB 259]

Altered formulas to increase the amount of income tax revenue dedicated for disbursement to local governments.

Increased the amount of payments earmarked for cities, villages, and townships, but left unchanged the amount dedicated to counties.

Appendix C
Changes to the Michigan Income Tax

1987 PA 254 [SB 506]

Increased the personal exemption to $1,600 for the 1987 tax year; to $1,800 for 1988; to $2,000 for 1989; and to $2,100 for 1990.

Extended, through the 1987 tax year, provisions that allow for a home heating tax credit.

Extended provisions which reduce property tax credits for persons who receive public assistance and persons with household income in excess of $73,650.

Made numerous other technical, clarifying, and administrative changes to the Income Tax Act.

1988 PA 1 [SB 8]

Provided that a person who has a federal adjusted gross income of $1,500 or less and is not allowed to claim a personal exemption under the Internal Revenue Code (i.e., a dependent) is exempt from state income tax liability and does not have to file a return beginning in 1987.

1988 PA 70 [HB 4474]

Allowed individuals classified under federal law as seafarer" the option of paying their income taxes on an annual basis (rather than requiring quarterly payments) just as farmers and commercial fishers can.

1988 PA 153 [HB 4986]

Allowed a taxpayer to claim a credit of up to $100 ($200 for a joint return) against the income tax for certain charitable contributions regardless of the credit's impact on tax liability.

Eliminated the additional limitation based on the percentage of tax liability and added the state museum and the state archives to the list of contribution recipients eligible for the credit.

Appendix C
Changes to the Michigan Income Tax

1988 PA 261 [SB 785]

Modified the definition of income used in calculating farmland preservation tax credits and homestead property tax credits so that beginning with the 1988 tax year, a deduction for a carryback or carryover of a net operating loss cannot exceed federal modified taxable income as defined in the Internal Revenue Code.

1988 PA 423 [HB 5839]

Amended the Farmland and Open Space Preservation Act to specify the taxpayers who are able to claim the income tax credit for property taxes paid when the property in question is owned by a partnership, S-corporation, trust, or other multiple-owner arrangement.

1988 PA 486 [HB 4574]

Would have expanded the property tax credits available to certain categories of low-income, elderly, and disabled taxpayers, and to renters. The bill, however, was tie-barred to a school financing proposal (SJR K) that would have amended the State Constitution to increase the sales tax and reduce property taxes. Senate Joint Resolution K was not approved, however, so the act did not take effect.

1988 PA 515 [SB 475]

Allowed a taxpayer to claim a credit against tax liability equal to 50 percent of the amount the taxpayer contributes during the tax year to a community foundation for 1989 through 1991. The total credit cannot exceed $100 for a single return, $200 for a joint return, or the lesser of 10 percent of a tax liability or $5,000 for a resident estate or trust. The credit cannot apply in a tax year for which the aggregate amount of such credits claimed by all taxpayers for all prior tax years (together with the single business tax credit allowed under 1988 PA 514) exceeds $3 million.

Appendix C
Changes to the Michigan Income Tax

1988 PA 516 [SB 279]

Allowed low-income seniors to claim a credit of up to $600 for the cost of prescription drugs.

Granted a $500 exemption to dependents who earned over $1,500 in 1988.

Extended through 1989 provisions that reduce property tax credits claimed by recipients of public assistance.

Extended for two years, through 1991, a credit for the purchase and installation of alternative energy devices.

Extended through 1988 the home heating tax credit for low-income taxpayers.

Allowed a deduction for persons who have certain self-insured medical plans.

Amended the Lottery Act to repeal the exemption for state lottery winnings.

1989 PA 75 [HB 4175]

Extended through 1991 the home heating tax credit and increased the amount of the credit allowable under the alternative credit computation.

1989 PA 95 [SB 448]

Made technical and administrative changes to the provisions of the Campaign Finance Act which allow a taxpayer to designate $2 ($4 in the case of a joint return) toward the State Campaign Fund.

1989 PA 166 [HB 4308]

In the case of the passage of school finance revision Proposal B (HJR I), allowed a credit for low-income households for the sales tax on utilities and increased the homestead property tax credit for renters, senior-citizens, and handicappers. Proposal B was rejected by voters, however, on November 7, 1989 (For: 436,958; Against: 1,392,053), so the act did not take effect.

Appendix C
Changes to the Michigan Income Tax

1990 PA 136 [HB 5527]

Allowed a taxpayer to claim a credit for a contribution made to a community foundation if the foundation was incorporated or established before September 1 of the year prior to the tax year. Previously, the deadline was January 1. The tax credit, created in 1988, was in place only through the 1991 tax year.

1990 PA 283 [HB 5537]

Extended through 1991 provisions that limit the amount of property tax credit that can be claimed by those receiving public assistance and by those whose income exceeds $73,650.

1990 PA 285 [HB 4634]

Amended the Revenue Act to allow retired federal employees to claim a refund of income taxes paid on their pension or retirement benefits from 1984 on and spread those refunds out over four years. The act represented an exception to the usual requirement that a claim for a refund based on the validity of a tax law be filed within 90 days after the date set for filing a return.

1990 PA 344 [SB 473]

Provided that an income tax refund claim for the 1984 tax year or thereafter for taxes paid on retirement or pension benefits from a U.S. government public retirement system is not subject to Section 27a(6) of the Revenue Act (which provides that a refund claim, based upon the validity of a tax law based on the laws or Constitution of the U.S. or the State Constitution, cannot be paid unless the claim is filed within 90 days after the date set for filing a return or unless ordered pursuant to an appeal).

Specified that claims for refunds for tax years 1988 and 1987 were payable on or after July 1, 1990; claims for tax year 1986 were payable on or after July 1, 1991; claims for tax year 1985 were payable on or after July 1, 1992; and claims for tax year 1984 were payable on or after July 1, 1993.

Appendix C
Changes to the Michigan Income Tax

1991 PA 82 [SB 277]

Provided that withholding taxes deposited under the Revenue Act by certain employers on the same schedule as federal withholding deposits (pursuant to 1991 PA 83) will accrue to the state on the last day of the filing period. Withholding taxes deposited by other employers continue to accrue to the state on the last day of the month.

1991 PA 171 [SB 300]

Expanded and extended through 1994 the tax credit available to contributors to community foundations but specified that the credit applies to contributions to an endowment fund of a community foundation.

Allowed a taxpayer also to claim the credit for contributions to a shelter for homeless persons, food kitchen, food bank, or other entity that provides such services to the indigent if the contribution is deductible for the donor under the Internal Revenue Code.

Raised to $6 million (from $3 million) the cap on the aggregate amount that may be claimed for the years this credit is in effect under both the Income Tax Act of 1967 and the Single Business Tax Act.

1991 PA 181 [HB 5235]

Extended the home heating tax credit through 1994.

Made recipients of public assistance eligible for the credit. Required the Department of Treasury to mail an application for the credit by December 1 of each year to those who are recipients of public assistance during the tax year and to provide a simplified procedure for claiming the credit to recipients of public assistance.

Cut in half the amount of the credit available to claimants whose heating costs are included in rent payments.

Appendix C
Changes to the Michigan Income Tax

1992 PA 67 [SB 73]

Provided for fiscal year 1992 the amount of revenue sharing payments that was available for distribution to cities, villages, and townships from state income tax collections in August 1992 could not be distributed. Instead, that amount lapsed to the General Fund at the close of the 1992 fiscal year.

Discontinued, after June 1992, the $27.4 million advance that previously was made in June on the August payment.

1992 PA 160 [SB 1030]

Reduced revenue sharing payments by $24.1 million for fiscal year 1993 only.

1992 PA 277 [SB 1024]

Provided that state income taxes of persons employed by the federal government who work at a qualified facility must be deposited in the Federal Facility Development Fund (created by 1992 PA 275) to be appropriated and used solely for the purposes of the fund.

1992 PA 293 [HB 4410]

Extended through 1994 restrictions on the amount of property tax credits that can be claimed by those receiving AFDC, State Family Assistance, or State Disability Assistance, and by those whose household income exceeds $73,650.

1992 EXECUTIVE ORDER 10

Delayed $111 million of state revenue sharing payments, including $35.9 million of income tax revenues.

1993 PA 128 [SB 663]

Provided for a credit against the income tax equal to taxes paid by a taxpayer in a prior year on income received and repaid by the taxpayer if the taxpayer is eligible for the federal deduction allowed for the repayment of income under the Internal Revenue Code. The state credit is allowed only if the taxpayer has not deducted the repayment in calculating his or her federal adjusted gross income.

Appendix C
Changes to the Michigan Income Tax

1993 PA 162 [HB 4760]

Allowed taxpayers to designate refunds to the Nongame Fish and Wildlife Trust Fund until the fund's assets exceed $6 million.

1993 PA 167 [SB 694]

Reduced revenue sharing payments by $48.1 million for fiscal year 1994 only.

Provided that a city, village, township, or county is not eligible for revenue sharing payments unless it requires sealed competitive bidding for any contract of $20,000 or more, except for a contract for professional services or emergency repairs exempted pursuant to a written policy of that local unit.

1993 PA 262 [SB 595]

Amended the Campaign Finance Act to increase to $3 ($6 in the case of a joint return) the amount of a taxpayer's liability which he or she can designate toward the State Campaign Fund.

1993 PA 315 [SB 123]

Extended for 1992 to 1994 the credit for a donation to a homeless shelter or similar organization. Eliminated a provision which rendered the credit void after the aggregate total claimed for this credit by taxpayers for all prior years under the Income Tax Act and the Single Business Tax Act exceeded $1.5 million.

1993 PA 328 [HB 5106]

Decreased the tax rate, beginning May 1, 1994, to 4.4 percent as part of a package to implement Proposal A (SJR S) approved by voters March 15, 1994 (For: 1,684,541; Against: 750,952).

1994 PA 119 [SB 951]

Permitted the Michigan Department of Treasury to provide information about the purchase of an annual state park motor vehicle permit in the instruction book accompanying each state income tax return.

Appendix C
Changes to the Michigan Income Tax

1994 PA 256 [SB 1113]

Expanded and extended through 1997 the credit for a donation to a homeless shelter or similar organization.

Eliminated the $6 million aggregate cap on the credits that may be claimed by all taxpayers for contributions to community foundations.

1994 PA 268 [HB 5278]

Exempted up to $30,000 ($60,000 in the case of a joint return) of retirement benefits from a private source.

1994 PA 269 [HB 4801]

Exempted up to $1,000 ($2,000 in the case of a joint return) of interest and dividend income earned by a senior citizen.

1994 PA 290 [SB 926]

Allowed a taxpayer to claim a credit equal to 3.3 percent of the contributions made by or for the taxpayer to a medical savings account (minus the amount of certain withdrawals). A taxpayer may take the credit only if he or she does not have other health coverage and if a similar federal credit or deduction is unavailable.

1994 PA 298 [SB 1130]

Reduced revenue sharing payments by $50.6 million for fiscal year 1995 only.

1995 PA 2 [HB 4231]

Increased the personal exemption to $2,400 for tax year 1995 and $2,500 for tax year 1996.

Provided for a further increase in the personal exemption of up to $250 (which was not implemented) based on the results of the May 1995 revenue estimating conference.

1995 PA 3 [HB 4232]

Appendix C
Changes to the Michigan Income Tax

Indexed the personal exemption to inflation in $100 increments based on the U.S. consumer price index beginning in 1998.

1995 PA 7 [SB 237]

Created the tuition tax credit beginning in 1995. Under the provisions of the credit, a taxpayer with a household income of less than $200,000 can claim a credit not to exceed $250 and equal to 4 percent of the tuition paid to a qualified institution of higher learning in the state by the claimant on behalf of the claimant or any other student.

1995 PA 116 [HB 4151]

Allowed a deduction from a claimant's income tax refund of improperly paid unemployment benefits.

1995 PA 136 [SB 499]

Reduced revenue sharing payments by $55.8 million for fiscal year 1996 only.

1995 PA 194 [HB 4657]

Increased the percentage of gross income tax collections that is dedicated to the state School Aid Fund from 14.4 percent to 23 percent beginning in fiscal year 1997.

1995 PA 230 [HB 4404]

Increased the deduction limit for interest, dividends, and capital gains for senior citizens who do not deduct pension income from $1,000 ($2,000 for a joint return) to $3,500 ($7,000 for a joint return) beginning in 1997.

1995 PA 244 [SB 541]

Excluded from the definition of income stipends received by persons 60 years of age or older acting as foster grandparents or senior companions under federal programs for purposes of calculating the homestead property tax credit and the home heating credit.

Appendix C
Changes to the Michigan Income Tax

1995 PA 245 [HB 4994]

Created the Headlee Amendment refund credit. For the 1995 tax year only, a taxpayer could claim a credit against the income tax equal to 2.67 percent of the tax or income attributable to the period from January 1, 1995 through September 30, 1995.

Extended the home heating tax credit through the 1995 tax year, under certain conditions.

1995 PA 291 [SB 472]

Authorized a deduction for senior citizens not to exceed $7,500 ($15,000 for a joint return) for interest, dividends, and capital gains beginning in 1998.

1996 PA 55 [HB 5305]

Made reference to the Natural Resources and Environmental Protection Act, recodified by 1994 PA 451.

1996 PA 264 [HB 5694]

Required an employer to deduct and withhold state income taxes for employees who elect the no-file option for state income tax returns and to provide the Michigan Department of Treasury with a copy of an employee's exemption certificate.

1996 PA 265 [HB 5695]

Allowed eligible taxpayers to elect to forgo filing an annual state income tax return. Taxes are to be calculated by multiplying compensation by 4.4 percent.

1996 PA 342 [HB 4853]

Amended the State Revenue Sharing Act to create a bipartisan revenue sharing task force within the legislative branch.

Revised certain distribution formulas and funding sources.

Repealed the section of the Income Tax Act regarding the disbursement of revenues to units of local government.

Appendix C
Changes to the Michigan Income Tax

1996 PA 448 [SB 669]

Authorized, beginning in 1997, a deduction for income earned and interest, dividends, and capital gains received by an individual while a resident of a renaissance zone (created by 1996 PA 376). To qualify, a taxpayer must have lived a renaissance zone for 183 days and have had a gross income not exceeding $1 million in the tax year in which the deduction is claimed.

1996 PA 484 [HB 4914]

Required certain financial institutions to submit to the Michigan Department of Treasury certain tax information by means of magnetic tape.

Added hemiplegic persons to the list of those eligible for an alternate property tax credit.

Made numerous other clarifying, technical, and administrative amendments to the Income Tax Act.

1996 PA 568 [HB 5760]

Authorized direct deposit of income tax refunds to any financial institution located in the United States.

1997 PA 81 [HB 4180]

Provided for additional deductions for dependent children.

1997 PA 82 [HB 4191]

Increased the tuition tax credit to 8 percent of the tuition paid to an eligible institution and set the maximum credit at $375 per year.

1997 PA 86 [SB 208]

Increased the personal exemption by $200 beginning with the 1998 tax year.

1998 PA 19 [HB 4783]

Revised the initial effective tax year from 1991 to 1989 for the existing credit for taxes paid on income which is repaid in a subsequent tax year.

Appendix C
Changes to the Michigan Income Tax

1998 PA 535 [SB 106]

Created a tax credit equal to 25 percent of qualified expenditures made for the restoration of a historic resource, as approved by the Michigan Historic Center. The credit supplements a similar federal tax credit and is reduced if the taxpayer sells the historic resource less than five years after the credit is claimed.

1999 PA 1 [HB 4035]

Set the School Aid Fund earmark at 1.012 percent divided by the tax rate.

1999 PA 2 [HB 4034]

Set the tax rate at 4.3 percent for tax year 2000.

1999 PA 3 [HB 4033]

Set the tax rate at 4.2 percent for tax year 2001.

1999 PA 4 [SB 2]

Set the tax rate at 4.0 percent for tax year 2003.

1999 PA 5 [SB 5]

Set the tax rate at 3.9 percent for tax year 2004 and subsequent years.

1999 PA 6 [SB 1]

Set the tax rate at 4.1 percent for tax year 2002.

*All acts amended the Income Tax Act of 1967, MCL 206.1 et seq., unless otherwise noted.

Source: House Fiscal Agency compilation from various sources