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Government Finance  
Research Center

# The Problems with Michigan's Tax System

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# Full Reports



## How States Provide Cities with General Revenue: An Analysis of Unrestricted State Aid

Working Paper WP20AK1

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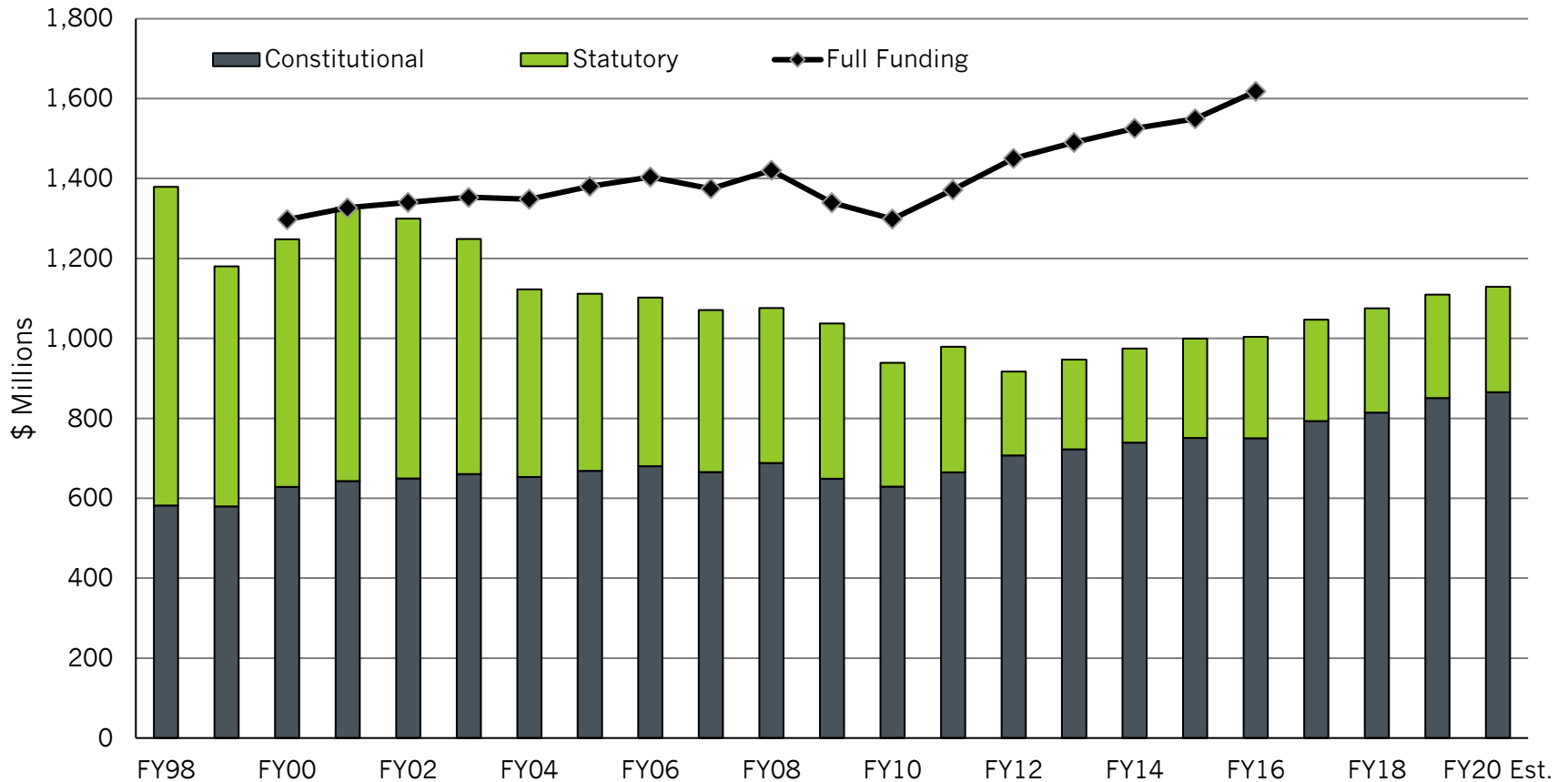
# Primary Challenges

- Dwindling statutory revenue sharing
- Strict limitations on property taxes
- Few local revenue options
- Local government fragmentation

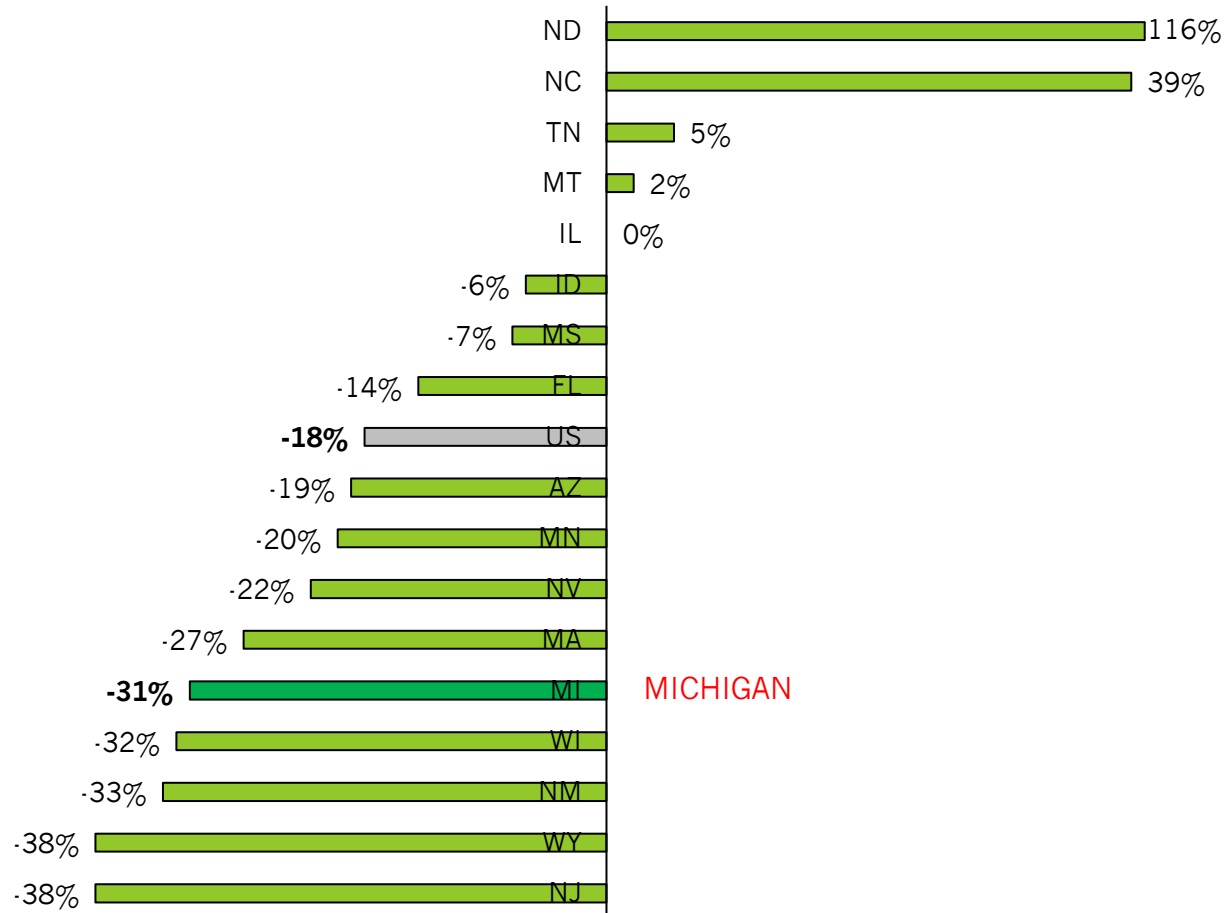
# Statutory Revenue Sharing



## Revenue Sharing to Cities, Villages, and Townships (FY1998–FY2020)



## Real Per Capita Unrestricted State Aid to Municipalities, Percent Change 2007–2017



## State Sales Tax Shared with Municipalities on an Unrestricted Basis

State	% of State Sales Tax Collections Shared with Local Governments (FY 2019)*	Special State Fund for Distributing Funds to Local Governments	Local Tax Permitted?
NV	N/A	Local Government Tax Distribution Account	Y
ME	2% of receipts to state General Fund	Local Government Fund and Disproportionate Tax Burden Fund	N
TN	4%		Y
CT	7%	Municipal Revenue Sharing Account (starting FY2018)	N
NM	7%		Y
FL	8%	Half-Cent Sales Tax Clearing Trust Fund; Municipal Revenue Sharing Trust Fund	Y
ND	9%	State Aid Distribution Fund	Y
MI	10% (estimate)		N
ID	12%	Revenue-Sharing Account	Y
MS	14%		Y
AZ	22%		Y
WY	31%		Y
IL	37%	Local Government Tax Fund	Y

# Limits on Property Taxes





# Revenue Structure for Local Governments in Michigan

% General Revenue	All Local Gov't	Counties	Cities & Towns	School Districts
<b>Intergovernmental Revenue</b>	<b>47%</b>	<b>49%</b>	<b>23%</b>	<b>64%</b>
State Aid	44%	37%	17%	63%
Federal Aid	4%	7%	5%	1%
Local Transfers	0%	5%	1%	0%
<b>Own-Source Revenue</b>	<b>53%</b>	<b>51%</b>	<b>77%</b>	<b>36%</b>
Taxes	30%	22%	38%	29%
Property Tax	27%	21%	30%	29%
Sales Tax	0%	0%	0%	0%
Income Tax	1%	0%	5%	0%
Other Taxes	1%	1%	4%	0%
Charges	18%	23%	29%	6%
Miscellaneous	5%	6%	9%	2%

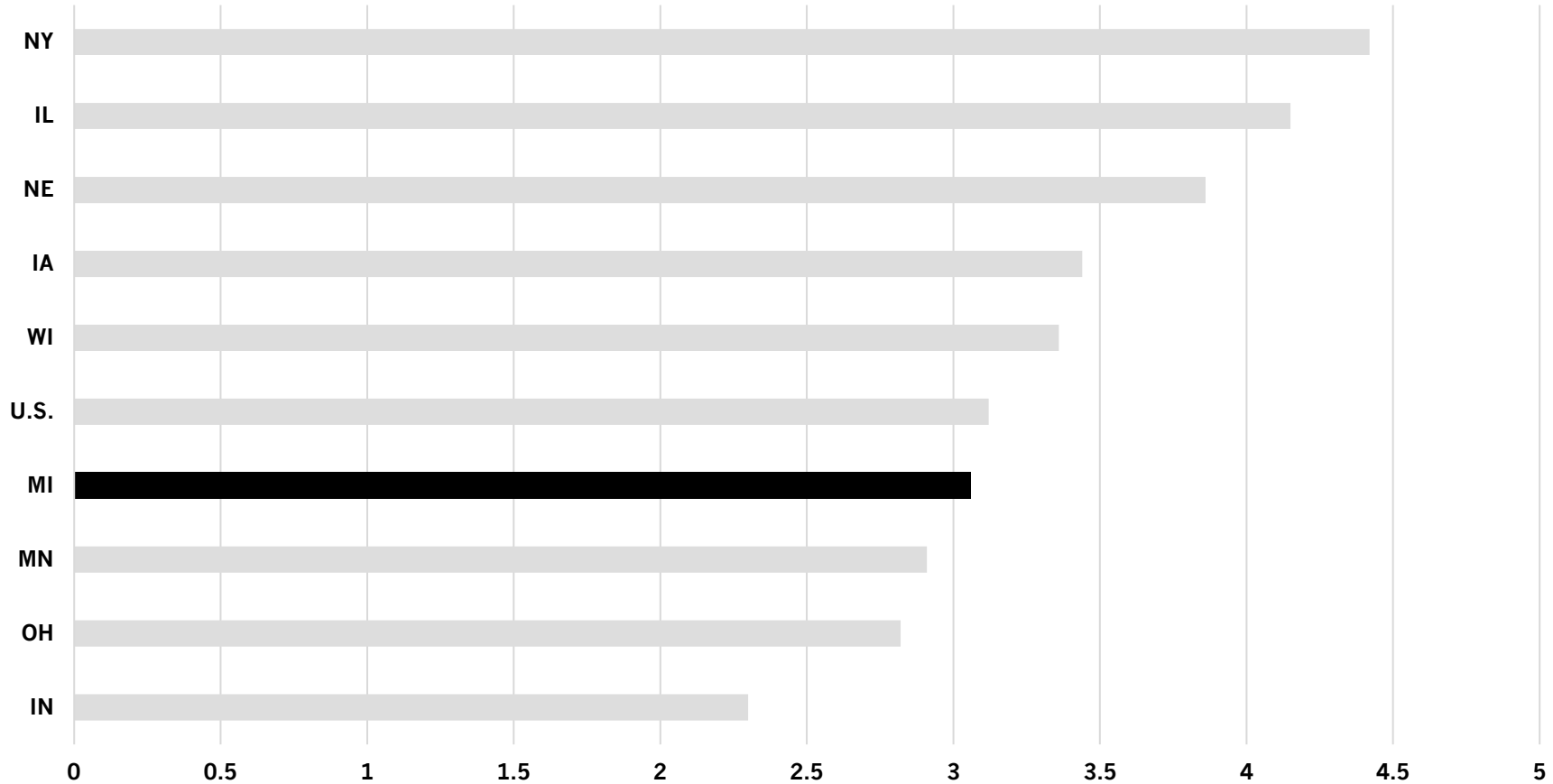
## Reliance on Property Taxes in Michigan Compared to U.S. (2017)

	All Local Gov't	Counties	Cities & Towns	School Districts
<b><u>% General Revenue from Property Taxes</u></b>				
U.S.	30%	29%	28%	37%
Michigan	27%	21%	30%	29%
Michigan state ranking	28	42	17	25
<b><u>% Own-Source Revenue from Property Taxes</u></b>				
U.S.	47%	43%	36%	83%
Michigan	52%	41%	39%	80%
Michigan state ranking	14	28	18	26
<b><u>% Tax Revenue from Property Taxes</u></b>				
U.S.	72%	71%	55%	96%
Michigan	91%	94%	77%	100%
Michigan state ranking	13	8	14	1 (Tie)

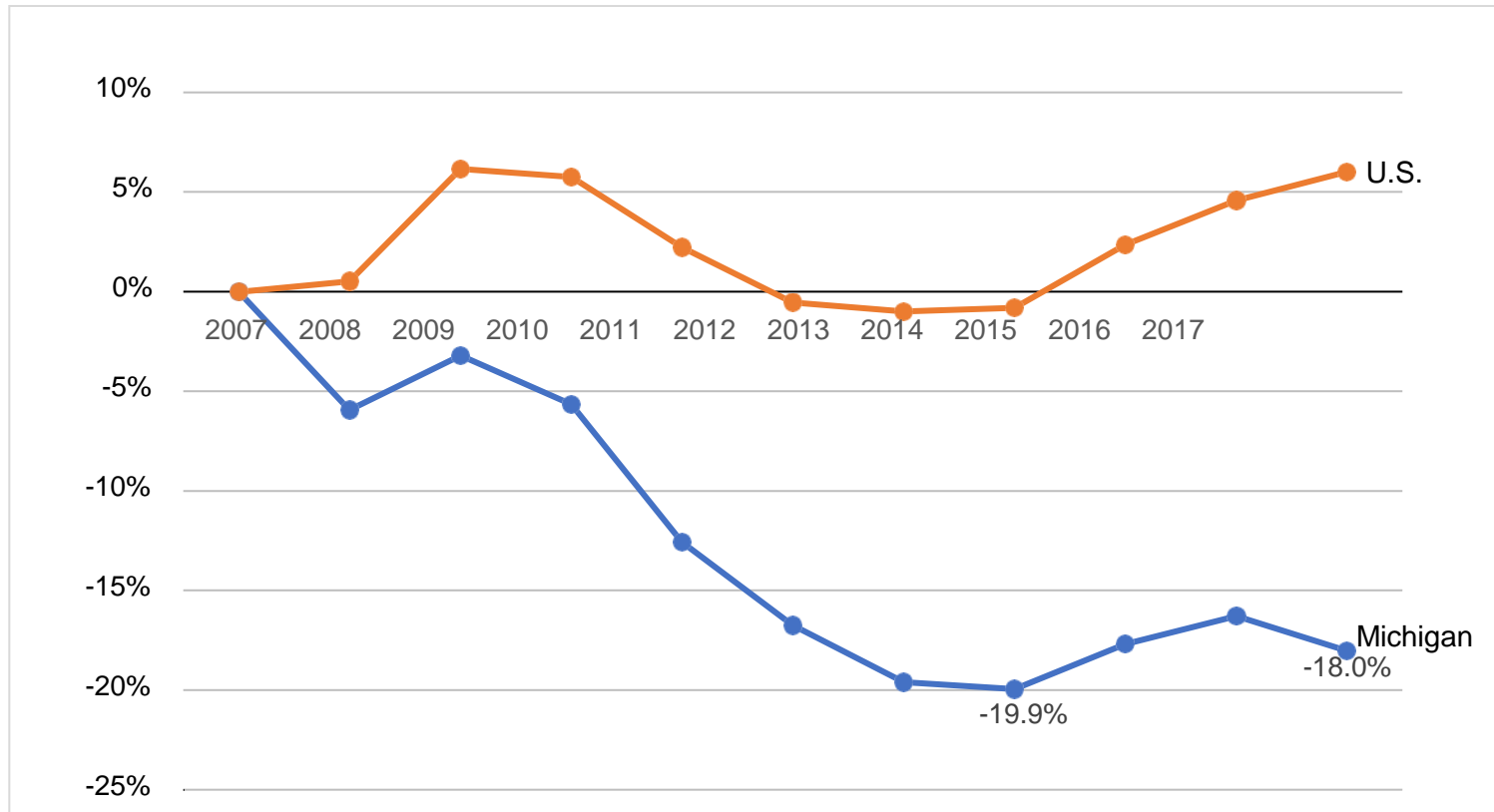
# Property Tax Limits

- Most states use one of three main types of property tax limits; Michigan uses all three.
  - Rate limit
  - Assessment limit
  - Levy limit
- Studies have ranked Michigan either 2nd or 6th in the restrictiveness of tax and expenditure limits (TEEs).

## Property Tax as a Percentage of Personal Income (2017)



# Per Capita Property Taxes, Adjusted for Inflation (Change Since 2007)



# Limits on Other Local Revenue Options



# Additional Local Revenue Options

	Property Taxes	Income Taxes	Retail Sales Taxes	Motor Fuel Taxes	Vehicle License Taxes	Utility Users' Taxes	Alcohol Taxes	Tobacco Taxes	Marijuana Taxes	Casino Gambling Taxes	Restaurant Meals Taxes	Hotel/Motel Taxes	Vehicle Rental Taxes	911 Phone Taxes	Entertainment/admissions Taxes	Soda/Sugar Taxes	Sharing Economy Taxes
State	X	X	X	X	X		X	X	X	X				X			
Counties	X		*					+		#	X	#	X				
Detroit	X	X	*		X			+	X								
Other Cities	X	X	*					+		#	#	#					
Townships, Villages	X		*					+									
* State taxes distributed to localities via revenue sharing # Select localities can levy + State taxes shared with localities																	

Adapted from Citizens Research Council of Michigan, "Diversifying Local-Source Revenue Options in Detroit" (2018).

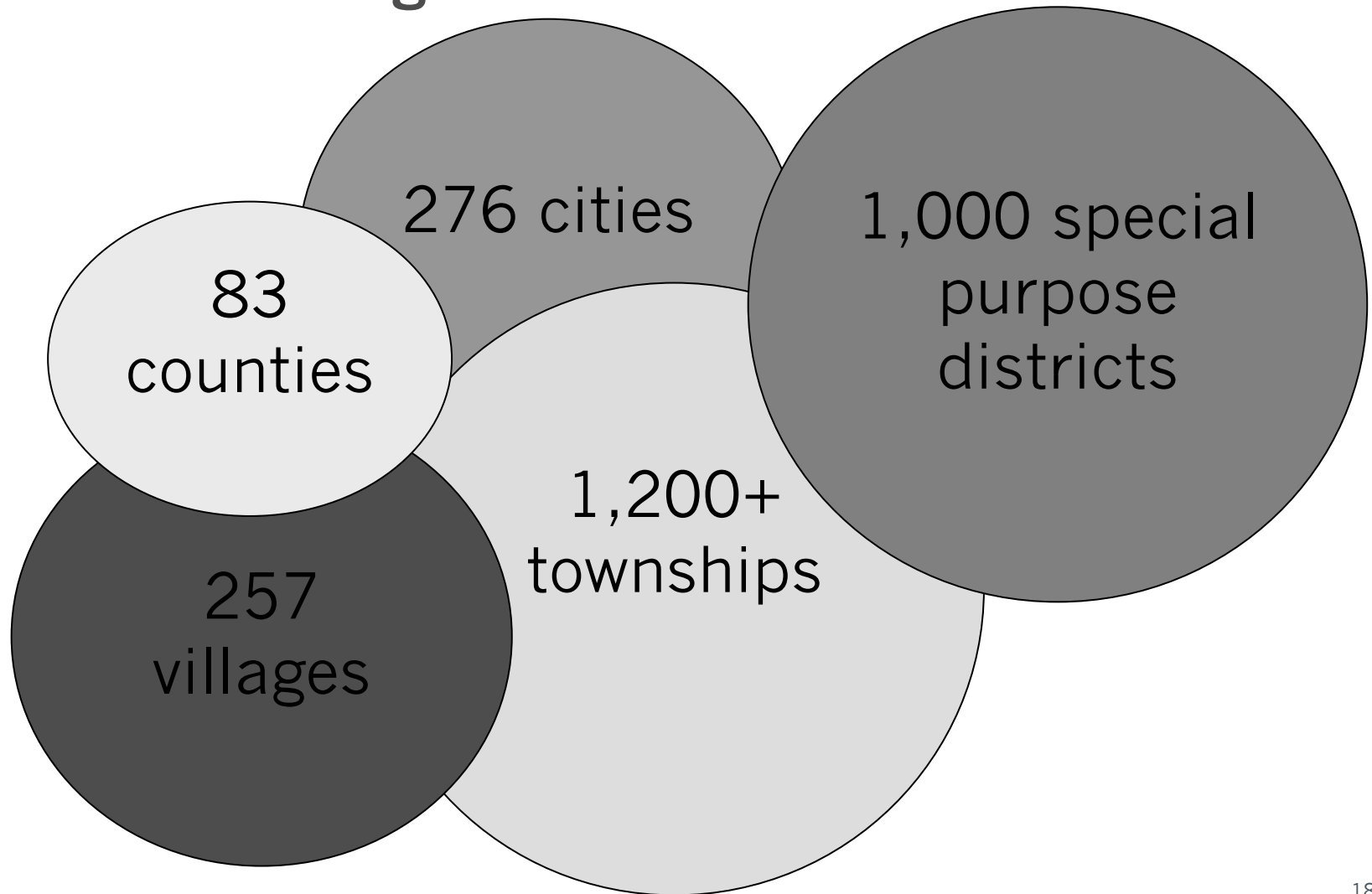
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# Local Government Fragmentation



# Government Fragmentation



# Overall Recommendations



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