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Senate Bill 709 (as enrolled)
Sponsor: Senate John J.H. Schwarz
Senate Committee: Finance
House Committee: Taxation

PUBLIC ACT 520 of 1988

Date Completed: 2-27-89

RATIONALE

The City Income Tax Act allows cities of under 1 million population to adopt an ordinance taxing residents and corporations at 1% and nonresidents at .5% of their income. Sixteen cities now levy this income tax. (Detroit, with a population over 1 million, has its own income tax provisions, which allow a higher rate.) In 1987, legislation granted Battle Creek, at its request, permission to seek voter approval of a higher rate in order to meet severe, long-term infrastructural needs. Officials from Grand Rapids have asked that the city be given a similar opportunity to raise its local income tax. Representatives of the city say they have experienced a decade of dramatic cuts, including a 25% reduction in city personnel, a history of recent operating deficits, and damaging reductions in the police and fire departments. Officials claim there is public support in the area for an increase in taxes to save vital city services. Two other major Michigan cities, Flint and Saginaw, also seek the ability to ask voters to raise income taxes should it become necessary. Both have suffered serious revenue losses in recent years and have high unemployment rates.

CONTENT

The bill would amend the City Income Tax Act to allow some cities currently levying an income tax (Grand Rapids, Flint, and Saginaw) to increase, with voter approval, the maximum tax rate on corporations and residents from 1% to 1.5%, and the maximum rate on nonresident individuals from .5% to .75%. The bill specifies that the rate charged nonresidents could not exceed one-half the rate charged residents. A rate increase would have to be approved by a majority of the qualified electors voting on the question, before November 10, 1989, and could be proposed to the voters only once. The bill would apply to cities with a population of more than 140,000 and less than 1 million and those with a population of more than 65,000 and less than 100,000 in a county with a population under 300,000.

MCL 141.503 et al.

FISCAL IMPACT

The bill would result in no fiscal impact on the State and an increase in revenues to local units if the tax increase were approved by voters.

ARGUMENTS

Supporting Argument

The bill would allow three Michigan cities with severe budget problems to ask the voters to raise the city income tax, and would give these cities an additional tool to deal with the problems. In the case of Grand Rapids, it would facilitate the restoration of essential public safety expenditures. The bill would not impose taxes on a community; it simply would allow local voters to decide whether an income tax increase was an acceptable means of dealing with local government fiscal problems. A similar grant of authority was made to Battle Creek in 1987.

Opposing Argument

The bill would contribute to an unjust situation that is at odds with our democratic process. To allow the residents of a city to increase the taxes of nonresidents, without the nonresidents' having any say in the matter, would be totally unfair and would invite the claim of taxation without representation. By being able unilaterally to force nonresidents to pay increasing income tax rates, city residents could supplement their city's revenues without having to convince nonresidents of the need for the increase. This would leave nonresidents powerless to act while the size of their pay checks decreased. While these cities need to be allowed to help themselves, a proposal such as that contained in the bill should include a provision to give nonresidents the opportunity to exercise their right to vote on proposed tax increases.

Response: Citizens are often subject to taxes on which they cannot vote (or exercise influence). Nonresident property owners do not determine property tax rates, for example, and people who earn income in other states must pay taxes to those states without a vote. As a practical matter, allowing nonresidents to vote on an issue that is vital to residents but of little concern to nonresidents could make it impossible for a city to determine how to meet its own needs. Further, some people argue that the city income tax, as a payroll tax, should be levied equally on resident and nonresident alike. It is only because of a compromise dating back a quarter of a century that nonresidents receive this special treatment.

Opposing Argument

How much of a city's services, in dollars, does a nonresident really use? To imply that nonresidents who work in a city eight hours a day make extensive use of city-funded services and should therefore pay for them is a tenuous argument upon which to justify taking a percentage or an increasingly larger percentage of their income. While it must be conceded that certain services (police and fire protection, for instance) are there if needed, they are seldom used by nonresidents. In addition, many other services (such as water and sewer) are funded through property taxes that have been levied on the building or place of employment and paid for by the

nonresident's employer. Further, stating that everyone who uses city services should pay for them ignores the fact that a city's residents have a voice in how this income tax revenue will be spent but nonresidents have none.

Response: Nonresident taxes are levied because people who spend eight to 12 hours a day five days a week working in a city use many city-funded services. If a city is experiencing revenue shortages and the provision of essential services is threatened, why shouldn't everyone who uses those services be required to pay for them? And why should a nonresident who pays only half the rate of a resident be allowed to vote with full force? Allowing nonresidents to vote on an issue for which they may feel little sympathy, even though the question may be vital to the city's residents, could make it impossible for cities to establish or raise income taxes in the future.

Opposing Argument

Some people argue that the bill should be limited to Grand Rapids, which is the prime mover and principal advocate for the tax increase. The other cities should seek the introduction of, and justify their own bills.

Response: Actually, it would make more sense to grant all cities the authority to raise income taxes with a vote of the people, and allow local units to make their own decisions about how to solve their own problems.

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