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DETROIT INCOME TAX: PAUSE RATE REDUCTION

House Bill 4658 (Substitute H-2)
Sponsor: Rep. Marsha G. Cheeks
Committee: Local Government and
Urban Policy

Complete to 7-1-03

A SUMMARY OF HOUSE BILL 4658 (SUBSTITUTE H-2) AS REPORTED FROM THE COMMITTEE ON LOCAL GOVERNMENT AND URBAN POLICY ON 7-1-03

Public Act 500 of 1998 amended the City Income Tax Act to reduce the city income tax in Detroit (“a city with a population of more than 750,000”) from 3 percent on residents and 1.5 percent on nonresidents to 2 percent on residents and 1 percent on nonresidents over a 10-year period beginning July 1, 1999. Public Act 500 required that the tax rate be reduced by one-tenth of one percent on July 1 of each year. (As a practical matter, this produces a blending of two rates for each calendar year.)

House Bill 4658 would amend the City Income Tax Act (MCL 141.503) to halt the tax reduction temporarily. It would essentially set the income tax rates for residents in Detroit during calendar year 2004 at 2.6 percent (the rate in effect on January 1, 2003). From January 1, 2005 to June 30, 2005, the resident rate would be 2.5 percent (the rate in effect on July 1, 2003). Under the act, the tax rate imposed on nonresidents is set at 50 percent of the rate imposed on residents.

The bill also would specify that the reduction in the tax rate of one-tenth of one percent per year each July 1 would continue until the rate on resident individuals was 1.8 percent (rather than 2 percent, as the law currently requires.)

Currently, the act allows the rate reduction to be suspended, upon application by the city to the State Administrative Board, if any three of four specific conditions exist. House Bill 4658 would amend the act to allow the suspension of the annual rate reduction if two of the conditions exist. The conditions are: (1) funds have been withdrawn from the city’s budget stabilization fund for two or more consecutive city fiscal years or there is a balance of zero in that fund; (2) the city’s income tax revenue growth rate is 0.95 or less; (3) the local tax base growth is 80 percent or less of the statewide tax base growth rate; or (4) the city’s unemployment rate is 10 percent or higher, according to the most recent statistics available from [the responsible state agency].

FISCAL IMPLICATIONS:

The House Fiscal Agency has prepared a table showing the current law income tax rates and the rates under House Bill 4658, as well as the fiscal impact of the bill. The bill would increase City of Detroit income tax revenue by an estimated \$5.7 million in fiscal year 2003-04;

House Bill 4658 (7-1-03)

\$17.6 million in fiscal year 2004-05; and \$18.2 million in fiscal year 2005-06. The city's fiscal year is July to June. (Based on HFA committee analysis by Rebecca Ross.)

FY	Current Rates		HB 4658 Rates		Fiscal impact
	Resident	Non-resident	Resident	Non-resident	
2003-04	2.50%	1.25%	2.55%	1.275%	\$5.7 million
2004-05	2.40%	1.20%	2.55%	1.275%	\$17.6 million
2005-06	2.30%	1.15%	2.40%	1.200%	\$12.1 million

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.