



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 1127 (as reported without amendment)
Sponsor: Senator Goeff Hansen
Committee: Government Operations

CONTENT

The bill would amend the City Income Tax Act to provide that an employer in the State whose employee was a resident of a city that imposed an income tax would be subject to the city's withholding provisions for that employee, even if the employer were not doing business in the city or did not maintain an establishment there (a practice sometimes called "reverse commuter withholding").

The Act allows a city to adopt a uniform city income tax ordinance that imposes a tax on the income of residents of the city, on the earnings of nonresidents related to work or business activities conducted in the city, and on a corporation's Federal taxable income earned in the city. The Act states that the uniform ordinance does not apply to a person or corporation as to whom or which it is beyond the power of the city to impose the tax. The bill would make an exception to this provision, as described above. The bill also would amend the uniform city income tax ordinance to reflect the proposed withholding requirement.

The proposed withholding requirement would not apply to an employer that paid \$500,000 or less in total wages in the previous year, and had fewer than 10 employees.

In addition, under the bill, if a city entered into an agreement with the Department of Treasury for the Department to administer, collect, and enforce the city income tax on behalf of the city, the Department would have to do so pursuant to the revenue Act.

MCL 141.506 et al.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would increase the revenue of cities that levy a city income tax by an unknown amount and increase the administrative costs of the Michigan Department of Treasury and those cities by a minimal amount. Local revenue would increase to the extent that the bill resulted in city income tax withholding payments from residents with city income tax liability but who currently are not subject to withholding and do not report or pay taxes on income earned outside the city limits. According to the Department, total revenue from local income taxes was approximately \$463.8 million in 2013. Assuming that 70% of city income tax revenue is paid by city residents, if the bill increased residents' withholding and thus tax payments by 1.0%, the estimated increase in city income tax revenue would be \$3.2 million per year. A 5.0% increase in withholding on residents would increase city income tax revenue by approximately \$16.2 million annually. The Department and cities that levy an income tax would have increased administrative costs to inform employers of the withholding obligations imposed by the bill, and to establish and implement payment procedures.

Date Completed: 11-10-16

Fiscal Analyst: Elizabeth Pratt

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Bill Analysis @ www.senate.michigan.gov/sfa

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