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## BILL ANALYSIS



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Senate Bill 1127 (as introduced 10-20-16)  
Sponsor: Senator Goeff Hansen  
Committee: Government Operations

Date Completed: 11-9-16

**CONTENT**

**The bill would amend the City Income Tax Act to provide that an employer 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 bill would make an exception for an employer that paid \$500,000 or less in total wages in the prior year and had fewer than 10 employees.**

The Act allows a city to adopt an ordinance that imposes a tax on the income of residents of the city, and on the earnings of nonresidents related to work or business activities conducted in the city, as well as on a corporation's Federal taxable income earned in the city. (For a new city income tax adopted after January 1, 1995, voter approval is required.) A resident may take a credit for income tax paid to another city as a nonresident, and residents and businesses may deduct income earned or attributable to business activity in a renaissance zone.

The Act includes a uniform city income tax ordinance to be adopted by a city imposing an income tax. The Act states that the uniform city income tax 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. Under the bill, this would apply except as provided below.

The bill specifies that an employer located in the State that had an employee who was a resident of a city that imposed a city income tax would be subject to that city's withholding provisions for that employee even if the employer were not doing business in the city or did not maintain an establishment in the city. If the employer paid \$500,000 or less in total wages in the previous year, however, and had fewer than 10 employees, the employer would not be required to withhold taxes from that employee under the city's withholding requirements.

The bill also would amend the uniform city income tax ordinance to reflect the proposed withholding requirement.

The Act allows a city that imposes an income tax to enter into an agreement with the Department of Treasury for the Department to administer, enforce, and collect the city income tax on behalf of the city. The bill also provides that, if a city entered into such an agreement, the Department would have to administer, enforce, and collect the city income tax on behalf of the city pursuant to the revenue Act. If the provisions of that Act and the City Income Tax Act or any ordinance of the city conflicted, this requirement would apply.

## **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 cities that levy a city income tax 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 of Treasury, 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 22 cities that levy an income tax and their 2013 income tax collections are shown in the table below. The Department of Treasury 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.

City Income Tax Collections for Tax Year 2013 (Thousands of Dollars)	
City	Collections
Albion	\$953
Battle Creek	15,953
Big Rapids	2,121
Detroit	252,951
Flint	13,404
Grand Rapids	77,297
Grayling	444
Hamtramck	1,871
Highland Park	2,908
Hudson	395
Ionia	2,415
Jackson	7,857
Lansing	34,124
Lapeer	2,658
Muskegon	7,667
Muskegon Heights	970
Pontiac	9,598
Port Huron	6,671
Portland	644
Saginaw	12,406
Springfield	812
Walker	9,653
Total	\$463,772
Source: Department of Treasury	

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