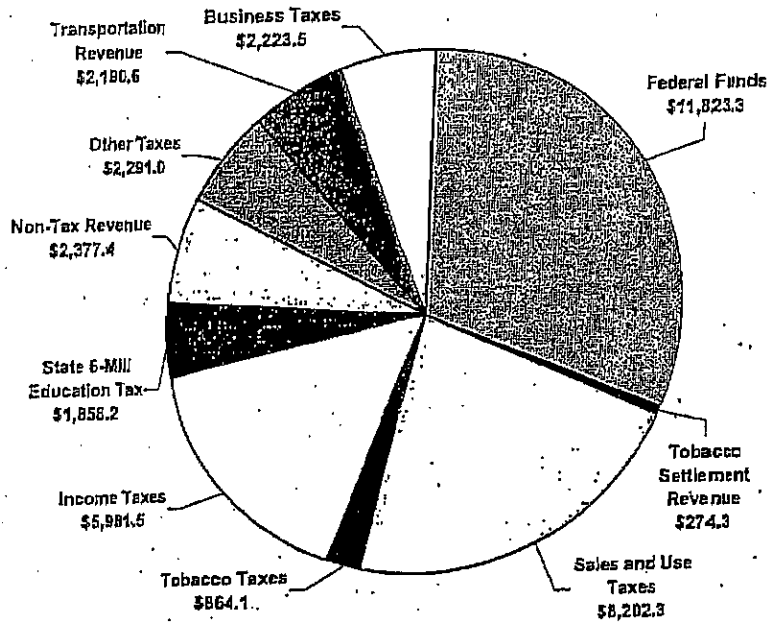
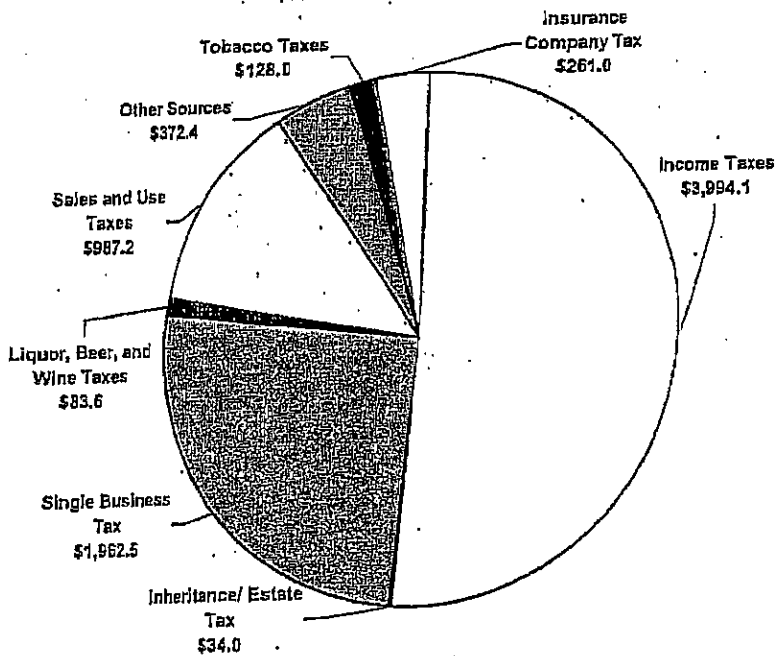


**BASELINE  
BACKGROUND  
TAX  
INFORMATION**

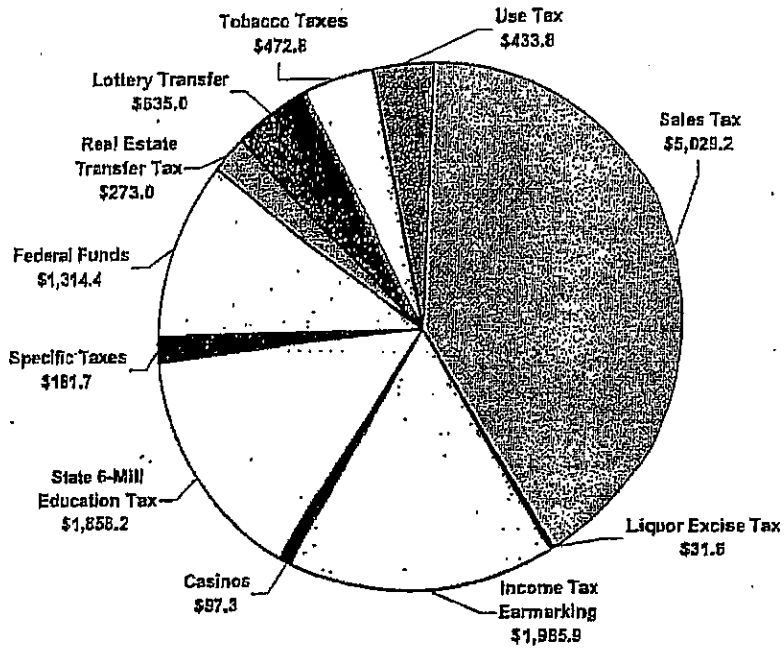
**STATE OF MICHIGAN  
FY 2004-05 TOTAL REVENUE BY SOURCE  
\$38,086.2 MILLION  
(Chart dollars in millions)**



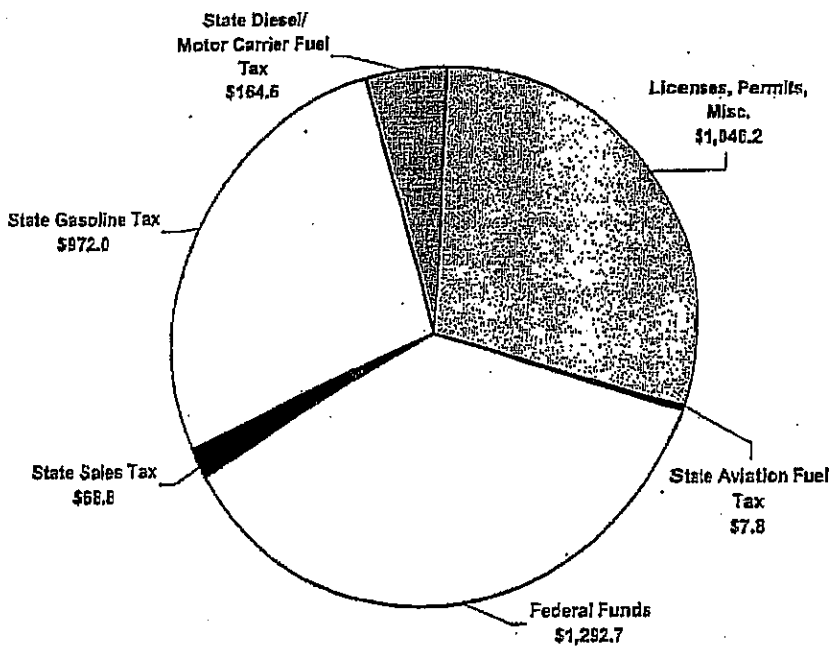
**STATE OF MICHIGAN  
FY 2004-05 GENERAL FUND/GENERAL PURPOSE (GF/GP) REVENUE BY SOURCE  
\$7,822.8 MILLION  
(Chart dollars in millions)**



**STATE OF MICHIGAN**  
**FY 2004-05 SCHOOL AID FUND (SAF) REVENUE BY SOURCE**  
**\$12,312.9 MILLION**  
 (Chart dollars in millions)



**STATE OF MICHIGAN**  
**FY 2004-05 TRANSPORTATION REVENUE BY SOURCE**  
**\$3,552.1 MILLION**  
 (Chart dollars in millions)



The following table shows employment in Michigan for various sectors in 1990, 1995, 2000, and 2003, along with annualized average percent changes over each five-year period. In broad terms, employment performed well during the 1990-95 and 1995-00 periods. Both the goods and services producing sectors posted gains, as did most of the sub-sectors.

The period from 2000-03 has seen substantial job losses—not just in a few specific sub-sectors, but for total employment as a whole. Total private employment dropped at an annual rate of 2.2% over this time period, resulting in the loss of almost 262,000 jobs. The goods producing sector was the hardest hit as employment fell at an annual rate of more than 6.0%—which translates into 190,000 jobs.

Of the 190,000 jobs lost during this period, almost 90% (165,500) were in manufacturing. Both the durable and non-durable goods sub-sectors experienced losses in excess of 5.4% per year between 2000 and 2003. Perhaps even more significant is that the manufacturing sector had 110,400 fewer jobs at the end of 2003 than in 1990.

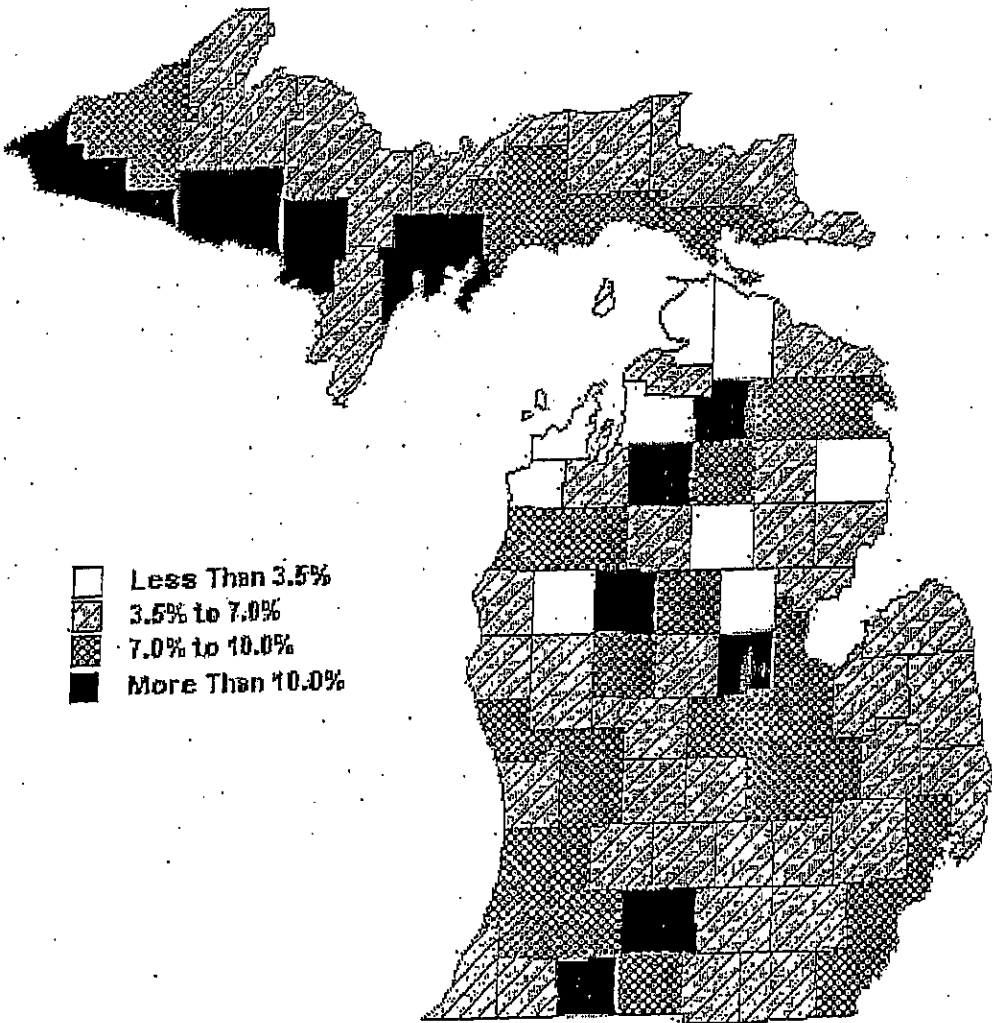
The period from 2000 through 2003 produced more mixed results for service producing employment. Overall, service sector employment declined by about 0.7% per year over this span, although employment in financial activities and educational and health services employment actually increased. Most other sub-sectors, however, experienced job losses—most notably in wholesale and retail trade and professional and business services.

**EMPLOYMENT IN MICHIGAN**  
(in Thousands)

	<u>1990</u>	<u>1995</u>	<u>1990-1995 Annualized Percent Change</u>	<u>2000</u>	<u>1995-2000 Annualized Percent Change</u>	<u>2003</u>	<u>2000-2003 Annualized Percent Change</u>
<b>TOTAL NON-FARM EMPLOYMENT</b>	<b>3,969.7</b>	<b>4,273.9</b>	<b>1.49%</b>	<b>4,673.9</b>	<b>1.81%</b>	<b>4,411.8</b>	<b>-1.91%</b>
<b>Total Private</b>	<b>3,335.8</b>	<b>3,633.0</b>	<b>1.72%</b>	<b>3,992.3</b>	<b>1.90%</b>	<b>3,730.5</b>	<b>-2.24%</b>
<i>Goods Producing</i>	992.2	1,036.6	0.88%	1,115.7	1.48%	925.3	-6.05%
Natural Resources & Construction	154.9	163.6	1.10%	219.1	6.02%	198.2	-3.29%
Manufacturing	837.6	873.0	0.83%	896.7	0.54%	727.2	-6.75%
Non-Durable Goods	174.1	185.9	1.32%	180.3	-0.61%	152.4	-5.45%
Food Manufacturing	43.2	43.3	0.06%	35.2	-4.06%	32.6	-1.52%
Chemical Manufacturing	32.2	33.6	0.85%	33.8	0.12%	29.4	-2.75%
Durable Goods	663.5	687.2	0.70%	716.4	1.40%	574.8	-7.08%
Primary Metal Manufacturing	37.1	35.3	-0.89%	34.5	-0.76%	27.3	-7.51%
Fabricated Metal Products	87.6	93.4	1.29%	99.3	2.06%	82.4	-6.03%
Machinery Manufacturing	95.7	103.7	1.62%	102.3	-0.45%	76.0	-9.43%
Motor Vehicle Manufacturing	98.5	88.0	-2.23%	94.3	2.33%	80.0	-6.33%
Service Producing	2,977.5	3,297.3	1.69%	3,558.2	1.91%	3,486.5	-0.68%
Trade, Transportation, and Utilities	782.3	811.2	0.73%	881.2	1.67%	815.3	-2.56%
Trade	665.1	683.2	0.54%	745.8	1.77%	690.2	-2.55%
Retail Trade	505.6	523.8	0.71%	559.8	1.34%	516.6	-2.64%
Wholesale Trade	159.5	159.4	-0.01%	186.0	3.13%	173.6	-2.27%
Information	70.8	67.9	-0.83%	76.7	2.47%	73.8	-1.28%
Financial Activities	195.4	196.2	0.08%	209.4	1.31%	218.9	1.49%
Professional and Business Services	408.1	527.7	5.27%	638.8	3.90%	587.0	-2.78%
Accounting, Tax Prep, Payroll, etc	31.1	27.2	-2.64%	31.4	2.91%	28.6	-1.85%
Consulting Services	9.3	12.2	5.58%	24.4	14.87%	19.8	-4.09%
Advertising and Related Services	16.1	17.1	1.21%	17.9	0.92%	16.0	-2.22%
Educational and Health Services	411.7	470.2	2.69%	502.1	1.32%	544.2	1.62%
Educational Services	41.2	45.5	2.01%	54.3	3.60%	73.1	6.13%
Health Care & Social Assistance	370.5	424.7	2.77%	447.8	1.06%	471.1	1.02%
Leisure and Hospitality	331.6	364.0	1.88%	400.4	1.92%	398.0	-0.20%
Other Services	146.6	159.2	1.66%	168.1	1.09%	171.2	0.61%
<b>Government</b>	<b>633.9</b>	<b>640.9</b>	<b>0.22%</b>	<b>681.6</b>	<b>1.24%</b>	<b>681.4</b>	<b>-0.01%</b>

*Source: Bureau of Labor Statistics*

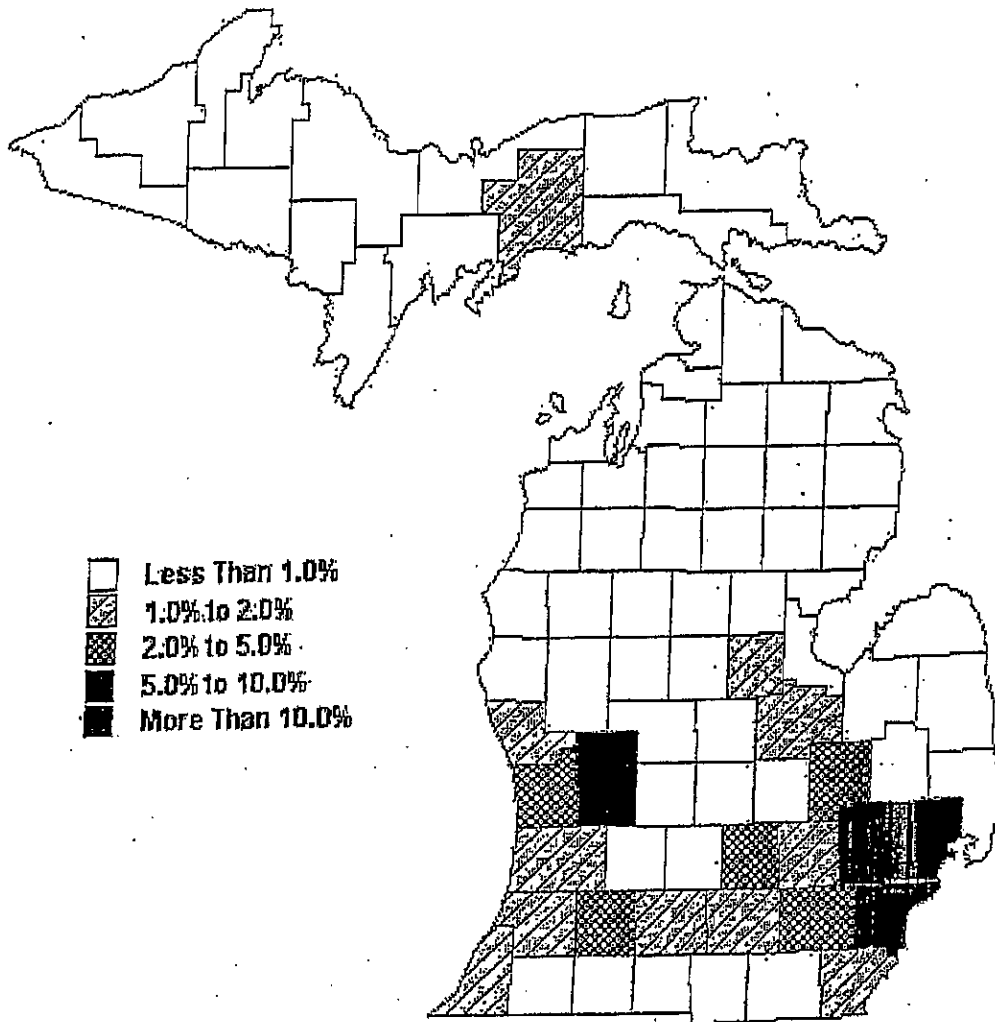
# Personal Property as a Percent of Total Property by County



Source: Michigan Department of Treasury, 2004 Assessed and Equalized Valuations (Blue Book); EDS report; map prepared by House Fiscal Agency

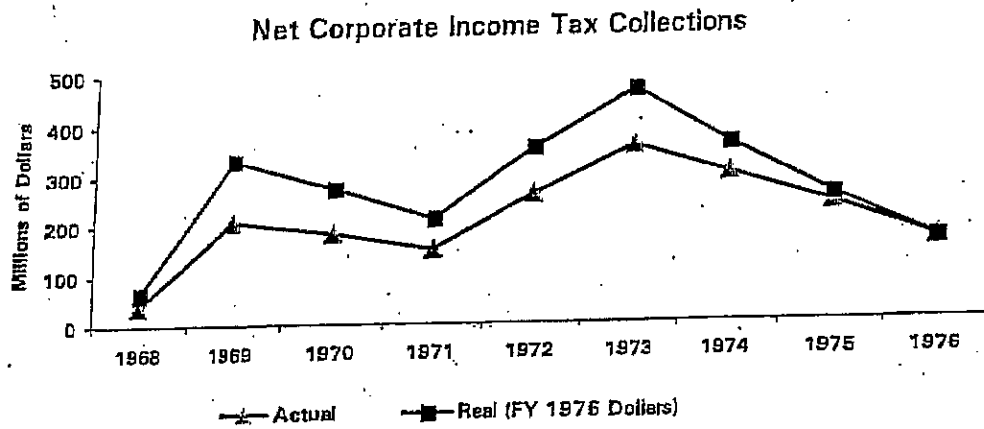
## Personal Property By County

As a Percent of Total Statewide Personal Property

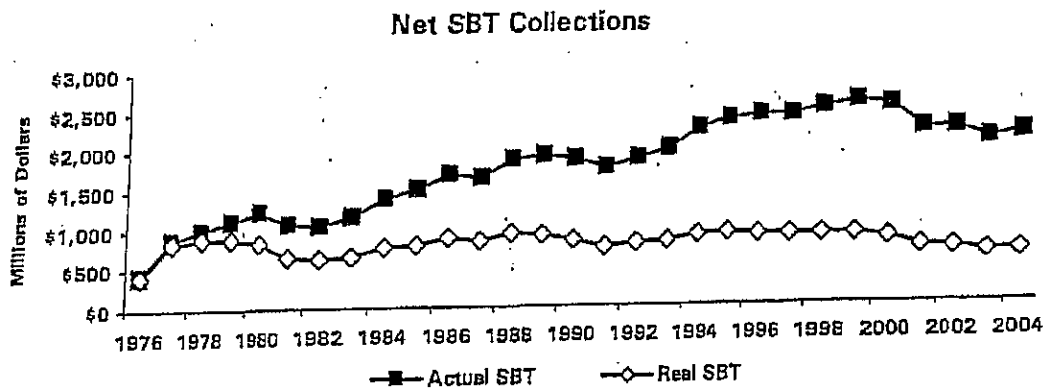


Source: Michigan Department of Treasury, 2004 Assessed and Equalized Valuations (Blue Book); EDS report; map prepared by House Fiscal Agency

The figure below shows net corporate income tax collections (gross collections minus refunds) in both actual and real terms over the nine fiscal years the tax was levied. The graph shows two peaks, each followed by a substantial downturn. (The 1972 upturn was a result of an increase in the tax rate from 5.6 percent to 7.8 percent.) The second downturn was particularly severe. Between fiscal years 1973 and 1975, net collections fell 34.1 percent.<sup>7</sup>



The figure below presents net SBT collections (collections minus refunds) over time. While actual SBT collections have generally increased over time, real SBT collections have remained relatively flat, although decreasing somewhat during the last three recessions—the first in the early 1980s, the second in the early 1990s, and the third in 2001.<sup>8</sup>



1976 - 2002 Source: Various Michigan Comprehensive Annual Financial Reports; 2003 and 2004 are estimates from October 2003 Consensus Revenue Estimating Conference

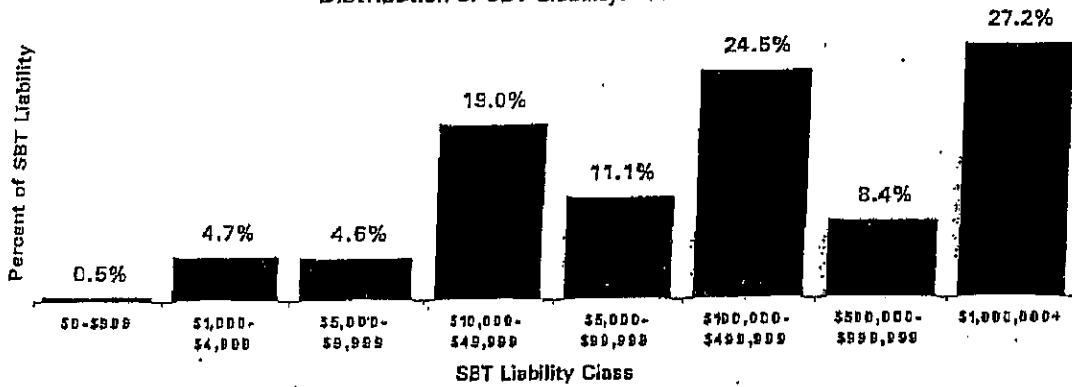
<sup>7</sup> House Fiscal Agency, *Background and History: Michigan's Single Business Tax*, November 2003, p. 31-32

<sup>8</sup> *Ibid.*



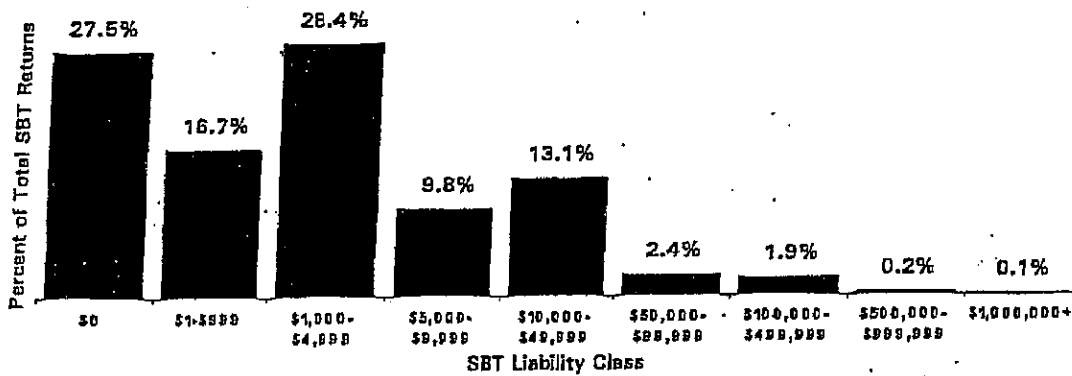
The figures below show the distribution of SBT liability and the distribution of firms filing an SBT return.

Distribution of SBT Liability: 1999-2000



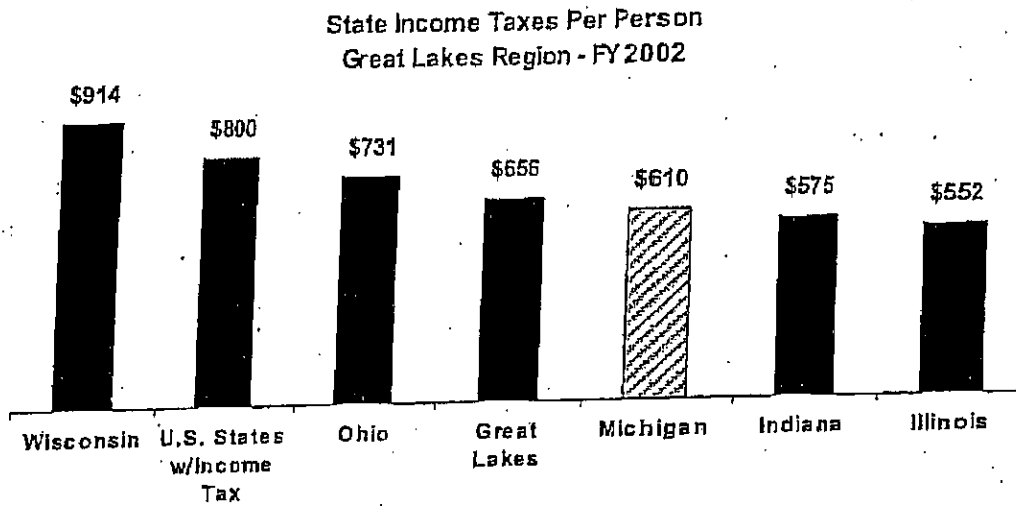
Includes all firms filing SBT returns using forms C-8000 and C-8044. Figures may not sum to 100% due to rounding.  
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Distribution of Firms Filing an SBT Return: 1999-2000



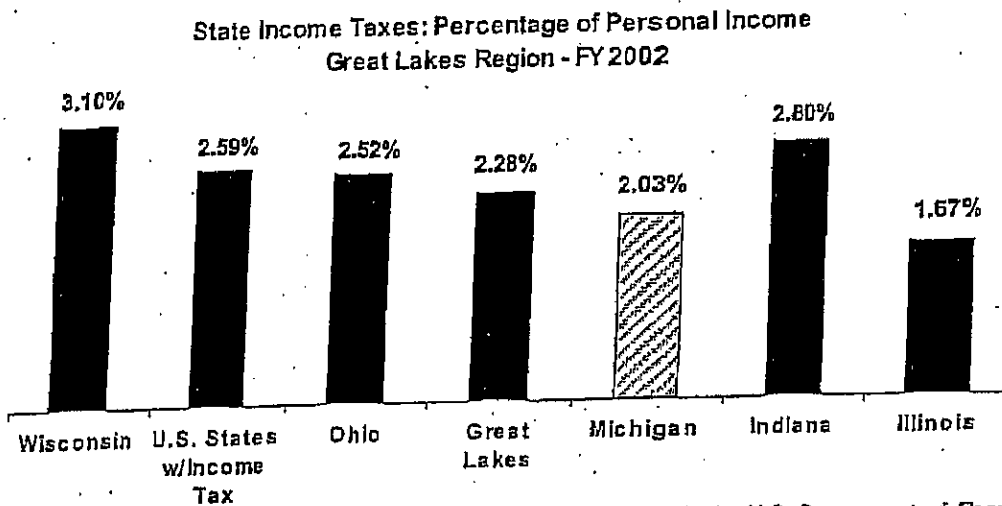
Includes all firms filing SBT returns using forms C-8000 and C-8044. Figures may not sum to 100% due to rounding.  
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

In fiscal year 2002, Michigan (\$610) ranked 26th highest nationally in income taxes per person with New York (\$1,337) ranking first overall.<sup>9</sup>



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce

In fiscal year 2002, Michigan (2.03%) ranked 34th highest nationally in state income taxes as a percent of personal income with New York (3.76%) ranking first overall.<sup>10</sup>



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce

<sup>9</sup> Michigan Department of Treasury, *Michigan's Individual Income Tax 2002*, June 2004, p. 23, 25.

<sup>10</sup> *ibid.*

**State Individual Income Taxes for FY 2002**  
**Per Person and Percentage of Personal Income**

State	Per Person Individual Income Taxes	Rank	Income Taxes as a Percent of Personal Income	Rank
Alabama	\$537	35	2.15%	30
Alaska	No Tax	N/A	No Tax	N/A
Arizona	395	39	1.49%	40
Arkansas	553	32	2.39%	23
California	957	6	2.91%	9
Colorado	785	15	2.34%	24
Connecticut	1,074	4	2.52%	19
Delaware	901	9	2.77%	12
Florida	No Tax	N/A	No Tax	N/A
Georgia	759	17	2.67%	13
Hawaii	896	10	3.05%	7
Idaho	627	25	2.56%	16
Illinois	552	33	1.67%	37
Indiana	575	29	2.08%	32
Iowa	603	28	2.18%	29
Kansas	684	20	2.39%	22
Kentucky	655	23	2.60%	15
Louisiana	398	38	1.59%	38
Maine	828	13	3.05%	8
Maryland	853	12	2.43%	21
Massachusetts	1,232	2	3.18%	5
Michigan	610	26	2.03%	34
Minnesota	1,084	3	3.26%	3
Mississippi	344	40	1.56%	39
Missouri	538	24	2.24%	28
Montana	569	31	2.34%	25
Nebraska	668	21	2.29%	26
Nevada	No Tax	N/A	No Tax	N/A
New Hampshire	56	42	0.17%	42
New Jersey	797	14	2.05%	33
New Mexico	531	36	2.27%	27
New York	1,357	1	3.76%	1
North Carolina	875	11	3.21%	4
North Dakota	315	41	1.20%	41
Ohio	731	18	2.52%	18
Oklahoma	655	22	2.62%	14
Oregon	1,044	5	3.72%	2
Pennsylvania	546	34	1.75%	36
Rhode Island	771	16	2.52%	17
South Carolina	476	37	1.91%	35
South Dakota	No Tax	N/A	No Tax	N/A
Tennessee	25	43	0.09%	43
Texas	No Tax	N/A	No Tax	N/A
Utah	692	19	2.90%	10
Vermont	607	27	2.10%	31
Virginia	821	7	2.86%	11
Washington	No Tax	N/A	No Tax	N/A
West Virginia	573	30	2.47%	20
Wisconsin	914	8	3.10%	6
Wyoming	No Tax	N/A	No Tax	N/A
U.S. Average	\$649		2.12%	
U.S. Average for States With a General Income Tax	\$800		2.59%	

*Sources: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce;  
Michigan Department of Treasury*

**Effective Rate of the Michigan Individual Income Tax, 2002**

Adjusted Gross Income Group	Number of Returns Filed <sup>(1)</sup>	Adjusted Gross Income	Effective Personal Exemptions <sup>(2)</sup>	Claimed Exemptions	Subtractions Minus Additions	Total Credits <sup>(3)</sup>	Effective Tax	Effective Tax as a % of Income
\$ 1 - 2,000	283,763	(\$2,515,700,485)		69,642	(\$1,328,437,797)	\$119,937,494	(\$117,467,393)	
2,001 - 4,000	190,443	174,930,173	24,969	98,534	34,385,178	28,657,475	128,128,679	-16.1%
4,001 - 6,000	181,969	571,074,019	70,838	134,031	74,977,527	29,140,565	(22,538,820)	-3.9%
6,001 - 8,000	172,043	907,624,947	79,553	163,716	216,520,278	34,661,738	(20,319,715)	-2.2%
8,001 - 10,000	160,984	1,203,567,606	122,952	195,745	240,155,530	40,111,317	(20,712,147)	-1.7%
10,001 - 12,000	157,722	1,732,743,912	141,253	213,410	334,556,772	40,831,590	(17,567,951)	-1.2%
12,001 - 14,000	147,941	1,822,452,692	164,051	236,949	428,150,881	41,300,732	(13,232,854)	-0.8%
14,001 - 16,000	142,999	2,144,337,935	173,126	235,618	539,001,021	37,191,141	-3,917,245	-0.2%
16,001 - 18,000	136,302	2,316,161,221	178,275	232,616	482,988,731	34,294,335	5,396,996	0.3%
18,001 - 20,000	129,455	2,458,977,275	183,637	228,656	542,492,838	30,696,462	15,494,172	0.7%
20,001 - 22,000	122,727	2,576,125,548	185,660	221,934	509,138,949	27,781,379	25,294,954	1.0%
22,001 - 24,000	117,020	2,690,808,225	186,124	215,466	472,293,898	24,632,313	34,897,955	1.4%
24,001 - 26,000	111,818	2,794,300,750	182,000	207,039	449,453,746	22,652,858	42,799,809	1.6%
26,001 - 28,000	106,810	2,883,365,445	177,276	201,208	446,413,781	20,606,720	50,062,095	1.8%
28,001 - 30,000	103,033	2,987,706,072	172,701	195,311	473,791,033	19,337,050	54,657,633	1.9%
30,001 - 35,000	233,857	7,586,463,836	407,399	454,977	1,253,044,455	40,009,101	59,869,874	2.0%
35,001 - 40,000	205,400	7,692,005,860	380,467	424,498	1,192,642,863	33,635,352	180,628,266	2.3%
40,001 - 45,000	184,901	7,848,905,102	379,736	406,583	1,115,986,025	27,753,248	196,518,985	2.5%
45,001 - 50,000	167,574	7,956,382,889	369,626	391,054	1,078,086,272	22,859,630	208,993,264	2.6%
Over 50,000	1,421,406	156,075,667,018	4,016,934	4,010,015	28,348,102,132	149,602,239	4,545,150,261	2.9%
Totals	4,639,218	\$213,455,154,939	7,764,869	8,769,595	\$37,405,296,978	\$843,699,668	\$5,339,123,168	2.5%

(1) Includes 233,531 credit-only returns.  
 (2) Since the value of some taxpayers' exemptions exceed their income, "effective exemptions" are defined as those personal exemptions that offset income.  
 (3) Does not include Farmland Preservation Credits or Prescription Drug Credits.  
 (4) The less than \$1 category includes tax returns reporting a negative AGI.

Comparison of State and Local Retail Sales Taxes: January 2004

	Food Items [1] Taxable (T) Exempt (E)	State Rate	Maximum Local Rate [2]	Maximum State/Local Rate [2]
Alabama	T	4.00	7.00	11.00
Alaska	T	--	7.00 [3]	7.00
Arizona	E	5.60	4.50	10.10
Arkansas	T	5.125	5.50	10.625
California	E	6.00	2.75	8.75
Colorado	E	2.90	7.00	9.90
Connecticut	E	6.00	--	6.00
District of Columbia	E	5.75	--	5.75
Florida	E	6.00	1.50	7.50
Georgia	E [4]	4.00	3.00	7.00
Hawaii	T*	4.00	--	4.00
Idaho	T*	6.00	3.00	9.00
Illinois	T**	6.25	3.00	9.25
Indiana	E	6.00	--	6.00
Iowa	E	5.00	2.00	7.00
Kansas	T*	5.30	3.00	8.30
Kentucky	E	6.00	--	6.00
Louisiana	E [4]	4.00	6.25	10.25
Maine	E	5.00	--	5.00
Maryland	E	5.00	--	5.00
Massachusetts	E	5.00	--	5.00
Michigan	E	6.00	--	6.00
Minnesota	E	6.50	1.00	7.50
Mississippi	T	7.00	0.25	7.25
Missouri	T**	4.225	4.5	8.725
Nebraska	E	5.50	1.50	7.00
Nevada	E	6.50	1.00	7.50
New Jersey	E	6.00	--	6.00
New Mexico	T	5.00	2.25	7.25
New York	E	4.25	4.50	8.75
North Carolina	E [4]	4.50	3.00	7.50
North Dakota	E	5.00	2.50	7.50
Ohio	E	6.00	2.00	8.00
Oklahoma	T	4.50	6.00	10.50
Pennsylvania	E	6.00	1.00	7.00
Rhode Island	E	7.00	--	7.00
South Carolina	T**	5.00	2.00	7.00
South Dakota	T*	4.00	2.00	6.00
Tennessee	T	7.00	2.75	9.75
Texas	E	6.25	2.00	8.25
Utah	T	4.75	2.25	7.00
Vermont	E	6.00	1.00	7.00
Virginia	T**	3.60	1.00	4.50
Washington	E	6.50	2.40	8.90
West Virginia	T	6.00	--	6.00
Wisconsin	E	5.00	0.60	5.60
Wyoming	T*	4.00	2.00	6.00

- [1] Food purchased for consumption off-premises.
- [2] Highest local rate known to be actually levied by at least one jurisdiction. Includes local taxes for general purposes and those earmarked for specific purposes (e.g. transit). Taxes applying only to specified sales (e.g. lodging or meals) are excluded.
- [3] Alaskan cities and boroughs may levy local sales taxes from 1% to 6%.
- [4] Food exempt from state tax, but subject to local taxes.
- \* Income tax credit allowed to offset sales tax on food.
- \*\* Food taxed at lower rate.

*Source: Compiled by the Federation of Tax Administrators from various sources*

State Sales Tax Rates And Vendor Discounts: January 1, 2004

State	State Sales Tax Rate	Rank	Vendor Discount	Max/Min
Alabama	4.0%	39	5.0%-2.0% (1)	
Alaska	--	N/A	--	
Arizona	5.6%	22	1.0%	\$10,000/year (max)
Arkansas	5.125%	25	2.0%	\$1,000/month (max)
California (3)	6.0%	9	None	
Colorado	2.9%	46	2.33% (4)	
Connecticut	6.0%	9	None	
Delaware	--	N/A	--	
Florida	6.0%	9	2.5%	\$30/report (max)
Georgia	4.0%	39	3.0%-0.5% (1)	
Hawaii	4.0%	39	None	
Idaho	6.0%	9	None (5)	
Illinois	6.25%	7	1.75%	\$5/year (min)
Indiana (2)	6.0%	9	0.83%	
Iowa	5.0%	26	None	
Kansas	5.3%	24	None	
Kentucky	6.0%	9	1.75%-1.0% (1)	
Louisiana	4.0%	39	1.1%	
Maine	5.0%	26	None (5)	
Maryland (9)	5.0%	26	0.5%-0.45% (1)	
Massachusetts	5.0%	26	None	
Michigan	6.0%	9	0.5% (6)	\$6/month (min)
Minnesota	5.5%	4	None	
Mississippi	7.0%	1	2.0%	\$50/month (max)
Missouri	4.225%	37	2.0%	
Montana	--	N/A	--	
Nebraska	5.5%	23	2.5%	\$75/month (max)
Nevada	6.5%	4	0.5%	
New Hampshire	--	N/A	--	
New Jersey	6.0%	9	None	
New Mexico	5.0%	26	None	
New York	4.25%	37	3.5%	\$150/quarter (max)
North Carolina	4.5%	35	None	
North Dakota	5.0%	26	1.5%	\$255/quarter (max)
Ohio	6.0%	9	0.9%	
Oklahoma	4.5%	35	2.25%	\$3,000/month (max)
Oregon	--	N/A	--	
Pennsylvania	6.0%	9	1.0%	
Rhode Island	7.0%	1	None	
South Carolina	5.0%	26	3.0%-2.0% (1)	\$3,000/year (max)
South Dakota	4.0%	39	None	
Tennessee	7.0%	1	None	
Texas	6.25%	7	0.5% (7)	
Utah	4.75%	34	1.5%	
Vermont	6.0%	9	None (5)	
Virginia (3)	3.5%	45	4.0%-2.0% (8)	
Washington	5.5%	4	None	
West Virginia	6.0%	9	None	
Wisconsin	5.0%	26	0.5%	\$10/period (min)
Wyoming	4.0%	39	None	
Dist. Of Columbia	5.75%	21	1.0%	\$5,000/month (max)
U. S. Median	5.5%		1.9%-1.5% (1)	27 states allow vendor discounts

(1) In some states, the vendors' discount varies by the amount paid. In AL and SC, the larger discounts apply to the first \$100. In GA, the larger discount applies to the first \$3,000. In KY, the larger discounts apply to the first \$1,000, while MD applies the larger discount to annual collections of \$6,000. The lower discounts apply to the remaining collections above these amounts.

(2) Utilities are not permitted to take discount.

(3) Rate does not include a statewide local rate of 1.25% in CA and 1.0% in VA.

(4) Vendor discount applies to the state taxes collected. Discount for local option sales tax varies from 0% to 3.33%.

(5) Vendors are allowed to keep any excess collections prescribed under the bracket system.

(6) Vendor discount only applies to the first 4.0% of the tax.

(7) An additional discount of 1.25% applies for early payment.

(8) Discount varies; 4% of the first \$62,500, 3% of the amount to \$208,000, and 2% of the remainder.

(9) Vendor discount rate will increase to 1.2% and 0.9% on 7/1/04.

*Source: Compiled by the Federation of Tax Administrators from various sources*



State Sales Tax Rates: January 1, 2004

State	Tax Rates	Exemptions		
		Food	Prescription Drugs	Non-prescription Drugs
Alabama	4		*	
Alaska	none			
Arizona	5.6	*	*	
Arkansas	5.125		*	
California (3)	7.25 (2)	*	*	
Colorado	2.9	*	*	
Connecticut	6	*	*	*
Delaware	none			
Florida	6	*	*	*
Georgia	4	* (4)	*	
Hawaii	4		*	
Idaho	6		*	
Illinois (2)	6.25	1%	1%	1%
Indiana	6	*	*	
Iowa	5	*	*	
Kansas	5.3		*	
Kentucky	6	*	*	
Louisiana	4	* (4)	*	
Maine	5	*	*	
Maryland	5	*	*	*
Massachusetts	5	*	*	
Michigan	6	*	*	
Minnesota	6.5	*	*	*
Mississippi	7		*	
Missouri	4.225	1.225	*	
Montana	none			
Nebraska	5.5	*	*	
Nevada	6.5	*	*	
New Hampshire	none			
New Jersey	6	*	*	*
New Mexico	5		*	
New York	4.25	*	*	*
North Carolina	4.5	* (4)	*	
North Dakota	5	*	*	
Ohio	6	*	*	
Oklahoma	4.5		*	
Oregon	none			
Pennsylvania	6	*	*	*
Rhode Island	7	*	*	*
South Carolina	5		*	
South Dakota	4		*	
Tennessee	7	6%	*	
Texas	6.25	*	*	*
Utah	4.75		*	
Vermont	6	*	*	*
Virginia	4.5 (2)	4.0% (5)	*	*
Washington	6.5	*	*	
West Virginia	6		*	
Wisconsin	5	*	*	
Wyoming (3)	4		*	
Dist. Of Columbia	5.75	*	*	*

\* - indicates exempt from tax, blank indicates subject to general sales tax rate.

(1) Some state tax food, but allow an (income) tax credit to compensate poor households. They are: HI, ID, KS, SD, and WY.

(2) Includes statewide local tax of 1.25% in California and 1.0% in Virginia.

(3) Tax rate may be adjusted annually according to a formula based on balances in the unappropriated general fund and the school foundation fund.

(4) Food sales are subject to local sales taxes.

(5) tax rate on food is scheduled to decrease to 3.5% on 4/1/03. Statewide local tax is included

*Source: Compiled by the Federation of Tax Administrators from various sources*

**Range of State Corporate Income Tax Rates**  
(For Tax Year 2004 -- As of January 1, 2004)

State	Tax Rates	Tax Brackets	# of Brackets	Bank Tax Rates	Federal Tax Deductible
Alabama	6.5	Flat Rate	1	6.5	*
Alaska	1.0 - 9.4	10,000 - 90,000	10	1.0 - 9.4	
Arizona	6.968 (b)	Flat Rate	1	6.968	
Arkansas	1.0 - 6.5	3,000 - 100,000	6	1.0 - 6.5	
California	8.84 (c)	Flat Rate	1	10.84 (c)	
Colorado	4.63	Flat Rate	1	4.63	
Connecticut	7.5 (d)	Flat Rate	1	7.5 (d)	
Delaware	8.7	Flat Rate	1	8.7-1.7 (e)	
Florida	5.5 (f)	Flat Rate	1	5.5 (f)	
Georgia	6.0	Flat Rate	1	6.0	
Hawaii	4.4 - 6.4 (g)	25,000 - 100,000	3	7.92 (g)	
Idaho	7.6 (h)	Flat Rate	1	7.6 (h)	
Illinois	7.3 (i)	Flat Rate	1	7.3 (i)	
Indiana	8.5	Flat Rate	1	8.5	
Iowa	6.0 - 12.0	25,000 - 250,000	4	5.0	* (k)
Kansas	4.0 (l)	Flat Rate	1	2.25 (l)	
Kentucky	4.0 - 8.25	25,000 - 250,000	5	-- (a)	
Louisiana	4.0 - 8.0	25,000 - 250,000	5	-- (a)	*
Maine	3.5 - 8.93 (m)	25,000 - 250,000	4	1.0	
Maryland	7.0	Flat Rate	1	7.0	
Massachusetts	8.5 (n)	Flat Rate	1	10.5 (n)	
Minnesota	9.8 (o)	Flat Rate	1	9.8 (o)	
Mississippi	3.0 - 5.0	5,000 - 10,000	3	3.0 - 5.0	
Missouri	6.25	Flat Rate	1	7.0	* (k)
Montana	6.75 (p)	Flat Rate	1	6.75 (p)	
Nebraska	5.58 - 7.81	50,000	2	-- (a)	
New Hampshire	8.5 (q)	Flat Rate	1	8.5 (q)	
New Jersey	9.0 (r)	Flat Rate	1	9 (r)	
New Mexico	4.8 - 7.6	500,000 - 1 million	3	4.8 - 7.6	
New York	7.5 (s)	Flat Rate	1	7.5 (s)	
North Carolina	6.9 (t)	Flat Rate	1	6.9 (t)	
North Dakota	3.0 - 10.5	3,000 - 50,000	6	7 (b)	*
Dhio	5.1 - 8.5 (u)	50,000	2	-- (u)	
Oklahoma	6.0	Flat Rate	1	6.0	
Oregon	6.6 (b)	Flat Rate	1	6.6 (b)	
Pennsylvania	9.99	Flat Rate	1	-- (a)	
Rhode Island	9.0 (b)	Flat Rate	1	9.0 (v)	
South Carolina	5.0	Flat Rate	1	4.5 (w)	
South Dakota	--			6.0-0.25% (b)	
Tennessee	6.5	Flat Rate	1	6.5	
Utah	5.0 (b)	Flat Rate	1	5.0 (b)	
Vermont	7.0 - 9.75 (b)	10,000 - 250,000	4	7.0 - 9.75 (b)	
Virginia	6.0	Flat Rate	1	6.0 (x)	
West Virginia	9.0	Flat Rate	1	9.0	
Wisconsin	7.9	Flat Rate	1	7.9	
Dist Of Columbia	9.975 (y)	Flat Rate		9.975 (y)	

Note: Michigan imposes a single business tax (sometimes described as a business activities tax or value added tax) of 1.9% on the sum of federal taxable income of the business, compensation paid to employees, dividends, interest, royalties paid and other items. Similarly, Texas imposes a franchise tax of 4.5% of earned surplus or 2.5 mills of net worth. Nevada, Washington, and Wyoming do not have state corporate income taxes.

(a) Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income. Some states have other taxes based upon the value of deposits or shares.

(b) Minimum tax is \$50 in Arizona, \$50 in North Dakota (banks), \$10 in Oregon, \$250 in Rhode Island, \$500 per location in South Dakota (banks), \$100 in Utah, \$250 in Vermont.

- (c) Minimum tax is \$800. The tax rate on S-Corporations is 1.5% (3.5% for banks).
- (d) Or 3.1 mills per dollar of capital stock and surplus (maximum tax \$1 million) or \$250.
- (e) The marginal rate decreases over 4 brackets ranging from \$20 to \$650 million in taxable income. Building and loan associations are taxed at a flat 8.7%.
- (f) Or 3.3% Alternative Minimum Tax. An exemption of \$5,000 is allowed.
- (g) Capital gains are taxed at 4%. There is also an alternative tax of 0.5% of gross annual sales.
- (h) Minimum tax is \$20. An additional tax of \$10 is imposed on each return.
- (i) Includes a 2.5% personal property replacement tax.
- (j) Fifty percent of the federal income tax is deductible.
- (k) Plus a surtax of 3.35% (2.125% for banks) taxable income in excess of \$50,000 (\$25,000).
- (l) Or a 27% tax on Federal Alternative Minimum Taxable Income.
- (m) Rate includes a 14% surtax, as does the following: an additional tax of \$7.00 per \$1,000 on taxable tangible property (or net worth allocable to state, for intangible property corporations); minimum tax of \$456.
- (n) Plus a 5.8% tax on any Alternative Minimum Taxable Income over the base tax.
- (o) A 7% tax on taxpayers using water's edge combination. Minimum tax is \$50.
- (p) Plus a 0.50 percent tax on the enterprise base (total compensation, interest and dividends paid). Business profits tax imposed on both corporations and unincorporated associations.
- (r) The rate reported in the table is the corporation business franchise tax rate. The minimum tax is \$500. An Alternative Minimum Assessment based on Gross Receipts applies if greater than corporate franchise tax. Corporations not subject to the franchise tax are subject to a 7.25% income tax. Banking and financial corporations are subject to the franchise tax. Corporations with net income under \$100,000 are taxed at 6.5%. The tax on S corporations is being phased out through 2007. The tax rate on a New Jersey S corporation that has entire net income not subject to federal corporate income tax in excess of \$100,000 will remain at 1.33% for privilege periods ending on or before June 30, 2006. The rate will be 0.67% for privilege periods ending on or after July 1, 2006, but on or before June 30, 2007; and there will be no tax imposed for privilege periods ending on or after July 1, 2007. The tax on S corporation with entire net income not subject to federal corporate income tax of \$100,000 or less is eliminated for privilege periods ending on or after July 1, 2007.
- (s) Or 1.78 mills per dollar of capital (up to \$350,000); or a 2.5% alternative minimum tax; or a minimum tax of \$1,500 to \$100 depending on payroll size; if any of these is greater than the tax computed on net income. Small corporations with income under \$290,000 are subject to lower rates of tax on net income. An additional tax of 0.9 mills per dollar of subsidiary capital is imposed on corporations. For banks, the alternative bases of tax are 3% of alternative net income; or up to 1/50th mill of taxable assets; or a minimum tax of \$250.
- (t) Financial institutions are also subject to a tax equal to \$30 per one million in assets.
- (u) Or 4.0 mills times the value of the taxpayer's issued and outstanding share of stock with a maximum payment of \$150,000. An additional litter tax is imposed equal to 0.11% on the first \$50,000 of taxable income, 0.22% on income over \$50,000; or 0.14 mills on net worth.
- (v) For banks, the alternative tax is \$2.50 per \$10,000 of capital stock (\$100 minimum).
- (w) Savings and Loans are taxed at a 6% rate.
- (x) State and national banks subject to the state's franchise tax on net capital is exempt from the income tax.
- (y) Minimum tax is \$100. Includes surtax.

*Source: Compiled by the Federation of Tax Administrators from various sources*

**STATE APPORTIONMENT OF CORPORATE INCOME**  
(Formulas for tax year 2004 -- as of January 1, 2004)

Alabama*	3 Factor	Nebraska	Sales
Alaska*	3 Factor	Nevada	No State Income Tax
Arizona*	Double wtd. sales	New Hampshire	Double wtd. Sales
Arkansas*	Double wtd. sales	New Jersey (1)	Double wtd. Sales
California*	Double wtd. sales	New Mexico*	Double wtd. sales
Colorado*	3 Factor/Sales & Property	New York	Double wtd sales
Connecticut	Double wtd. sales/Sales	North Carolina*	Double wtd. sales
Delaware	3 Factor	North Dakota*	3 Factor
Florida	Double wtd. sales	Ohio*	60% Sales, 20% Property & Payroll
Georgia	Double wtd. sales	Oklahoma	3 Factor
Hawaii*	3 Factor	Oregon*	80% Sales, 10% Property & Payroll
Idaho*	Double wtd. sales	Pennsylvania*	Triple wtd. sales
Illinois*	Sales	Rhode Island (2)	40% Sales, 30% Property & Payroll
Indiana	Double wtd. sales	South Carolina	Double wtd. sales/Sales
Iowa	Sales	South Dakota	No State Income Tax
Kansas*	3 Factor	Tennessee*	Double wtd. sales
Kentucky*	Double wtd. sales	Texas	Sales
Louisiana	Double wtd. sales	Utah*	3 Factor
Maine*	Double wtd. sales	Vermont	3 Factor
Maryland	Double wtd. sales	Virginia	Double wtd. sales
Massachusetts	Double wtd. sales/Sales	Washington	No State Income Tax
Michigan	90% Sales, 5% Property & Payroll	West Virginia*	Double wtd. sales
Minnesota	75% Sales, 12.5% Property, and 12.5% Payroll	Wisconsin*	Double wtd. sales
Mississippi	Accounting/3 Factor	Wyoming	No State Income Tax
Missouri*	3 Factor/sales	Dist. Of Columbi	3 Factor
Montana*	3 Factor		

Note: The formulas listed are for general manufacturing businesses. Some industries have special formula different than those reported.

\* State has adopted substantial portions of the UDITPA.

(1) A 3-factor formula is used for corporations not subject to the corporation business franchise tax.

(2) For tax years beginning after 2004, apportionment formula will be double weighted sales.

*Source: Compiled by the Federation of Tax Administrators from various sources*

## GLOSSARY OF TAX AND ECONOMIC TERMS

### **Accelerated Depreciation:**

A form of depreciation that allows firms to write off depreciation faster than true economic depreciation.

### **Ad Valorem Tax**

A tax computed as a percentage of the value of the purchase.

### **Adjusted Gross Income**

Total income from all taxable sources less certain expenses incurred in earning that income.

### **Assessment Ratio**

The ratio of a property's assessed value to its market value.

### **Benefits Received Principle**

Individuals should pay tax because they receive benefits from the government. For example: all residents of the United States benefit from national defense. Under the benefits received principle, all residents should pay a tax that would roughly approximate their share of those benefits.

### **Capital Gain (Loss)**

An increase or (decrease) in the value of an asset.

### **Circuit Breaker**

Tax benefits to individuals based on the excess of residential property tax payments over some specified portion of income. In Michigan the circuit breaker is called the "Homestead Property Tax Credit," not to be confused with the former Homestead Exemption.

### **Corporate Income Tax**

Corporate income taxes are generally described as taxes on the profits, or net income, of incorporated businesses. Most states and the federal government impose a corporate income tax.

### **Deductions**

Certain expenses that may be subtracted from adjusted gross income in the computation of taxable income.

### **Deficit**

The excess of expenditures over revenues during a period of time. This term should be clearly distinct from *debt* which is the total amount owed at a given point in time; the sum of all past deficits. Thus, the national debt is much larger than an annual deficit.

### **Discount Rate**

The rate of interest used to compute the present value.

### **Economic Efficiency**

See Pareto efficiency

### **Excise Tax**

A tax levied on the purchase of a particular commodity. The cigarette tax is an excise tax.

### **Externality**

Often in the production or consumption of goods, there are harmful or beneficial side effects that are borne by people who are not involved in the underlying market exchange. These non-market side effects are termed externalities. Pollution is a classic example of a negative externality.

### **Franchise Tax**

A state tax based on the value of a firm's assets. For example: the North Carolina franchise tax is based on a number of balance sheet items including stock, reserve for bad debts, deferred income, deferred taxes, contingent liabilities, and LIFO inventory reserves. Other states use the net value of stock as the base.

### **Gross Receipts Tax**

A gross receipts tax is a tax on all receipts (gross income, sales, or value of products) of all businesses. Washington State is the only state to levy a comprehensive gross receipts tax; other states levy gross receipts taxes on a small segment of the economy—usually telecommunications. Because the base of the tax is so broad, the rate of the tax is low. The burden of the tax, however, is quite high because the tax *cascades* through multiple levels of commerce. The tax is particularly painful for new firms that do not have resources to pay the tax. Like the SBT, the gross receipts tax is levied regardless of the level of profit a firm may have.

### **Horizontal Equity**

People in similar circumstances, measured by income, should pay approximately the same amount in tax.

### **Marginal Cost**

The incremental cost of producing one more unit of output.

### **Marginal Tax Rate**

The proportion of the last dollar of income taxed by the government.

### **Multiplier Tables**

In Michigan, Multiplier Tables are used as a guides in determining the value of various sorts of *personal property*. These tables are produced for various types of assets by the State Tax Commission (STC).

### **Nexus**

The amount of presence in a state that is required before a company is subject to taxation by that state.

**Pareto Efficiency**

An allocation of resources such that no person can be made better off without making someone else worse off.

**Present Value**

The maximum amount that an individual would be willing to pay now for the right to a future benefit.

**Progressive Tax System**

A tax system under which an individual's average tax rate increases with an increase in income.

**Regressive Tax**

A tax under which the proportion of a taxpayer's income that gets paid in tax decreases as income increases.

**Real Income**

A measure of income which takes into account changes in the general price level, usually measured by the Consumer Price Index (CPI).

**Service Sector**

That portion of the economy that is based on people providing services as opposed to a tangible product. Accounting and health care services, for example, are a growing part of the overall economy.

**Substitutes**

Goods are substitutes if an increase in the price of one good leads to increased consumption of the other good. Examples of substitutes are: coffee and tea, butter and margarine, Coke and Pepsi, etc.

**Taxable Income**

The amount of income subject to tax.

**Tax Incidence**

The study of who really bears the burden of the tax. The burden of the tax is not generally borne by the person or group on whom it is levied. For example: the sales tax on a new car, while paid by the dealer to the state, is passed on almost completely to the consumer. In this instance, the *legal incidence* is on the dealer, and the actual or *economic incidence* is on the consumer.

**Unearned Income**

Income, such as dividends or interest income, that is not directly gained through supplying labor.



### **Value Added Tax**

A tax levied on that portion of "value added" of the final product of a business that is over and above the value of the materials purchased. Business is taxed on the addition to value it contributes to the final product or service. The value added tax (VAT) is most commonly imposed in Europe. In the U.S., only the state of Michigan imposes a modified VAT, which is the Single Business Tax (SBT).

There are two methods of arriving at the tax base for a VAT: the deduction method and the addition method. Under the deduction method, the value added by a firm is equivalent to its total sales less its cost for materials. The addition method bases the tax on profits, measured by federal taxable income, with the addition of items that reflect the value added by the business that are excluded from federal taxation (i.e., labor, depreciation, and interest). This addition method is the method used for Michigan's SBT.

### **Vertical Equity**

A principle of taxation under which people in different circumstances, typically measured by income levels, should pay different amounts of tax. Vertical equity implies a progressive tax structure.