



City of Marshall

City Income Tax Feasibility Analysis

Presentation of Draft Report Findings

August 18, 2014



Study Objectives

- Determine the revenue potential of a City Income Tax in Marshall
- Estimate costs to administer the tax
- Assess potential tax burden on different groups
- Evaluate impact of an income tax on economic development

22 Cities in Michigan have a local income tax



Uniform City Income Tax Act

- Authorizes Michigan cities to establish local income tax
- Specifies conditions and limits of a tax
 - Maximum tax rate of 1% on residents and corporations/partnerships
 - Non-resident income earned in the city taxed at 50% of resident rate
 - Personal exemption must be at least \$600

Uniform City Income Tax Act

- Conditions and limits, continued
 - Tax must be approved by voters
 - Employers in the city are required to withhold
 - Taxable income for residents is defined in the Act
 - Salaries, bonus, wages, commissions
 - Dividends, interest, net capital gains, rental profits
 - Business profits

Uniform City Income Tax Act

- Certain income exempted from taxation:
 - Unemployment
 - Pensions & certain retirement benefits
 - Military pay
 - Gifts & bequests
 - Worker's compensation insurance
 - Public assistance
 - Other income as defined in the Act

Summary of Income Tax Benefits

- Less burden on Marshall property owners
- Those who use City services would help pay for them
- Not limited in growth potential
 - Property tax limited by Headlee, Prop A
- Helps diversify revenues

Income Tax Revenue Potential

TOTAL ESTIMATED INCOME TAX COLLECTION

Estimated income tax collections		<i>% of total</i>
Resident	\$ 719,501	49%
Non-resident	\$ 606,852	42%
Corporate	\$ 137,863	9%
<hr/> TOTAL INCOME TAX COLLECTION		\$ 1,464,215
Cost of administration		\$ 124,034
<hr/> TOTAL COLLECTION MINUS ADMINISTRATION COST		\$ 1,340,181

Administrative Costs

- Approximately \$124,000 per year
- Other income tax cities willing to share information, knowledge, policies & procedures, etc.
- Costs reduced by standard forms, Chase contract for processing, contracted tax administrator, etc.

Impact on Property Taxes

- Revenue neutral: reduce general operating millage by up to 6.3 mills
- Marshall currently has highest property tax rate in County
- A reduction in millage could make Marshall more appealing to businesses and homeowners

Income Tax Burden

- Residents: 49%
- Non-residents: 42%
- Corporations: 9%
- Senior citizens minimally impacted
- Low income minimally impacted
- Individual income tax calculator

Impact on Taxpayers

- High income, low taxable value would face highest increase in tax burden
- Low income, high TV benefit greatest

Taxable Value	Net Taxable Income										
	\$5,000	\$15,000	\$25,000	\$35,000	\$45,000	\$55,000	\$65,000	\$75,000	\$85,000	\$95,000	\$100,000
\$0	\$20	\$120	\$220	\$320	\$420	\$520	\$620	\$720	\$820	\$920	\$970
\$30,000	(\$165)	(\$65)	\$35	\$135	\$235	\$335	\$435	\$535	\$635	\$735	\$785
\$40,000	(\$227)	(\$127)	(\$27)	\$73	\$173	\$273	\$373	\$473	\$573	\$673	\$723
\$50,000	(\$288)	(\$188)	(\$88)	\$12	\$112	\$212	\$312	\$412	\$512	\$612	\$662
\$60,000	(\$350)	(\$250)	(\$150)	(\$50)	\$50	\$150	\$250	\$350	\$450	\$550	\$600
\$70,000	(\$411)	(\$311)	(\$211)	(\$111)	(\$11)	\$89	\$189	\$289	\$389	\$489	\$539
\$80,000	(\$473)	(\$373)	(\$273)	(\$173)	(\$73)	\$27	\$127	\$227	\$327	\$427	\$477
\$90,000	(\$535)	(\$435)	(\$335)	(\$235)	(\$135)	(\$35)	\$65	\$165	\$265	\$365	\$415
\$100,000	(\$596)	(\$496)	(\$396)	(\$296)	(\$196)	(\$96)	\$4	\$104	\$204	\$304	\$354
\$120,000	(\$720)	(\$620)	(\$520)	(\$420)	(\$320)	(\$220)	(\$120)	(\$20)	\$80	\$180	\$230
\$140,000	(\$843)	(\$743)	(\$643)	(\$543)	(\$443)	(\$343)	(\$243)	(\$143)	(\$43)	\$57	\$107
\$160,000	(\$966)	(\$866)	(\$766)	(\$666)	(\$566)	(\$466)	(\$366)	(\$266)	(\$166)	(\$66)	(\$16)
\$180,000	(\$1,089)	(\$989)	(\$889)	(\$789)	(\$689)	(\$589)	(\$489)	(\$389)	(\$289)	(\$189)	(\$139)
\$200,000	(\$1,213)	(\$1,113)	(\$1,013)	(\$913)	(\$813)	(\$713)	(\$613)	(\$513)	(\$413)	(\$313)	(\$263)

Assumes 1% resident income tax & \$1,000 exemption; reduction of millage from 17.1629 mills to 11.0000 mills

Individual Impact Calculator

- Enter data in green cells to see impact

City of Marshall

City Income Tax Impact Worksheet (Estimated Tax Paid with an Income Tax)

Instructions: (You may want to have your Federal tax return available to find numbers needed.)

- 1) Select Resident Status and Federal Income Tax Form Used in the forms below.
- 2) Enter exemptions and tax return information in green shaded cells to the right.

Resident Status

- ☒ City Resident
☐ Non-Resident

Federal Form Used

- ☒ Form 1040
☐ Form 1040A
☐ Form 1040EZ

Exemptions

Number of federal exemptions	
Number in household 65 years or older	
Number in household who are blind	
Number in household who are disabled*	

Income Calculation: Federal Form 1040

Federal Form Line	Description	User Inputs
Line 22	+ Total income	
Line 10	- Taxable refunds	
Line 15b	- IRA Distributions (if older than 59 1/2 years old)	
Line 16b	- Pension distributions (Unless distribution is premature)	
Line 19	- Unemployment compensation	
Line 20b	- Social Security Benefits	
Line 28	- Self-employed SEP, SIMPLE, and qualified plans	
Line 32	- IRA Deduction	

*An additional deduction is allowed for a taxpayer who is a paraplegic, quadriplegic, hemiplegic or totally and permanently disabled or deaf, as defined in state law.

Assumptions:

Resident tax rate:	1.0%
Non-resident rate:	0.5%
Personal exemption:	\$1,000

Estimated City Income Tax

\$0

City of Marshall

Millage Impact Worksheet

Instructions:

NOT market value

- 1) Enter taxable value of property in Marshall.

(from Assessment Notice)

(renters & non-residents enter \$0)

Current Property Tax (17.1629 mills)	Reduced Property Tax (11 mills)
\$0	\$0

Net Change in Tax Burden with Income Tax

\$0

Feasibility of Income Tax

- Could generate \$1.3M in revenue
- Equivalent to property tax levy of 6.3 mills
- Tax burden shared more equitably with those who use City services
- About 42% of income tax revenue would come from non-residents
- Resident property owners in general would pay slightly less under an income tax
- Corporations benefit most from the income tax

Economic Development

- City income tax could result in lower property taxes, which could make Marshall more competitive
- Businesses rank tax burden lower than a number of other factors when considering where to locate
- Local taxes that clearly improve public services & infrastructure are often viewed as positive

City Council Role

- Decide if voters should be given the opportunity to vote on the income tax option
- Draft and approve ordinance including:
 - Effective date of the tax
 - Which exemptions would be included
 - Level of exemption (\$600 minimum)
 - Tax rate (1% max)
 - Term of income tax (if any)
 - Dedication of tax for specific purpose (optional)

Discussion

- Questions
- Comments