



**House  
Legislative  
Analysis  
Section**

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**CITY INCOME TAX COLLECTION**

**House Bills 6233 and 6235 as enrolled  
Public Acts 479 and 478 of 1996  
Second Analysis (1-15-97)**

**Sponsor: Rep. Donald H. Gilmer  
House Committee: Tax Policy  
Senate Committee: Finance (HB 6235)  
Senate Committee: None (HB 6233)**

***THE APPARENT PROBLEM:***

The Department of Treasury has requested amendments to several acts that will allow them to implement a program under which the department will administer the city income tax for any city that enters into an agreement with the department. At least one city, the city of Albion, is reported to be interested in such an arrangement.

***THE CONTENT OF THE BILLS:***

The bills would, generally speaking, provide amendments that would allow, beginning with the 1996 tax year, the Michigan Department of Treasury to administer, enforce, and collect the city income tax on behalf of a city, and that would make the administration of the city income tax, regardless of whether administered at the state or local level, more like the administration of the state income tax.

House Bill 6233 would amend the revenue act (MCL 205.13 et al.) to specify that the Department of Treasury would be vested with all the powers, duties, functions, responsibilities, and jurisdiction to administer, collect under, and enforce the City Income Tax Act for cities that enter into an agreement with the department under that act for the state to administer, enforce, and collect the city income tax on behalf of a city. The bill also would provide that, for tax years after the 1995 tax year, if a taxpayer pays with his or her annual return an amount less than the sum of the declared tax liability under the state and city income tax acts, and there was no indication of the allocation of payment between the liabilities, the amount paid would be first applied to the city income tax and any amount remaining to the state income tax. The taxpayer's designation of a payee on a payment would not be a dispositive determination of the allocation of the payment.

House Bill 6235 would amend the City Income Tax Act (MCL 141.505) to allow a city that imposes a tax under the act to enter into an agreement with the Department of

Treasury under which the department would administer, enforce, and collect the income tax on behalf of the city. (That provision would be effective January 1, 1996.) The bill would create a city income tax trust fund within the department. Taxes collected would go into that fund and be paid out to participating cities, except that an amount could be retained to cover the cost of collection and administration with that amount to be deposited into the state's general fund. Refunds to taxpayers would also be paid from the fund. Interest earned from money in the fund would remain in the fund. The state would be prohibited from borrowing from the fund. The bill contains a great many changes to the act regarding the assessment process (for cities with agreements); the appeal process (for all cities); the recovery process (for all cities); the statute of limitations (for all cities), which is extended from three years to four; due dates for withholding and annual returns (for cities with agreements); discretionary penalties (for all cities); jeopardy assessments (for all cities); interest on deficiencies (for all cities); refunds of nonobligated spouses (all cities); personal liability of corporate officers (all cities); and the cessation of businesses (all cities).

Under the bills, the Department of Treasury could not charge to or collect from a taxpayer any amount not otherwise authorized by law in conjunction with the collection of the city income tax.

Except as otherwise noted above, the bill's provisions take effect for tax years that begin after December 31, 1996.

***BACKGROUND INFORMATION:***

Originally, the package contained a third bill, House Bill 6232, which was not enacted. That bill would have amended the State Tax Lien Registration Act (MCL 211.681 et al.) and renamed it the State and City Tax Lien Registration Act. The bill would have made the act's provisions regarding liens placed upon real and

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personal property for taxes payable to the state apply also to taxes payable to a city. The bill specified that a lien could not be filed under the act against real or personal property for real or personal property taxes.

***FISCAL IMPLICATIONS:***

Preliminary analyses by the House Fiscal Agency indicated that there would be no cost to the state from these bills and that the implications for local units were indeterminate. (Fiscal notes dated 12-3-96)

***ARGUMENTS:***

***For:***

The bills represent enabling and implementing legislation for a program under which the Department of Treasury will administer the city income tax for willing cities. The amendments to the City Income Tax Act have been described generally as making the city tax more like the state income tax as regards administration, enforcement, and collection. They modernize and make more effective the administration of the city income tax.

Analyst: C. Couch

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■ 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.