

2017 INCOME TAX & PROPERTY TAX REDUCTION

FREQUENTLY ASKED QUESTIONS

WHAT IS AN INCOME TAX?

An income tax is a tax levied by a government directly on income, especially an annual tax on personal income.

IF IT PASSES, WHO WOULD PAY THE EAST LANSING INCOME TAX?

Residents and non-residents working in the community would pay the income tax. Residents would pay a 1% income tax (whether they work in East Lansing or elsewhere) and non-residents would pay a 0.5% income tax (there will be exemptions for certain income and number of dependents). If a resident lives in East Lansing and works in another community with an income tax or works in East Lansing and lives in another community with an income tax, they would pay 0.5% to East Lansing and 0.5% to the community in which they work or live. The impact of the income tax for residents would be reduced by the property tax reduction (if it passes) and, in some cases (i.e. retirees exempt from the income tax), the overall amount of taxes paid would decrease. The property tax reduction would only occur in the event that an income tax is approved by voters.

WHY IS THE INCOME TAX QUESTION GOING ON THE BALLOT ALONGSIDE A PROPERTY TAX ROLLBACK QUESTION?

By combining an income tax with a reduction in property tax, the ballot proposals (if approved) will spread the cost of running the City across a larger tax base and minimize the impact of the income tax paid by residents. Much of the new revenue will come from people who work in East Lansing, but live elsewhere. At the same time, most seniors who own their homes will get a tax break because retirement income is not taxed locally.

IF IT PASSES, WHAT WILL THE PROPERTY TAX ROLLBACK LOOK LIKE?

Property taxes will be reduced from the 20 mill limitation under the City Charter to 13 mills. This will result in a minimum reduction of 4.5679 mills since the current rate is 17.5679 mills. It is Council's intent to reduce the actual amount levied by 5 mills to 12.5679 mills, which will minimize the impact of the estimated income tax paid by residents and, in some cases (i.e. retirees exempt from the income tax), decrease the overall amount of taxes paid. The property tax reduction would only occur in the event that the income tax passes.

IF THE PROPERTY TAX ROLLBACK PASSES, WILL THE CITY BE ABLE TO RAISE PROPERTY TAXES AGAIN IN THE FUTURE?

Not without a vote of the people. The proposal would amend the City Charter to cap property taxes at the new level of 13 mills (currently 20 mills). Any future increase would require another Charter amendment.

IF BOTH PROPOSALS PASS, WILL MY TOTAL TAXES GO UP OR DOWN?

If you are a resident, it will depend on your household income and the taxable value of your home. Your taxable income will be taxed at 1% and your total property taxes will decrease by about 10%. You can get a more exact estimate by viewing the Taxpayer Impact Charts & Calculator at www.cityofeastlansing.com/incometax. Note that retirement income is not taxed locally, so seniors on fixed incomes who own their homes will, in most cases, see a reduction in total taxes. Retirement income includes Social Security, pensions, 401(K) distributions, annuities and IRA distributions after age 59 ½.

WHY DOES THE CITY NEED NEW REVENUE?

Since 2001, revenue from the State of Michigan and other sources has declined, while City costs have increased. There has been no growth in City general fund revenue in a decade (percent change from 2006-2017 is -1.3%). Despite many steps taken to cut costs, including reducing City staffing by more than 130 positions since 2007, the challenges have persisted. Learn more at www.cityofeastlansing.com/incometax.

MY TAXES ARE HIGH ALREADY. WHAT STEPS HAS THE CITY TAKEN TO CUT COSTS? WHAT OPTIONS ARE AVAILABLE BESIDES AN INCOME TAX?

Many steps have been taken to cut costs, including reducing City staffing by more than 130 positions since 2007. Further cuts in staffing will lead to cuts in services to residents. Under state law, the only options available for municipalities to raise revenue are through property taxes and income taxes. Municipalities in Michigan are unable to levy sales tax, for example.

IF BOTH BALLOT PROPOSALS PASS, HOW MUCH FUNDING WOULD BE GENERATED FOR THE CITY?

Approximately \$5 million (net including income tax and property tax reduction) would be generated annually. Much of the revenue will be generated from non-residents who work in East Lansing. View the Income Tax Feasibility Study commissioned by the Financial Health Review Team (FHT) and the FHT Revenue Options document at www.cityofeastlansing.com/incometax for more information. *Please note that the Income Tax Feasibility Study does not take into account the Property Tax Reduction in its calculation of the funding that would be generated.

HOW WOULD THE FUNDING GENERATED FROM THE INCOME TAX BE USED?

The funding would be used to cover legacy cost, reinvest in aging infrastructure (roads, sidewalks, etc.), maintain strong public services to the community and prevent additional, deep cuts to areas such as public safety, which makes up 64.8% of the City's general fund expenditures.

WHAT HAPPENS IF THE BALLOT PROPOSALS DON'T PASS?

The City will need to find \$3 million in savings annually to cover its ongoing legacy costs and another \$2 million for needed infrastructure improvements (streets, sidewalks, aging City facilities, etc.). To achieve these savings, deep cuts would need to be made to areas such as public safety.

IF BOTH PROPOSALS PASS, WHEN WOULD THEY BE IMPLEMENTED?

The income tax would be implemented on January 1, 2018 and the property tax rollback would be implemented on July 1, 2018 (the start of the new fiscal year).

WHAT INCOME WOULD BE EXEMPT FROM THE PROPOSED CITY INCOME TAX?

Income exempt from the income tax would include all retirement income (social security, pensions, 401K, annuities, IRA distributions after age 59 ½), unemployment income, military pay, tax refunds (city, state and federal) and more. For a more exhaustive list visit www.cityofeastlansing.com/incometax. Additionally, people who make less than \$5,000 in adjusted gross income per year will be exempt from paying the income tax.

WHAT IF I LIVE OUTSIDE OF EAST LANSING, BUT WORK IN EAST LANSING?

You would pay a 0.5% income tax.



FREQUENTLY ASKED QUESTIONS, cont'd

WHAT IF I LIVE IN EAST LANSING, BUT WORK OUTSIDE OF EAST LANSING? IS MY INCOME STILL SUBJECT TO TAX?

Yes. For residents, taxable income would be subject to the 1% tax no matter where it is earned, but the property tax reduction would help minimize the impact.

WHAT IF I LIVE IN EAST LANSING, BUT WORK OUTSIDE OF EAST LANSING IN A JURISDICTION THAT ALREADY HAS AN INCOME TAX?

Your total local income tax would not exceed 1%. You would pay a 0.5% income tax to East Lansing and a 0.5% income tax to the jurisdiction in which you work.

WHAT IF I LIVE IN ANOTHER JURISDICTION AND ALREADY PAY AN INCOME TAX, BUT WORK IN EAST LANSING?

Your total local income tax would not exceed 1%. You would pay a 0.5% income tax to East Lansing and a 0.5% income tax to the jurisdiction in which you live.

WHAT IF I ONLY WORK IN EAST LANSING PART OF THE TIME AND I'M A NON-RESIDENT?

The tax would only apply to the income earned while working in East Lansing.

HOW WILL SENIORS/RETIREES BE IMPACTED?

The majority of seniors/retirees will be positively impacted if both proposal pass due to most retirement income (Social Security, Pensions, 401K, annuities, IRA distributions after age 59 ½) not being taxable and the reduction in property taxes. In many cases, the total amount of taxes paid will decrease.

HOW WILL STUDENTS BE IMPACTED?

Students who are residents (have an East Lansing address on their driver's license) and make more than \$5,000* in adjusted gross income in a year will be subject to the same 1% income tax as other residents if they work in East Lansing or another community. Non-resident students who work in East Lansing and make more than \$5,000* in adjusted gross income in a year will pay a 0.5% income tax and would only pay the tax on the income earned in East Lansing. *Many students will not be impacted by the income tax because City Council has adopted a low-income level, which exempts people whose adjusted gross income is less than \$5,000 per year from paying the income tax.

HOW WILL THE INCOME TAX BE COLLECTED?

It will be collected by employers. Residents working in other communities without an income tax will need to file a form with his/her employer stating the number of exemptions claimed, the city of residence, the predominant place of employment and the percentage of work done in the predominant place of employment. The same is true for residents working in other communities with an income tax.

WHAT OTHER COMMUNITIES IN MICHIGAN HAVE AN INCOME TAX?

Currently, 22 Michigan communities have an income tax. The communities with a standard 1% income tax for residents include Albion, Battle Creek, Big Rapids, Flint, Grayling, Hamtramck, Hudson, Ionia, Jackson, Lansing, Lapeer, Muskegon, Muskegon Heights, Pontiac, Port Huron, Portland, Springfield and Walker. The communities that tax at a higher rate as permitted by statute include Detroit, Grand Rapids, Highland Park and Saginaw.

WHAT TAXES DOES EAST LANSING CURRENTLY COLLECT?

The City currently collects property taxes for the operating budget (17.5679 mills), library (1.9976 mills), solid waste/recycling (1.8250 mills) and debt (.7946) for a total of 22.1851 mills and approximately 38 percent of the tax bill for residents with a principal residence exemption. The City is also a collecting agency for the East Lansing Downtown Development Authority, Lansing Community College, the State Education Tax, Ingham and Clinton counties, the Local School District, the Intermediate School District, the Capital Region Airport Authority and the Capital Area Transportation Authority (CATA), which makes up the remainder of the property owner's tax bill.

WHAT IS TAXABLE VALUE AND HOW CAN I FIND OUT MY PROPERTY'S TAXABLE VALUE?

Taxable value is the value against which millage rates are levied to determine property taxes. Residents can find out their taxable value at www.cityofeastlansing.com/incometax (under Taxpayer Impact) or on their property tax bill.

HOW WOULD THE PROPERTY MILLAGE RATE REDUCTION AFFECT MY PROPERTY TAX BILL?

The standard way to find out your tax amount based on the millage rate is to take that rate and multiply it by the taxable value of your property, then divide the result by 1,000. If the property tax reduction passes, it is Council's intent to reduce the millage rate by 5 mills. Here is an example to help illustrate the impact: You have a home with a taxable value of \$100,000 and the millage rate is reduced by 5 mills. You would multiply your taxable value by 5 (\$100,000 X 5) and divide it by \$1,000 to find out how much your property taxes would go down. In this example, it would go down \$500. The Taxpayer Impact Charts & Calculator at www.cityofeastlansing.com/incometax further illustrate the taxpayer impact.

WOULD INTEREST FROM NON-RETIREMENT ACCOUNTS BE TAXED?

Generally, yes. Proceeds from pension and retirement accounts are exempt. Also exempt is interest from obligations of the United States, the states or subordinate units of government. Learn more about taxable and non-taxable income at www.cityofeastlansing.com/incometax.

ARE RESIDENTS' CAPITAL GAINS SUBJECT TO THE INCOME TAX?

Generally, yes. For residents, capital gains are taxed to the extent they exceed any capital losses. However, gains on pension or retirement benefits and gains on sales of obligation of the U.S. are exempt. Learn more about taxable and non-taxable income at www.cityofeastlansing.com/incometax.

ARE NON-RESIDENTS' CAPITAL GAINS SUBJECT TO THE INCOME TAX?

Only to the extent that capital gains exceed capital losses from the sale of real and tangible personal property if the capital gains arise from property located in the City. Learn more about taxable income at www.cityofeastlansing.com/incometax.

