



City of Detroit
Detroit City Council - District 4

MEMORANDUM

DATE: September 26, 2024

TO: David Whitaker, Legislative Policy Division

FROM: Latisha Johnson
District 4 Councilmember

A handwritten signature in cursive script, appearing to read "Latisha Johnson".

SUBJECT: Local Option Sales Tax Report & Study

Greetings,

During the FY25 budget deliberations, the Office of the Chief Financial Officer agreed to produce a study on the feasibility and potential fiscal impact of a local option sales tax (LOST) in the City of Detroit. Please work with the OCFO to provide a report that answers the following questions:

- What statutory and regulatory deliberations would be required at the state and local level to establish a local option sales tax for local governments in the State of Michigan that would authorize those local governments to:
 - Levy a local sales tax above the present statewide 6% sales tax rate;
 - Levy the local sales tax strictly within localized districts within their jurisdictions, which they are free to specify;
 - Levy the local sales tax at different rates, even at negative rates (*i.e.* below the 6% statewide sales tax rate), within different districts within their jurisdictions (as done in other states, *e.g.* New Jersey);
 - Levy different local sales tax rates on different goods and services such as lodging and short term rentals, car rentals, alcoholic beverages, and restaurant meals (*e.g.* Massachusetts and Rhode Island);
 - Utilize revenue from the local sales tax for specified purposes including but not limited to reducing the property tax rate millage in addition to unspecified purposes such as augmenting the general fund (*e.g.* Florida, Georgia, et al);
 - Temporarily suspend or reduce local sales taxes that might be harming small businesses or consumers;
 - Restrict the times of the day (*e.g.* 6 pm to 6 am), days of the weeks (*e.g.* Thursday - Sunday), and calendar days (*e.g.* May 1 - September 30) in which the local sales tax is effective;

- o Levy multiple individuals local sales taxes at different rates with varying restrictions—*i.e.* different purposes, durations, etc (e.g. Florida, Georgia, et al).
- How much sales tax revenue (total sales tax revenue and sales tax revenue broken down by tourism, business travel, and online sales) is currently generated annually in the jurisdictions below?
 - o Grand Rapids, Charlevoix, Traverse City, South Haven, Frankenmuth, Mackinaw City
 - o Troy, Birmingham, Royal Oak, Ann Arbor, Novi, Northville
 - o Flint, Benton Harbor, Saginaw, Muskegon
 - o Downtown Detroit
 - o Oakland, Macomb, Washtenaw, and Wayne Counties
 - o Statewide tourism, business travel, and online sales
- Estimate the potential revenue collected in each of these jurisdictions generated by levying LOSTs of 0.5%, 1%, 1.5%, and 2%.
- Estimate the loss in sales tax revenue (total only, not by category) to each of the aforementioned jurisdictions resulting from the use of tax suppression software and devices.
- What proportion of sales tax revenue and total tax revenue in each of the aforementioned jurisdictions is borne by Michigan residents and what proportion is borne by non-Michigan residents?
 - o How does that compare to comparable jurisdictions across the US with high LOSTs?
- How much sales tax revenue is collected from Michigan residents by other states and how much sales tax revenue does the state of Michigan collect from residents of other states (total sales tax revenue and sales tax revenue broken down by tourism, business travel, and online sales)?
- Is there an “ideal” property tax rate in Detroit to allow for unsubsidized development? If there is such an equilibrium, what level of LOST would be required to allow for such a millage reduction?
- What restrictions under present state law limits how local governments can use sales tax revenue?
- Would LOST, if implemented, have a regressive impact on consumers? Evaluate the effectiveness of each of the following measures at mitigating the potential regressive impact a LOST might have on consumers.
 - o Exempt low income households—*e.g.* electronic benefits transfer recipients—from the LOST.
 - o Charge low income households a fraction of the LOST based on percentage of Federal Health and Human Services poverty guidelines.
 - o Provide low income households with a monthly stipend financed by the LOST based on percentage of Federal Health and Human Services poverty guidelines.
 - o Limiting LOSTs to goods and services that low income households consume in relatively low proportions such as hotel stay, car rentals, alcoholic beverages, and restaurant meals.

- o Suggest other alternative measures to counterbalance the potential regressive impact of a LOST on consumers.
- How equitable is sales tax compared to other resident-based taxes?
- Is there any quantifiable evidence that levying a LOST in one jurisdiction has had a negative impact on neighboring jurisdictions, including but not limited to tax competition?
- What can a LOST do to diversify funding a city with a dwindling tax base?
- What existing technological and methodological infrastructure exists in other states for administering a LOST?
 - o Under existing infrastructure, what is the shortest time that a change to a local sales tax can go into effect?
- What would be the cost, as a percentage of annual LOST revenue, of both the initial infrastructure for and also the continued administration of levying a LOST?
- What would be the cost to small businesses of adopting the necessary equipment to comply with LOST collection and remittance and can that cost be covered by LOST revenue?
- Please identify open data portals from the following communities to draft comparative business details that we could potentially utilize to model Detroit's own business registration data:
 - o Grand Rapids, Flint, Benton Harbor, Saginaw, Muskegon
 - o Troy, Birmingham, Royal Oak, Ann Arbor, Novi, Northville
 - o Charlevoix, Traverse City, South Haven, Frankenmuth, Mackinaw City

If you have any questions, please contact Yolanda Jackson, our Senior Policy Analyst, at yolanda.jackson@detroitmi.gov.