SFA BILL ANALYSIS
Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 279 (as reported without amendment)
Sponsor: Senator Norman D. Shinkle
Committee: Finance

Date Completed: 9-25-87

RATIONALE

The Income Tax Act allows taxpayers to claim credits for property taxes paid, through what is commonly referred to as the homestead property tax credit. Under the credit, taxpayers can claim 60% of the amount by which property taxes, or 17% of rent, exceeds 3.5% of household income. Beginning with returns for 1980, and continuing with yearly extensions, the Act has required that property tax credits claimed by people receiving Aid to Families with Dependent Children (AFDC) and General Assistance (GA) be reduced by the proportion of their income represented by assistance payments. The Act also has required that, beginning with returns for 1982, the credits of people making more than $73,650 a year be reduced by 10% for each $1,000 in excess of $73,650.

Proponents of the reduction for welfare recipients argued in 1980 that it was a good idea both because the State was in desperate financial straits (the reduction then saved about $20 million in credits a year) and because it was good policy to prevent people from "double-dipping" from the system by using State-derived income to pay their property taxes and then receiving credits for excess taxes from the State. Backers of the high income reduction said that the relatively well-off could afford to give up some tax credits while the State fought its way out of a fiscal crisis. Provisions extending both reductions expired at the end of the 1986 tax year, however, and proponents say the reductions ought to continue as good tax policy, and have suggested that the reductions be made a permanent part of the Act.

CONTENT

The bill would amend the Income Tax Act to make permanent a requirement that property tax credits claimed by persons receiving AFDC or GA be reduced by the proportion of their income represented by assistance payments. The bill would also make permanent the reduction of property tax credits for people with an income that exceeds $73,650, since, under the Act, this reduction does not apply in any year in which the AFDC/GA payment reduction is not in effect.

MCL 206.520

FISCAL IMPACT

Senate Bill 279 would increase GF/GP revenues by a total of approximately $30 million each year. Eliminating AFDC and GA payments from the homestead credit calculation would increase GF/GP revenue by approximately $20 million each year. The phase-out of the homestead credit for high-income households would increase GF/GP revenues by approximately $10 million each year.

ARGUMENTS

Supporting Argument

Aid to Families with Dependent Children and GA benefits contain money earmarked to pay housing costs, including property taxes. Thus, welfare recipients do not pay their own property taxes; instead, those taxes are borne by the rest of the State's population, whose earnings are taxed to make welfare programs possible. The State ought to continue its wise policy of reducing the property tax credits of public assistance recipients, thus saving a substantial portion of revenue in the process.

Supporting Argument

As long as the State continues to reduce property tax credits for those who receive AFDC and GA, it should continue to reduce credits claimed by those who have a substantial income. Limiting their property tax credits surely works them no hardship.

Response: While it is good to reward some taxpayers, it is wrong to punish others because they make more money than most.

Opposing Argument

The argument that that the reduction prevents "double-dipping" from tax money put up by the working classes amounts to little more than prejudice against the unemployed, the unemployable, and their children. A consistent application of that rationale would require reduction of property tax credits for anyone who receives government largess.

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