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BILL ANALYSIS

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Senate Fiscal Agency

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Senate Bill 279 (as enrolled)
Sponsor: Senator Norman D. Shinkle
Senate Committee: Finance
House Committee: Taxation

PUBLIC ACT 516 of 1988

Date Completed: 2-27-89

SUMMARY OF SENATE BILL 279 as enrolled:

The bill would amend the Income Tax Act to do the following:

- Allow low-income seniors to claim a credit for the cost of prescription drugs.
- Grant a \$500 exemption to dependents who earned over \$1,500 in 1988.
- Tax lottery winnings.
- Extend through 1989 the requirement that property tax credits claimed by persons receiving Aid to Families with Dependent Children be reduced by the proportion of their income represented by assistance payments.
- Extend for two years a credit for the purchase and installation of alternative energy devices in a taxpayer's residence.
- Extend through the 1988 tax year the Home Heating Tax Credit for low-income taxpayers.
- Allow a deduction for persons who have certain self-insurance medical plans.

Following is a detailed description of the bill's provisions.

Seniors Prescription Drug Credit

The bill would allow a qualified senior citizen, for tax year 1989 and thereafter, to claim a credit equal to the amount by which the person's expenditures for unreimbursed prescription drugs exceeded 5% of household income. The credit could not exceed \$600. An expenditure for a prescription drug could not be included in the calculation of the credit unless the drug was purchased directly by the senior and was not covered by a third party reimbursement plan. A senior could not claim the credit unless he or she met the following qualifications:

- The senior was at least 65 years old.
- The senior's household income did not exceed 150% of the Federal poverty income standards defined and determined annually by the U.S. Office of Management and Budget and as approved by the State Treasurer. (The poverty standard for a senior in 1988 was \$5,770.)

- The senior was not a resident of a health care or mental health facility licensed or operated by the State, not including a licensed home for the aged.

The bill specifies that the credit would not be claimed on a senior's income tax form as an offset to income tax liability, but instead would be claimed on a separate form prescribed by the Department of Treasury. A credit claimed could not be refunded unless it was filed with the Department by June 1 immediately after the year for which it was claimed.

The total amount of credits refunded for seniors' prescription drugs could not exceed \$20 million per year, minus an amount expended in that year for an older Michiganians pharmaceutical assistance fund. (Note: The fund has not been created in statute. The fund was proposed in House Bill 5659 of the 1987-88 session, but the bill was not enacted.) The Department would be required to reduce each person's credit by the percentage necessary to limit the total credit cost to the maximum specified by this provision.

Tax Exemption for Dependents

Under the Act, a person who has a Federal adjusted gross income of \$1,500 or less and is not allowed to claim a personal exemption under the Internal Revenue Code (i.e., a dependent), is exempt from State income tax liability and does not have to file a return. A dependent who earns over \$1,500 must pay State tax on the entire amount. The bill provides that a dependent subject to the State income tax could deduct up to \$500 from taxable income for the 1988 tax year, and \$1,000 for the 1989 tax year and thereafter. (Example: A dependent who earned \$1,500 in 1988 would not be taxed, but a dependent who earned \$1,800 would be subject to tax on \$1,300. $\$1,800 - \$500 = \$1,300$) (A person is considered a dependent under the Internal Revenue Code if he or she is under 19 years old, a student, or a person whose adjusted gross income is less than half of the personal exemption and who receives over half of his or her support from the taxpayer who claims the person as a dependent.)

Lottery Tax

The bill provides that for the 1988 tax year and thereafter taxpayers would have to include prizes won in the lottery as ordinary income. The bill would repeal Section 34 of the McCauley-Traxler-Law-Bowman-McNeely Lottery Act, which provides that no State or local taxes can be imposed upon a prize awarded by the lottery.

AFDC, GA Tax Credit

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 tax, 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 or General Assistance payments 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. Both these provisions expired at the end of the 1987 tax year. The bill would extend the provisions to the 1988 and 1989 tax years.

Extend Home Heating Credit

Under the Act, low income taxpayers may claim credits against the income tax to offset partially the cost of heating fuel. The credit, known as the home heating credit, was instituted in 1979 and has been extended periodically by amendments to the Act. The credit expired at the end of the 1987 tax year. The bill would extend the credit to apply to the 1988 tax year.

Further, the bill provides that if an enrolled heating fuel provider (an individual or business who is enrolled with the Department of Social Services (DSS) as a heating fuel provider and who provides claimants with fuel or electricity) owes a claimant a payment for an excess energy draft because the claimant's tax credit exceeded tax liability, and did not issue a check within 14 days, the provider would have to pay the claimant interest at a rate equal to the rate the State pays for tax refunds (three-fourths of 1% per month).

Finally, the bill would require the Director of the DSS to submit to the Legislature, by March 1, 1989, a revised State plan for low-income energy assistance. (The Federal Low-Income Home Energy Assistance Act of 1981 requires states to submit a state plan for low-income home energy assistance in order to receive Federal money. Part of the plan must include a statement of the amount the State will spend in the fiscal year for energy assistance. The plan for the State has been submitted.) The bill would require that the revised plan allocate the available Federal block grant money, including the private oil company overcharge settlement money appropriated by Public Act 322 of 1988, to fund the home heating credit in the same percentage that was used to fund the credit in fiscal year 1987-88, unless an alternative plan recommended by the DSS was approved by the Appropriations Committees of the Legislature.

Alternative Energy Credit

The bill would allow taxpayers to claim the alternative energy credit through the 1991 tax year. Currently, under the Act, through the 1988 tax year a taxpayer can claim a credit for the purchase and installation of an active or passive solar, wind, or water energy conversion device in the taxpayer's residence. For a single-family residence, the credit can be claimed for an amount to equal 30% of the first \$2,000 and 15% of the next \$3,000 invested in an energy conversion device; for a multi-family residence the credit can amount to 30% of the first \$2,000 and 15% of the next \$7,000 invested.

Medical Expense Deduction

The bill would allow a person to deduct from taxable income medical benefits received from a self-insurance medical expense reimbursement plan.

MCL 206.30 et al.

Legislative Analyst: G. Towne

FISCAL IMPACT

In total, the bill would result in a reduction of General Fund/General Purpose revenues of \$6 million in FY 1987-88 and \$4 million in FY 1988-89. For a full analysis, see the Senate Fiscal Agency memorandum dated December 29, 1988.

Fiscal Analyst: N. Khouri

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.