SFA BILL ANALYSIS

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Senate Bill 506 (as enrolled) (Public Act 254 of 1987)
Sponsor: Senator Norman D. Shinkle
Senate Committee: Finance
House Committee: Taxation

Date Completed: 3-21-88

SUMMARY OF SENATE BILL 506 as enrolled:

The bill would amend the Income Tax Act to phase in an increase in the personal exemption on a yearly basis from its 1986 level of $1,500, to $2,100 in the 1990 tax year and beyond. The bill also would extend to the 1987 tax year the home heating tax credit, provisions that reduce property tax credits for persons who receive Aid to Families with Dependent Children (AFDC) and General Assistance (GA), and provisions that reduce the property tax credit for persons with household incomes over $73,650 per year. Further, the bill would make numerous other changes in the Act. Following is a detailed description of the bill's provisions.

Personal Exemption

The Act allows a taxpayer to subtract from taxable income a personal exemption equal to $1,500, multiplied by the number of personal or dependent exemptions allowed on a taxpayer's Federal income tax return. The bill provides that a personal exemption would be equal to $1,600 for the 1987 tax year, $1,800 for 1988, $2,000 for 1989, and $2,100 for the 1990 tax year and beyond.

Under the Income Tax Act, a person who is paraplegic, quadriplegic, hemiplegic, or deaf can claim an additional exemption equal to $1,500. Persons who are blind or 65 years old or older can also claim an additional exemption because they can claim an additional exemption on their Federal returns. The bill provides that these taxpayers, plus totally and permanently disabled taxpayers and taxpayers who had unemployment compensation equal to 50% or more of their adjusted gross income, could claim an additional personal exemption as follows: $1,400 for tax year 1987; $1,200 for 1988; $1,000 for 1989; and $900 for 1990 and beyond. (Under the Act, taxpayers who can claim a personal exemption and an additional exemption reduce their taxable income by $3,000 per year. Under the bill, these same taxpayers, plus totally and permanently disabled taxpayers and those with unemployment compensation over 50% of their adjusted gross income, still could reduce their taxable income by $3,000 per year.)

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 1986 tax year. The bill would extend the credit to apply to the 1987 tax year.

Under the Act, a claimant receives the greater of the credit amounts determined under two calculations. The "regular" credit is determined by subtracting 3.5% of the claimant's household income from the amounts specified in the Act corresponding to the number of exemptions claimed. An "alternative" credit calculation is based on heating fuel consumption; it equals 50% of the amount by which actual heating costs (up to $1,200) exceed 13% of household income. (To receive a credit based on the alternative calculation, a claimant's income cannot exceed specified amounts for different household sizes.) The bill would increase the alternative credit amount from 50% to 70% of the amount by which energy costs exceeded 13% of income.

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 AFDC and 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. Both these provisions expired at the end of the 1986 tax year. The bill would extend the provisions to the 1987 tax year.

Net Operating Losses

The bill would require that a taxpayer include as income, in determining adjusted gross income, net operating losses the taxpayer deducted in calculating Federal adjusted gross income. A taxpayer would then be allowed to deduct net operating losses for a taxable year, carried forward from losses incurred in a previous year (a loss "carryforward"), but only to the extent that the loss was attributable to Michigan business activity. (Under the Act, a taxpayer must apportion to Michigan business activity income and losses incurred in Michigan, but does not have to apportionment a loss carryforward. This means that loss carryforwards from entire business operations are deductible, whether or not incurred in Michigan.)

Canadian Provincial Tax

The Act allows a taxpayer to claim a credit for taxes paid to a Canadian province that are not claimed as a credit in determining Federal income tax. The Federal Internal Revenue Code allows the provincial taxes to be carried forward to reduce Federal taxes in future years. The bill provides that provincial taxes carried forward could not be claimed as credits against the State's income tax.

Quarterly Estimated Payments

The bill would increase from $100 to $500 the threshold at which a taxpayer must file quarterly estimated payments. (Under the Act, a taxpayer who has a tax liability exceeding $100, after withholding and credits are subtracted, must make quarterly estimated payments.)

Extensions

A taxpayer can apply for an extension of the filing deadline for annual returns under the Act. The bill would require a taxpayer, before the original filing deadline, to pay the estimated tax due when applying for an extension. Under the Act, when a taxpayer gets an extension to file a Federal return, the extension period automatically applies to the Michigan tax return, plus 60 days. The bill provides that an extension for a Michigan return would apply only to the time period allowed for the Federal extension. The bill also provides that interest and penalties on taxes unpaid during an extension would be the same as interest and penalties that the Revenue Act imposes on all other unpaid taxes.

Amended Returns

Under the bill, taxpayers would be required to file an amended Michigan return within 120 days after a final alteration, recomputation, or determination of deficiency was made on a taxpayer's Federal return. Under the Act, a taxpayer only has to notify the Department of Treasury within 60 days of filing an amended Federal return. Under the bill, if an increase in State taxable income resulted from a Federal audit that increased the taxpayer's Federal income tax by less than $500, the taxpayer would not have to file an amended return but the Department could assess the tax increase to the taxpayer.

Statute of Limitations

The bill would eliminate a statute of limitations that prohibits the imposition of a tax deficiency, interest, or penalty after four years from the date for filing a return. (Those provisions are now in Section 27a of the Revenue Act.) As is currently the case, the statute of limitations would not apply to a year in which a tax return was not filed.

Purchaser Liability

The Act requires the purchaser of a business to withhold an amount of the purchase money to pay any taxes that may be due or unpaid by the former owner, until the former owner produces a receipt from the Department of Treasury. The bill would eliminate this provision. (This provision has been placed in Section 27a of the Revenue Act.)

Property Tax Credits

The bill provides that a widower of an eligible veteran would be eligible for special property tax credits, as is currently allowed by the Act for widows.

The bill specifies that a net operating loss or capital loss carried forward or carried back to another tax year would have to be included as household income in calculating a taxpayer's homestead property tax credit in the current year. (This would prevent a taxpayer from using a loss more than once to reduce household income in the calculation.)

The bill provides that property tax administration fees and special assessments that are assessed in an entire city, village, or township and are based on State equalized value could be included as property taxes paid in calculating a taxpayer's property tax credit.

The bill would allow a totally and permanently disabled person to file for a property tax credit based on a service charge, instead of property taxes, as provided for in the State Housing Development Authority Act.

The bill specifies that, for purposes of calculating the property tax credit, the credit on property sold during the year would be prorated based on the number of days the property was actually the taxpayer's homestead, rather than the number of days the taxpayer owned the property as the Act provides.

The Act provides penalties for a taxpayer who claims excessive property tax or home heating tax credits. The bill would repeal this provision. (The provision is now in Section 23 of the Revenue Act.)

The bill is tie-barred to Senate Bill 447, Senate Bill 448, House Bill 4301, and House Bill 4304. (All of these bills were enacted.)

MCL 206.12 et al.

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