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BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

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Senate Bill 709 (as passed by the Senate)

Sponsor: Senator John J. H. Schwartz, M.D.

Committee: Finance

Mich. State Law Library

Date Completed: 2-26-88

RATIONALE

The Federal Tax Reform Act of 1986 eliminated the double exemption for elderly and blind taxpayers. For Federal tax purposes, this was offset by lower rates and an increase in the personal exemption, and for non-itemizers, an extra standard deduction. The loss of the extra personal exemption, however, did increase State and local income tax liabilities because State and city tax forms are based on Federal tax calculations. The Legislature essentially restored the double exemption for blind and elderly taxpayers for purposes of the State income tax earlier this year. (An additional exemption was also made available to State taxpayers who are deaf, totally and permanently disabled, paraplegic, quadriplegic, or hemiplegic, or who rely on unemployment compensation for 50% or more of their income.) Some people believe cities that levy income taxes should be authorized to restore the second personal exemption to blind and elderly taxpayers and to grant an additional exemption to other eligible citizens as well. A similar problem exists for people who are claimed as dependents by another taxpayer; currently under Federal tax law they cannot claim a personal exemption for themselves. The State addressed this issue by exempting dependents earning up to \$1,500. It has been suggested that cities also need to be allowed to address this problem.

CONTENT

The bill would amend the City Income Tax Act to allow a city that levies an income tax to enact an ordinance, for the 1987 tax year, to grant an additional personal exemption to a taxpayer 65 years old or older with an income under \$25,000, and to a blind taxpayer. For tax years after 1987, a city could pass a further ordinance granting these exemptions, plus allow an additional exemption for taxpayers who were paraplegic, quadriplegic, hemiplegic, totally and permanently disabled, or deaf.

The bill also provides that, for the 1987 tax year and beyond, a city could pass an ordinance to allow a person, who could be claimed by another taxpayer as a dependent under the Internal Revenue Code, to claim a personal exemption. (A person is considered a dependent under the Internal Revenue Code if he or she is under 19 years old, or a student, or a person whose adjusted gross income is less than the personal exemption, and receives over half of his or her support from the taxpayer who claims the person as a dependent.)

MCL 141.631

FISCAL IMPACT

The bill would have no fiscal impact on the State and would result in an indeterminate revenue loss for local governments. The amount of revenue loss for local units would depend on the number of cities granting the additional personal exemptions.

ARGUMENTS**Supporting Argument**

The bill is completely optional and would allow cities that levy an income tax to decide for themselves whether to restore the double exemption that senior citizens (with under \$25,000 income) and the blind lost as a result of changes in Federal tax law. Cities could also extend the exemption to other categories of taxpayers who receive an extra exemption under the State income tax. The exemptions for seniors and the blind could be allowed for returns filed this year. Further, the bill would allow cities to decide whether to grant a personal exemption to persons who were claimed by other taxpayers as dependents.

Legislative Analyst: G. Towne

Fiscal Analyst: N. Khouri

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.

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