SFA BILL ANALYSIS

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

Senate Bill 785 (as reported by the Committee of the Whole)
Sponsor: Senator Norman D. Shinkle
Committee: Finance

Date Completed: 4-12-88

RATIONALE

Currently, in determining income tax liability, a taxpayer can claim a credit for property taxes paid (the Homestead Property Tax Credit) if the property taxes exceed a certain percentage of the taxpayer's household income. As provided by Public Act 254 of 1987, net operating losses or capital losses carried forward or carried back to another tax year are included as "income" in calculating property tax credits for the current year. (Previous to this, net operating losses carried forward or carried back were not included as household income).

Amending this definition of "income" in the Income Tax Act, however, also affected farmers who wished to claim the Farmland Preservation Tax Credit. The farmland preservation credit allows the owner of farmland and related buildings to receive a credit against the income tax for property taxes paid if he or she agrees to keep the land as farmland, and enters into a developmental rights agreement with the Department of Natural Resources. While the credit is separate from the Homestead Property Tax Credit, the Farmland and Open Space Preservation Act defines "income" by referencing it to the definition of "income" used for calculating the property tax credit. As a result, farmers wishing to claim the farmland preservation credit must include loss carryforwards in the calculation of income, which increases their income while reducing their credits. Some people feel that adding loss carryforwards to the definition of income regarding the Homestead Property Tax Credit was appropriate, but that its affect on the Farmland Preservation Tax Credit was unintentional and could cause hardship to farmers who are eligible to claim that credit.

CONTENT

The bill would amend Chapter 9 of the Income Tax Act to exclude from the definition of "income", in calculating property tax credits under the Act, net operating losses or capital losses carried forward or carried back to another tax year by taxpayers who claim the Farmland Preservation Tax Credit under the Farmland and Open Space Preservation Act. The bill would be effective for the 1987 tax year and beyond.

MCL 206.510

FISCAL IMPACT

Fiscal information is not available at this time.

ARGUMENTS

Supporting Argument

By amending the definition of "income" for the Homestead Property Tax Credit to include loss carryforwards, Public Act 254 of 1987 also caused loss carryforwards to be included as income for farmers who can claim the Farmland Preservation Tax Credit. As a result, farmers who claim the credit, and have loss carryforwards, must increase their household income by the amount of the loss carryforwards, thus reducing their credits. Inclusion of loss carryforwards as income was designed to affect the property tax credit, not the farmland preservation credit. The bill would correct this oversight and avoid penalizing those farmers who have entered into agreements to keep their land as farmland under the Farmland and Open Space Preservation Act.

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