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NO TAX ON RETURNED INCOME

House Bill 4417 (Substitute H-3)
First Analysis (4-29-93)

Sponsor: Rep. Philip E. Hoffman
Committee: Taxation

THE APPARENT PROBLEM:

Several recent instances have pointed up that the Michigan income tax system has no method for refunding taxes to people who have returned portions of their income on which taxes have already been paid. In one case in the Jackson area described to the House Taxation Committee, a man returned income from short-term disability payments after receiving a settlement from his employer. Although taxes were withheld from the disability payments, he returned the payments in full and then was unable to get a refund of the taxes paid. In a case described by House Taxation Committee staff, after settlement of a grievance, 189 Flint General Motors workers were awarded back pay for 1990 and through March of 1991 and had to repay supplemental unemployment benefits and guaranteed income stream benefits they had received during the period for which back pay was awarded. Taxes had been taken out of the benefits received and were withheld from the back pay award. This meant the workers had overpaid state and federal income taxes. The federal tax form permitted them to get the overpaid taxes back through either a credit or a deduction. But Michigan's form begins with the adjusted gross income (AGI) figure from the federal tax form and does not take into account federal itemized deductions. So the workers could not get the overpaid state taxes back. This situation needs to be addressed.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act so that for the 1992 tax year and subsequent tax years, a taxpayer could credit against the tax an amount paid in any prior tax year attributable to income received by the taxpayer and then repaid. To be eligible for the state credit, the taxpayer would have to be eligible for a deduction or credit against his or her federal tax liability (pursuant to section 1341 of the Internal Revenue Code) based on the repayment of income. The state credit would only be allowed if the repayment was not deducted in calculating the taxpayer's adjusted gross income. If the state income tax credit exceeded the taxpayer's tax liability, the portion of the credit that exceeded the liability would be refunded.

MCL 206.265

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bill permits Michigan taxpayers to recover taxes paid on income received and then returned. This cannot always be accomplished now. The reduction or return in income taxes in such situations is only fair.

POSITIONS:

The Department of Treasury supports the bill. (4-28-93)