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BILL ANALYSIS

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House Bills 4230 (Substitute S-2), 4231 (Substitute S-2), 4232 (Substitute S-1), and 4233 (Substitute S-1)
Sponsor: Representative Susan Grimes Munsell (H.B. 4230)
Representative Alvin H. Kukuk (H.B. 4231)
Representative Sandra Hill (H.B. 4232)
Representative Charles Perricone (H.B. 4233)
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 2-16-95

SUMMARY OF HOUSE BILLS 4230 (S-2), 4231 (S-2), 4232 (S-1), and 4233 (S-1):

The bills would reduce the single business tax; increase the personal exemption allowed under the income tax and index the exemption to the rate of inflation; and reduce the intangibles tax.

House Bills 4230 (S-2), 4231 (S-2), and 4232 (S-1) are tie-barred to House Bill 4233. All the bills are tie-barred to Senate Bill 233, which would repeal the intangibles tax effective January 1, 1998. Following is a description of each bill.

House Bill 4230 (S-2)

The bill would amend the Single Business Tax (SBT) Act to remove from the tax base of SBT payers employer's payments under the Federal Insurance Contribution Act (FICA), the Railroad Retirement Tax Act, and similar social insurance programs, for tax years 1995 and thereafter.

House Bill 4231 (S-2)

The bill would amend the Income Tax Act to increase the personal exemption. Currently, a taxpayer may subtract from taxable income $2,100 for each personal exemption claimed. The bill would increase the personal exemption to $2,400 for the 1995 tax year and $2,500 for the 1996 tax year.

In addition to the increases described above, the bill provides that if the revenue estimating conference required by the Management and Budget Act forecast in May 1995, that State revenue estimates will exceed estimates from the January 1995 conference by $16 million or more, the personal exemption would be increased by $50 for each $16 million increment by which the May 1995 revenue estimate exceeded the January 1995 estimate. For the 1995, 1996, and 1997 tax years, the amount determined under this provision would have to be added to the personal exemption, although the amount added could not exceed $200.

House Bill 4232 (S-1)

The bill would amend the Income Tax Act to index the personal exemption to the rate of inflation for each tax year after 1997.

The bill specifies that the exemption would have to be adjusted by multiplying the exemption for the tax year beginning in 1997 by a fraction, the numerator of which would be the U.S. consumer price index for the State fiscal year ending in the tax year for which the adjustment was being made, and the denominator of which was the consumer price index for the 1996-97 State fiscal year. The product would have to be rounded to the nearest $100 increment, which would be the personal exemption for the tax year.

House Bill 4233 (S-1)

The bill would amend the intangibles tax Act to increase the credit allowed against the intangibles tax to $280 (from the current $175), or to $560 for a joint return (from $350), for tax years after 1993. Further, the bill provides for a reduction in the tax for 1994 through 1997; the tax computed under the Act, minus the deduction, would be reduced by 25% in 1994 and 1995, 50% in 1996, and 75% in 1997.

MCL 208.4 et al. (H.B. 4230)
206.30 (H.B. 4231)
Proposed MCL 206.30b (H.B. 4232)
205.133 & 205.134 (H.B. 4233)

Legislative Analyst: G. Towne

FISCAL IMPACT

House Bill 4230 (S-2)

This bill would reduce SBT revenue by an estimated $52 million in FY 1994-95 and $74 million in FY 1995-96. This bill, along with the House substitute for Senate Bill 235, which would eliminate unemployment insurance payments and workers' compensation payments from the SBT base, would reduce SBT revenue by a total of $74 million in FY 1994-95 and $105 million in FY 1995-96. In FY 1994-95, all of the revenue loss would occur in the General Fund/General Purpose budget. In FY 1995-96, local revenue sharing would be reduced by $10 million and General Fund/General Purpose revenue would be reduced by $95 million.

House Bills 4231 (S-2) & 4232 (S-1)

The increases in the income tax personal exemption that are proposed in House Bill 4231 (S-2), as described above, would reduce income tax revenue by an estimated $69 million in FY 1994-95 and $91 million in FY 1995-96. This loss in revenue would have an impact on three areas of the State budget. General Fund/General Purpose (GF/GP) revenue would be reduced by an estimated $54 million in FY 1994-95 and $71 million in FY 1995-96. Under School Finance reform, 14.4% of gross income tax collections are earmarked to the School Aid Fund, so this bill would reduce School Aid Fund revenue by an estimated $10 million in FY 1994-95 and $13 million in FY 1995-96. A portion of income tax collections also is earmarked for revenue sharing with local governments. The reduction in income tax revenue that would result under this bill would reduce revenue sharing payments by an estimated $5 million in FY 1994-95 and $7 million in FY 1995-96.

House Bill 4232 (S-1) would index the personal exemption to the rate of inflation beginning in 1998. Under the indexing provisions in this bill, any increase in the personal exemption resulting from inflation would be rounded to the nearest $100 increment. Therefore, in order to increase the personal exemption in 1998 by $100, the inflation rate would have to be somewhere between 2% and 6%. However, this increase in 1998 due to indexing would not cut taxes until taxpayers file their 1998 return in 1999. Therefore, the revenue impact due to indexing in 1998 would not occur until FY 1998-99.

Table 1 summarizes the revenue impact of these bills for FY 1994-95 through FY 1998-99.

Table 1
H.B. 4231 (S-2) & 4232 (S-1): Increase in Income Tax Personal Exemption
Estimated Revenue Impact, FY 1994-95 to FY 1998-99

Personal Exemption:					
Calendar Year	1995	1996	1997	1998	1999
Current Law	$2,100	$2,100	$2,100	$2,100	$2,100
Proposed	2,400	2,400	2,500	2,600*	2,700*
Revenue Impact (millions)					
Fiscal Year	FY 94-95	FY 95-96	FY 96-97	FY 97-98	FY 98-99
Total Tax Cut	$69	$91	$114	$114	$141
Revenue Loss by Fund:					
GF/GP	54	71	89	89	111
School Aid	10	13	16	16	20
Revenue Sharing	5	7	8	8	10

*Estimated increases due to indexing to inflation.

House Bill 4233 (S-1)

Increasing the intangibles tax credit from $175 to $280 for single returns and from $350 to $560 for joint returns, would reduce intangibles tax revenue each year by an estimated $14 million. These increases in the tax credits would raise the amount of earnings from intangible property that is exempt from the intangibles tax from $5,000 to $8,000 for single returns and from $10,000 to $16,000 for joint returns. Phasing out the tax under the schedule described above, would further reduce intangibles tax revenue by an estimated $29 million in FY 1994-95 and $31 million in FY 1995-96. As a result of these two reductions in the intangibles tax, total revenue would be cut by an estimated $43 million in FY 1994-95 and $45 million in FY 1995-96. Senate Bill 233 (H-1) would repeal the intangibles tax effective January 1, 1998. This would reduce revenue by an estimated $155 million in FY 1998-99. These tax cuts would affect the State's General Fund/General Purpose budget and potentially local governments. The revenue from the intangibles tax goes into the General Fund/General Purpose budget, except for $9.5 million which is earmarked to cities, villages and townships as part of revenue sharing; however, this revenue sharing payment has not been made since FY 1991-92.

Table 2
H.B. 4233 (S-1): Reduction in Intangibles Tax
Estimated Revenue Impact FY 1994-95 to FY 1998-99
(dollars in millions)

	FY 95	FY 96	FY 97	FY 98	FY 99
Current Law					
Projected Revenue:	$130.5	$137.8	$143.3	$149.0	$155.0
Tax Cut Revenue Reduction					
Exemption Increase	14.0	14.0	14.0	14.0	---
Tax Phase-Out Rate	25%	25%	50%	75%	100%
Revenue Reduction	29.1	31.0	64.7	101.3	155.0
Total Tax Cut	$43.1	$45.0	$78.7	$115.3	$155.0

*The intangibles tax would be repealed effective January 1, 1998, by Substitute Senate Bill 233 (H-1).

Fiscal Analyst: J. Wortley

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