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BILL ANALYSIS

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House Bill 4231 (Substitute S-3 as reported)
Sponsor: Representative Alvin H. Kukuk
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

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.

The bill is tie-barred to House Bill 4233, which (as Substitute S-1) would reduce the intangibles tax beginning with the 1994 tax year; Senate Bill 233, which would repeal the intangibles tax effective January 1, 1998; and Senate Bill 237, which would allow an income tax deduction for college tuition payments.

MCL 206.30

FISCAL IMPACT

The increases in the income tax personal exemption that are proposed in House Bill 4231 (S-3), 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.

The following table summarizes the revenue impact of House Bills 4231 (S-3) and 4232 (S-1) for FY 1994-95 through FY 1998-99.

H.B. 4231 (S-3) & 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.

Date Completed: 2-21-95

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