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BILL



ANALYSIS

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House Bill 4232 (Substitute S-1 as reported)
Sponsor: Senator Sandra Hill
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

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.

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; and to Senate Bill 233, which would repeal the intangibles tax effective January 1, 1998.

MCL 206.30b

Legislative Analyst: G. Towne

FISCAL IMPACT

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.

Please see FISCAL IMPACT of House Bill 4231 (S-3) for a table summarizing the bills' revenue impact.

Date Completed: 2-21-95

Fiscal Analyst: J. Wortley