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BILL ANALYSIS

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House Bills 4587, 4588 (Substitute H-2), and 4589
Sponsor: Representative Harold S. Voorhees
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 8-30-95

SUMMARY OF HOUSE BILLS 4587, 4588 (Substitute H-2), and 4589 as passed by the House:

The bills would amend the City Income Tax Act to allow a city to impose an income tax at a rate lower than that currently allowed; allow the Department of Treasury to collect income taxes for a city; and prohibit cities that did not have an income tax from imposing an income tax without the approval of the voters.

House Bill 4587 would allow the governing body of a city with an income tax to adopt a resolution to impose the tax at a rate lower than the current levy of 1% on residents and corporations and .5% on nonresidents. If the tax were imposed at a lower rate, the rate on nonresidents could not exceed one-half of the rate on residents and corporations.

House Bill 4588 (H-2) provides that for 1996 and each year thereafter a city that imposed a city income tax could enter into an agreement with the Department of Treasury, under which the Department could administer, enforce, or collect the tax on behalf of the city. City income taxes collected under an agreement would have to be kept in a separate account and paid to the city, except that the Department could retain an amount equal to the actual costs, which would be deposited into the General Fund. The amount to be retained by the Department would have to be included in the agreement.

House Bill 4589 provides that beginning January 1, 1995, a city would be prohibited from imposing an income tax unless the city already had an income tax in effect; or, the imposition of an income tax were approved by the city's registered voters.

MCL 141.611 (H.B. 4587)
Proposed MCL 141.508 (H.B. 4588)
141.502a (H.B. 4589)

Legislative Analyst: G. Towne

FISCAL IMPACT

House Bill 4587 would allow cities to adopt a resolution to lower their city income tax rates. Cities that lowered their income tax rates would decrease city income tax collections and, with almost a two-year lag, lower their revenue sharing payments. The revenue sharing loss incurred by the cities that decreased their income tax rates would be distributed to all other cities, townships, and villages.

This bill would have no fiscal impact on the State.

House Bill 4588 would allow the Department of Treasury to administer, enforce, or collect city income taxes for cities. The Department of Treasury could retain an amount equal to the actual collection costs, agreed upon by the city and Treasury, which would be deposited into the General Fund. This bill would lower the costs to the cities involved to the extent that the costs incurred by local units outweighed the costs the Department of Treasury would incur for handling city income tax collections.

This bill would have no fiscal impact on the State.

House Bill 4589 would, as of January 1, 1995, prevent cities from levying an income tax unless 1) a city income tax already existed or 2) the tax were approved by the registered voters of the city. This bill would raise revenue only for cities that voted for an income tax.

This bill would have no fiscal impact on the State.

Fiscal Analyst: R. Ross

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.