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BILL ANALYSIS

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House Bill 4914 (Substitute S-2 as reported by the Committee of the Whole)
Sponsor: Representative Deborah Whyman
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would make a number of changes to the Income Tax Act, including the following:

- -- Specify that the Department of Treasury's rule-making authority would be permissive beginning in 1996. Currently, the Department is required to promulgate rules for various reasons specified in the Act.
- -- Extend to the 1996 through 1998 tax years the Home Heating Credit (which expired after 1995); specify that the credit could be only claimed if there had been a Federal appropriation of at least $20 million each year to the State from the Low Income Home Energy Assistance Program Block Grant; and provide that the credit would not be allowed unless claimed before September 30 each year, on a form separate from the income tax return.
- -- Extend indefinitely the community foundation credit (which allows a taxpayer to claim a partial income tax credit for donations to a certified community foundation) and the homeless shelter/food bank credit (which allows a partial credit for a cash donation to a qualified shelter for the homeless, a food bank, a food kitchen, or other entity whose primary purpose is to provide overnight accommodations or food to indigent persons); and delete current language that provides for the expiration of the credits after the 1997 tax year.
- -- Change several references in the Act from State equalized valuation (SEV) to "taxable value".
- -- Provide for a lag in the calculation of the inflation index for the personal exemption of one year, meaning that the personal exemption would be adjusted using the U.S. Consumer Price Index in the year prior to the year for which the adjustment was being made.
- -- Specify that for nonresidents all lottery winnings would be considered taxable income. Under the Act, residents pay income tax on lottery winnings.
- -- Codify the current practice of the Department that allows taxpayers on their income tax returns to make contributions (as well as designate portions of their refunds) to the Nongame Wildlife Fund and the Children's Trust Fund.
- -- Require certain banks and financial institutions, beginning January 17, 1998, to submit quarterly estimated income tax information to the Department on magnetic tape, and require that certain payments based on the information be made through a wire transfer.
- -- Revise the formula used to calculate the credit allowed for residents who pay tax to another state or Canada.
- -- Include in a taxpayer's taxable income loans or portions of loans that were used for Michigan Education Trust contracts and not repaid.
- -- Repeal expired credits that were allowed for solar, wind, or water energy conservation (expired 1991); gleaning (1988); and single business tax paid (expired 1977).

MCL 206.12 et al. Legislative Analyst: G. Towne

FISCAL IMPACT

Most of the provisions in this bill are technical changes and would not have any fiscal impact. Various other changes would have very minor revenue implications, such as taxing the lottery prizes won by nonresidents, allowing a charitable contribution credit to be claimed by estates and trusts only if the contributions were part of their Michigan tax base, and requiring taxpayers who had defaulted on a Michigan Education Trust (MET) loan to add to their taxable income any amount that MET repaid on the loan on their behalf. It is estimated that these changes would collectively result in a revenue gain of less than $1 million.

The provisions extending the community foundations credit and homeless shelter credit beyond 1997, would continue to reduce income tax revenue by about $7 million in subsequent years, based on the current amount claimed for these credits.

The provision extending the Home Heating Credit, could potentially have a fiscal impact, but not enough information is currently available to make a reasonable estimate. The amount paid out in Home Heating Credits depends on the total amount available to be paid out (which consists primarily of Federal funds) and the total amount claimed by eligible individuals. If the amount claimed is greater than the amount available to fund the credit, then the amount claimed for each individual is reduced by a factor equal to the funds available divided by the total amount claimed. For FY 1996-97, the amount that would be claimed in credits is not yet known, so it is estimated in this bill that $62 million will be claimed. This estimate is based on the previous two years' actual level of claims of $75 million in FY 1994-95 and $49 million in FY 1995-96. Therefore, if the amount available to fund the Home Heating Credit in FY 1996-97 is less than $62 million and the actual amount claimed is greater than $62 million, then additional money would be required to fund the Home Heating Credit.

Date Completed: 12-10-96 Fiscal Analyst: J. Wortley

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