



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 5694 (as reported by the Committee of the Whole)
Sponsor: Representative James Ryan
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the Income Tax Act to require an employer to deduct and withhold income tax, as calculated under House Bill 5695, for a resident who filed an exemption certificate and elected not to file an annual return. The employer would have to provide the Department of Treasury with a copy of the exemption certificate. The exemption certificate would have to include the statement: "Electing to file using the no-form option may not be for everyone who is eligible. By choosing this option, a taxpayer may be forgoing state income tax credits, including: the homestead/renters credit, the tuition tax credit, and the credit for income tax paid [sic] to cities."

The bill is tie-barred to House Bill 5695, which would allow an eligible taxpayer under certain circumstances to pay the income tax without filing an annual return.

MCL 206.351

Legislative Analyst: G. Towne

FISCAL IMPACT

It is estimated that these bills would result in a slight tax decrease for some taxpayers and a slight tax increase for some other taxpayers, but the overall impact is estimated to be revenue neutral. The Department of Treasury estimates that potentially up to 600,000 taxpayers would qualify and elect to use the no-form income tax procedure. Taxpayers with noncompensation income of greater than zero but less than \$100 for a single taxpayer or \$200 for a joint return, would reduce their income tax liability slightly because under the no-form procedure, the noncompensation income would not be taxed. It is estimated, however, that there would be other taxpayers who would choose to forego claiming a credit for which they are eligible, in order to be able to use the no-form procedure. This would result in a slight tax increase for these taxpayers. The only credits that taxpayers would be able to claim under the no-form procedure are the home heating and prescription drug credits, for which taxpayers would have to file separate returns. The no-form procedure would not allow taxpayers to claim any other credits, including the property tax credit, city income tax credit, and the public contributions credit.

Date Completed: 5-28-96

Fiscal Analyst: M. Bain
J. Wortley

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