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BILL



ANALYSIS

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House Bills 5694 and 5695 (as passed by the House)
Sponsor: Representative James Ryan
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 5-14-96

CONTENT

House Bill 5695 would add a new section to the Income Tax Act to allow certain taxpayers with minimal income other than compensation to elect to pay the State income tax without filing an annual return, as calculated under the bill's provisions. House Bill 5694 also would amend the Income Tax Act to require an employer to deduct and withhold the tax from a taxpayer who elected not to file a form, in the manner calculated under the provisions of House Bill 5695. The bills would apply to tax year 1997 and thereafter. The bills are tie-barred to each other. Following is a detailed description of each bill.

House Bill 5694

The bill would 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. Carefully consider filing options before making your choice."

House Bill 5695

The bill would allow an "eligible taxpayer" to elect to pay the income tax without filing an annual return. "Eligible taxpayer" would mean a resident who had taxable income for the tax year, *other than compensation*, in total or from any one source, of less than \$100 for a single return or \$200 for a joint return; filed a withholding exemption certificate to elect to pay the income tax as calculated under the bill; and had not had income subject to the standard withholding provisions of the Act at any time during the tax year.

The tax for an eligible taxpayer who elected to pay the tax without filing an annual return would be calculated by multiplying his or her compensation, minus an amount equal to the number of personal and dependency exemptions that the taxpayer was eligible for and claimed on the withholding exemption certificate (multiplied by the appropriate exemption amount), by 4.4%. The taxpayer could not claim any exemption, deduction, or credit other than the prescription drug credit, the home heating credit, or the amount withheld for taxes from his or her compensation. A taxpayer who filed a withholding exemption certificate and had elected not to file an annual return could elect to file a return and pay the tax by the standard method.

The bill provides that for a taxpayer who selected the option not to file an annual return, the running of the statute of limitations regarding violations of the Act would begin on the date that the taxpayer *would* have filed an annual return.

MCL 206.351 (H.B. 5694)
Proposed MCL 206.51a (H.B. 5695)

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 1 million 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.

Fiscal Analyst: M. Bain
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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.