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BILL



ANALYSIS

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House Bill 5695 (Substitute S-2 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 allow an "eligible taxpayer" with minimal income other than certain taxable compensation 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 taxable compensation*, in total or from any one source, of less than \$100 for a single return or \$200 for a joint return and filed a withholding exemption certificate to elect to pay the income tax as calculated under the bill. "Taxable compensation" would mean compensation from which tax had been withheld as proposed in House Bill 5694 (which would require an employer to deduct and withhold income tax for a resident who filed an exemption certificate and elected not to file an annual return) except: compensation or retirement benefits received for service in the U.S. armed forces; retirement pension benefits received from a Federal, State, or local public retirement system; social security and railroad retirement benefits; and retirement or pension benefits, or benefits from a retirement annuity policy in which payments were made for life to a senior citizen (other than benefits from a public retirement system or from the U.S. armed services) up to \$3,500 for a single return, \$7,000 for a joint return.

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 personal and dependency exemptions that the taxpayer was allowed, 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 annual return was due for the tax year in which the taxpayer had filed an election to pay the tax as calculated under the bill. The Department of Treasury could enforce the collection of the tax imposed under the Act, to the extent tax withheld was less than the tax imposed. Beginning in 1998 the Department would have to prepare and submit to the Legislature a report regarding the number of taxpayers using the no-file option, their average income, and their geographic area.

Proposed MCL 206.51a

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. For more information, please see **FISCAL IMPACT** on House Bill 5694.

Date Completed: 5-28-96

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.