Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5865 (Substitute S-2 as reported)
Sponsor: Representative Edward LaForge House
Committee: Human Resources and Labor
Senate Committee: Human Resources, Labor and Veterans Affairs

CONTENT

The bill would amend the Michigan Employment Security Act to specify that, beginning January 1, 1997, an individual filing a claim for unemployment benefits that established a new benefit year would have to be advised, at the time of filing the claim, that unemployment benefits are subject to Federal and State income tax; some taxpayers are required to make estimated tax payments; the person could elect to have Federal and, effective with new claims filed on or after January 1, 1998, State income tax deducted and withheld from his or her unemployment compensation; and the individual would be permitted to change a previously elected withholding status only once during his or her benefit year. The bill also would apply to the first time a claimant filed a claim in an existing benefit year on or after January 1, 1997.

If a person elected to have money deducted and withheld for the payment of his or her income taxes, the Michigan Employment Security Commission (MESC) would have to withhold a tax in the same manner that an employer is required under the Internal Revenue Code to withhold a tax on compensation. For a new claim filed after January 1, 1998, an election to have income tax withheld from unemployment compensation payments would apply to both Federal and State income tax. A person could not elect to have only Federal or only State income tax withheld from his or her benefit payments, for a new claim filed after January 1, 1998.

Amounts deducted and withheld from unemployment compensation benefits would have to remain in the Unemployment Insurance Trust Fund until transferred to the Internal Revenue Service or to the Michigan Department of Treasury as a payment of income tax. The MESC would have to follow all procedures specified by the U.S. Department of Labor, the IRS, and the Michigan Department of Treasury pertaining to the deducting and withholding of income tax.

Amounts could be deducted and withheld under the bill only after a claimant's weekly benefit rate was reduced based on the Act's pension reduction and earnings offset requirements (MCL 421.27), and only after a claimant's benefit payment was adjusted by amounts withheld by the MESC to satisfy the Act's provisions for legal obligation of restitution (MCL 421.62(a)), fraud penalties (MCL 421.54 and 421.54a-421.54c), child support obligations (MCL 421.27), and "the collection of obligations incurred for necessaries furnished to the recipient...or his dependents" (MCL 421.30).

Proposed MCL 421.27b

Legislative Analyst: P. Affholter

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Date Completed: 12-10-96

Fiscal Analyst: M. Tyszkiewicz

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