House Legislative Analysis Section
Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

TAX CREDIT: DEPENDENT CARE

House Bill 4213 (Substitute H-3)
Sponsor: Rep. Dennis Olshove

House Bill 4463 with committee amendment
Sponsor: Rep. Karen Willard

First Committee: Senior Citizens and Veterans Affairs
Second Committee: Tax Policy

First Analysis (3-20-97)

THE APPARENT PROBLEM:

Legislation has been proposed, as part of a package of bills to help working families, that would allow state income taxpayers to take a credit based on the federal income tax credit for household and dependent care services. Supporters say this would provide much needed assistance for families who are, for example, caring for older relatives in their homes or caring for children or adults with developmental disabilities. Such a credit would encourage family preservation and recognize the contribution being made when families forego institutionalizing a family member and care for him or her at home.

THE CONTENT OF THE BILLS:

House Bills 4213 and 4463 would amend the Income Tax Act to create a credit against the state income tax for taxpayers who had claimed a federal income tax credit for household and dependent care services under Section 21 of the federal Internal Revenue Code. The credit would be for the amount spent in the tax year on employment-related expenses (as defined in the federal code) or 50 percent of the maximum credit allowed on the federal return, whichever was less. If the credit allowed under the bill exceeded the taxpayer's tax liability for the year, the excess amount would not be refunded. In calculating the amount of the credit, a taxpayer could not include any expenses deducted under any other section of the Income Tax Act. House Bill 4213 would allow the credit for the 1997 tax year. House Bill 4463 would allow the credit for the 1998 tax year and thereafter.

Section 21 of the federal Internal Revenue Code allows a taxpayer who maintains a household that includes one or more "qualifying individuals" to claim a credit against the federal income tax for a certain percentage of employment-related expenses (expenses for household services and expenses for the care of a qualifying individual). "Qualifying individuals" include: a) a child under age 13 who is a dependent of the taxpayer; b) a dependent of the taxpayer who is physically or mentally incapable of caring for himself or herself; or c) the spouse of the taxpayer who is physically or mentally incapable of caring for himself or herself. The maximum amount of expenses that may be included in the calculation of the federal tax credit is $2,400 for one qualifying individual, or $4,800 for two or more. The actual amount of the credit is a percentage of the amount of expenses claimed, between 30 percent and 20 percent, depending on the amount of the taxpayer's adjusted gross income.

MCL 206.266

FISCAL IMPLICATIONS:

According to information from the House Fiscal Agency, the bills would result in an annual fiscal impact of $35 million to $37.5 million. (Fiscal Notes dated 3-11-97 and 3-18-97)

ARGUMENTS:

For:

The bills would provide additional assistance to working families targeted by a federal income tax credit that offsets a wide range of employment-related expenses incurred on behalf of dependent children under 13 and on behalf of people who are physically or mentally unable to care for themselves, including spouses. Supporters of the proposal have said it would provide much-needed assistance for families caring for older relatives and for parents of children with developmental disabilities. Advocates also point out that the population is getting older, and that the number of the very old is increasing rapidly. The need for supportive services increases as the population ages. This kind of credit helps to keep families together and prevent institutionalization. The proposal contains a provision aimed at preventing taxpayers from both claiming this credit and using the child care deduction recently passed by the House.

Against:

A great many tax reduction proposals are afloat. It would make sense to look at them comprehensively rather than piecemeal. The legislature needs to look at how they fit together and whether they are achieving their intended aims. For example, this bill appears to apply to many of the same families that are targeted under House Bill 4180, which would allow a deduction for child care expenses. Are the two bills consistent in their approach and their value to families? It would also make sense to coordinate the review of tax reduction proposals with budget deliberations, so that the full impact of revenue reductions could be understood, including the impact on school funding. The Department of Treasury holds the view that tax cuts should be delayed until the 1998 budget has been finalized.

Response:

Supporters of this and other related proposals say that the tax cuts can be paid for out of anticipated revenue growth for the 1998 fiscal year. Further, they say that there have been numerous tax cuts in recent years, many of which have not benefitted the people targeted by the tax cut provided by these bills and others in the package, aimed at ordinary working families. Tax fairness should not depend upon budget deliberations.

POSITIONS:

The Arc Michigan supports the bill. (3-19-97)

The Area Agencies on Aging Association supports the bill. (3-19-97)

The Department of Treasury is opposed to the bills. (3-19-97)

The Michigan Education Association is opposed to the bills. (3-19-97)

Analyst: C. Couch