

Senate Fiscal Agency  
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**SFA**



**BILL ANALYSIS**

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House Bill 4783 (as reported without amendment)  
Sponsor: Representative Mary Schroer  
House Committee: Tax Policy  
Senate Committee: Finance

Date Completed: 2-24-98

## **RATIONALE**

The Income Tax Act provides that a taxpayer may claim a credit against the income tax in an amount equal to taxes paid in a prior year on income received but repaid by the taxpayer, if the taxpayer is eligible for the Federal deduction allowed for the repayment of income (under Section 1341 of the Internal Revenue Code). The credit was added to the Act by Public Act 128 of 1993, and applies to the 1991 tax year and thereafter. At the time, it was pointed out that under certain circumstances, such as the receipt of taxable benefits pending the outcome of a lawsuit, contract dispute, or administrative grievance procedure, persons are required to repay income upon which they have paid taxes. While the Federal tax form permits them to get their overpaid taxes back through a deduction, the State Income Tax Act contained no provision for the refunding of taxes to people who had returned some portion for their income on which taxes had already been paid. This meant that, until the passage of Public Act 128, some taxpayers were subject to a permanent tax overpayment.

Reportedly, there is at least one more taxpayer who has been unable to claim the returned income credit. Evidently, the taxpayer sold his business in 1983 and paid tax on the income from the sale; however, in 1989 he had to make substantial paybacks under the sale warranty. As before, Federal tax law permitted a rebate of taxes paid on the income earned but later returned, but the State law did not because it only covers cases beginning in 1991. It has been suggested that the Income Tax Act be amended to address this problem.

## **CONTENT**

The bill would amend the Income Tax Act to make available from the 1989 tax year, rather than the 1991 tax year, a credit for taxpayers who have to repay money claimed as income in a previous year.

MCL 206.265

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

The bill would permit the return of overpaid State income taxes by extending back to 1989 a provision that allows an income tax credit for taxes paid on income received and then returned. If people have paid taxes on income that, ultimately, is not theirs, they should be able to recoup the tax overpayment.

Legislative Analyst: G. Towne

## **FISCAL IMPACT**

Based on information gathered when this bill was in the House of Representatives, this bill was designed to help a particular taxpayer in a unique situation. Apparently, some of the income that this taxpayer paid income tax on in 1983, had to be returned in 1989. This bill would allow this taxpayer to claim a credit equal to the tax originally paid. This bill also would allow any other taxpayers in a similar situation to claim a credit; however, no other taxpayers in a similar situation have been identified. This credit would reduce income tax revenue, but the amount is not readily available due to taxpayer confidentiality.

Fiscal Analyst: J. Wortley

### **H9798\S4783A**

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.