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SFA BILL ANALYSIS

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House Bill 5315 (Substitute H-1 as passed by the House)
Sponsor: Representative Kirk A. Profit
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 5-26-98

CONTENT

The bill would amend the revenue Act to require that the Department of Treasury provide dynamic revenue impact analyses, and operate microsimulation models, beginning October 1, 1998.

The Department would have to provide an analysis of the dynamic revenue impact for all proposed changes in tax policy that would have a static impact of at least $20 million annually, and that were to be taken up in a legislative committee. The analysis would have to be provided to the appropriate House and Senate committees and the House and Senate Fiscal Agencies in a timely manner. A dynamic analysis would have to include estimates of changes in employment attributable to the proposed changes in tax policy. ("Dynamic revenue impact" would mean the direct impact of a tax law change on revenues and the indirect effects on revenue of a tax law change due to the effects of the proposed change on taxpayer behavior and overall economic activity. "Static impact" would mean the direct impact that a tax law change would have on revenue and would assume no changes in taxpayer behavior or other economic activity.)

The Department also would have to operate microsimulation models that would produce estimates of the revenue impact and the incidence of the revenue impact for proposed changes in the personal income tax, the sales tax, the use tax, the ad valorem property tax, and the single business tax. ("Incidence of the revenue impact" would mean the impact of a tax law change on various income groups and upon various business sectors.)

In addition, beginning October 1, 1998, the Department would have to make available to the House and Senate Fiscal Agencies data sets sufficient for use in microsimulation models that measured the static impact of changes in State tax policy on revenues. Suitable data sets would have to be made available for analysis of the personal income tax, the sales tax, the use tax, the ad valorem property tax, and the single business tax. The data for each tax year would have to be made available to the House and Senate Fiscal Agencies as soon as the data were made available to analysts in the Office of Revenue and Tax Analysis.

MCL 205.18 Legislative Analyst: S. Lowe

FISCAL IMPACT

The requirement for the Treasury Department to conduct dynamic revenue estimates and have in operation microsimulation models for each of the major State taxes, as well as provide the Senate and House Fiscal Agencies detailed taxpayer return data files, would cost an estimated $1 million. In addition, it would cost $100,000 to $200,000 to maintain and operate these models annually. Creating these models and having them operational by October 1, 1998, would not be feasible. In fact, the art of creating a true dynamic model is still being developed, and therefore, it may be prudent first to develop the microsimulation models for each of the major taxes and then develop a dynamic revenue estimating model at a later date when more experience and information will be available. In addition, there may be some taxpayer confidentiality issues that would have to be resolved, possibly by means of additional legislation, regarding the requirement that the Treasury Department provide taxpayer data to the Senate and House Fiscal Agencies.

Fiscal Analyst: J. Wortley

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