

House Bill 4033 (Substitute S-1 as reported)  
House Bill 4034 (Substitute S-1 as reported)  
House Bill 4035 (Substitute S-2 as reported)  
Sponsors: Representative Larry Julian (H.B. 4033)  
                  Representative Randy Richardville (H.B. 4034)  
                  Representative Gerald Van Woerkom (H.B. 4035)  
House Committee: Tax Policy  
Senate Committee: Finance

### **CONTENT**

The bills would amend the Income Tax Act to reduce the income tax rate, and retain the revenue dedicated to the State School Aid Fund.

The bills, in combination with Senate Bills 1, 2, and 5, would reduce the State income tax by .1% each year over a five-year period, from the current rate of 4.4% to 3.9%. Specifically, House Bill 4034 (S-1) provides that income tax rate would be 4.3% in 2000, and House Bill 4033 (S-1) provides that the rate would be 4.2% in 2001. (Senate Bill 1 provides that the rate would be 4.1% in 2002; Senate Bill 2 would reduce the rate to 4.0% in 2003; and Senate Bill 5 would reduce the rate to 3.9% in 2004 and thereafter.)

Currently under the Act, 23% of gross income tax collections before refunds must be deposited in the State School Aid Fund. Under House Bill 4035 (S-2) (as described in **FISCAL IMPACT**, below), the revenue dedicated to the Fund would not be reduced, even though the overall tax rate was lower.

The House bills are tie-barred to each other and to Senate Bills 1, 2, and 5.

Proposed MCL 206.51c (H.B. 4033)  
Proposed MCL 206.51b (H.B. 4034)  
MCL 206.51 (H.B. 4035)

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

The income tax rate reductions proposed in Senate Bills 1, 2, and 5 and House Bills 4033 (S-1) to 4035 (S-2) would lower income tax revenue by an estimated \$124 million in FY 1999-2000 and \$307 million in FY 2000-01, compared with the revenue that otherwise will be generated at the current rate of 4.4%. By FY 2004-05, when the income tax rate would be at 3.9% for the entire fiscal year, income tax revenue would be reduced by an estimated \$1.07 billion. The cumulative reduction in income tax revenue from FY 1999-2000 to FY 2004-05 would total an estimated \$3.7 billion. This entire loss in income tax revenue would affect the General Fund/General Purpose budget. Under current law, the School Aid Fund receives 23% of gross income tax collections and the remaining income tax revenue, after refunds, goes to the General Fund/General Purpose budget. House Bill 4035 (S-2) is designed to hold the School Aid Fund harmless by earmarking the amount of gross income tax revenue generated by 1.012 percentage points of the tax rate. (The 1.012 percentage-point level is equal to 23% of the current 4.4% tax rate.) This would be accomplished by changing the earmarking percentage from the current 23%, to the percentage that 1.012% is of the income tax rate. The estimated loss in revenue for FY 1999-2000 to FY 2004-05 is summarized in the following table.

**Estimated Fiscal Impact of Senate Bills 1, 2, & 5 and**

**House Bills 4033-4035**

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FY 1999-2000 to FY 2004-05

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
<b>Proposed Income Tax Rate Reduction:</b>						
Current Law Tax Rate	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
<b>Proposed Income Tax Rate Reduction: *</b>						
Incremental Reduction	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%
Cumulative Reduction	-0.1%	-0.2%	-0.3%	-0.4%	-0.5%	-0.5%
Proposed Income Tax Rate	4.3%	4.2%	4.1%	4.0%	3.9%	3.9%
<b>Estimated Reduction in Revenue:</b>						
% Reduction in Income Tax Revenue	-1.9%	-4.4%	-6.9%	-9.4%	-12.0%	-12.7%
Cumulative Tax Reduction	(\$124.4)	(\$431.1)	(\$937.3)	(\$1,663.6)	(\$2,630.2)	(\$3,701.1)
<b>Estimated Impact by Fund:</b>						
General Fund/General Purpose	(\$124.4)	(\$306.6)	(\$506.2)	(\$726.4)	(\$966.6)	(\$1,070.8)
School Aid Fund	0.0	0.0	0.0	0.0	0.0	0.0

\* Income tax rate reductions would be effective January 1 each year from 2000 to 2004.

Date Completed: 2-10-99

Fiscal Analyst: J. Wortley

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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.