

**HOMESTEAD CREDIT ELIGIBILITY:
INDEX FOR INFLATION**

House Bill 4856
Sponsor: Rep. Andrew Richner
Committee: Tax Policy

Complete to 8-16-01

A SUMMARY OF HOUSE BILL 4856 AS INTRODUCED 5-30-01

The bill would amend the Income Tax Act to adjust annually the household income limits that determine eligibility for homestead property tax credits. This would apply to tax years beginning after December 31, 2000. The adjustment would reflect the annual average percentage increase in the U.S. consumer price index for all urban consumers in the immediately preceding tax year.

The Income Tax Act allows taxpayers to claim credits if their property taxes exceed a certain percentage of income. The basic credit allows a taxpayer a credit for 60 percent of the amount by which property taxes exceed 3.5 percent of household income. More generous credits exist for taxpayers in special categories, such as senior citizens and people classified as paraplegic, hemiplegic, and quadriplegic or totally and permanently disabled. There is also an alternate credit available to eligible armed forces veterans, widows and widowers of eligible veterans, and active military personnel that is calculated based on the ratio of a statutorily specified taxable value allowance and the taxable value of the homestead. For all credits, renters can use 20 percent of rent as a stand-in for property taxes. The act contains income limits that apply to a taxpayer's eligibility for the credits. For the alternate veteran's credit, the annual income limit is \$7,500, unless the taxpayer has a service-incurred disability, is a spouse of a person with a service-incurred disability, or is a surviving spouse of a veteran who died in service. For all other credits, the credit begins to be phased out at \$73,650 and phases out completely at \$82,650. The inflation-based adjustment would be applied annually to the \$7,500 figure and the \$73,650 figure.

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