Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 126 (as introduced 2-6-01)
Sponsor: Senator Dave Jaye
Committee: Human Resources and Labor

Date Completed: 2-20-01

CONTENT

The bill would create a new act to prohibit an employer from allowing an employee to carry forward vacation time earned during one work year to a subsequent work year; and require an employee, by the end of each year he or she worked for an employer and in accordance with any contract for hire between the employee and employer, to use, take the value of, or forfeit vacation time that accrued to the employee during the work year.

Under the bill, "employee" would mean a person who performed a service for wages or other remuneration under a written or oral contract for hire, but would not include an individual in the Classified State Civil Service whose employment was regulated by the Civil Service Commission. "Vacation time" would mean a period of vacation available to an employee in a work year for which the employer was obligated to pay wages or other benefits. "Work year" would mean a full year in which an employee provided services to an employer for wages or other remuneration under a written or oral contract for hire.

Legislative Analyst: G. Towne

FISCAL IMPACT

State Impact: The impact of the bill is unknown, and would depend on employers' responses to the requirement that employees "use, take the value of, or forfeit vacation time that has accrued". Many employers do not offer employees the option of taking the value of unused vacation time. For those employers, the bill would reduce both General Fund and School Aid Fund revenues by an unknown amount. Under current practice, employers traditionally pay employees leaving service a lump sum representing all or a portion of unused vacation time. These lump sum payments provide one-time increases in the income of affected taxpayers, thus increasing tax revenues, primarily through the individual income tax and the sales tax. Under the bill, such one-time increases in income would not occur, since employees would either use or forfeit the accrued vacation time, and therefore tax revenue would be reduced. The number of employees affected by the bill is unknown, as is the average wage and the average amount of vacation time paid out for such employees. How the bill would affect employees who receive nontraditional leave time arrangements is also unknown, especially since the bill does not define "vacation". Assuming that employees who leave an employer that provides vacation benefits comprise 1% of those employed, the bill would affect approximately 50,000 Michigan workers per year. If the average annual wage for such employees is $50,000 (approximately average adjusted gross income reported on the Michigan income tax) and, on average, employees receive a pay-out for 200 hours of vacation time, individual income tax and sales tax revenues would fall (under tax year 2000 tax rates) by approximately $24.5 million.
To the extent that employees under the bill were to use the vacation time rather than forfeit it, the bill also would raise employer costs if employers compensated for the labor lost by having more employees use vacation time during the year. Under the bill, labor costs would rise because such employers would be required to hire more workers to replace the labor of those on vacation. The greater demand for workers in general also would put upward pressure on labor costs. Higher labor costs would help reduce negative revenue effects of the bill by increasing individual income, sales tax, and single business tax revenues.

However, higher business costs also would reduce employer profits, thus reducing the demand for workers and lowering tax revenues. The net effect of these two different pressures on revenues is unknown although likely to be minimal.

For employers that do or would offer employees the option of taking the value of unused vacation time, the bill would increase both General Fund and School Aid Fund revenues by an unknown amount, to the extent that employees covered by such policies are not currently exercising the option or that employers switched to provide such a benefit. If employees were required to take the value of unused vacation time (assuming the employee had not elected to use or forfeit it), the one-time boosts to income would occur annually. In the initial year of the bill, such a boost to income would be substantial as all such employees took the value of accumulated vacation time. In future years, the annual boosts to income would be smaller. No data exist on whether such annual boosts (under the bill) in income for all employees would be larger or smaller that the total of all current one-time boosts experienced under current law.

Local Impact: Under the bill, local units would experience the same effects as the State, with the additional effect that certain local government expenditures could be lowered. Local units with income taxes would experience lower tax revenues under the bill, but because employees of local units would fall under the provisions of the bill, pay-outs for departing employees would decline, thereby reducing local unit wage expenditures. Approximately 450,000 local government employees exist in Michigan. Using the same assumptions as in the example for the State impact, approximately 4,500 employees per year would be affected, reducing local unit expenditures by $21.6 million.

As with the State impact, the impact on local expenditures would be altered if local units were to offer employees the option of taking the value of unused vacation time and employees were to exercise the option more than under current law. Such a response to the bill could increase local units' expenditures. Similarly, if employees used the vacation time, local units' labor expenses would increase to the extent that local units replaced the lost labor.

Fiscal Analyst: D. Zin

S0102\s126sa