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BILL ANALYSIS

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Senate Bill 362 (as enrolled)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 6-10-03

RATIONALE

Public Act 72 of 1979 requires the Governor to report certain tax expenditure items with his or her annual budget message to the Legislature. The Act specifies the information that must be included in the report, and requires the Department of Treasury to furnish the information to the Governor. The report must contain estimates of tax revenue not collected because of exclusions, deductions, credits, or deferrals, applied to business taxes, income tax, consumption taxes, property and other local taxes, and transportation taxes.

The report, titled the "Executive Budget Tax Expenditure Appendix" and commonly known as the expenditure report, states that it is a compilation of the revenue cost of the various tax expenditures in Michigan. The report further states the following: "Tax expenditures can be defined broadly as the tax revenue foregone as a result of preferential provisions such as exclusions, deductions, exemptions, credits, deferrals, or lower tax rates. These provisions are tax expenditures because, like appropriations, they allocate resources for specific public purposes, but do so through the tax system rather than the expenditure system."

Some people believe that the phrase tax "expenditure items" implies that all revenue and property should be subject to taxation. They suggest that the phrase be replaced.

CONTENT

The bill would amend Public Act 72 of 1979 to remove references to tax "expenditure items" and instead require the Governor to report the tax "credits, deductions, and exemptions" identified in the Act.

MCL 21.272 & 21.273

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

Current provisions in the Act that require the reporting of tax "expenditure items" may lead some people to believe that statutory credits, deductions, and exemptions are somehow an expenditure of tax dollars, and the report itself states that tax expenditures can be broadly defined as tax revenue "foregone". This suggests an underlying philosophy that everything is and should be taxable, and that all things for which there are credits, deductions, and exemptions have been given to the taxpayer by a benign State. The bill would help to eliminate this misperception by replacing the term "expenditure items". The bill would clarify to readers what the report is: a catalog of tax credits, deductions, and exemptions.

Opposing Argument

The bill does not go far enough. The report should be eliminated. In addition to being premised on a notion that all revenue should be taxable, the report contains unreliable data. In fact, as the fiscal year 2002-03 report states, "The tax expenditure estimates do not necessarily reflect the amount of actual revenue that would be gained through the repeal of specific provisions."

Response: The report is similar to the Federal tax expenditure report and is a document that is produced in several other states, in similar forms. The report contains valuable information for understanding how the State's tax system works. As the report states, "Tax expenditures can be defined broadly as the tax revenue foregone by *preferential* provisions..." (emphasis added);

that is, tax laws that treat some taxpayers differently than others. This information should continue to be collected and reported.

Legislative Analyst: George Towne

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Bill Bowerman

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