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BILL ANALYSIS

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Senate Bill 191 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 5-29-09

RATIONALE

Since 1973, Michigan law has allowed taxpayers to claim a credit against their income tax for a portion of property taxes paid on their homestead (or a portion of their rent that represents property taxes). As a rule, the credit is equal to 60.0% of the amount by which the property taxes exceed 3.5% of the claimant's household income for a tax year. The credit must be reduced incrementally for taxpayers whose household income exceeds $73,650, resulting in no credit for taxpayers whose household income is $82,650 or more. That household income limit has been in place for over 25 years. Originally, the phase-out level was set in 1982 at $65,000, with a requirement that the amount be adjusted annually for inflation. In 1985, the $73,650 level was codified (at the inflation-adjusted amount), and the requirement for annual adjustments was eliminated. In addition, the total credit a taxpayer may claim each year has been $1,200 since 1975. Considering the cost-of-living increases that have occurred in the last several decades, some people believe that these amounts should be raised.

CONTENT

The bill would amend the Income Tax Act to increase the household income ceiling for the homestead property tax credit by $10,000; increase the total credit that a taxpayer may claim from $1,200 to $1,300; and allow an additional $50 credit for senior citizens and totally and permanently disabled taxpayers.

Currently, the amount that a taxpayer may claim is equal to 60.0% of the amount by which the property taxes (or 20% of rental payments) exceed 3.5% of the claimant's household income for the tax year. (Separate calculations apply to a taxpayer who is a senior citizen; a paraplegic, hemiplegic, or quadriplegic; totally and permanently disabled, deaf, or blind; or an eligible serviceperson, veteran, or widow or widower.) The credit must be reduced by 10% for a claimant whose household income exceeds $73,650 and by an additional 10% for each increment of $1,000 of household income in excess of $73,650. The total credit allowed may not exceed $1,200 per year.

Under the bill, those amounts would apply for tax years that began before January 1, 2009. For tax years beginning after December 31, 2008, the credit would be reduced by 10% for a claimant whose household income exceeded $83,650 and by an additional 10% for each increment of $1,000 of household income in excess of $83,650. The total credit could not exceed $1,300 for tax years beginning after December 31, 2008. For tax years beginning after December 31, 2009, these amounts would have to be adjusted according to the percentage increase in the U.S. consumer price index for the preceding year, and annualized by the Department of Treasury as necessary.

In addition, a senior citizen and a person who was totally and permanently disabled would be allowed an additional $50 credit.

MCL 206.520 & 206.522

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

The homestead property tax credit is designed to give tax relief to low- and middle-income residents, with enhanced relief for senior citizens and individuals who are blind, deaf, or physically disabled. The value of the credit has eroded over the years, however, with the household income limit and the maximum credit amount still at their original levels. By increasing these amounts, requiring them to be adjusted for inflation, and adding a $50 credit for senior citizens and totally and permanently disabled taxpayers, the bill would restore the value of the credit and target property tax relief to residents who need it.

Opposing Argument

Although the bill would reduce the tax burden for eligible taxpayers, the State simply cannot afford the revenue loss. In addition, although the household income limit and the credit maximum have not been increased, both amounts were enacted before the voters approved Proposal A in 1994, which reduced property taxes overall.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would increase the cost of the homestead property tax credit (reduce income tax revenue) an estimated $80.6 million in FY 2009-10. Increasing the maximum property tax credit from $1,200 to $1,300 and increasing the credit's phase-out income range by $10,000 would increase the cost of the property tax credit an estimated $55.6 million and providing an additional $50 credit to senior citizens and disabled individuals who already receive a credit would increase the cost an additional $25.0 million.

The cost of this bill would increase in FY 2010-11 because, under the bill, beginning with tax year 2010, the maximum credit and the income range under which the credit is phased out would be indexed to inflation. The fiscal impact of indexing these levels would depend on how high or low inflation turns out to be. The current consensus estimate of the U.S. Consumer Price Index for calendar year 2009, which would be used to adjust these levels for tax year 2010, is only 0.7%. Indexing the maximum credit and the income phase-out range by this projected rate of inflation, would increase the cost of the property tax credit an additional $4.0 million in FY 2010-11. Inflation is projected to accelerate to 2.5% in 2010, which would increase the cost of the credit an additional $14.3 million in FY 2011-12.

The loss in revenue that would occur under this bill would reduce the General Fund. The bill would have no direct impact on local governments.

Fiscal Analyst: Jay Wortley