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Senate Bill 191 (Substitute S-1 as reported)

Sponsor: Senator Nancy Cassis

Committee: Finance

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.

The Act allows a taxpayer to claim a credit against the income tax for property taxes on the taxpayer's homestead. The amount that may be claimed is equal to 60.0% of the amount by which the property taxes exceed 3.5% of the claimant's household income for the tax year. (Specific provisions apply to a taxpayer who rents or leases a homestead, and 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. The amounts would have to be adjusted according to the consumer price index and annualized by the Department of Treasury as necessary for tax years beginning after December 31, 2009.

A senior citizen and a person who was totally and permanently disabled would be allowed an additional \$50 credit.

MCL 206.520 & 206.522 Legislative Analyst: Craig Laurie

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.

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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.

Date Completed: 3-10-09 Fiscal Analyst: Jay 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.