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BILL ANALYSIS

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Senate Bill 403 (Substitute S-1 as reported)
Sponsor: Senator Tupac A. Hunter
Committee: Finance

CONTENT

The bill would amend the Income Tax Act to allow a qualified taxpayer to claim a nonrefundable credit equal to the cost paid in the tax year to purchase a hearing aid for himself or herself or his or her spouse, if he or she were over 60 years old, or a dependent of the qualified taxpayer, for tax years beginning after December 31, 2010. The credit could not exceed $1,500 for each tax year. A "qualified taxpayer" would be a taxpayer whose household income was less than $100,000.

Proposed MCL 206.273 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would decrease income tax revenue by approximately $7.0 million. The actual revenue loss would depend upon on the number of individuals affected by the bill, the cost of hearing aid purchases covered by the bill, and the change in consumption of hearing aids after the bill was enacted. Proposals exist to offer a $500 Federal tax credit for similar purchases and the bill would not reduce the State credit for any potential Federal credit for the same purchase. Also, the bill apparently would provide the credit to any Michigan taxpayer, no matter how minimal his or her financial relationship with the State.

It appears that the bill would not generate a credit if Medicaid or a third party insurance company paid for the hearing aid. It is unclear if the costs of purchasing a hearing aid also would include costs for fitting, hearing evaluations, and other related expenses. To the extent that the bill would allow a credit for costs even if ultimately paid by a third party such as Medicaid or insurance, the impact would rise to approximately $11.4 million.

The impact assumes that consumption of hearing aids effectively would double under the bill. Consumption could more than double because, based on national data, the bill would be covering somewhere between 45% and 100% of the total cost of a hearing aid (depending on whether an individual needed two aids or one, and what costs were included). To the extent that consumption of hearing aids increased by more than estimated, the revenue reduction under the bill would be greater.

Any revenue loss would likely result from taxpayers claiming a credit, rather than through reduced withholding. Therefore, the entire revenue reduction under the bill would affect the General Fund.

Date Completed: 9-20-10 Fiscal Analyst: David Zin