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BILL ANALYSIS

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Senate Bill 748 (as introduced 10-12-11)
Senate Bill 790 (as introduced 11-1-11)
Sponsor: Senator Dave Hildenbrand
Committee: Finance

Date Completed: 11-2-11

CONTENT

Senate Bill 748 would add Section 31a to the Income Tax Act to allow a taxpayer to deduct income, dividends, capital gains, and on-line or instant lottery winnings, if the taxpayer met a 183-day renaissance zone residency requirement before January 1, 2012, and his or her gross income did not exceed $1.0 million.

(Except for the requirement that the residency criteria be met before 2012, the bill essentially would re-enact Section 31 of the current Act; that section will be repealed on January 1, 2012.)

Senate Bill 790 would amend the Michigan Renaissance Zone Act to include a citation to proposed Section 31a in a provision that lists the sections of law that allow an individual who is a resident of a renaissance zone, or a business that conducts business activity in a renaissance zone, to receive an exemption, deduction, or credit.

Senate Bill 790 is tie-barred to Senate Bill 748, which is described in detail below.

Beginning with the 2012 tax year, "taxable income" would mean taxable income as determined under Section 30 of the Act and, except as otherwise provided, subsequently adjusted under Section 31a.

For the 2012 tax year and each subsequent tax year, and to the extent and for the duration provided in the Michigan Renaissance Zone Act, to determine taxable income, a qualified taxpayer could deduct, to the extent included in adjusted gross income, an amount equal to the sum of all of the following:

-- Except as provided in the following three items, income earned or received during the time the taxpayer was a resident of a renaissance zone.
-- Interest and dividends received in the tax year during the period that the taxpayer was a renaissance zone resident.
-- Capital gains received in the tax year prorated based on the percentage of time that the taxpayer held the asset while he or she was a renaissance zone resident.
-- Income the taxpayer received from winning a State-sponsored on-line or instant lottery game, if the drawing for the on-line game were held after the taxpayer became a renaissance zone resident, or if the taxpayer were a renaissance zone resident on the validation date of the ticket for the instant game.

Income used to calculate a deduction under any other section of the Income Tax Act could not be used to calculate a deduction under Section 31a. The net operating loss deduction allowed under the Act would have to be calculated without regard to the proposed deduction.

If a qualified taxpayer completed the bill's residency requirements before January 1, 2012, he or she could claim the proposed deduction. Within 10 days after completing the residency requirements, the taxpayer would have to file with his or her employer a withholding form prescribed by the Department of Treasury. A taxpayer also would have to file an annual return under the Act to be eligible for the deduction.

If a taxpayer who was a qualified taxpayer during the tax year changed status and were not a qualified taxpayer, or vice versa, income subject to tax under the Act would have to be determined separately for income in each status.

If the Department found that a taxpayer had claimed a deduction under Section 31a to which he or she was not entitled, the taxpayer would be subject to the interest and penalty provisions of the revenue Act.

Any portion of taxable income derived from illegal activity conducted anywhere could not be used to calculate a deduction under Section 31a.

The bill would define "qualified taxpayer" as a taxpayer who is a resident of a renaissance zone before January 1, 2012, and has gross income not exceeding $1.0 million for any tax year for which he or she claims a credit under Section 31a.

"Resident" would mean an individual domiciled in an area that is designated a renaissance zone for a period of 183 consecutive days. A taxpayer could begin calculating the 183-day period during the 183 days immediately before the designation of the area as a renaissance zone. After completing the 183-day residency requirement, a taxpayer would be considered to have been a resident of that renaissance zone from the first day used to determine if the requirement had been met.

The term "resident" would include the estate of an individual who was a resident of a renaissance zone at the time of death.

The bill would take effect on January 1, 2012.

Proposed MCL 208.31a Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce State revenue by approximately $300,000 per year. Most of the reduction in revenue would affect the General Fund, with the remaining loss affecting the School Aid Fund. The School Aid Fund receives approximately 23.3% of income tax collections before credits, meaning that the maximum revenue reduction to the School Aid Fund would total approximately $70,000.

The bills would not affect local unit revenue or expenditures.

Fiscal Analyst: David Zin