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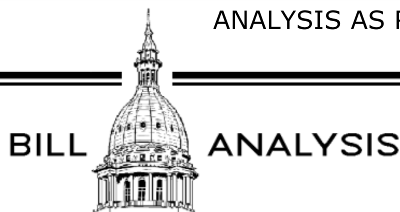

BILL ANALYSIS

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Senate Bill 402 (as reported without amendment)
Sponsor: Senator Jack Brandenburg
Committee: Finance

Date Completed: 2-24-14

RATIONALE

The Income Tax Act imposes a tax on the income of individuals at the rate of 4.25%. This rate has been in effect since October 1, 2012, when it was lowered from 4.35%. That rate had been set by Public Act 94 of 2007, which raised the rate from 3.9% but also provided for the increase to be phased out in annual increments, until the rate again reached 3.9% on October 1, 2015. In 2011, however, as part of a broad restructuring of individual and businesses taxes, legislation provided for the rate to remain 4.35% until January 1, 2013, and then decrease to 4.25% and stay at that level. (Although the decrease originally was scheduled to occur on January 1, 2013, Public Act 223 of 2012 moved the date to October 1, 2012.) Now that the State's economy has improved since the 2008-2009 recession, and revenue is exceeding expectations, it has been suggested that the rollback to a 3.9% rate should be reinstated.

CONTENT

The bill would amend the Income Tax Act to phase-in a reduction in the individual income tax rate from 4.25% to 3.9% between January 1, 2014, and January 1, 2017.

Under the bill, the current rate of 4.25% would apply through December 31, 2013.

Beginning on January 1, 2014, and each subsequent January 1, the maximum rate would be reduced by 0.1 until the rate was 3.95%. (That is, the rate would be 4.15% in 2014; 4.05% in 2015; and 3.95% in 2016.)

On and after January 1, 2017, the rate would be 3.9%.

MCL 206.51

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

In addition to eliminating the income tax rate rollback, the 2011 legislation eliminated or reduced many credits available to individuals, modified many deductions, and extended the income tax to pension and retirement income. The same legislation replaced the Michigan Business Tax with the Corporate Income Tax. At the time, it was estimated that, for fiscal year 2012-13, the tax restructuring would reduce collections from businesses by more than $1.6 billion, while increasing revenue collected from individuals by more than $1.4 billion. Since that legislation was enacted, the State's economy has been steadily improving, and it is widely reported that, in fiscal years 2012-13, 2013-14, and 2014-15, Michigan will have about $971.0 million in tax revenue above the amount estimated in May 2013. Although there is general agreement that two-thirds of this is one-time revenue (or already spoken for in Michigan Business Tax credits), that leaves more than $300.0 million in additional revenue.

It is time to provide relief to individual taxpayers, who have been hard-hit by both the recession and the tax restructuring. When the tax rate was raised to 4.35% in 2007, that increase was

clearly designed to be temporary and a rollback to 3.9% was enacted at the same time. Reinstating that rollback would simply be a matter of fairness.

Opposing Argument

An across-the-board income tax rate reduction would not be the best use of additional money in the State budget, or the best way to provide relief to the taxpayers who need it the most. The amount of additional income individuals and families would have to spend would be minimal, and would benefit higher-income taxpayers the most. The examples in Table 1 illustrate this point, showing the maximum annual impact of rate reductions to 4.15% and 3.9%.

Table 1

Taxpayer Example	4.15%	3.9%
Married couple, 2 dependents, $50,000 income	$34	$119
Single parent, 2 children, $30,000 income	$18	$63
Senior couple, born before 1946, $25,000 Social Security income & $25,000 private pension	$0	$0
Married couple, no dependents, $50,000 income	$42	$147
Married couple, 2 dependents, $100,000 income	$84	$294

There would be more effective ways to provide tax relief to those who need it. Boosting the earned income tax credit, for example, would target low-income working families, while restoring the homestead property tax credit to the previous levels would benefit low- and middle-income taxpayers.

Alternatively, additional money in the budget could be used to fix deteriorating roads and bridges, fund education, provide job training, upgrade State parks, or otherwise improve the State's infrastructure. A few extra dollars (or cents) would not offer meaningful relief to individual taxpayers, or provide enough cash for purchases that would stimulate the economy. On the other hand, this revenue combined could support investments in the State that would benefit its residents as a whole and make Michigan attractive to businesses.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by an amount that would increase each year as additional rate reductions took effect. In FY 2013-14, the bill would reduce General Fund revenue by approximately $143.6 million, while in FY 2014-15, the bill would reduce General Fund revenue by approximately $371.1 million. By FY 2017-18, the first fiscal year in which no additional rate changes would be implemented, the bill would reduce revenue by approximately $835.0 million to $873.5 million.

Revenue to the School Aid Fund would not be affected by the bill. While the School Aid Fund receives a portion of gross income tax collections, the law adjusts the share directed to the School Aid Fund to hold the earmark harmless from changes in the tax rate. As a result, all of the revenue reduction would affect the General Fund.

Fiscal Analyst: David Zin

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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.