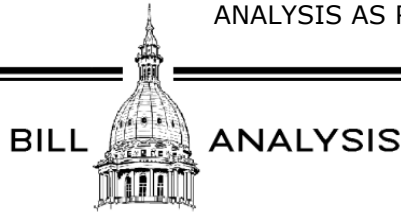




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Senate Bill 752 (Substitute S-1 as reported)
Sponsor: Senator Dave Hildenbrand
Committee: Finance

Date Completed: 2-20-14

RATIONALE

The Income Tax Act allows eligible taxpayers to claim a refundable credit for a portion of the property taxes paid on the homestead they own or rent. Eligibility for the credit is based on the taxpayer's income and the taxable value of the homestead. The credit is not available if the taxable value is more than \$135,000 (which equates to a sale value of \$270,000 for a new home), or if the taxpayer's total household resources are more than \$50,000. For a taxpayer whose total household resources exceed \$41,000, the credit must be reduced by 10%, and by an additional 10% for each increment of \$1,000 of household resources over \$41,000. These limits were established as part of the individual and business tax restructuring that was enacted in 2011. Previously, the credit was phased out for taxpayers whose total household income exceeded \$73,650, there was no taxable value limit, and several other factors were different. As a result of the changes, many people either lost the credit or receive a smaller credit. Now that the State's economy has improved since the recession of 2008-2009, and revenue is exceeding expectations, it has been suggested that the income limit for the credit be restored to the previous level.

CONTENT

The bill would amend the Income Tax Act to phase out the homestead property tax credit for taxpayers with total household resources between \$73,650 and \$82,650, rather than between \$41,000 and \$50,000.

The bill would be retroactive and effective for tax years beginning on and after January 1, 2013.

The homestead property tax credit is generally equal to 60% of the amount by which property taxes exceed 3.5% of the taxpayer's total household resources, although low-income seniors and disabled individuals are eligible for a larger credit. The total credit allowed for any taxpayer may not exceed \$1,200 per year.

The credit must be reduced by 10% for a taxpayer whose total household resources exceed \$41,000, and by an additional 10% for each increment of \$1,000 of household resources over \$41,000 (making the credit unavailable to taxpayers whose total household resources exceed \$50,000).

The bill, instead, would require the credit to be reduced by 10% for a taxpayer whose total household resources exceeded \$73,650, and by an additional 10% for each increment of \$1,000 of household resources over \$73,650 (making the credit unavailable to taxpayers whose total household resources exceed \$82,650).

("Total household resources" refers to all income received by all members of a household, increased by deductions from Federal gross income for net business, rental, or royalty losses.)

MCL 206.520

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 imposing stricter limits on eligibility for the homestead property tax credit, the 2011 legislation eliminated many other credits available to individuals, modified many deductions, extended the income tax to pension and retirement income, and eliminated rate reductions that were scheduled to occur. 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.

Now, it is time to provide relief to individual taxpayers, and the bill offers one effective way to do that. By restoring the phase-out and income limit of the homestead property tax credit to the previous levels, the bill would benefit low- to middle-income taxpayers, who have been hurt by both the recession and the amendments that were enacted in 2011. Also, putting money back in the hands of taxpayers could help stimulate the economy.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce State General Fund revenue by approximately \$110.3 million in FY 2013-14. Taxpayers who have already filed their tax year 2013 returns would need to file amended returns in order to receive a credit (or a larger credit) under the provisions of the bill. Under the bill, taxpayers with household resources between \$41,000 and \$50,000 would receive larger credits, while taxpayers with incomes between \$50,000 and \$82,650 would become eligible for credits. In later fiscal years, the revenue loss under the bill would depend on the growth rate of taxpayers' household resources relative to the growth of their property taxes.

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.