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BILL ANALYSIS

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Senate Bill 752 (Substitute S-3 as passed by the Senate)
Senate Bill 847 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Dave Hildenbrand
Committee: Finance

Date Completed: 6-20-14

CONTENT

Senate Bills 752 (S-3) and 847 (S-2) would amend the Income Tax Act to do the following, respectively, in regard to the homestead property tax credit:

- **Allow taxpayers with household income ("total household resources") between $49,001 and $70,000 to claim 20% of the credit (which is currently allowed at a 10% rate for taxpayers with income between $49,001 and $50,000, and discontinued for those with income over $50,000).**
- **Revise the calculation of the credit in a manner that would increase the amount that eligible taxpayers may claim (subject to an existing cap), and extend it to some taxpayers who are not currently eligible based on the amount of their taxes in relation to their total household resources.**

The bills are tie-barred to each other and to House Bills 5477 and 5493. (House Bill 5477 (S-12), before the Senate, would amend the Motor Fuel Tax Act to replace the current excise taxes on gasoline and diesel fuel with a single tax on motor fuel that would be adjusted annually. House Bill 5493 (S-1), passed by the Senate, would amend the Motor Carrier Fuel Tax Act to set the tax rate for motor carriers as prescribed in the Motor Fuel Tax Act for motor fuel.)

Senate Bill 752 (S-3)

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. The amount of the credit depends on various factors, including the taxpayer's total household resources, whether the taxpayer is a senior citizen or meets other criteria, and the value of the homestead. The credit is not available if the taxable value of the homestead is more than $135,000 (which equates to a sale value of $270,000 for a new home), and the total credit allowed for any taxpayer may not exceed $1,200 per year.

("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.)

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. This phase-out allows a credit of 10% for taxpayers with total household resources between $49,001 and $50,000, and makes the credit unavailable to taxpayers whose total household resources exceed $50,000.

The bill would retain current phase-out of the credit for taxpayers with total household resources up to $49,000, but would allow taxpayers with total household resources between $49,001 and $70,000 to claim 20% of the homestead property tax credit. The credit would be unavailable to taxpayers with total household resources over $70,000.

Senate Bill 847 (S-2)

Currently, for a taxpayer who is not a senior citizen, the homestead property tax credit is equal to 60% of the amount by which the property tax on the homestead exceeds 3.5% of the taxpayer's total household resources for the tax year.

For a taxpayer who is a senior citizen with total household resources of more than $21,000, the credit is equal to between 60% and 96% (depending on the level of household resources) of the amount by which the property tax on the homestead exceeds 3.5% of the taxpayer's total household resources for the tax year.

Under the bill, the percentage of total household resources used in these calculations would be reduced from 3.5% to 2.6%, for tax years beginning after December 31, 2014.

(The following examples illustrate the impact of this amendment, using the 60% multiplier:

-- A taxpayer with total household resources of $40,000 and property tax of $1,200 would not be eligible for a credit under current law, but could claim a credit of $96 under the bill.
-- A taxpayer with total household resources of $40,000 and property tax of $2,000 would be eligible for a credit of $360 under current law, and could claim a credit of $576 under the bill.
-- Including the amendment proposed by Senate Bill 752 (S-3), a taxpayer with total household resources of $65,000 and property tax of $4,000 could claim a credit of $277.)

Currently, in the case of a taxpayer who is a senior citizen with total household resources of $21,000 or less, a paraplegic, hemiplegic, or quadriplegic, or totally and permanently disabled, deaf, or blind, the credit is the amount by which the property tax on the homestead exceeds between 0.0% and 3.5% of total household resources, depending on their amount.

Under the bill, the percentage used in this calculation would be 0.0% for taxpayers with total household resources up to $6,000, and 2.6% for those with total household resources over $6,000, as shown in the table below.

Total household resources	Current Percentage	Proposed Percentage
Not over $3,000	0.0%	0.0%
Over $3,000 but not over $4,000	1.0%	0.0%
Over $4,000 but not over $5,000	2.0%	0.0%
Over $5,000 but not over $6,000	3.0%	0.0%
Over $6,000	3.5%	2.6%

MCL 206.520 (S.B. 752)
206.522 (S.B. 847)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills would reduce General Fund revenue by approximately $194.2 million beginning in fiscal year (FY) 2015-16. Depending on the relative growth of income and property tax liabilities, the amount could increase or decrease in future years.

Excluding the impact of taxpayers who would become newly eligible for the credit under the bills, they would reduce General Fund revenue by approximately $161.3 million beginning in FY 2015-16. The number of taxpayers who would be newly eligible is unknown, as are the specific factors involved in computing the credit for which they would be eligible. Based on data from existing filers, it is possible that approximately 300,000 additional taxpayers could likely begin qualifying for the credit under the bills, and those additional credits would reduce revenue by approximately $32.9 million per year (leading to the $194.2 million approximate loss).

Fiscal Analyst: David Zin