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BILL ANALYSIS

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Senate Bill 883 (as introduced 3-20-14)
Sponsor: Senator Jim Ananich
Committee: Banking and Financial Institutions

Date Completed: 9-11-14

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer to deduct income derived from the cancellation of debt related to the sale or foreclosure of the taxpayer's homestead, for the purpose of computing taxable income.

For a person other than a corporation, estate, or trust, the Act defines "taxable income" as adjusted gross income as defined in the Internal Revenue Code, subject to certain listed adjustments. These adjustments typically include adding or subtracting income, gains, losses, benefits, deductions, or credits earned from certain activity.

(The Internal Revenue Code defines "adjusted gross income", in the case of individuals, as gross income minus certain deductions, which include, for example, trade and business deductions, losses from the sale or exchange of property, certain retirement savings, and alimony payments.)

For the purpose of calculating taxable income under the Income Tax Act, the bill would allow a taxpayer to deduct from his or her adjusted gross income, for tax years beginning after December 31, 2013, and ending before January 1, 2018, to the extent included in adjusted gross income, income derived from the cancellation of debt related to the sale or foreclosure of the taxpayer's homestead within this State and reported to the taxpayer in a Federal income tax form 1099-C.

The bill would define "homestead" as that term is defined in Section 508 of the Act: a dwelling or unit in a multiple-unit dwelling that is subject to ad valorem taxes, or a service charge in lieu of taxes, owned and occupied as a home by the owner of the dwelling or unit, or occupied as the dwelling of the renter or lessee, including all unoccupied real property not classified for ad valorem tax purposes as commercial, industrial, residential, or timber-cut over, owned by the owner of the homestead.

MCL 206.30 Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would reduce both General Fund and School Aid Fund revenue in FY 2015-16 through FY 2017-18 by an unknown amount. Under assumptions applied to national data for tax year 2012, the reduction could total approximately $6.0 million per year, of which $1.5 million would lower School Aid Fund revenue and $4.5 million would reduce General Fund revenue. However, the reduction in revenue under the bill would be affected by changes in foreclosure trends. Given the drop in foreclosure activity in Michigan between 2012 and 2013, the reduction in revenue would likely be less than suggested by the 2012 data, and would decline given that foreclosures are expected to continue to decrease over the tax years affected by the bill.

Fiscal Analyst: David Zin