Legislative Analysis

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INCOME TAX: EARMARK FOR ROADS, AND RATE ROLLBACK

Senate Bill 414 (passed by the Senate as S-1)
Sponsor: Sen. Wayne Schmidt
Senate Committee: Government Operations
House Committee: Not yet assigned
Complete to 7-13-15

BRIEF SUMMARY:

The bill would amend the Income Tax Act to:

- Earmark $350 million from income tax revenues to the Michigan Transportation Fund in the 2016-17 fiscal year.

- Earmark $700 million from income tax revenues to the Michigan Transportation Fund in each subsequent fiscal year through December 2032.

- Disburse the revenue from the MTF as provided in Section 10f of Public Act 51 of 1951 (Act 51), the act that establishes major state transportation funds and programs. That section would be newly added by House Bill 4613 and would distribute the revenue as follows: 39.1% to the State Trunkline Fund (STF) for the construction and preservation of the state trunkline highway system, debt service, administration, and other designated programs; 39.1% to county road commissions for county road programs; and 21.8% to cities and villages for city and village street programs. This distribution would bypass the Comprehensive Transportation Fund, which provides funding for public transit.

- Create a mechanism that would "automatically" reduce the individual income tax rate from the current 4.25% rate, based on the increase from one year to the next in total General Fund/General Purpose revenues that exceed inflation. This would begin with the 2018 tax year. Generally speaking, the rate would be "rolled back" in order to prevent GF/GP revenue increases from exceeding inflation.

- Specify that the state treasurer and the directors of the House and Senate fiscal agencies would annually determine whether the conditions for an income tax rollback existed no later than the January revenue estimating conference, based on the state's Comprehensive Annual Financial Report (CAFR).

The bill contains an "intent" section that says it is the intent of the Legislature to offset the fiscal impact on the state General Fund resulting from the MTF earmarking by reducing or cutting General Fund expenditures in fiscal year 2016-2017 and each fiscal year thereafter.

Senate Bill 414 is part of a larger package of road funding bills and is tie-barred to several other bills in the package (House Bills 4612-4616), meaning SB 414 could not take effect unless those other bills are also enacted.

FISCAL IMPACT:

The bill would reduce GF/GP revenue by $350.0 million in FY 2016-17 and $700.0 million per year beginning in FY 2017-18. In addition, the trigger mechanism to automatically reduce the income tax rate could substantially reduce GF/GP revenue as soon as FY 2017-18, although the exact timing of the rate reductions and corresponding revenue losses cannot be accurately predicted.

Based on FY 2013-14 and FY 2014-15 GF/GP revenue estimates from the May 2015 consensus revenue estimating conference, if these provisions were currently in effect, the income tax rate for TY 2016 would drop from the current level of 4.25% to approximately 3.92%, resulting in a revenue reduction of almost $680 million.

It should be noted that rate reductions could be initiated by events external to Michigan's economy, such as the increase in capital gain and dividend income tax revenue associated with the fiscal cliff in tax year 2011. While this one-time revenue increase was largely offset the following year, the trigger mechanism would have required a permanent reduction in the income tax rate.

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