Legislative Analysis

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INCOME & SALES TAX ACTS: ELIMINATE EITC AND EARMARK REVENUE FOR ROAD FUNDING

House Bill 4605 as introduced
Sponsor: Rep. Al Pscholka

House Bill 4606 as introduced
Sponsor: Rep. Phil Potvin

House Bill 4609 as introduced
Sponsor: Rep. Jeff Farrington

Committee: Roads and Economic Development
Complete to 5-27-15

SUMMARY:

House Bill 4605 would amend the Income Tax Act to earmark the following amounts from income tax revenue for distribution under Public Act 51 of 1951 for transportation purposes:

- Fiscal Year 2015-2016: $192 million
- Fiscal Year 2016-2017: $367 million
- Fiscal Year 2017-2018: $542 million
- Fiscal Year 2018-2019: $717 million

After that date, the amount earmarked would be adjusted annually for inflation.

House Bill 4609 is tie-barred to House Bill 4605 and would amend the Income Tax Act to eliminate the earned income tax credit (EITC), beginning with the 2015 tax year. Currently, the EITC provides a refundable credit equal to 6% of the amount a taxpayer is allowed to claim under the federal EITC. The federal EITC is a refundable credit for working low income households; the credit is equal to a percentage of the taxpayer's earned income based on the number of children in the household, up to a certain limit.

House Bill 4606 would amend the General Sales Tax Act to require that an amount equal to the collections of the sales tax on motor fuel at 4% would be allocated to and distributed under Public Act 51 of 1951 for transportation purposes. This would apply only to amounts remaining after the current allocation and distributions for revenue sharing to local units, schools, and the Comprehensive Transportation Fund.

Both House Bill 4605 and 4606 would earmark revenue to the Michigan Transportation Fund to be distributed "as provided in Section 10(1)(k) of PA 51 of 1951." That subdivision (as reorganized by amendments to PA 51 made in House Bill 4613) would distribute funds as follows:

- 39.1% to the State Trunk Line Fund (for the preservation of the state trunkline system—state highway maintenance, state road and bridge capital construction and reconstruction program, MDOT administration, and debt service.)
- 39.1% to county road commissions.
- 21.8% to cities and villages.

As a result, the bills would bypass the 10% distribution to the Comprehensive Transportation Fund (CTF) currently made in Section 10(1)(f) of PA 51 of 1951, which is restricted for public transportation purposes.

FISCAL IMPACT:

As already noted, HB 4605 would reduce GF/GP revenue beginning in FY 2015-16 by earmarking a portion of individual income tax revenue to the Michigan Transportation Fund (MTF). Similarly, HB 4606 would earmark an amount of GF/GP revenue equal to the portion of sales tax revenue received from sales of motor fuels that accrue to the General Fund to the MTF. Based on quantity and price estimates of motor fuel purchases, HB 4606 would redirect approximately $75.0 million in FY 2015-16, $93.0 million in FY 2016-17, and $105.0 million in FY 2017-18.

Finally, HB 4609 would eliminate the earned income tax credit (ETC) for tax years after 2014. Eliminating the EITC would increase individual income tax revenue by an estimated $115.0 million in FY 2015-16, $119.0 in FY 2016-17, and $123.0 million in FY 2017-18. Because the EITC primarily affects refunds, the majority of the revenue increase would accrue to the General Fund as opposed to the School Aid Fund.

Net Impact on GF/GP

	FY 2015-16	FY 2016-17	FY 2017-18
HB 4605 – Redirect Income Tax Revenue	-$192.0	-$367.0	-$542.0
HB 4606 – Redirect Sales Tax Revenue	-$75.0	-$93.0	-$105.0
HB 4609 – Eliminate EITC	$115.0	$119.0	$123.0
Net Impact on GF/GP Revenue	-$152.0	-$341.0	-$524.0

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