

Legislative Analysis



HOMESTEAD PROPERTY TAX CREDIT: ADJUST ANNUALLY BASED ON INFLATION

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House Bill 4871 (reported from committee as H-2)
Sponsor: Rep. Martin Howrylak
Committee: Tax Policy
Complete to 10-22-15

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

Under the Income Tax Act, taxpayers can claim a homestead property tax credit against their income liability, up to \$1,200; this is sometimes referred to as the circuit breaker. A person is not eligible for the credit if the taxable value of the homestead exceeds \$135,000, excluding unoccupied agricultural property. (Taxable value is equal to 50% or less of market value.) The amount of the credit is reduced by 10% for claimants with total household resources exceeding \$41,000, and by an additional 10% for each increment of \$1,000 of total household resources in excess of \$41,000. (This means, currently, taxpayers with total household resources above \$50,000 cannot claim the credit.)

House Bill 4871 would amend the act so that all of the amounts underlined above would be adjusted annually based on inflation; that is, based on increases in the U.S. consumer price index for all urban consumers for the immediately preceding calendar year. The Department of Treasury would annualize the amounts as necessary. The maximum allowable credit would be rounded to the nearest \$100. The bill would take effect January 1, 2016.

For non-seniors, the homestead property tax credit is equal to 60% of the amount by which property taxes (or imputed property taxes for renters) on the homestead exceed 3.5% of the claimant's total household resources for that tax year. For senior citizens, the credit is equal to 100% of the amount by which property taxes exceed 3.5% of total household resources for those with total household resources of \$21,000 or less, with the amount that can be claimed reduced by 4% for each additional \$1,000 in total household resources, resulting in those who have total household resources of over \$30,000 able to claim 60% of the amount by which property taxes exceed 3.5% of total household resources. None of these elements of the credit calculation are affected.

"Total household resources" means all income received by all persons of a household in a tax year while members of a household, increased by certain specified deductions from federal gross income.

MCL 206.520

FISCAL IMPACT:

As written, the bill would reduce income tax revenue by an amount that's dependent on future inflation rates. All of the revenue loss would be absorbed by the General Fund.

Annual inflation rates have only exceeded 2% three times since 2007, and are expected to remain below 2% through 2017. Therefore, the impact of the indexing provisions is expected to be relatively small. In addition, because the maximum value of the credit (currently \$1,200) would be rounded to the nearest \$100, it would take three to four years using current projections for the credit to increase to \$1,300.

A \$100 increase in the maximum value of the credit would reduce income tax revenue by about \$10 million, whereas indexing the other provisions would reduce income tax revenue by less than \$5 million per year, based on current inflation projections.

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