Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 4370 (as enrolled)
Sponsor: Representative Holly Hughes
House Committee: Tax Policy
Senate Committee: Committee of the Whole

Date Completed: 11-4-15

CONTENT

The bill would amend the Income Tax Act to require an allocation of income tax revenue to the Michigan Transportation Fund (MTF), as follows:

-- The amount allocated would be $150.0 million in fiscal year (FY) 2018-19; $325.0 million in FY 2019-20; and $600.0 million in FY 202-21 and each subsequent fiscal year.
-- The allocation would have to be distributed as provided in Public Act 51 of 1951 for distribution of the balance of the MTF after the deduction of specific appropriated amounts (i.e., 39.1% to the State Trunkline Fund; 39.1% to county road commissions; and 21.8% to cities and villages).

The bill also would do the following regarding the homestead property tax credit:

-- Beginning with the 2018 tax year, increase the total amount of the credit from $1,200 to $1,500.
-- Beginning in 2021, require the maximum credit amount to be adjusted annually by the percentage increase in the U.S. Consumer Price Index (CPI) for the preceding year; and require the Department of Treasury to round the amount to the nearest $100 increment.
-- Beginning with the 2018 tax year, provide that the "minimum total household resources amount" (after which the credit is phased out) would be $51,000 (rather than the current $41,000).
-- Beginning in 2021, require the minimum total household resources amount to be adjusted annually by the percentage increase in the U.S. CPI for the preceding year.
-- Beginning with the 2018 tax year, revise the calculation of the credit to require that it be based on property taxes that exceed 3.2% (rather than 3.5%) of total household resources.
-- Provide that the credit for a person who rents or leases a homestead would be based on 23%, rather than 20%, of gross rent paid, beginning with the 2018 tax year.
-- Beginning with the 2021 tax year, require the maximum taxable value of a homestead for which the credit may be claimed (currently $135,000) to be adjusted annually by the percentage increase in the U.S. CPI for the immediately preceding year, rounded to the nearest $100 increment.

The bill is tie-barred to Senate Bill 414. (Senate Bill 414 would amend the Income Tax Act to reduce the individual income tax rate for a tax year beginning on and after January 1, 2023, if the percentage increase in General Fund/General Purpose revenue from the prior fiscal year exceeded a positive inflation rate for the same period.) House Bill 4370 also is tie-barred to House Bills 4614, 4616, 4736, 4737, and 4738, which would amend the Streamlined Sales and Use Tax Revenue Equalization Act, the Motor Carrier Fuel Tax Act, the Michigan Vehicle Code, Public Act 51 of 1951, and the Motor Fuel Tax Act, respectively.

MCL 206.520 et al. Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately $355.8 million in FY 2018-19, by $530.8 million in FY 2019-20, and $805.8 million in FY 2020-21 and FY 2021-22. In later fiscal years the revenue loss would increase by a greater, although unknown, amount that would depend on economic factors such as the inflation rate and underlying economic growth, Federal and State tax policy, and property values. The bill also would increase revenue to the Michigan Transportation Fund by $150.0 million in FY 2018-19, by $325.0 million in FY 2019-20, and by $600.0 million per year from FY 2020-21 on.

The bill would reduce General Fund revenue in two principal ways: 1) earmarking money to the Michigan Transportation Fund, and 2) changing a variety of provisions affecting the homestead property tax credit. The provisions regarding the credit would reduce revenue by approximately $205.8 million per year beginning in FY 2018-19.

To the extent that the bill would reduce taxpayers' net Michigan income tax or property tax liabilities, the bill also would reduce the deductions that may be claimed on their Federal income tax return, for those taxpayers who itemize deductions. As a result, if all taxpayers affected by the bill were to itemize, the bill would increase Federal liabilities by approximately $30.9 million to $51.5 million, depending on the taxpayers' brackets.

Fiscal Analyst: David Zin

S1516\s4370es