

INCOME TAX DEDUCTION FOR WRONGFUL IMPRISONMENT COMPENSATION

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House Bill 4991 (committee substitute H-1)

Sponsor: Rep. Martin Howrylak

Committee: Tax Policy

Complete to 2-13-18

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

SUMMARY:

House Bill 4991 would amend the Income Tax Act to allow a taxpayer to deduct, to the extent included in adjusted gross income, compensation received in the tax year pursuant to the Wrongful Imprisonment Compensation Act. This would start for tax years that begin after December 31, 2016.

Additionally, the bill would exclude compensation received pursuant to the Wrongful Imprisonment Compensation Act from the act's definition of "total household resources," which is used in calculating the homestead property tax credit.

MCL 206.30 and 206.508

BRIEF BACKGROUND:

Public Act 343 of 2016, the Wrongful Imprisonment Compensation Act, provides compensation and other relief for individuals wrongfully imprisoned for crimes. It created the Wrongful Imprisonment Compensation Fund, which is used to pay claims authorized under the act. Compensation is set at a base of \$50,000 per year of wrongful imprisonment.

FISCAL IMPACT:

As written, HB 4991 could potentially reduce individual income tax revenue, albeit by a very small amount. Under IRS Code 139F, compensation received as a result of wrongful imprisonment is specifically excluded from federal adjusted gross income, which is the starting point for Michigan's individual income tax. Therefore, the IRS code already exempts such compensation from Michigan's income tax, and as such the bill would have no impact since the income in question is already exempt. Further, under MCL 691.1755 (the Wrongful Imprisonment Compensation Act), awards are also exempt from the income tax.

Despite already being exempt from the income tax, untaxed income such as compensation for wrongful imprisonment is included in the definition of total household resources, which is part of the calculation of the Homestead Property Tax Credit (HPTC). Excluding wrongful compensation awards from total household resources increases the likelihood that a taxpayer might be able to claim the HPTC, thereby potentially reducing net income tax collections. However, even though the maximum HPTC increased from \$1,200 to \$1,500

beginning with tax year 2018, if a taxpayer's total household resources were reduced, resulting in the ability to claim a credit relative to no credit at all, the fiscal impact would be miniscule.

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