

INCOME TAX DEDUCTION FOR WRONGFUL IMPRISONMENT COMPENSATION

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House Bill 4991 reported from committee as H-1
Sponsor: Rep. Martin Howrylak
Committee: Tax Policy

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

Complete to 2-16-18

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, House Bill 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.

BRIEF DISCUSSION:

The bill is intended to codify into state law the tax-exempt status of income received as a result of wrongful incarceration. While this income is tax-exempt at the federal level, this change only occurred in 2015, and the federal government could change the law again in the future. The bill would make Michigan independent from any federal changes. Additionally, the bill would ensure that wrongful imprisonment compensation is not included in total household resources, which could help individuals qualify for the homestead property tax credit.

POSITIONS:

Representatives of the following entities indicated support for the bill (2-7-18):

- Department of Treasury
- Michigan Council on Crime and Delinquency
- American Civil Liberties Union of Michigan
- Michigan Catholic Conference

Legislative Analyst: Patrick Morris
Fiscal Analyst: Jim Stansell

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.