



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

BILL ANALYSIS



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

Senate Bill 749 (Substitute S-1 as reported by the Committee of the Whole)
Senate Bill 750 (Substitute S-2 as reported by the Committee of the Whole)
Sponsor: Senator Margaret E. O'Brien (S.B. 749)
Senator Marty Knollenberg (S.B. 750)
Committee: Finance

CONTENT

Senate Bill 749 (S-1) would amend the Income Tax Act to do the following:

- Allow an individual taxpayer to claim a credit equal to 100% of the credit the taxpayer would be able to claim under Section 21 of the Internal Revenue Code (commonly called the Household and Dependent Care Credit, or the child care credit), for tax years beginning on and after January 1, 2018.
- Specify that if the proposed credit exceeded the taxpayer's tax liability for the tax year, the excess portion would not be refunded.

(The Federal credit is allowed for a percentage of expenses incurred by a taxpayer for household services and the care of certain dependents in order for the taxpayer to be gainfully employed.)

Senate Bill 750 (S-2) would amend the City Income Tax Act to do the following:

- Allow a taxpayer deductions for the full personal and dependency exemptions authorized by Part 1 of the Income Tax Act, instead of under the Internal Revenue Code, or a deduction of a minimum of \$600 for each personal and dependency exemption under the rules for determining exemptions and dependents under Part 1 of the Act, instead of under the Internal Revenue Code.
- Allow a city to provide an exemption of a certain amount for a person with respect to whom a deduction under Part 1 of the Income Tax Act, instead of the Internal Revenue Code, would be allowable to another taxpayer and was therefore not considered to have a personal exemption.

The bills are tie-barred to each other and Senate Bill 748. (Senate Bill 748 (S-2), as passed by the Senate, would amend the Income Tax Act to specify the number of personal and dependency exemptions a taxpayer would be allowed under the Act; increase the personal exemption from the current \$4,000 to \$4,500 for the 2018 tax year, \$4,600 for the 2019 tax year, and \$4,700 for the 2020 tax year; require the inflation-based adjusted amount of the exemption to be increased by an additional \$700 beginning with the 2021 tax year; redefine "dependent"; and make other changes.)

Proposed MCL 206.272a (S.B. 749)
MCL 141.631 (S.B. 750)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

Senate Bill 749 (S-1) would reduce General Fund revenue by approximately \$81.2 million per year beginning in fiscal year 2018-19. According to data from the Internal Revenue Service, 160,060 Michigan taxpayers claimed \$81.1 million in credits under the Federal child care credit. The provisions making the credit nonrefundable would reduce the estimated revenue loss from the bill by an unknown amount.

Senate Bill 750 (S-2) would have no impact on State revenue or expenditure. However, the bill would prevent an increase in local unit revenue resulting from the passage of Federal tax reform legislation in December 2017. Without the enactment of this proposal, the Federal tax reform legislation adopted in December 2017 will effectively eliminate the personal exemption under city income taxes. Based on data from 2014, approximately 1.5 million exemptions were claimed with cities under their income tax ordinances (approximately 600,000 resident returns and approximately 900,000 nonresident and part-year resident returns). Statute requires city income tax ordinances to provide a personal exemption of at least \$600 per allowable exemption. Several cities, including Battle Creek, Grayling, Hudson, Ionia, Portland, Saginaw, and Springfield, provide exemptions that exceed \$600. Based on 2014 data, the increase in local unit revenue attributable to the Federal changes will be approximately \$9.9 million under existing law. Thus, the bill would prevent local unit revenue from increasing by \$9.9 million per year.

Date Completed: 1-18-18

Fiscal Analyst: David Zin