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BILL



ANALYSIS

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Senate Bill 750 (as introduced 1-16-18)  
Sponsor: Senator Marty Knollenberg  
Committee: Finance

Date Completed: 1-16-18

### **CONTENT**

**The bill would amend the City Income Tax Act to do the following:**

- Allow a taxpayer deductions for the full personal and dependency exemptions authorized by the Internal Revenue Code if the exemption amount under the Code were greater than zero, or a deduction of a minimum of \$600 for each personal and dependency exemption regardless of the amount of the exemption under the Code.**
- Allow a personal exemption of a certain amount for a person with respect to whom a deduction under the Internal Revenue Code would be allowable if the exemption amount were greater than zero to another Federal taxpayer not considered to have a personal exemption.**

The Act permits a city to impose and collect a tax on the income of residents and on the earnings of nonresidents related to work or business activities conducted in the city. An individual taxpayer in computing his or her taxable income is allowed deductions for the full personal and dependency exemptions authorized by 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 the Code.

The bill, instead, specifies that an individual taxpayer would be allowed deductions for the full personal and dependency exemptions authorized by the Code if the exemption amount under the Code were greater than zero or, a deduction of a minimum of \$600 for each personal and dependency exemption regardless of the amount of the exemption under the Code.

Under the Act, a city may provide for either an exemption from the tax levied under the Act if a person's adjusted gross income for the tax year is less than an amount specified by the ordinance, or an exemption in an amount to be specified by the ordinance, for a person with respect to whom a deduction under the Internal Revenue Code is allowable to another Federal taxpayer during the tax year and is therefore not considered to have a Federal personal exemption under the provisions above.

The bill also would allow an exemption from the city income tax for a person with respect to whom a deduction under the Code would be allowable if the exemption amount were greater than zero to another Federal taxpayer during the tax year.

MCL 141.631

Legislative Analyst: Drew Krogulecki

## **FISCAL IMPACT**

The bill 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.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.