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

BILL ANALYSIS

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

House Bill 4991 (Substitute H-2 as passed by the House)
Sponsor: Representative Martin Howrylak
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 12-19-18

CONTENT

The bill would amend Part 1 of the Income Tax Act to allow taxpayers to deduct, to the extent included in adjusted gross income, compensation received in the tax year pursuant to the Wrongful Imprisonment Compensation Act for tax years that begin after December 31, 2017.

Part 1 of the Income Tax Act imposes a tax at the rate of 4.25% on the taxable income of individuals. "Taxable income" means adjusted gross income as defined in the Internal Revenue Code, subject to a number of additions and deductions. The bill would include in the list of possible deductions compensation received in the tax year under the Wrongful Imprisonment Compensation Act for tax years beginning after December 31, 2017.

In addition, the bill would modify the definition of "total household resources". Currently, the Income Tax Act defines the term as all income received by all people of a household in a tax year while members of a household, increased by the following deductions from Federal gross income:

-- Any net business loss after netting all business income and loss.
-- Any net rental or royalty loss.
-- Any carryback or carryforward of a net operating loss as defined in Section 172(b)(2) of the Internal Revenue Code.

(Section 172(b)(2) of the Code states that the entire amount of the net operating loss for any taxable year must be carried to the earliest of the taxable years to which such loss may be carried. The portion of such loss must be the excess, if any, of the amount of such loss over the sum of the taxable income for each of the previous taxable years to which such loss may be carried.)

Under the bill, the term would not apply to any compensation received under the Wrongful Imprisonment Compensation Act for tax years beginning after December 31, 2017.

MCL 206.30 & 206.508 Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would reduce General Fund revenue by a negligible amount. Approximately four to five claims have been paid each year and, to date, all claims have been paid as lump sums. Those payments are already exempt from the individual income tax because of exclusions from Federal adjusted gross income as well as provisions in the Wrongful Imprisonment Compensation Act. Because the Homestead Property Tax Credit is capped at a maximum of $1,200, the maximum impact of the bill would be $1,200 per affected taxpayer, or about $4,800 to $6,000 per year.

Fiscal Analyst: David Zin