Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 467 (as reported without amendment)
Sponsor: Senator Jim Runestad
Committee: Finance

CONTENT

The bill would amend the Income Tax Act to increase the amount an individual who was born after 1945, and had reached the age of 67, is eligible to deduct from his or her income beginning January 1, 2021, and to adjust the amount of the deduction with inflation beginning with the 2022 tax year.

The bill states that it is intended to be retroactive and would apply to tax years that begin on and after January 1, 2021.

MCL 206.30 Legislative Analyst: Christian Schmidt

FISCAL IMPACT

The bill would reduce General Fund and School Aid Fund (SAF) revenue by approximately $92.0 million per year in tax year 2022, and the revenue reduction would increase by approximately $10.0 million to 15.0 million per year in later tax years as additional taxpayers turned age 67 and exemption amounts were indexed. The bill would affect individuals born after 1945 and who are at least 67 years old.

The bill would increase the amount of income that may be deducted by $5,000 per return for single filers, and $10,000 per return for joint returns. As a result, the maximum impact for any individual taxpayer would be a liability reduction of $213 per year for a single return and $425 for a joint return. Some taxpayers would not have sufficient income to fully claim the increased deduction amounts and would experience lesser reductions in liability.

Individual income tax revenue is split between the General Fund and the SAF, with the SAF receiving approximately 23.8% of any gross collections. The splits between the funds would depend on how the increased exemption affected individual income tax withholding, as well as estimated and annual payments, and refunds. Increased refunds would lower only General Fund revenue, while 23.8% of reduced withholding, estimated, or annual payments would lower School Aid Fund revenue, with the remaining reduction lowering General Fund revenue.

Similarly, while if the bill took effect before September 30, 2021, the revenue reduction for FY 2020-21 and FY2021-22 would depend on how the revenue reduction was split between reduced withholding and estimated received in FY 2020-21, and reduced annual payments and increased refunds for tax year 2021 that would be received when tax year 2021 returns were due in April 2022—during FY 2021-22. For example, if the tax year 2021 impact were $85.0 million, the bill took effect on July 1, 2021, and 75% of any impact were reflected in withholding and estimated payments, the bill would reduce FY 2020-21 revenue by approximately $15.9 million but would lower FY 2021-22 revenue by approximately $120.8 million

Date Completed: 6-14-21 Fiscal Analyst: David Zin