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Senate Bill 768 (Substitute S-5 as reported by the Committee of the Whole)
Sponsor: Senator Aric Nesbitt
Committee: Finance

**CONTENT**

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

-- Specify that the current individual income tax deductions for individuals aged 67 or over would apply until December 31, 2021, and after that (i.e., beginning with the 2022 tax year), that a person who reached 67 years of age would be eligible for a deduction against all types of income of $30,000 for a single individual income tax return or $60,000 for a joint return, and require the amount of the deduction to be adjusted for inflation beginning with the 2023 tax year.
-- Reduce, beginning January 1, 2022, the individual income tax rate from 4.25% to 3.9%.
-- Allow a taxpayer to claim, for tax years beginning on and after January 1, 2022, a nonrefundable credit against the individual income tax of $500 for each qualified dependent of the taxpayer.
-- Reduce, beginning January 1, 2022, the corporate income tax rate from 6.0% to 3.9%.

MCL 206.30 et al.

Legislative Analyst: Jeff Mann

**FISCAL IMPACT**

The bill would reduce revenue to the General Fund and School Aid Fund (SAF) by between approximately $1.77 billion and $1.81 billion in fiscal year (FY) 2021-22, between $2.48 billion and $2.54 billion in FY 2022-23, and between $2.55 billion and $2.61 billion in FY 2023-24. The revenue loss would increase in later years as the economy continues to grow and inflation raises allowable exemption rates relative to current law. The bill would affect revenue in four ways: 1) it would lower the tax rate levied under the individual income tax (and flow-through entity tax, which mirrors the individual income tax), 2) it would lower the tax rate levied under the corporate income tax, 3) it would create a new nonrefundable credit for qualified dependents, and 4) it would increase the amount of income certain seniors could deduct from their income.

The changes to the tax rate under the individual income tax would be retroactive. As a result, how the impact on tax year 2022 would be distributed across FY 2021-22 and FY 2022-23 would depend on when the bill was enacted, how the Department of Treasury altered withholding schedules, and the degree to which payments that already have been made in FY 2021-22 for tax year 2022 resulted in lower annual payments or increased refunds in FY 2022-23 (when taxpayers file their annual returns for tax year 2022). Assuming that any changes in withholding fully captured the retroactive nature of the rate changes and annual payments and that refunds in FY 2022-23 were unaffected, the individual income tax rate change under the bill would reduce General Fund revenue by $747.5 million in FY 2021-22, $1.09 billion in FY 2022-23 and $1.12 billion in FY 2023-24. To the extent timing issues push more of the tax year 2022 impact into FY 2022-23, the revenue loss in FY 2021-22 would be

lower and the revenue loss in FY 2022-23 would be greater. Any revenue reduction associated with changing the individual income tax rate would reduce General Fund revenue. The SAF is held harmless for revenue reductions associated with changes in the individual income tax rate.

The tax rate changes under the corporate income tax also would be retroactive. Corporations are not subject to withholding but make estimated payments on current year tax liabilities. Assuming corporations adjusted their estimated payments to account for the retroactive nature of the rate changes, the corporate income tax rate changes under the bill would reduce General Fund revenue by $306.9 million in FY 2021-22, $465.5 million in FY 2022-23 and $490.0 million in FY 2023-24. As with the impact of the individual income tax rate changes, if timing issues associated with the retroactive nature of the changes resulted in lower annual payments or increased refunds in FY 2022-23, the revenue reduction in FY 2021-22 would be lower and the reduction in FY 2022-23 would be greater. Any revenue reduction associated with changing the corporate income tax rate would reduce General Fund revenue. All corporate income tax revenue is directed to the General Fund.

The impact of the nonrefundable credit for dependents under the age of 19 would reduce individual income tax revenue by approximately $750.0 million to $800.0 million per year. While the credit would not be claimed until taxpayers filed their tax year 2022 returns (due April 15, 2023, which falls in FY 2022-23), the credit would reduce FY 2021-22 revenue because (given the effective date of the credit) a portion of the impact would accrue back to FY 2021-22 (lowering FY 2021-22 General Fund revenue by between $562.5 million and $600.0 million). Tax credits reduce General Fund revenue, unless they reduce gross collections (withholding, estimated payments, and annual payments) and any reduction in gross collections would lower both General Fund and SAF revenue. With the tax rate proposed by the bill, approximately 25.9% of any reduction in gross collections (for example lower annual payments due to the credit or reduced withholding collections because taxpayers reduced their withholdings in anticipation of receiving the credit) as a result of the bill, would reduce SAF revenue. If 15% of the revenue reduction under the proposed credit lowered gross collections, the credit would reduce General Fund revenue by approximately $637.5 million to $680.0 million per year and SAF revenue by approximately $112.5 million to $120.0 million per year.

The bill also would increase the amount of income certain seniors could deduct by $10,000 per return for single filers, and $20,000 per return for joint returns. Seniors affected by the bill would include individuals born after 1945 and who are at least 67 years old. As a result, with the lower income tax rate proposed by the bill, the maximum impact for any individual taxpayer would be a liability reduction of $390 per year for a single return and $780 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. The proposed increased deduction amount for certain seniors is estimated to reduce revenue by $156.0 million in FY 2021-22; that amount would grow by between $16.5 million and $25.7 million per year in future years.

Like the rate changes, the proposed deduction amount for certain seniors would be retroactive for the full tax year in 2022. 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 SAF revenue, with the remaining reduction lowering General Fund revenue. The increased deduction for certain seniors is expected to reduce General Fund revenue by $132.6 million in FY 2021-22, between $146.6 million and $153.2 million in FY

2022-23, and between $160.7 million and $173.9 million in FY 2023-24. The reduction to the SAF would be approximately $23.4 million in FY 2021-22, between $25.9 million and $27.0 million in FY 2022-23, and between $28.4 million and $30.7 million in FY 2023-24.

Combined, the bill's provisions would reduce General Fund revenue by approximately $1.75 billion to $1.79 billion in FY 2021-22, $2.33 billion to $2.38 billion in FY 2022-23, and $2.40 billion to $2.45 billion in FY 2023-24. Across all changes, the bill would reduce School Aid Fund revenue by approximately $23.4 million in FY 2021-22, between $147.0 million and $156.0 million in FY 2022-23, and between $150.3 million and $160.9 million in FY 2023-24.

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