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BILL ANALYSIS

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House Bill 4992 (Substitute H-1 as passed by the House)
Sponsor: Representative Felicia Brabec
House Committee: Appropriations
Senate Committee: Appropriations

Date Completed: 9-19-23

CONTENT

The bill would amend the City Income Tax Act to allow any city that levies a city income tax to enter into agreements with the Department of Treasury to administer, enforce, and collect city income taxes, and modifies city income tax collection procedures. This would include provisions dealing with the ability to impose a lien for taxes, demand for payments, warrants, levies on property, refusal to surrender property, personal liability, levy on salary and wages, service of a warrant-notice levy, and recording a release of a lien or levy.

The bill would allow employers that do not do business in or maintain an establishment in a city that levies a city income tax and has entered into agreement with the Department of Treasury to voluntarily withhold taxes for employees who reside in that city.

The bill would extend the number of days, from 30 days after receipt of a notice of intent to assess to 60 days after receipt, that a taxpayer or employer has to file a written request with the Department for an informal conference to dispute an assessment. This would only apply to cities that entered into an agreement with the Department of Treasury. The informal conference would have to be conducted in accordance with Section 21 of the Revenue Act.

The bill would expand a penalty of $25 or 25% of the amount of tax under protest to taxpayers or employers who filed a frivolous protest to a proposed assessment, or who filed the protest to delay or impede the administration of a city income tax. Currently, only taxpayers or employers who file a frivolous notice of intent are assessed a penalty.

After an assessment, decision, or order have been made by the Department after an informal conference, the bill would allow 35 days for a taxpayer or employer to appeal the assessment, decision, or order. The appeal would have to be conducted in accordance with the Tax Tribunal Act. A taxpayer or employer who failed to request or participate in an informal conference would not be allowed to appeal final assessments, decisions, or orders by the Department.

The bill would remove a provision that limits a city's authority to impose a lien or to cause a demand for payment to property owned by a person, and wages or other income that is reported on a Federal W-2 or 1099 form.

Lastly, the bill would remove the ability of a city that enters into agreement with the Department of Treasury to establish an income tax board of review, an income tax board of review process, and the appeal of income tax board review decisions.

MCL 141.506 et al.

FISCAL IMPACT

The bill would have an indeterminate fiscal impact on the Department of Treasury and local units of government. The Department of Treasury would experience additional one-time and ongoing costs to administer, enforce, and collect city income taxes on behalf of cities that made agreements with the Department. Any additional ongoing costs would be supported by the City Income Tax Fund, which is funded by a portion of a city's income tax revenue. The exact amount deposited into the City Income Tax Fund would be determined in the agreements made with the Department.

For fiscal year (FY) 2023-24, $13.2 million is appropriated from the City Income Tax Fund. The amount appropriated is sufficient authorization to allow additional cities to make agreements with the Department in the next fiscal year without additional authorization needed. It is currently unknown if or how many additional cities would make agreements with the Department, since cities are not required to make these agreements.

Since each city that levies an income tax has different tax rates and rules, each city that made agreements with the Department would need individualized tax collection systems. Unlike the ongoing costs, the one-time information technology costs would not be supported with City Income Tax Fund revenue. In FY 2023-24, $17.9 million General Fund/General Purpose was appropriated in the Department of Technology, Management, and Budget to allow additional city income tax collection systems to be created. The amount appropriated is less than the $41.2 million that was in the Governor's Recommendation for the same purpose. It is unknown how many additional city income tax collections systems can be created with the $17.9 million.

Cities that levy a city income tax could experience a positive fiscal impact from reduced tax collection costs and increased tax collection rates. Since cities are not required to enter into agreements with the Department, it is likely that only cities that would experience a positive fiscal impact would enter into these agreements. Cities that made agreements with the Department likely would experience increased tax collection rates, which occurred for the City of Detroit.

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