Legislative Analysis

ESTABLISH STATE-LEVEL CHILD TAX CREDIT

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House Bills 4055 as introduced
Sponsor: Rep. Bill G. Schuette
Committee: Economic Competitiveness
Complete to 3-20-25

SUMMARY:

House Bill 4055 would amend the Income Tax Act to allow taxpayers to claim a state-level tax credit of an amount equal to 50% of their federal child tax credit,[1] for tax years beginning January 1, 2025. If the credit allowed exceeded the tax liability of the taxpayer for that tax year, the portion of the credit that exceeded the liability would be refunded.

Generally speaking, a federal child tax credit of $2,000 per child under 17, plus $500 per other dependent, is available to those with an annual income of up to $200,000 (or up to $400,000 for those filing a joint return).[2] For filers with higher incomes, the credit is reduced by 5% of income above the threshold until it reaches zero.[3]

The $2,000 credit, a provision of the 2017 Tax Cuts and Jobs Act (TCJA), is available through 2025. Absent congressional action, beginning January 1, 2026, the federal credit will be $1,000 per child for filers with an annual income of up to $75,000 (or up to $110,000 for those filing a joint return and up to $55,000 for a married individual filing separately), phased out for higher earners by 5% of their additional income.[4]

Under HB 4055, the full state-level credit would therefore be $1,000 per child and $250 per other dependent in 2025 and $500 per child in future years.

Proposed MCL 206.275

BACKGROUND:

Beginning with the 1998 tax year and until the individual income tax was restructured in 2011 (at the same time the corporate income tax replaced the Michigan business tax), the Income Tax Act allowed taxpayers to claim a tax deduction for children or dependents. (Note: House Bill 4055 proposes a tax credit. While a tax deduction lowers taxable income used to calculate the tax, a credit is applied against the tax itself.)

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[1] See section 24 of the Internal Revenue Code, notably subsection (h) for tax years through 2025: USCODE-2023-title26-subtitleA-chap1-subchapA-partIV-subpartA-sec24.pdf.
[2] A portion of the credit, set at 15% of the filer's earnings above $2,500, up to an inflation-adjusted maximum (currently $1,700 per child), is available as a refundable credit and is known as the "additional child tax credit."
[3] https://taxpolicycenter.org/briefing-book/what-child-tax-credit
[4] After 2025, the additional child tax credit will be 15% of earned income above $3,000, up to a maximum of $1,000 per child.

1997 PA 81 introduced a $600 tax deduction for children younger than seven and a $300 deduction for children between seven and 12 years of age, based on the age of the child on the last day of the tax year. The deduction took effect beginning with the 1998 tax year.[5]

2000 PA 42 revised the deduction so that, beginning with the 2000 tax year, the $600 deduction would apply for all children who were under 19 years old on the last day of the tax year.[6]

As part of the repeal of the Michigan business tax, 2011 PA 38 eliminated the child deduction of $600.[7]

Senate Bill 378 of the 2021-22 legislative session proposed a nonrefundable tax credit of $500 for each dependent younger than 19 to be claimed for tax years beginning January 1, 2022, through December 31, 2025.[8] The bill passed the Senate in May 2021.

As of November 2024, 16 states offer a child tax credit in addition to the federal one.[9]

FISCAL IMPACT:

Based on available prior year federal child tax credit information, it is estimated that the tax credit offered under the bill would reduce individual income tax revenue by approximately $1.4 to $1.6 billion annually. If the TCJA provisions expire, the revenue reduction would drop by between 50% to 60% beginning in FY 2026-27. If the credit resulted in a larger refund, the impact would be borne entirely by the general fund. To the extent that the credit reduced annual payments, the School Aid Fund would absorb roughly 25% of the cost, with the remainder coming from the general fund.

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[5] House Legislative Analysis Section analysis of 1997 PA 81:
http://www.legislature.mi.gov/documents/1997-1998/billanalysis/House/pdf/1997-HLA-4872-A.pdf
[6] House Legislative Analysis Section analysis of 2000 PA 42:
http://www.legislature.mi.gov/documents/1999-2000/billanalysis/House/pdf/1999-HLA-5389-B.pdf
[7] House Fiscal Agency analysis of 2011 PA 38:
http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-4361-6.pdf
[8] House Fiscal Agency analysis of SB 378:
https://www.legislature.mi.gov/documents/2021-2022/billanalysis/House/pdf/2021-HLA-0378-03D2D6F1.pdf
[9] https://www.ncsl.org/human-services/child-tax-credit-overview