House Legislative Analysis Section

Manufacturer's Bank Building, 12th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

INCOME TAX CREDITS

House Bill 5537 as enrolled
Second Analysis (1-8-91)

Sponsor: Rep. Sharon Gire
House Committee: Taxation
Senate Committee: Finance

THE APPARENT PROBLEM:

The Income Tax Act allows taxpayers to claim credits for property taxes paid, through what is called the homestead property tax credit (or circuit breaker). Taxpayers can claim 60 percent of the amount by which property taxes (or 17 percent of rent paid) exceed 3.5 percent of household income. (Some people, including senior citizens, can claim 100 percent of the amount.) Beginning with the 1980 tax year, credits claimed by people receiving Aid to Families with Dependent Children (AFDC) and General Assistance (GA) have been reduced by the proportion of their income represented by assistance payments. Since the 1982 tax year, credits of people earning over $73,650 per year have been reduced by ten percent for each $1,000 over that amount. These provisions have always carried "sunset" dates of a sort but have been regularly extended in tandem. The most recent extension was made by Public Act 516 of 1988, which carried the credit reductions into the 1989 tax year. A new proposal would extend them yet again.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to extend through the 1991 tax year provisions that place restrictions on the amount of property tax credit that can be claimed by people receiving Aid to Families with Dependent Children (AFDC) or General Assistance (GA) and by those whose incomes exceed $73,650.

The bill also contains three other technical amendments. (1) Language would be deleted that gives preferential treatment for income tax purposes to a nonresident who is the beneficiary of a resident estate or trust over a resident beneficiary. (2) Another deletion would make it clear that nonresidents could be taxed on their share of the net profits from an S-corporation. (3) The bill would specify that when farmland was rented or leased, the owner of the land would receive any homestead credit due, but that no credit could be claimed on real property leased or rented that is not adjacent and contiguous to the home of the owner.

MCL 206.51 et al.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that without the high income/AFDC exclusion, state revenues would be reduced by $40 to $45 million per year. (Analysis dated 11-28-90)

ARGUMENTS:

For:

The bill would extend for two more tax years two provisions that have been in the Income Tax Act for over a decade limiting property tax credits that can be claimed by people receiving certain government assistance and people with relatively high incomes. The argument for the former restriction is that AFDC and GA payments contain money earmarked to pay housing costs, including property taxes, and the recipients should not receive a credit for payments made on their behalf by state taxpayers. The latter restriction reduces the cost of the circuit breaker program and adds progressivity to the tax system. It is also defended as a fair restriction as long as those on AFDC and GA have their credits reduced. The bill also contains three technical amendments requested by the treasury department to clarify the administration of the Income Tax Act.

Against:

Each of the tax credit reductions has its critics. There are those who argue that taking tax credits from people receiving government assistance is simply punishment for being poor. Why not reduce tax credits for everyone who receives payments from the government? Others argue that the upper income limit should be raised or eliminated to recognize economic realities. The income restrictions, combined with the overall $1,200 limit on the homestead credit, means many middle class families cannot get relief from high property taxes.