



**House
Legislative
Analysis
Section**

Washington Square Building, Suite 1025
Lansing, Michigan 48909
Phone: 517/373-6466

SEAFARERS' INCOME TAX RETURNS

House Bill 4474 with committee amendments
First Analysis (6-2-87)

Sponsor: Rep. John D. Pridnia
Committee: Taxation

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THE APPARENT PROBLEM:

Seafarers, the men and women who sail on Great Lakes freighters, tugs, and dredges, are required by the state's Income Tax Act to file quarterly returns because state taxes are not withheld from their wages. Federal shipping law prohibits states and local units from withholding taxes from the wages of seafarers. Federal taxes, however, are withheld. Michigan seafarers say the quarterly reporting requirement was inadvertently imposed on them by changes to tax laws in the past few years, and is unreasonable because seafarers spend much of their time aboard ship on the Great Lakes, on duty and off, and in ports away from home. The nature of their work and of their schedules make compliance impractical. As a representative of the Seafarers International Union has said, "The last thing that a sailor would like to do at the end of his or her watch is to figure out their quarterly estimated tax return." The union says that some conscientious seafarers have been forced to hire accountants, others have resorted to establishing residences in states without income taxes, still others simply don't file returns. The state income tax law allows farmers and commercial fishermen, who also do not have taxes withheld, the option of filing their state taxes annually rather than quarterly. Seafarers deserve this same opportunity.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to allow individuals classified under federal law as "seafarers" to file and pay their income taxes "in the same manner as a farmer or fisherman." The act permits farmers and fishermen who file and pay their federal income tax annually (under an alternative schedule provided in section 6654 of the federal tax code) to file and pay their state income tax in the same manner. The bill would also update the reference to the federal Internal Revenue Code.

MCL 206.301

BACKGROUND:

Public Act 515 of 1982 amended the state's Income Tax Act to require individuals who expect that their taxes will exceed the amounts withheld by more than \$100 to file quarterly returns. Farmers and commercial fishermen were specifically exempted from this requirement. Public Act 515 replaced language that required people who filed quarterly returns for federal taxes to file state taxes quarterly if net Michigan taxes would exceed withholding by more than \$100. The justification for the change given at the time was that it would close a loophole that allowed Michigan residents who worked out of state (and thus did not have Michigan taxes withheld) and did not file quarterly federal returns to avoid quarterly filing of state taxes.

FISCAL IMPLICATIONS:

There is no fiscal information at present. Proponents of the bill argue that annual filing of tax returns by seafarers will increase compliance with the income tax law; others have expressed doubt.

ARGUMENTS:

For:

Michigan men and women who work on Great Lakes' ships should not have the burden of filing quarterly income tax returns, but should be allowed to file annually like other workers. They file federal tax returns annually and until a few years ago filed state taxes annually as well, before becoming subject to new state quarterly filing mandates. Although state taxes are not withheld from their wages (federal law prohibits it), seafarers are not self-employed as most quarterly filers are, and two other occupational groups whose income is not withheld, farmers and fishermen, are specifically allowed to make annual filings. The extraordinary nature of seafarers' work, which can require them to spend months at a time away from home (and sometimes from mailboxes), makes complying with the quarterly filing obligation difficult. As a result, some seafarers do not comply. Annual filing of state returns will improve compliance and, as a result, increase state revenues.

Against:

It might be just as easy, perhaps easier, to "forget" to file one tax return as four.

POSITIONS:

The Seafarers International Union supports the bill. (5-27-87)

H.B. 4474 (6-2-87)