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Senate Bill 8 (Substitute S-2 as passed by the Senate)**Sponsor: Senator Norman D. Shinkle****Committee: Finance****Date Completed: 4-20-87****RATIONALE**

The Department of Treasury has predicted that the Federal Tax Reform Act of 1986 will result in a revenue increase to the State of approximately \$170 million. Federal tax changes eliminate or reduce many of the deductions used to calculate adjusted gross income (AGI), the basis upon which Michigan taxpayers calculate their State income tax liability. Thus, because many taxpayers' AGI will increase, the amount subject to Michigan's 4.6% income tax rate will increase. In an effort to return to the taxpayers any increase in revenues, Senate Bill 7 was passed by the Senate to lower the income tax rate to 4.4%.

During testimony and debate on Senate Bill 7 it was pointed out that a portion of the \$170 million "windfall" would accumulate because Federal changes eliminated double exemptions for senior citizens and the blind, and required that unemployment compensation be included as taxable income. While the Federal changes offset the loss of deductions by increasing the personal exemption and lowering the tax rates, the State Income Tax Act will result in these taxpayers paying more in State taxes unless adjustments are made to the Act. Some people feel it is unfair that, because of Federal tax changes, certain low-income taxpayers will be required to pay more in State taxes.

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer to claim an additional personal exemption against taxable income if he or she were blind or had received unemployment compensation equal to 50% or more of household income.

As with current law, a person who was paraplegic, quadriplegic, hemiplegic, or deaf would be allowed to claim an additional exemption. The Act allows a taxpayer personal and dependent exemptions of \$1,500 per exemption against taxable income.

The bill would apply to tax years beginning on or after January 1, 1987.

MCL 206.30

(Note: Senate Bill 178 would allow an income tax credit for low-income seniors that would be the equivalent of granting a second personal exemption.)

FISCAL IMPACT

Senate Bill 8 would reduce General Fund/General Purpose revenues by approximately \$4.95 million in FY 1986-87. In FY 1987-88, the additional exemption for the blind would reduce GF/GP revenues by \$2.4 million while the additional exemption for the unemployed would lead to a \$4.2 million reduction in revenues, for a total reduction of approximately \$6.6 million in FY 1987-88.

ARGUMENTS**Supporting Argument**

Though Federal tax changes will result in lower Federal taxes for many, and a revenue increase to the State, the results are not beneficial to all taxpayers. Elimination of the double exemption for the blind, and inclusion of all unemployment compensation as taxable income, will cause many taxpayers to pay more in State taxes than they paid before. While there are those who feel that the easiest way to return the tax "windfall" to the taxpayers would be simply to cut the tax rate, there are others who insist that adjustments must be made to protect those who may pay more, rather than less, due to the changes. By granting an additional personal exemption to blind taxpayers, the bill would ensure that they retained the same number of exemptions as they have had in previous years. Allowing an additional exemption for those unemployed persons who received a significant portion of their incomes from unemployment compensation would help to offset the taxes which they will now have to pay on such compensation.

Opposing Argument

Federal tax reform will influence the ways in which nearly all taxpayers calculate their taxes. Rather than try to restructure the State tax system to the satisfaction of each group of taxpayers with similar grievances, the State should simply reduce its income tax rate so all could benefit.

Legislative Analyst: G. Towne

Fiscal Analyst: N. Khouri

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

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