SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 8 (as enrolled)
Sponsor: Senator Norman D. Shinkle
Senate Committee: Finance
House Committee: Taxation

Date Completed: 9-7-88

PUBLIC ACT 1 of 1988

RATIONALE

The Federal Tax Reform Act of 1986 removed the ability of minors to claim a personal exemption for themselves if they are claimed as a dependent by another taxpayer. For Federal tax purposes, loss of the personal exemption was offset by lower tax rates and, for non-itemizers, an increased standard deduction. The loss of the personal exemption, however, did increase State income tax liabilities for such persons since State tax forms are based on Federal tax calculations; persons can claim on their State tax form only the number of exemptions they claimed on their Federal form. Without the personal exemption, a dependent's income becomes taxable from the first dollar earned. This means that children who earn money for babysitting, mowing lawns, or other chores are liable for State income tax. It has been argued that the State never meant to tax the small amounts of money that minors earn, and that the State should exempt minors' income up to a certain level.

CONTENT

The bill would amend the Income Tax Act to provide that, beginning with the 1987 tax year, a person who has a Federal adjusted gross income of $1,500 or less and is not allowed to claim a personal exemption under the Internal Revenue Code (i.e., a dependent), would be exempt from State income tax liability and would not have to file a return. (A person is considered a dependent under the Internal Revenue Code if he or she is under 19 years old, a student, or a person whose adjusted gross income is less than the personal exemption and who receives over half of his or her support from the taxpayer who claims the person as a dependent.)

MCL 206.52

FISCAL IMPACT

The bill would reduce General Fund/General Purpose revenues by $4.5 million in FY 1987-88 and in FY 1988-89.

ARGUMENTS

Supporting Argument

Because of changes made by the Federal Tax Reform Act of 1986, minors or others who can be claimed as a dependent by another taxpayer for the purpose of Federal taxation, must pay State income tax from the first dollar that they earn. This means that children who have paper routes, or babysit, or mow lawns and earn money, will have to fill out State income tax forms and pay taxes on the earnings. Such a tax policy could not only discourage youth from earning spending money but also create administrative problems for the Department of Treasury. The small amount of money that minors earn for various tasks should not be taxed, and the bill would correct that problem.

Legislative Analyst: G. Towne
Fiscal Analyst: N. Khouri