

SFA

BILL ANALYSIS

Senate Fiscal Agency

• Lansing, Michigan 48909

• (517) 373-5383

Senate Bill 98 (as reported without amendment)

Sponsor: Senator Norman D. Shinkle

Committee: Finance

Date Completed: 4-02-87

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RATIONALE

Taxpayers must use "adjusted gross income" from their Federal tax form in order to calculate their State income tax liability. The Michigan Income Tax Act allows taxpayers to calculate adjusted gross income by using provisions in the Internal Revenue Code (IRC) in effect for the taxable year, or in effect on a certain date. Currently, the Income Tax Act refers to the IRC in effect as of November 15, 1984. Because the Federal Tax Reform Act of 1986 made major changes in the way taxpayers must calculate their adjusted gross incomes, it has been suggested that the Act be amended to refer to the latest version of the IRC.

CONTENT

The bill would amend the Income Tax Act to define the Internal Revenue Code as the IRC in effect as of December 1, 1986.

The bill is tie-barred to Senate Bill 7, which would amend the Income Tax Act to set the State income tax rate at 4.4% of taxable income.

MCL 206.12

FISCAL IMPACT

The bill would increase General Fund/General Purpose revenues by approximately \$110 million in FY 1986-87 and \$164 million in FY 1987-88.

ARGUMENTS***Supporting Argument***

The bill would provide that the Income Tax Act would contain the proper reference to the latest version of the IRC. The Act uses the Federal definition of adjusted gross income as the basis upon which taxpayers must calculate their State income taxes. If the reference to the IRC were not updated, taxpayers could choose to calculate their taxes based upon the tax reforms passed in 1986, or those standards in effect in November of 1984, and this would likely cause administrative problems for the Department of Treasury.

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.

S.B. 98 (4-2-87)