SFA BILL ANALYSIS
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Senate Bill 178 (as passed by the Senate)
Sponsor: Senator Christopher D. Dingell
Committee: Finance

Date Completed: 4-17-87

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 also 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 accrue because of Federal changes that eliminated double exemptions for senior citizens and the blind, and required that unemployment benefits 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 would be required to pay more in State taxes.

CONTENT

The bill would amend the Income Tax Act to allow "senior citizens" to claim a credit against State income tax liability if their household income were $17,000 or less. A credit of $66 would be allowed for seniors with household incomes of $14,000 or less, a $44 credit for incomes between $14,001 and $15,000, and a $22 credit for incomes between $15,001 and $17,000.

The credit would apply to tax years beginning after December 31, 1986.

The Act defines "senior citizen" as a person (or one of two persons filing a joint return) who is 65 years old or older, or is the unremarried surviving spouse of a person who was 65 years old or older at the time of death.

MCL 206.252

(Note: Senate Bill 8 would allow blind taxpayers, and taxpayers who received unemployment compensation equal to 50% or more of household income, to claim an additional personal exemption.)

FISCAL IMPACT

The bill would reduce General Fund/General Purpose revenues by approximately $4.1 million in FY 1986-87, and $5.4 million in FY 1987-88 and each year thereafter.

ARGUMENTS

Supporting Argument

Though Federal tax changes will result in lower Federal taxes for many, and a revenue increase to the State, not all of results are positive. Elimination of the double exemption for senior citizens will cause many seniors to end up paying more in State taxes than before, with the burden placed particularly on low-income seniors. 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. An income tax rate reduction would effectively dispense the revenue, but it may not be the fair way to return it to those most affected. Giving seniors with household incomes of $14,000 or less a $66 credit against income tax liability would be the equivalent of granting a second personal exemption of $1,500. The bill thus would ensure that low-income seniors did not have their taxes increased.

Opposing Argument

The bill simply would not go far enough by restoring tax dollars to low-income seniors only. Those with household incomes over $17,000 would realize no benefit from the bill, meaning that they would have less income exempted, and thus higher taxes, than before the Federal changes. It is unfair for the State to propose an overall income tax rate reduction while many seniors would have to accept a greater tax burden.

Response: It must be remembered that seniors already receive substantial State tax breaks: the State doesn't tax Social Security income, public pensions, or the first $7,500 of private pensions. The bill would help low-income seniors avoid increased taxes, but would not allow those with comparatively substantial household incomes to realize further advantages.

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.

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