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Senate Fiscal Agency

Lansing, Michigan 48909

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House Bill 4474 (as reported without amendment)

Sponsor: Representative John D. Pridnia

House Committee: Taxation

Senate Committee: Finance

Mich. State Law Library

Date Completed: 2-29-88

RATIONALE

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; seafarers spend much of their time aboard ship on the Great Lakes, on duty and off, and the nature of their work and of their schedules makes compliance impractical. 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 and it has been suggested that seafarers be given this same opportunity.

CONTENT

The bill would amend the Income Tax Act to allow individuals classified under Federal law as "seafarers" the option to file and pay their income taxes on an annual basis.

MCL 206.301

BACKGROUND

Public Act 515 of 1982 amended the State's Income Tax Act to require quarterly filing by individuals who expect their taxes to exceed the amounts withheld by more than \$100. 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 IMPACT

The bill would have no fiscal impact on State or local government.

ARGUMENTS***Supporting Argument***

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 (because Federal law prohibits such withholding), 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 would likely improve compliance.

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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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