



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 96 (Substitute S-1 as reported by the Committee of the Whole)
Sponsor: Senator Bill Schuette
Committee: Finance

CONTENT

The bill would amend the Income Tax Act to increase the personal exemption, and index the exemption to the rate of inflation.

Currently, a taxpayer may subtract from taxable income \$2,100 for each personal exemption claimed. The bill would increase the personal exemption to \$2,400 for the 1995 and 1996 tax years, and to \$2,500 for 1997. After 1997, the exemption would have to be adjusted each year to reflect the annual average percentage increase or decrease in the U.S. Consumer Price Index. The adjustment would be made by multiplying the increase or decrease in the index for the immediately preceding tax year by the personal exemption allowed in the immediately preceding tax year; the result would have to be added to the personal exemption allowed in the previous year and then rounded off to the nearest \$100 increment.

The bill is tie-barred to Senate Bills 232 and 233, or House Bill 4233, which would amend the intangibles tax Act to reduce the intangibles tax beginning with the 1994 tax year and eliminate it by 1998.

MCL 206.30

Legislative Analyst: G.Towne

FISCAL IMPACT

The increases in the income tax personal exemption that are proposed in this bill, as described above, would reduce income tax revenue by an estimated \$69 million in FY 1994-95 and \$91 million in FY 1995-96. This loss in revenue would have an impact on three areas of the State budget. General Fund/General Purpose (GF/GP) revenue would be reduced by an estimated \$54 million in FY 1994-95 and \$71 million in FY 1995-96. Under School Finance reform, 14.4% of gross income tax collections are earmarked to the School Aid Fund, so this bill would reduce School Aid Fund revenue by an estimated \$10 million in FY 1994-95 and \$13 million in FY 1995-96. A portion of income tax collections is also earmarked for revenue sharing with local governments. The reduction in income tax revenue that would result under this bill would reduce revenue sharing payments by an estimated \$5 million in FY 1994-95 and \$7 million in FY 1995-96.

This bill would index the personal exemption to the rate of inflation beginning in 1998. Under the indexing provisions in this bill, any increase in the personal exemption resulting from inflation would be rounded to the nearest \$100 increment. Therefore, in order to increase the personal exemption in 1998 by \$100, the inflation rate would have to be somewhere between 2% and 6%. In 1999, another \$100 increase in the personal exemption would be generated by an inflation rate in the range of 2% to 5.7%.

Date Completed: 2-7-95

Fiscal Analyst: J. Wortley

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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.