



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL



ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 96 (Substitute S-1)
Sponsor: Senator Bill Schuette
Committee: Finance

Date Completed: 1-26-95

SUMMARY OF SENATE BILL 96 (Substitute S-1):

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.

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%.

The following table summarizes the revenue impact of this bill for FY 1994-95 through FY 1998-99.

S.B. 96 (S-1): Increase in Income Tax Personal Exemption
Estimated Revenue Impact, FY 1994-95 to FY 1998-99

Personal Exemption:

Calendar Year	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Current Law	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100
Proposed	2,400	2,400	2,500	2,600*	2,700*

Revenue Impact (millions)

Fiscal Year	<u>FY 94-95</u>	<u>FY 95-96</u>	<u>FY 96-97</u>	<u>FY 97-98</u>	<u>FY 98-99</u>
Total Tax Cut	\$69	\$91	\$114	\$141	\$170

Revenue Loss by Fund:

GF/GP	\$54	71	89	111	133
School Aid	10	13	16	20	25
Revenue Sharing	5	7	8	10	12

*Estimated increases due to indexing to inflation.

Fiscal Analyst: J. Wortley

S9596\S96SA

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.