

# Legislative Analysis

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## **INCOME TAX RATE REDUCTION; PERSONAL EXEMPTION INCREASE**

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**House Bill 5699 as enrolled  
Public Act 223 of 2012  
Sponsor: Rep. Edward McBroom**

**House Bill 5700 as enrolled  
Public Act 224 of 2012  
Sponsor: Rep. Holly Hughes**

**House Committee: Tax Policy  
Senate Committee: Finance**

**Complete to 8-30-12**

## **A SUMMARY OF HOUSE BILLS 5699 & 5700 AS ENACTED**

Each bill amended the Income Tax Act, one to speed up a planned reduction in the tax rate, and the other to increase the personal exemption.

The state income tax rate is currently 4.35%. It had been scheduled to drop to 4.25% on January 1, 2013. House Bill 5699 instead reduces the rate to 4.25% as of October 1, 2012, three months earlier. (MCL 206.51)

House Bill 5700 increases the personal exemption to \$3,950 as of October 1, 2012, until January 1, 2014, and to at least \$4,000 beginning January 1, 2014. (Proposed MCL 206.30a)

The personal exemption is multiplied by the number of personal or dependency exemptions allowable on a taxpayer's federal income tax return. [An exemption reduces the amount of income subject to tax.]

(The exemption for 2012 will be an amount as annualized by the Department of Treasury and rounded to the nearest one dollar, based on \$3,700 for 9 months and \$3,950 for 3 months. For 2013, the personal exemption will be \$3,950.)

The personal exemption previously was \$3,700. That figure was to be adjusted for inflation annually beginning January 1, 2013, rounded to the nearest \$100. House Bill 5700 instead specifies that the personal exemption will now be the inflation-adjusted number or the specific figure cited above, whichever is greater. At some point, the current exemption plus inflation will exceed \$4,000, and that higher amount will then be the amount of the exemption.

**FISCAL IMPACT:**

These bills will reduce State revenue by an estimated \$103 million (\$91 million for GF/GP and \$12 million for the School Aid Fund) for FY 2012-13. Also, depending on inflation, these bills are estimated to reduce State revenue by an estimated \$36 million in FY 2013-14, \$32 million in FY 2014-15, and \$8 million in FY 2015-16.

For the distribution of the revenue loss, see below.

**Estimated Fiscal Impact of HB 5699 and HB 5700**  
**millions of dollars**

<b>Fiscal Year</b>	<b>GF/GP</b>	<b>School Aid Fund</b>	<b>Total</b>
2012-13	-91	-12	-103
2013-14	-28	-9	-36
2014-15	-24	-8	-32
2015-16	-6	-2	-8

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.