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BILL ANALYSIS

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Senate Bill 847 (as enrolled)
Sponsor: Senator Gretchen Whitmer
Senate Committee: Finance
House Committee: Tax Policy

Date Completed: 4-15-15

CONTENT

The bill would amend the Income Tax Act to do the following, for tax years beginning after December 31, 2015:

- **Increase the earned income tax credit (EITC) to 20% of the amount of the Federal EITC that a taxpayer may claim.**
- **Increase the amount of the homestead property tax credit for senior citizens and disabled taxpayers whose total household resources are between $3,001 $6,000.**

The bill would not take effect unless the voters approve House Joint Resolution UU.

Earned Income Tax Credit

The Act allows a taxpayer to credit against the income tax an amount equal to a percentage of the credit that the taxpayer may claim under Section 32 of the Internal Revenue Code (the Federal EITC). Currently, that percentage is 6%. The bill would increase it to 20% for tax years beginning after December 31, 2015.

(The EITC is a refundable income tax credit for low- to moderate-income working individuals and families. To qualify under Section 32 of the Internal Revenue Code, a taxpayer must meet certain requirements and file a tax return, even if he or she did not earn enough income to be obligated to file a return.)

Homestead Property Tax Credit

The Act allows eligible taxpayers to claim a refundable credit for a portion of the property taxes paid on the homestead they own or rent. The amount of the credit depends on various factors, including the taxpayer's total household resources, whether the taxpayer is a senior citizen or meets other criteria, and the value of the homestead.

In the case of a taxpayer who is a senior citizen with total household resources of $21,000 or less, a paraplegic, hemiplegic, or quadriplegic, or totally and permanently disabled, deaf, or blind, the credit is the amount by which the property tax on the homestead exceeds between 0.0% and 3.5% of total household resources, depending on their amount.

Under the bill, for tax years beginning after December 31, 2015, the percentage used in this calculation would be 0.0% for taxpayers with total household resources up to $6,000, and 3.5% for those with total household resources over $6,000, as shown in the following table.

Total Household Resources	Current Percentage	Proposed Percentage
Not over $3,000	0.0%	0.0%
Over $3,000 but not over $4,000	1.0%	0.0%
Over $4,000 but not over $5,000	2.0%	0.0%
Over $5,000 but not over $6,000	3.0%	0.0%
Over $6,000	3.5%	3.5%

("Total household resources" refers to all income received by all members of a household, increased by deductions from Federal gross income for net business, rental, or royalty losses.)

Tie-Bar to House Joint Resolution UU

As noted above, the bill would not take effect unless the voters approve House Joint Resolution UU, which proposes to amend the State Constitution to do the following:

-- Prevent the sales or use tax from being charged or collected after October 1, 2015, on the sale or use of gasoline or diesel fuel used to operate motor vehicles.
-- Increase the maximum rate of the sales and use taxes from 6% to 7%.
-- Dedicate to the School Aid Fund 60% of the first 5% (rather than the first 4%, as currently provided) of the sales tax.
-- Dedicate to the School Aid Fund an amount equal to 12.3% of the first 5% of the use tax.
-- Require the School Aid Fund to be used exclusively for aid to school districts, school employees' retirement systems, public community colleges, public career and technical education programs, and scholarships for students attending such colleges or programs (rather than aid to school districts, school employees' retirement systems, and "higher education").
-- Require 15% of the first 5% of the sales tax (rather than the first 4%, as currently provided) to be used for assistance to cities, townships, and villages (revenue sharing).

House Joint Resolution UU was adopted by the House of Representatives and the Senate, and will be presented to the electors of the State on May 5, 2015.

MCL 206.272 & 206.522 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Assuming that House Joint Resolution UU is approved by the voters, the bill would reduce General Fund revenue by approximately $261.1 million beginning in fiscal year (FY) 2016-17. Depending on the relative growth of income and property tax liabilities, the amount could increase or decrease in future years.

The provisions increasing the earned income tax credit would reduce General Fund revenue by approximately $260.8 million in FY 2016-17. It is expected that the provisions regarding the homestead property tax credit for low-income seniors would reduce General Fund revenue by approximately $0.3 million per year. School Aid Fund revenue would not be affected by the bill because the School Aid Fund earmark on income tax revenue is of gross revenue rather than net revenue, meaning refunds are paid from the General Fund.

The bill would have no impact if House Joint Resolution UU is not approved by the voters.

Fiscal Analyst: David Zin

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