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BILL



ANALYSIS

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House Bill 4233 (Substitute S-1 as reported)
Sponsor: Senator Charles Perricone
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the intangibles tax Act to increase the credit allowed against the intangibles tax to \$280 (from the current \$175), or to \$560 for a joint return (from \$350), for tax years after 1993. Further, the bill would provide for a reduction in the tax for 1994 through 1997; the tax computed under the Act, minus the deduction, would be reduced by 25% in 1994 and 1995, 50% in 1996, and 75% in 1997.

The bill is tie-barred to Senate Bill 233, which would repeal the intangibles tax effective January 1, 1998.

MCL 205.133 & 205.134

Legislative Analyst: G. Towne

FISCAL IMPACT

Increasing the intangibles tax credit from \$175 to \$280 for single returns and from \$350 to \$560 for joint returns, would reduce intangibles tax revenue each year by an estimated \$14 million. These increases in the tax credits would raise the amount of earnings from intangible property that is exempt from the intangibles tax from \$5,000 to \$8,000 for single returns and from \$10,000 to \$16,000 for joint returns. Phasing out the tax under the schedule described above, would further reduce intangibles tax revenue by an estimated \$29 million in FY 1994-95 and \$31 million in FY 1995-96. As a result of these two reductions in the intangibles tax, total revenue would be cut by an estimated \$43 million in FY 1994-95 and \$45 million in FY 1995-96. Senate Bill 233 (H-1) would repeal the intangibles tax effective January 1, 1998. This would reduce revenue by an estimated \$155 million in FY 1998-99. These tax cuts would affect the State's General Fund/General Purpose budget and potentially local governments. The revenue from the intangibles tax goes into the General Fund/General Purpose budget, except for \$9.5 million which is earmarked to cities, villages and townships as part of revenue sharing; however, this revenue sharing payment has not been made since FY 1991-92.

The table on the following page indicates the bill's estimated revenue impact from FY 1994-95 to FY 1998-99.

H.B. 4233 (S-1): Reduction in Intangibles Tax
Estimated Revenue Impact FY 1994-95 to FY 1998-99
(dollars in millions)

	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99*</u>
Current Law					
Projected Revenue:	\$130.5	\$137.8	\$143.3	\$149.0	\$155.0
Tax Cut Revenue Reduction					
Exemption Increase	14.0	14.0	14.0	14.0	---
Tax Phase-Out Rate	25%	25%	50%	75%	100%
Revenue Reduction	29.1	31.0	64.7	101.3	155.0
Total Tax Cut	\$43.1	\$45.0	\$78.7	\$115.3	\$155.0

*The intangibles tax would be repealed effective January 1, 1998, by Substitute Senate Bill 233 (H-1).

Date Completed: 2-21-95

Fiscal Analyst: J. Wortley

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