



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

## BILL ANALYSIS



Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

House Bill 5194 (as enacted)  
Sponsor: Representative Steve Tobocman  
House Committee: Tax Policy

**PUBLIC ACT 94 of 2007**

Date Completed: 10-9-07

**CONTENT**

**The bill amended the Income Tax Act to increase the rate of the income tax temporarily to 4.35%; to appropriate \$100,000 to the Department of Treasury for the implementation of the bill's requirements; and to add an income tax exemption for qualified disabled veterans.**

Tax Rate

The Act imposes a tax on the taxable income of every person other than a corporation. Previously, the tax rate was 3.9%.

Under the bill, beginning on October 1, 2007, and before October 1, 2011, the tax rate is 4.35%. Beginning on October 1, 2011, and each October 1 after 2011, the maximum rate must be reduced by 0.1 each year until the rate is 3.95%. On and after October 1, 2015, the rate will be 3.9%.

Appropriation

The bill appropriated to the Department of Treasury for the 2006-07 State fiscal year \$100,000 to begin implementing the bill's requirements. Any portion of this amount that is not spent in the 2006-07 State fiscal year may not lapse to the General Fund but must be carried forward in a work project account that is in compliance with the Management and Budget Act for the following State fiscal year.

Exemption

Under the Act, a single additional exemption may be subtracted in the calculation that determines taxable income under certain

circumstances. (The exemption is in addition to the personal exemption.) For each tax year the exemption is adjusted according to changes in the United States Consumer Price Index.

Under the bill, for tax years beginning after 2007, \$250 may be deducted for each taxpayer and every dependent of the taxpayer who is a qualified disabled veteran. When a dependent of a taxpayer files an annual return under the Act, the taxpayer or the dependent, but not both, may claim this additional exemption.

The bill defines "qualified disabled veteran" as a veteran with a service-connected disability. "Service-connected disability" means a disability incurred or aggravated in the line of duty in the active military, naval, or air service. "Veteran" means a person who served in the active military, naval, marine, coast guard, or air service and who was discharged or released from his or her service with an honorable or general discharge.

Business Tax References

Under the bill, provisions that previously referred to the Single Business Tax Act refer to the Single Business Tax Act and the Michigan Business Tax Act or only to the Michigan Business Tax Act.

Repeals

The bill repealed Sections 51c, 51d, and 51e of the Income Tax Act, which established the tax rates for previous years.

Tie-Bars

The bill was tie-barred to the following bills:

- Senate Bill 1 (Public Act 100 of 2007), which amended the Social Welfare Act to require the Department of Community Health to create incentives for Medicaid recipients who practice positive health behaviors.
- Senate Bills 395, 396, 397, and 398 (Public Acts 99, 96, 97, and 98 of 2007), which amended the Legislative Council Act to create the Legislative Commission on Government Efficiency and the Legislative Commission on Statutory Mandates, and require the Commissions to report to the Legislature and the Governor.
- Senate Bill 418 (Public Act 106 of 2007), which created the Public Employees Health Benefits Act, and Senate Bills 419, 420, and 421 (Public Acts 107, 108, and 109 of 2007), which amended several other statutes, to allow public employers to provide health benefits through pooled plans, and require the sharing of claims utilization and cost information under certain circumstances.
- Senate Bills 546 and 547 (Public Acts 110 and 111 of 2007), which amended the Public School Employees Retirement Act to revise provisions concerning contribution rates, the payment of health coverage premiums, and the purchase of service credit.
- Senate Bill 549 (Public Act 101 of 2007), which amended the Revised School Code to require an intermediate school district and its constituent districts to adopt a common school calendar.
- Senate Bill 622 (Public Act 112 of 2007), which amended the Mental Health Code to allow the Department of Corrections to contract with third-party providers to operate the corrections mental health program.
- Senate Bill 632 (Public Act 102 of 2007), which amended the Correctional Industries Act to allow correctional industries products that are cut and sewn textiles to be sold to any business or individual if a comparable product is not manufactured by a private business in the State.
- House Bill 4800 (Public Act 95 of 2007), which amended the State Employees' Retirement Act to require the forfeiture of a State retirant's retirement allowance

during a period of employment with the State.

MCL 206.30 et al.

**FISCAL IMPACT**

This bill will increase income tax revenue a net \$744.3 million in FY 2007-08. The increase in the tax rate from 3.9% to 4.35% effective October 1, 2007, will generate an estimated \$744.8 million and the new deduction for disabled veterans will reduce revenue an estimated \$0.5 million.

In FY 2008-09, the bill will increase income tax revenue an estimated \$826.0 million. Income tax collections will increase an estimated \$826.7 million due to the increase in the tax rate, but the new deduction for disabled veterans will reduce income tax revenue an estimated \$0.7 million.

All of the revenue from this net increase in the income tax will go into the General Fund/General Purpose budget. This bill will have no direct impact on local government. Table 1 summarizes the estimated fiscal impact of this bill and Table 2 presents examples of how these changes in the income tax will have an impact on hypothetical taxpayers.

Table 1

**Estimated Fiscal Impact of Enacted H.B. 5194 (dollars in millions)**

	FY 2007-08	FY 2008-09
Old Tax Rate	3.9%	3.9%
New Tax Rate	4.35%	4.35%
Increase in Tax Rate	0.45%	0.45%
Revenue per 0.1%	\$ 165.5	\$ 183.7
Estimated New Revenue		
Tax Rate Increase	\$744.8	\$826.7
New Disabled Veteran Deduction	(0.5)	(0.7)
Net Fiscal Impact	\$744.3	\$826.0
GF/GP Impact	744.3	826.0
School Aid Fund Impact	0.0	0.0
Senate Fiscal Agency 10/1/2007		

