

Legislative Analysis



PERSONAL EXEMPTION FREEZE

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5420

Sponsor: Rep. Mark Meadows

Committee: Tax Policy

Complete to 10-6-09

A SUMMARY OF HOUSE BILL 5420 AS INTRODUCED 9-17-09

The bill would amend the Income Tax Act (MCL 206.30) to:

- Freeze the amount of the personal exemption for the 2009 and 2010 tax years. The personal exemption currently is adjusted each year based on changes in the consumer price index and rounded to the nearest \$100. Indexing would begin again with 2011 tax year.
- Amend the definition of "taxable income" to add to adjusted gross income those expenses that are incurred in the production of income that is not taxable under the state income tax act. This would apply to expenses to the extent they had been deducted to determine adjusted gross income. (The state income tax calculation is based on adjusted gross income from the federal income tax return.)

This provision is understood to require that expenses related to oil and gas income deducted on a federal return be added back onto a Michigan income tax return when determining state taxable income. [The Department of Treasury has contended in the past that since the oil and gas royalty income is not used to determine Michigan taxable income, the related expenses should not be used to determine Michigan taxable income.]

FISCAL IMPACT:

The personal exemption freeze would increase income tax revenue by an estimated \$55.0 million in FY 2009-10 and \$31.9 million in FY 2010-11. In FY 2009-10, the School Aid Fund (SAF) would increase by \$13.5 million and the General Fund/General Purpose (GF/GP) would increase by \$41.5 million. In FY 2010-11, the SAF would increase by \$7.8 million and the GF/GP would increase by \$24.1 million.

Also, this bill would increase income tax revenue for the definition change of "taxable income" by an estimated \$4.0 million. The bill would increase GF/GP revenue by an estimated \$3.0 million and SAF revenue by an estimated \$1.0 million.

This bill would have no direct fiscal impact on local units of government.

Legislative Analyst: Chris Couch
Fiscal Analyst: Rebecca Ross

■ 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.