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 5122 (Substitute H-1 as passed by the House)
House Bill 5157 (as passed by the House)
Sponsor: Representative Holly Hughes
House Committee: Tax Policy

CONTENT

House Bill 5122 (H-1) would add Section 31a to the Income Tax Act to allow a taxpayer to deduct income, dividends, capital gains, and lottery winnings, if the taxpayer were a resident of a renaissance zone for 183 consecutive days and his or her gross income did not exceed $1.0 million, and the renaissance zone had been designated before January 1, 2012.

(Except for the requirement that the renaissance zone be designated before 2012, the bill essentially would re-enact Section 31 of the current Act; that section will be repealed on January 1, 2012, which would be the bill's effective date.)

For the 2012 tax year and each subsequent tax year, and to the extent and for the duration provided in the Michigan Renaissance Zone Act, to determine taxable income, a qualified taxpayer could deduct, to the extent included in adjusted gross income, an amount equal to the sum of all of the following:

-- Except as provided in the following three items, income earned or received during the time the taxpayer was a resident of a qualified renaissance zone.
-- Interest and dividends received in the tax year during the period that the taxpayer was a resident of a qualified renaissance zone.
-- Capital gains received in the tax year prorated based on the percentage of time that the taxpayer held the asset while he or she was a qualified renaissance zone resident.
-- Income the taxpayer received from winning a State-sponsored on-line or instant lottery game, if the drawing for the on-line game were held after the taxpayer became a qualified renaissance zone resident, or if the taxpayer were a qualified renaissance zone resident on the validation date of the ticket for the instant game.

If a qualified taxpayer completed the bill's residency requirements before January 1, 2012, he or she could claim the proposed deduction. Within 10 days after completing the residency requirements, the taxpayer would have to file with his or her employer a withholding form prescribed by the Department of Treasury. A taxpayer also would have to file an annual return under the Act to be eligible for the deduction.

"Resident" would mean an individual domiciled in an area that is a qualified renaissance zone for 183 consecutive days. A taxpayer could begin calculating the 183-day period during the 183 days immediately before the designation of the area as a qualified renaissance zone. After completing the 183-day residency requirement, a taxpayer would be considered to have been a resident of that renaissance zone from the first day used to determine if the requirement had been met. The term "resident" would include the estate of an individual who was a resident of a qualified renaissance zone at the time of death.

"Qualified renaissance zone" would mean only those geographic areas in a renaissance zone that were designated as a renaissance zone before January 1, 2012. A qualified renaissance zone would not include any portion of a renaissance zone for which an extension or renewal is approved after December 31, 2011.

The bill is tie-barred to House Bill 5157.

House Bill 5157 would amend the Michigan Renaissance Zone Act to include a citation to proposed Section 31a in a provision that lists the sections of law that allow an individual who is a resident of a renaissance zone, or a business that conducts business activity in a renaissance zone, to receive an exemption, deduction, or credit.

The bill is tie-barred to Senate Bill 748, which also would add Section 31a to the Income Tax Act. (Senate Bill 748 (S-3), as passed by the Senate, is identical to House Bill 5122 (H-1).)

Proposed MCL 206.31a (H.B. 5122) Legislative Analyst: Suzanne Lowe
MCL 125.2689 (H.B. 5157)

FISCAL IMPACT

The bills would reduce State revenue by approximately $300,000 per year. Most of the reduction in revenue would affect the General Fund, with the remaining loss affecting the School Aid Fund. The School Aid Fund receives approximately 23.3% of income tax collections before credits, meaning that the maximum revenue reduction to the School Aid Fund would total approximately $70,000.

The bills would not affect local unit revenue or expenditures.

Date Completed: 12-13-11 Fiscal Analyst: David Zin