



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

Senate Bill 453 (as discharged)
Sponsor: Senator Nancy Cassis
Committee: Finance

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer, for tax years beginning after December 31, 2004, to credit against the income tax an amount equal to 10.0% of the credit the taxpayer was allowed to claim as a credit under Section 32 of the Internal Revenue Code (the earned income tax credit) for a tax year on a return filed under the Act for the same tax year.

If the credit allowed under the bill exceeded the tax liability of the taxpayer for the tax year, the State Treasurer would have to refund the excess to the taxpayer without interest, except as provided in Section 30 of the revenue Act (which provides for the payment of interest with refunds for taxes that are found unjustly assessed, excessive in amount, or wrongfully collected).

(The earned income tax credit is a refundable Federal income tax credit for low-income working individuals and families. To qualify, taxpayers must meet certain requirements and file a tax return, even if they did not earn enough money to be obligated to file a return.)

Proposed MCL 206.272

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would create an earned income credit against the Michigan income tax equal to 10.0% of the Federal earned income credit. This proposed credit would be refundable, so those eligible for the tax credit would receive it even if they had no income tax liability. It is estimated that this earned income credit would reduce income tax revenue by \$124.0 million in FY 2005-06 and \$131.6 million in FY 2006-07. Most of this loss in revenue would affect the General Fund/General Purpose (GF/GP) budget. In FY 2006-07, it is estimated that GF/GP revenue would decline \$124.6 million and School Aid Fund revenue would decline \$7.0 million.

The following table helps illustrate how families would benefit from the proposed Michigan earned income credit, based on the actual parameters for the Federal earned income credit in 2005. This table presents for various family types the range within which a person's or family's income must fall to be eligible for the earned income credit, the maximum Federal credit the person or family would receive, and what the maximum Michigan credit would be as proposed in this bill.

Earned Income Tax Credit: Federal Maximum Credit and Proposed Michigan Maximum Credit			
Family Type	Earned Income Range For Credit (2005)	Maximum Fed. Credit	Proposed Max. MI Credit
Single, No Children	\$1 - 11,750	\$399	\$40
Married, No Children	1 - 13,750	399	40
Single, One Child	1 - 31,030	2,662	266
Married, One Child	1 - 33,030	2,662	266
Single, Two Children	1 - 35,263	4,400	440
Married, Two Children	1 - 37,263	4,400	440
Source: Federal Internal Revenue Service, Publication 17, and Senate Fiscal Agency.			

Date Completed: 8-15-06

Fiscal Analyst: Jay Wortley

Floor\sb453

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.