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BILL ANALYSIS

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Senate Bills 790 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator Gerald Van Woerkom  
Committee: Finance

Date Completed: 4-14-08

### **CONTENT**

**The bill would amend the Income Tax Act to increase the household income ceiling for the homestead property tax credit, and increase the total credit that a taxpayer may claim.**

Subject to certain limitations, Section 520 of the Act allows a taxpayer to claim a credit against the income tax for the property taxes on the taxpayer's homestead that are deductible for Federal income tax purposes under the Internal Revenue Code (or that would have been deductible if the claimant had not elected the zero bracket amount or if the claimant had been subject to the Federal income tax). The property taxes used for the credit computation may not be greater than the amount levied for one tax year.

A person who rents or leases a homestead may claim a similar credit computed under Sections 520 and 522 based upon 20% of the gross rent paid.

If the credit claimed under Sections 520 and 522 exceeds the tax liability for a tax year or if there is no tax liability, the amount of the claim not used as an offset against tax liability is payable to the claimant.

The credit must be reduced by 10% for each claimant whose household income exceeds \$73,650 and by an additional 10% for each increment of \$1,000 of household income in excess of \$73,650. The total credit allowed may not exceed \$1,200.

Under the bill, these amounts would apply for tax years that began before January 1, 2008. For tax years beginning on or after January 1, 2008, the credit would be reduced by 10% for each claimant whose household income exceeded \$83,650 and by an additional 10% for each increment of \$1,000 of household income in excess of \$83,650. The total credit allowed could not exceed \$1,300 for tax years beginning after December 31, 2007.

Under Section 522, a claimant is entitled to a credit against the State income tax equal to 60.0% of the amount by which the property taxes on the homestead, or the credit for rental of the homestead for the tax year, exceeds 3.5% of the claimant's household income for that tax year. Specific provisions apply to a taxpayer who is a senior citizen; a paraplegic, hemiplegic, or quadriplegic; totally and permanently disabled, deaf, or blind; or an eligible serviceperson, eligible veteran, or eligible widow or widower.

MCL 206.520

Legislative Analyst: Craig Laurie

## **FISCAL IMPACT**

The bill would increase the cost of the homestead property tax credit, and thereby reduce income tax revenue, an estimated \$60.0 million beginning in FY 2008-09. Of this loss in revenue, approximately \$23.0 million would be attributable to increasing the maximum credit from \$1,200 to \$1,300, and approximately \$37.0 million would be attributable to increasing the income range over which eligibility for the credit is phased out from the current range of \$73,650 to \$82,650, to a range of \$83,650 to \$92,650. This loss of income tax revenue would reduce General Fund revenue. Local governments would not be directly affected by this bill.

Fiscal Analyst: Jay Wortley

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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.