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BILL ANALYSIS

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Senate Bill 1402 (as introduced 6-19-08)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 11-12-08

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer, for the 2008 tax year and each tax year after 2008, to claim a credit against the income tax equal to the amount of qualified principal residence indebtedness that was discharged upon the sale of the taxpayer's principal residence during the tax year or $10,000, whichever was less. The credit would not apply to the discharge of a loan if the discharge were on account of services performed for the lender or any other factor not directly related to a decline in the value of the residence or to the financial condition of the taxpayer. If the credit exceeded the tax liability of the taxpayer for the tax year, that portion of the credit that exceeded the tax liability could not be refunded.

Under the bill, "qualified principal residence indebtedness" would mean any indebtedness that is incurred in acquiring, constructing, or substantially improving a principal residence of the taxpayer and that is secured by the principal residence. The term would include any indebtedness secured by the principal residence resulting from the refinancing of indebtedness, but only to the extent that the amount of the indebtedness resulting from the refinancing did not exceed the amount of the original indebtedness.

"Principal residence" would mean that term as defined under Section 7dd of the General Property Tax Act and for which an exemption is granted under Section 7cc of that Act.

(Under Section 7cc, a principal residence is exempt from the tax levied by a school district for school operating purposes to the extent provided under the Revised School Code.

Under Section 7dd, "principal residence" means the one place where an owner of the property has his or her true, fixed, and permanent home to which, whenever absent, he or she intends to return and that continues as a principal residence until another principal residence is established.)

Proposed MCL 206.277 Legislative Analyst: Craig Laurie

FISCAL IMPACT

The preliminary estimate is that this bill would reduce income tax revenue $125 million in FY 2008-09 and potentially more than $200 million in FY 2009-10. As written, this credit would be effectively available to any taxpayer who has an outstanding mortgage and sells his or her house. While the credit would be limited to the lesser of the amount of the debt eliminated at the time of the sale of the property or $10,000, the credit would not be refundable, so on average the effective limit on the credit would be about $1,250, which is the average income tax liability.

If this credit were limited to property in foreclosure, it would reduce income tax revenue an estimated $30 million in FY 2008-09. This estimate is based on the number of foreclosed properties sold so far in 2008. There are currently well over 100,000 houses that are in foreclosure in Michigan, but have not yet been sold. These properties not sold in 2008 will likely be sold in 2009 or 2010, and as a result, the cost of this credit on foreclosed property would increase only to an estimated $150 million, which would likely be spread over FY 2009-10 and FY 2010-11. The cost of the credit on the sale of nonforeclosed property would total an estimated $90 million in FY 2008-09 and at least this amount in FY 2009-10.

The loss in income tax revenue under this bill would primarily reduce the General Fund/General Purpose budget, but would also have a small negative impact on the School Aid Fund.

Fiscal Analyst: Jay Wortley

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