Legislative Analysis

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INCOME TAX RATE REDUCTION;
PERSONAL EXEMPTION INCREASE

House Bill 5699
Sponsor: Rep. Edward McBroom

House Bill 5700
Sponsor: Rep. Holly Hughes

Committee: Tax Policy
Complete to 5-30-12

A SUMMARY OF HOUSE BILLS 5699 & 5700 AS INTRODUCED 5-29-12

Each bill would amend the Income Tax Act.

The state income tax rate is currently 4.35%. It is scheduled to drop to 4.25% on January 1, 2013. House Bill 5699 would instead reduce the rate to 4.25% on October 1, 2012, three months earlier. (MCL 206.51)

House Bill 5700 would increase the personal exemption to $3,950 from October 1, 2012, until January 1, 2014; and to at least $4,000 beginning January 1, 2014. (Proposed MCL 206.30a) As now, the personal exemption would be multiplied by the number of personal or dependency exemptions allowable on a taxpayer's federal income tax return.

The personal exemption currently is $3,700. That figure is adjusted for inflation annually, beginning January 1, 2013, rounded to the nearest $100. The bill specifies that the personal exemption would be the inflation-adjusted number derived from current law or the specific figure cited above, whichever is greater. At some point, the current exemption plus inflation will exceed $4,000, and that higher amount will be the amount of the exemption. [An exemption reduces the amount of income subject to tax.]

The two bills are not tie-barred, meaning they need not both be enacted for either to take effect.

FISCAL IMPACT:

These bills would reduce State revenue by an estimated $94.4 million ($83.5 million for GF/GP and $10.9 million for the School Aid Fund) for FY 2012-13. Also, depending on inflation, these bills would reduce State revenue by an estimated $36.0 million in FY 2013-14, $32.0 million in FY 2014-15, and $8.0 million in FY 2015-16.

For the distribution of the revenue loss, see the chart on the following page.

Estimated Fiscal Impact of HB 5699 and HB 5700
millions of dollars

Fiscal Year	HB 5699	HB 5700	Total	GF/GP	School Aid Fund
2012-13	-48.0	-46.4	-94.4	-83.5	-10.9
2013-14	0.0	-36.0	-36.0	-27.6	-8.4
2014-15	0.0	-32.0	-32.0	-24.5	-7.5
2015-16	0.0	-8.0	-8.0	-6.1	-1.9

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