

INCOME TAX: CALCULATION OF THE HOMESTEAD PROPERTY TAX CREDIT FOR BLIND PERSONS

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House Bill 5086

Sponsor: Rep. Cindy Denby

Committee: Tax Policy

Complete to 11-5-13

A SUMMARY OF HOUSE BILL 5086 AS INTRODUCED 10-17-13

The bill would amend the Income Tax Act to specifically include individuals who are blind in a provision that provides a specific method of calculating the homestead property tax credit.

The Income Tax Act provides qualifying taxpayers with a refundable credit – generally referred to as the Homestead Property Tax Credit – that offsets a portion of the property taxes paid on their homestead (primary dwelling). The credit is available to claimants whose total "household resources" do not exceed \$50,000 and whose homestead has a taxable value that does not exceed \$135,000. The credit begins to phase out for claimants whose household resources exceed \$41,000.¹

For most qualifying taxpayers, the homestead credit is calculated as 60% of the amount by which the property taxes on the homestead exceed 3.5% of the claimant's household resources for the tax year.² There are, however, several alternate calculations for senior citizens; claimants who are paraplegic, hemiplegic, or quadriplegic; claimants who are deaf; claimants who are totally and permanently disabled (including blind); and veterans and military service persons (or their surviving spouses).

For claimants who are blind, the act provides two methods by which to calculate the homestead credit. The act provides taxpayers who are **totally and permanently disabled** (including blind) a credit equal to the amount by which property taxes on the homestead exceeds a specified percentage of the claimant's household resources.³

| Total Household Resources | Percentage |
|---------------------------|------------|
| Up to \$3,000 | 0.0% |
| \$3,001 to \$4,000 | 1.0% |
| \$4,001 to \$5,000 | 2.0% |
| \$5,001 to \$6,000 | 3.0% |
| Over \$6,000 | 3.5% |

¹ The credit is available to property owners and as well as renters. For renters, the amount of property taxes paid for the purposes of calculating the credit is equal to 20% of the gross rent paid for the dwelling.

² For further information see the Department of Treasury's Homestead Property Tax Credit Claim Form (MI 1040-CR), http://www.michigan.gov/documents/taxes/MI-1040CR_406579_7.pdf, and accompanying instructions, http://www.michigan.gov/documents/taxes/MI-1040CR_Instructions_406976_7.pdf.

³ This method, Treasury advises, should be used by blind claimants who rent their homestead. This method also applies to senior citizens with a household income of \$21,000 or less; claimants who are paraplegic, quadriplegic, or hemiplegic; and claimants who are deaf.

In defining "totally and permanently" disabled, the act incorporates the definition of "disability" as defined in the federal Social Security Act (42 USC 416), which includes blindness (central visual acuity of 20/200 or less in the better eye with a corrective lens).

However, claimants 66 years of age or older (i.e. retirement age) currently may not claim the credit under this provision if they are totally and permanently disabled. (Generally, Social Security Disability benefits aren't available to individuals who are eligible for Social Security Retirement benefits.)

House Bill 5086 would specifically state that, for tax years that beginning after December 31, 2012, the above method to calculate the homestead property tax credit would apply to claimants who are blind – thus allowing blind claimants who are of retirement age to calculate the credit in the manner provided above.

The act [MCL 206.522(e)] provides a second method by which blind claimants may calculate the homestead credit.⁴ For these claimants, the credit is equal to a percentage of the amount of property taxes paid, as follows:

- If the taxable value of the homestead is \$3,500 or less, the credit is equal to 100% of the property taxes.
- If the taxable value of the homestead is more than \$3,500, the percentage that \$3,500 bears to the taxable value of the homestead.

Blind claimants who own their own home may use either method (whichever provides the greater benefit) to calculate the homestead property tax credit.

FISCAL IMPACT:

As written, the bill can be expected to decrease income tax revenue by less than \$1.0 million on a full-year basis. Because the bill would lower net income tax revenue by increasing the homestead credit, gross income tax revenue and the amount earmarked to the School Aid Fund would likely be unaffected, and the revenue loss would be absorbed by the General Fund.

BACKGROUND INFORMATION:

Under current law, a blind claimant who is of retirement age may continue to receive the homestead exemption as a senior citizen.

If they had claimed the credit as being "totally and permanently disabled" (were it not for the age limit) and their total household resources are equal to \$21,000 or less, they would calculate the credit as they did previously (as described above in the provision being amended by the bill) and would be unaffected by the change in status.

However, if their household resources exceed \$21,000, the amount of the credit is equal to a specified percentage of the difference between the property taxes on the homestead and 3.5% of total household resources, as follows:

⁴ See Treasury form 1040-CR2, http://www.michigan.gov/documents/taxes/1040_CR2_406952_7.pdf, and the accompany instructions, http://www.michigan.gov/documents/taxes/MI-1040_CR2_Book_409506_7.pdf.

| Total Household Resources | Percentage |
|----------------------------------|-------------------|
| \$21,001 - \$22,000 | 96% |
| \$22,001 - \$23,000 | 92% |
| \$23,001 - \$24,000 | 88% |
| \$24,001 - \$25,000 | 84% |
| \$25,001 - \$26,000 | 80% |
| \$26,001 - \$27,000 | 76% |
| \$27,001 - \$28,000 | 72% |
| \$28,001 - \$29,000 | 68% |
| \$29,001 - \$30,000 | 64% |
| \$30,001 and above | 60% |

The following provides an example of the impact of the bill.

| | |
|-----------------------------------|----------|
| Household Resources | \$25,000 |
| Taxable Value | \$50,000 |
| Property Tax Rate | 40.4 |
| Property Taxes Paid | \$2,020 |
| 3.5% of Household Resources | \$875 |
| | |
| Current Law – Method 1 | \$962 |
| 84% x (\$2,020 - \$875) | |
| | |
| Current Law – Method 2 | \$61 |
| $(\$3,500/\$50,000) \times \$875$ | |
| | |
| House Bill 5086 | \$1,145 |
| \$2,020 - \$875 | |
| | |
| Difference | \$183 |

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.