

# Legislative Analysis



## REDUCE INDIVIDUAL INCOME TAX TO 3.9%; THEN PHASE OUT BY 0.1% PER YEAR

Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

**House Bill 4001 as introduced**  
**Sponsor: Rep. Lee Chatfield**  
**Committee: Tax Policy**  
**Complete to 2-13-17**

Analysis available at  
<http://www.legislature.mi.gov>

### REVISED SUMMARY:

House Bill 4001 would amend the Income Tax Act of 1967 (MCL 206.51) to reduce the state income tax rate through an initial rate reduction to 3.9%, followed by annual rate reductions of one-tenth of one percent (0.1%) until the rate reaches zero. The bill would create the following schedule for the state income tax rate. (MCL 206.51)

Date	Rate
Current Law	4.25%
January 1, 2018	3.9%
January 1, 2019	3.8%
January 1, 2020	3.7%
January 1, 2021	3.6%
...	...
January 1, 2057	0%

The bill also would eliminate current provisions that, beginning in 2023, provide for an automatic decrease in the income tax rate when, generally speaking, General Fund revenues increase from one year to next by more than inflation.

### FISCAL IMPACT:

As written, House Bill 4001 would reduce net income tax revenue by an estimated \$680 million in FY 2017-18 and \$1.12 billion in FY 2018-19. Continued annual rate reductions of 0.1% would increase the revenue loss by roughly \$400 million per year. Because the statutory formula used to determine the School Aid Fund (SAF) earmark essentially holds the SAF harmless from decreases in the tax rate, the entire revenue reduction would be borne by the General Fund.

It should be noted that reducing the rate will have no impact on refundable credits such as the Homestead Property Tax Credit (HPTC) and the Earned Income Tax Credit (EITC). Thus, even with a zero tax rate, an eligible taxpayer could still file a return and claim one or both. For TY 2015, HPTC claims totaled \$511.1 million on just over one million returns. EITC claims totaled \$109.5 million on just over 750,000 returns.

Legislative Analyst: Patrick Morris  
Chris Couch  
Fiscal Analyst: Jim Stansell

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