

Legislative Analysis



REDUCE INDIVIDUAL INCOME TAX RATE

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

House Bill 4001 (H-3) as amended on House Floor
Sponsor: Rep. Lee Chatfield
Committee: Tax Policy
Complete to 2-24-17

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

SUMMARY:

The current state individual income tax rate is 4.25%. House Bill 4001 would amend the Income Tax Act (MCL 206.51) so that the tax rate would be 4.15% as of January 1, 2018, and 4.05% as of January 1, 2019.

Then, beginning January 1, 2020, and for each January 1 thereafter, the bill would reduce the state income tax rate first to 3.95% and subsequently to 3.9%, unless the countercyclical budget and economic stabilization fund (BSF, or "rainy day" fund) has a balance less than \$1 billion for the immediately preceding fiscal year.

The bill also would retain 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 the next by more than inflation.

FISCAL IMPACT:

As written, House Bill 4001 would reduce net income tax revenue by an estimated \$195.0 million in FY 2017-18 and \$463.0 million in FY 2018-19. If the BSF does not exceed \$1.0 billion and additional rate reductions do not occur, income tax revenue will be reduced by \$571.3 million in FY 2019-20 and \$623.8 million in FY 2020-21.

If the BSF exceeds \$1.0 billion and the tax rate falls to 3.9% over the next two years, income tax revenue will be reduced by \$779.5 million in FY 2019-20 and \$1.0 billion in FY 2020-21.

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). Because HB 4001 retains the existing income tax trigger that will result in further rate reductions, an eligible taxpayer could still file a return and claim one or both credits even if the tax rate falls to zero. For tax year 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

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