

Legislative Analysis



REDUCE INDIVIDUAL INCOME TAX RATE TO 3.9% AS OF JANUARY 1, 2021

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<http://www.house.mi.gov/hfa>

House Bill 4001 (proposed H-3 Substitute)
Sponsor: Rep. Lee Chatfield
Committee: Tax Policy
Complete to 2-21-17

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

SUMMARY:

House Bill 4001 would amend the Income Tax Act of 1967 (MCL 206.51) to reduce the state income tax rate to 3.9% by January 1, 2021. The bill would create the following schedule for the state income tax rate.

Date	Rate
Current Law	4.25%
January 1, 2018	4.15%
January 1, 2019	4.05%
January 1, 2020	3.95%
January 1, 2021	3.90%

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 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; \$463.0 million in FY 2018-19; \$779.5 million in FY 2019-20; \$1.0 billion in FY 2020-21; and \$1.1 billion in FY 2021-22 when fully phased in. 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.

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