

MAKING GAMBLING LOSSES TAX DEDUCTIBLE

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Senate Bill 764 (S-1) as passed by the Senate
Sponsor: Sen. Curtis Hertel, Jr.
House Committee: [Pending]
Senate Committee: Finance
Complete to 12-14-21

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

SUMMARY:

Senate Bill 764 would amend the Income Tax Act to add certain gambling losses to the amounts that can be deducted from a taxpayer's adjusted gross income to determine the taxpayer's *taxable income*.

Taxable income means, for a person other than a corporation, estate, or trust, adjusted gross income as defined in the federal Internal Revenue Code subject to specified adjustments under section 30 of the act.

Taxpayers file yearly tax returns at the federal and state level (and some cities in Michigan also require yearly tax returns). At the federal level, taxpayers declare their income and make allowable adjustments to exclude income that is not taxable in order to determine their adjusted gross income. Many of those adjustments, described in the Internal Revenue Code, are mirrored at the state level. Section 30 of the act lists the 26 categories that differ from the federal definition of adjusted gross income.

After calculating the various deductions at the federal level, the taxpayer decides whether to take the standard deduction (in 2021, \$12,500 for single filers and \$25,100 for married couples filing jointly) or whether to itemize those deductions (as they would combine for a greater total than the standard deduction).

The bill provides that, for tax years that begin on or after January 1, 2021, a Michigan taxpayer who itemized deductions at the federal level could deduct gambling losses in the same amount at the state level as the taxpayer used on his or her federal return for that year. (Under the Internal Revenue Code, gambling losses can be deducted only to the extent of a gain from such transactions.) For a nonresident, only gambling losses that were placed at or through a Michigan casino or licensed race meeting could be deducted and could not exceed the taxpayer's gains in Michigan.

The bill would be retroactive to tax years beginning January 1, 2021.

MCL 206.30

FISCAL IMPACT:

Based on tax year (TY) 2018 federal tax return data on itemized deductions and gambling losses and TY 2019 federal returns filed by Michigan residents, the bill as written would reduce

Michigan individual income tax revenue by between \$10.0 million to \$15.0 million on an annual basis.

In general, a smaller proportion of federal returns with itemized deductions are filed by Michigan residents than for the country as a whole. In addition, because the Tax Cut and Jobs Act increased the standard deduction and reduced/eliminated some itemized deductions, the percentage of filers at the national level that itemized deductions dropped from 31.0% in TY 2017 to 11.4% in TY 2018. In Michigan, the percentage of filers at the national level that itemized deductions dropped from 27.4% in TY 2017 to 7.6% in TY 2018.

To the extent that the ability to deduct gambling losses results in a refund, all of the revenue reduction would come from the general fund. However, if taxpayers reduce quarterly or annual payments instead, then approximately 23.8% of the revenue reduction would come from the School Aid Fund, with the remainder reducing general fund revenue.

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■ 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.