

TAX CREDIT FOR HIRING UNEMPLOYED VETERANS

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House Bill 4221 as introduced
Sponsor: Rep. Mary Cavanagh
Committee: Tax Policy
Complete to 4-20-21

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

SUMMARY:

House Bill 4221 would add two sections to the Income Tax Act to allow a tax credit for qualified taxpayers that hire and retain an unemployed veteran. The two sections use identical language, but section 277 would amend Part 1 of the act, which pertains to the individual income tax, and section 677 would amend Part 2, which pertains to the corporate income tax.

Under the bill, for tax year 2021 onward, a *qualified taxpayer* could claim a credit against its income tax equal to \$1,000 for each *unemployed veteran* hired during that tax year for a *full-time job*.

Qualified taxpayer would mean a taxpayer that is an employer that employs fewer than 50 full-time employees.

Unemployed veteran would mean an individual who meets all of the following:

- Served in the active military, naval, marine, coast guard, or air service and was discharged or released from his or her service with an honorable or general discharge.
- Is a Michigan resident.
- Is eligible to receive, is currently collecting, or has exhausted unemployment benefits under a state or federal unemployment benefit program.

Full-time job would mean a job performed for 35 hours or more each week and whose income and social security taxes are withheld from the wages earned.

If that credit exceeded the qualified taxpayer's tax liability for that tax year, the portion exceeding the taxpayer's liability would not be refunded.

If a qualified taxpayer terminated the employment of a veteran for whom a credit was claimed within a year of hire, the Department of Treasury could reduce, terminate, or have a percentage of the credit claimed added back into the taxpayer's tax liability.

Proposed MCL 206.277 and 206.677

FISCAL IMPACT:

The bill provides a nonrefundable credit to businesses that hire unemployed veterans. However, because the bill defines a qualified taxpayer as “a taxpayer that is an employer that employs fewer than 50 full-time employees,” it limits the pool of eligible taxpayers to either sole proprietorships or C corporations. Legal forms of organization such as partnership, LLCs, and S corporations may meet the condition of hiring fewer than 50 employees, but because the entities themselves are not taxed in Michigan, there is no way to claim the credit. Further, while recipients of the flow-through income from these entities may be taxpayers as individuals, these taxpayers are technically not the employers.

Using data from the Bureau of Labor Statistics to estimate the number of unemployed veterans in Michigan along with Census data that breaks down firm size by legal form of organization, the proposed credit would reduce income tax revenue by just under \$1.5 million per year. Under the assumption that most of the credit would be claimed by C corporations, the majority of the impact would be borne by the general fund.

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