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Senate Fiscal Agency  
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**SFA****BILL ANALYSIS**

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Senate Bill 1 (Substitute S-1 as reported by the Committee of the Whole)  
Sponsor: Senator Mike Goschka  
Committee: Finance

### **CONTENT**

The bill would amend the Income Tax Act to provide that the income tax rate would be reduced from 4.4% to 4.3% in 2000. The bill, however, would retain the current level of revenue that is dedicated to the State School Aid Fund. (Currently, the Act provides that 23% of the gross collections of the tax before refunds must be deposited in the State School Aid Fund.)

The bill, together with Senate Bills 2, 3, 4, and 5, would reduce the State income tax from the current rate of 4.4% to 3.9% over a five-year period ending in 2004. After 2004, the rate would remain 3.9%.

MCL 206.51

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

The income tax rate reductions proposed in Senate Bills 1 (S-1) to 5 would lower income tax revenue by an estimated \$124 million in FY 1999-2000 and \$307 million in FY 2000-01, compared with the revenue that otherwise will be generated at the current rate of 4.4%. By FY 2004-05, when the income tax rate would be at 3.9% for the entire fiscal year, income tax revenue would be reduced by an estimated \$1.07 billion. The cumulative reduction in income tax revenue from FY 1999-2000 to FY 2004-05 would total an estimated \$3.7 billion. This entire loss in income tax revenue would affect the General Fund/General Purpose budget. Under current law, the School Aid Fund receives 23% of gross income tax collections and the remaining income tax revenue, after refunds, goes to the General Fund/General Purpose budget. Senate Bill 1 (S-1) is designed to hold the School Aid Fund harmless by earmarking an amount equal to what is earmarked under current law. This would be accomplished by changing the earmarking to the School Aid Fund to the gross income tax revenue generated by 1.012 percentage points of the tax rate, which is equal to 23% of the current 4.4% tax rate. The estimated loss in revenue for FY 1999-2000 to FY 2004-05 is summarized in the following table.

**Estimated Fiscal Impact of Senate Bills 1 - 5**  
**FY 1999-2000 to FY 2004-05**  
(dollars in millions)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
<b>Proposed Income Tax Rate Reduction:</b>						
Current Law Tax Rate	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
Proposed Income Tax Rate Reduction: *						
Incremental Reduction	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%
Cumulative Reduction	-0.1%	-0.2%	-0.3%	-0.4%	-0.5%	-0.5%
Proposed Income Tax Rate	4.3%	4.2%	4.1%	4.0%	3.9%	3.9%
<b>Estimated Reduction in Revenue:</b>						
% Reduction in Income Tax Revenue	-1.9%	-4.4%	-6.9%	-9.4%	-12.0%	-12.7%
Cumulative Tax Reduction	(\$124.4)	(\$431.1)	(\$937.3)	(\$1,663.6)	(\$2,630.2)	(\$3,701.1)
<b>Estimated Impact by Fund:</b>						
General Fund/General Purpose	(\$124.4)	(\$306.6)	(\$506.2)	(\$726.4)	(\$966.6)	(\$1,070.8)
School Aid Fund	0.0	0.0	0.0	0.0	0.0	0.0

\* Income tax rate reductions would be effective January 1 each year from 2000 to 2004.

Date Completed: 1-28-99

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.