

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bills 1 through 5 (as introduced 1-13-99)

Sponsors: Senator Mike Goschka (S.B. 1)
Senator Bev Hammerstrom (S.B. 2)
Senator Loren Bennett (S.B. 3)
Senator Dale L. Shugars (S.B. 4)
Senator Bill Bullard, Jr. (S.B. 5)

Committee: Finance

Date Completed: 1-27-99

CONTENT

The bills would amend the Income Tax Act to reduce the State income tax from the current rate of 4.4% to 3.9% over a five-year period. The rate would be reduced by .1% each year beginning in 2000, as follows:

- **Senate Bill 1 provides that the income tax rate would be 4.3% in 2000.**
- **Senate Bill 2 provides that the income tax rate would be 4.2% in 2001.**
- **Senate Bill 3 provides that the income tax rate would be 4.1% in 2002.**
- **Senate Bill 4 provides that the income tax rate would be 4.0% in 2003.**
- **Senate Bill 5 provides that the income tax rate would be 3.9% in 2004 and thereafter.**

Further, currently under the Act, 23% of gross income tax collections before refunds must be deposited in the State School Aid Fund. Senate Bill 1 provides that beginning January 1, 2000, the portion of gross revenues collected before refunds and dedicated to the Fund would have to equal the amount that would result if the tax rate were 1.012%. (This amounts to 23% of 4.4%, meaning that revenue dedicated to the Fund would not be reduced, even though the overall tax rate was lower.)

MCL 206.51 (S.B. 1)

Proposed MCL 206.51c (S.B. 2)

Proposed MCL 206.51d (S.B. 3)

Proposed MCL 206.51e (S.B. 4)

Proposed MCL 206.51f (S.B. 5)

Legislative Analyst: G. Towne

FISCAL IMPACT

The income tax rate reductions proposed in these bills 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 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
Proposed Income Tax Rate Reduction:						
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%
Estimated Reduction in Revenue:						
% 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)
Estimated Impact by Fund:						
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.						

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.