



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

BILL ANALYSIS



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

House Bill 4710 (as passed by the Senate)
Sponsor: Representative Bruce Caswell
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-30-04

RATIONALE

The Internal Revenue Code provides for an extension of tax filing and payment deadlines for periods of service in a combat zone (described in **BACKGROUND**, below). In April 2003, Governor Granholm announced that Michigan servicemen and servicewomen serving in combat zones in the Middle East as part of Operation Iraqi Freedom would be given 180 days after leaving the combat zone to file their 2002 State tax returns. Although the extension was not announced in 2004, it is the practice of the State to grant the same extension that the Federal government grants, according to a Michigan Department of Treasury spokesperson. It has been suggested that this practice be written into State law.

CONTENT

The bill would amend the Income Tax Act to provide that a taxpayer would be eligible for an automatic filing extension if he or she were eligible for an automatic extension to file a Federal return based on service in a combat zone. The extension would be for an equivalent period of time, and would apply to an annual or final return or a return and payment of an estimated tax.

The taxpayer would not be required to pay the amount of tax due at the time the return was originally due, and the Department of Treasury could not impose any interest or penalties for the amount of tax unpaid for the period of the extension. The taxpayer would not have to file a copy of any Federal extension, but would have to print "COMBAT ZONE" in red ink at the top of his or her return when it was filed.

MCL 206.311

BACKGROUND

Under Section 7508(a) of the Internal Revenue Code (26 USC 7508), in the case of an individual serving in the Armed Forces of the United States, in an area designated as a combat zone by the U.S. President, during a period of combatant activities, the period of service in that area, plus the next 180 days, must be disregarded in determining, in respect to the individual's tax liability, whether any of the following occurred within the time prescribed:

- An income, estate, or gift tax return was filed.
- Any income, estate, or gift tax was paid.
- A petition with the Tax Court for redetermination of a deficiency, or for review of a decision by the Tax Court, was filed.
- A tax credit or refund was allowed or claimed.
- A suit upon a claim for tax credit or refund was filed.
- Any tax was assessed.
- A notice or demand for the payment of any tax, or with respect to any tax liability to the United States, was given or made.
- The Treasury Secretary collected any tax liability.
- The United States brought suit in respect to any tax liability.

The extension also applies to a period of continuous hospitalization for an injury received in a combat zone during a period of combatant activities (plus 180 days following the hospitalization).

According to an Internal Revenue Service publication, for purposes of the automatic extension, the term "combat zone" includes the following areas:

- The Persian Gulf area, effective January 17, 1991.
- The qualified hazardous duty area (QHDA) of Bosnia and Herzegovina, Croatia, and Macedonia, effective November 21, 1995.
- The QHDA of the Federal Republic of Yugoslavia, Albania, the Adriatic Sea, and the Ionian Sea north of the 39th parallel, effective March 24, 1999.
- Afghanistan, effective September 19, 2001.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The men and women who risk their lives for this country should not be penalized for circumstances beyond their control. Giving servicepeople additional time to prepare their tax returns and address any tax obligations is one way the State can show its support for the sacrifice they make. Under the bill, an individual simply would have to write "COMBAT ZONE" on his or her State tax return to be granted an extension equivalent in length to the Federal extension. As a result of this simple filing method, servicepeople would not have to worry about complying with a separate set of rules or procedures for each extension. Furthermore, because the bill's provisions reflect current practice, the bill would not create a burden on the State.

Legislative Analyst: Julie Koval

FISCAL IMPACT

This bill would have no fiscal impact because the provisions contained in the bill are already being implemented by the Department of Treasury.

Fiscal Analyst: Jay Wortley

H0304\s4710a

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.