Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 3 (as introduced 1-12-23)
Sponsor: Senator Kristen McDonald Rivet
Committee: Housing and Human Services

Date Completed: 1-23-23

CONTENT

The bill would amend the Income Tax Act to increase, from 6.0% to 15.0%, the Earned Income Tax Credit (EITC), beginning with the 2023 tax year, and then by five percentage points each year until the percentage reached 30.0%.

Under the Act, a taxpayer may credit against the individual income tax an amount equal to the specified percentages of the credit the taxpayer is allowed to claim as a credit the Federal EITC for a tax year on a return filed under the Act for the same tax year. For tax years that begin after December 31, 2011, the specified percentage is 6.0%. Under the bill, this would apply for tax years that began after December 31, 2011, and before January 1, 2023. The bill would increase the percentage as follows:

-- For the tax year beginning after December 31, 2022, and before January 1, 2024: 15.0%
-- For the tax year beginning after December 31, 2023, and before January 1, 2025: 20.0%.
-- For the tax year beginning after December 31, 2024, and before January 1, 2026: 25.0%.
-- For tax years that began after December 31, 2025: 30.0%.

MCL 206.272

PREVIOUS LEGISLATION

(Please note: The information contained in this summary provides a cursory overview of previous legislation and its progress. It does not provide a comprehensive account of all previous legislative efforts on the relevant subject matter.)

The bill is a reintroduction of Senate Bill 417 of the 2021-2022 Legislative Session. The bill received hearings in the Senate Committee on Finance but saw no further action. Another bill from that session, House Bill 4568, would have increased the specified percentage to 20% (in addition to proposing a number of tax changes). It was vetoed by Governor Gretchen Whitmer in June 2022. Other bills throughout the last several sessions have proposed to modify the EITC.

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would reduce General Fund revenue, with the revenue loss increasing as the allowable percentage of the Federal EITC increased. Credits are paid in the fiscal year ending in the year following the tax year they are earned. As a result, the bill would have no effect on fiscal year (FY) 2022-23 revenue but would reduce FY 2023-24 revenue by approximately $165.6 million, FY 2024-25 revenue by approximately $257.6 million, FY 2025-26 revenue by approximately $349.6 million and revenue in FY 2026-27 and later by approximately $441.6

million per year. The bill would not affect School Aid Fund revenue because individual income tax revenue to the School Aid Fund is based on gross collections, which exclude the revenue impact of tax credits.

Fiscal Analyst: David Zin

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