



Senate Fiscal Agency
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Senate Bill 768 (Substitute S-1 as reported)
Sponsor: Senator Aric Nesbitt
Committee: Finance

CONTENT

The bill would amend the Income Tax Act to do the following:

- Reduce, beginning January 1, 2022, the individual income tax rate from 4.25% to 3.9%.
- Allow a taxpayer to claim, for tax years beginning on and after January 1, 2022, a nonrefundable credit against the individual income tax of \$500 for each qualified dependent of the taxpayer.
- Reduce, beginning January 1, 2022, the corporate income tax rate from 6.0% to 3.9%.

MCL 206.51 et al.

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would reduce revenue to the General Fund and School Aid Fund by between approximately \$1.62 billion and \$1.65 billion in fiscal year (FY) 2021-22, between \$2.31 billion and \$2.36 billion in FY 2022-23, and between \$2.36 billion and \$2.41 billion in FY 2023-24. The revenue loss would increase in later years as the economy continues to grow. The bill would affect revenue in three ways: 1) it would lower the tax rate levied under the individual income tax (and flow-through entity tax, which mirrors the individual income tax), 2) it would lower the tax rate levied under the corporate income tax, and 3) it would create a new nonrefundable credit for qualified dependents.

The changes to the tax rate under the individual income tax would be retroactive. As a result, how the impact on tax year 2022 would be distributed across FY 2021-22 and FY 2022-23 would depend on when the bill was enacted, how the Department of Treasury altered withholding schedules, and the degree to which payments that already have been made in FY 2021-22 for tax year 2022 resulted in lower annual payments or increased refunds in FY 2022-23 (when taxpayers file their annual returns for tax year 2022). Assuming any changes in withholding fully captured the retroactive nature of the rate changes and annual payments and refunds in FY 2022-23 were unaffected, the individual income tax rate change under the bill would reduce General Fund revenue by \$747.5 million in FY 2021-22, \$1.09 billion in FY 2022-23 and \$1.12 billion in FY 2023-24. To the extent timing issues push more of the tax year 2022 impact into FY 2022-23, the revenue loss in FY 2021-22 would be less and the revenue loss in FY 2022-23 would be greater.

Any revenue reduction associated with changing the individual income tax rate would reduce General Fund revenue. The School Aid Fund is held harmless for revenue reductions associated with changes in the individual income tax rate.

The tax rate changes under the corporate income tax also would be retroactive. Corporations are not subject to withholding but make estimated payments on current year tax liabilities.

Assuming corporations adjusted their estimated payments to account for the retroactive nature of the rate changes, the corporate income tax rate changes under the bill would reduce General Fund revenue by \$306.9 million in FY 2021-22, \$465.5 million in FY 2022-23 and \$490.0 million in FY 2023-24. As with the impact of the individual income tax rate changes, if timing issues associated with the retroactive nature of the changes result in lower annual payments or increased refunds in FY 2022-23, the revenue reduction in FY 2021-22 would be less and the reduction in FY 2022-23 would be greater.

Any revenue reduction associated with changing the corporate income tax rate would reduce General Fund revenue. All corporate income tax revenue is directed to the General Fund.

The impact of the nonrefundable credit for dependents under the age of 19 would reduce individual income tax revenue by approximately \$750.0 million to \$800.0 million per year. While the credit would not be claimed until taxpayers filed their tax year 2022 returns (due April 15, 2023, which falls in FY 2022-23), the credit would reduce FY 2021-22 revenue because (given the effective date of the credit) a portion of the impact would accrue back to FY 2021-22 (lowering FY 2021-22 General Fund revenue by between \$562.5 million and \$600.0 million). Tax credits reduce General Fund revenue, unless they reduce gross collections (withholding, estimated payments, and annual payments) and any reduction in gross collections would lower both General Fund and School Aid Fund revenue. With the new tax rate proposed by the bill, approximately 25.9% of any reduction in gross collections (for example lower annual payments due to the credit or reduced withholding collections because taxpayers reduced their withholdings in anticipation of receiving the credit) as a result of the bill, would reduce School Aid Fund revenue. If 15% of the revenue reduction under the proposed credit lowered gross collections, the credit would reduce General Fund revenue by approximately \$637.5 million to \$680.0 million per year and School Aid Fund revenue by approximately \$112.5 million to \$120.0 million per year.

Date Completed: 2-1-22

Fiscal Analyst: David Zin