

## **EXEMPTION: AT-HOME PARENT**

### **House Bill 4371 with committee amendment First Analysis (3-11-97)**

**Sponsor: Rep. Thomas Mathieu**  
**Committee: Tax Policy**

#### ***THE APPARENT PROBLEM:***

The House recently passed House Bill 4180, which would permit a deduction of up to \$5,000 per child for employment-related child care expenses for certain families. The bill is intended to help two-income (and single parent) families who need to place their children in child care while they work. Some people believe that similar assistance ought to be provided to those families who decide that one parent will stay at home to care for their children.

#### ***THE CONTENT OF THE BILL:***

The bill would amend the Income Tax Act to permit an additional exemption of \$900, for the 1997 tax year and subsequent tax years, for each child living at home with a taxpayer who was not employed either full-time or part-time during the tax year. The term "child" refers to a person under 18 years of age for whom the taxpayer claimed a dependency exemption for the same tax year for which the additional exemption was being claimed.

MCL 206.30

#### ***FISCAL IMPLICATIONS:***

The House Fiscal Agency estimated that the bill as introduced would reduce revenues in fiscal year 1997-98 by \$60 to \$65 million. As amended, the bill would make more people eligible for the credit. (3-3-97) It should be noted that a \$900 exemption is equivalent to a reduction in tax liability of \$39.60 per child.

#### ***ARGUMENTS:***

##### ***For:***

Providing an additional exemption for families with a parent at home caring for one or more children is a sensible and just counterpart to proposed legislation providing a tax deduction for child care costs. Some families decide to forego an additional income, for a variety of reasons, and care for their children at home, and state tax policy should not discriminate against them

or offer incentives for one kind of conduct over another. The bill is consistent with ongoing efforts to offer meaningful tax relief to moderate and lower income working families.

##### ***Response:***

While this bill has a worthy goal, wouldn't it be better if it was targeted more precisely; for example, to families under a certain income or with younger children? There is also the concern about how to verify that someone is actually at home caring for a child, rather than just being without employment. Another approach to this issue would be to provide an additional dependency exemption for families with young children, regardless of whether the children were cared for at home or outside the home, by parents or by other care-givers.

##### ***Against:***

A great many tax reduction proposals are afloat. It would make sense to look at them comprehensively rather than piecemeal. It would also make sense to coordinate the review of tax reduction proposals with budget deliberations, so that the full impact of revenue reductions could be understood, including the impact on school funding. Action on the various tax cut proposals should wait until the budget is put together.

##### ***Response:***

Supporters of this and other related proposals say that the tax cuts can be paid for out of anticipated revenue growth for the 1998 fiscal year. Further, they say that there have been numerous tax cuts in recent years, many of which have not benefitted the people targeted by the tax cut provided by this bill and others in the package, aimed at low and middle income working families. Tax fairness should not await the deliberations on the budget.

##### ***POSITIONS:***

The Michigan Association for the Education of Young Children has indicated support for the bill. (3-5-97)

Michigan's Children has indicated support for the bill.  
(3-5-97)

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The Department of Treasury is opposed to the bill. (3-5-97)

The Michigan Education Association is opposed to the bill. (3-5-97)