

House Bill 4098
Sponsor: Rep. Alan Sanborn
Committee: Tax Policy

Complete to 3-9-01

A SUMMARY OF HOUSE BILL 4098 AS INTRODUCED 1-31-01

The bill would amend the Income Tax Act to increase the homestead property tax credit or "circuit breaker" available to a person 65 years of age or older with a household income of over \$6,000. Currently, people in this category can claim a credit for property taxes that exceed 3.5 percent of household income; the bill would calculate the credit using 3 percent of household income. Claimants with household incomes of \$6,000 and below already get an equivalent or more generous credit. The bill's effective date would be January 1, 2001.

The maximum credit under all circumstances is \$1,200 and the credit is phased out for claimants with household incomes between \$73,650 and \$82,650. The bill also would index the \$1,200 cap to inflation; that is the maximum credit available would increase each year by the same percentage as the U.S. consumer price index for all urban consumers, beginning with the 1999 tax year.

The homestead property tax credit or circuit breaker provides taxpayers with an income tax credit for the amount of property taxes paid on their homesteads that exceed a certain percentage of household income. Generally, the credit is equal to 60 percent of the amount of property taxes paid that exceed 3.5 percent of household income. However, for senior citizens, paraplegics, hemiplegics, and quadriplegics, the totally and permanently disabled, and the deaf, the credit is for 100 percent of the amount by which property taxes exceed 3.5 percent of household income for those with household incomes over \$6,000 and based on a smaller percentage of household income for those with smaller incomes. The credit cannot exceed \$1,200. Renters can claim the credit substituting 20 percent of rent for property taxes. Senior citizens who rent can use an alternative calculation if their rent exceeds 40 percent of household income; then, they can claim a credit for the amount by which rent paid exceeds 40 percent of income. The homestead property tax credit is phased out beginning with households earning \$73,650. Households earning \$82,650 or more cannot claim a credit.

Currently, the percentage of household income used in the calculation is based on the following:

For a senior, etc. with a household income of \$3,000 or less, 0 percent of household income (meaning 100 percent of property taxes are refundable, up to the \$1,200 limit);

For a senior, etc. with a household income over \$3,000 but not over \$4,000, 1 percent;

For a senior, etc. with a household income over \$4,000 but not over \$5,000, 2 percent;

For a senior, etc. with a household income over \$5,000 but not over \$6,000, 3 percent;

For a senior, etc. with a household income over \$6,000, 3.5 percent.

House Bill 4032 would alter the calculation by allowing any claimant 65 years of age or older with a household income of over \$5,000 to base the credit on the amount by which property taxes exceed 3 percent of household income.

The term "senior citizen" in the act refers to an individual or one of two persons filing a joint tax return who is 65 years of age or older at the close of the tax year. The term also includes the unremarried surviving spouse of a person who was 65 or older at death. (The bill's provisions apply only to "claimants who are 65 years of age or older.") The term "household income" is defined to mean all income received by all persons of a household, and the term "household" refers to a claimant and spouse. In calculating household income, a claimant begins with federal adjusted gross income and then adds income excluded or exempt from computations of federal adjusted gross income. There are only a few kinds of income excluded from household income.

MCL 206.522

House Bill 4098 (3-9-01)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.