

**CITY INCOME TAX EXEMPTION  
FOR ACTIVE DUTY MILITARY**

**House Bill 4712**  
**First Analysis (6-17-03)**

**Sponsor: Rep. David Robertson**  
**Committee: Tax Policy**

***THE APPARENT PROBLEM:***

One of the ways state legislators have proposed showing the state's support for U.S. troops involved in the invasion of Iraq is to authorize cities that have income taxes to exempt from taxation the compensation earned by active duty military serving in combat zones. Currently, cities cannot tax military pay, but some employers pay servicemen and women called to active duty from civilian jobs a supplement to military pay in order to keep their salary or wages at or near civilian levels. This supplemental pay, and some other forms of "compensation" soldiers and sailors can earn outside of military pay, are subject to tax.

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

The bill would amend the City Income Tax Act to allow a city to exclude from the tax compensation received by a taxpayer while on active military duty in the U.S. armed forces in an area designated as a combat zone by the President of the United States. The exclusion would be made by an amendment to the local income tax ordinance.

(This would be in addition to the current exclusion in the act for compensation received for service in the U.S. armed forces.)

The term "compensation" is defined in the City Income Tax Act as "salary, pay or emolument given as compensation or wages for work done or service rendered, in cash or in kind, and includes but is not limited to the following: salaries, wages, bonuses, commissions, fees, tips, incentive payments, severance pay, vacation pay and sick pay."

MCL 141.632

***FISCAL IMPLICATIONS:***

There is no information at present.

***ARGUMENTS:***

***For:***

The bill would allow cities with income taxes, solely at their discretion, to honor military personnel serving in combat areas by exempting their non-military compensation from taxation. (Military pay is already exempt.) While some cities may not find this a suitable tribute, the bill at least makes a tax exemption an option (which it is not now).

***POSITIONS:***

The Michigan Municipal League has indicated support for the bill. (6-11-03)

The Department of Treasury is neutral on the bill. (6-11-03)

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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.