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BILL



ANALYSIS

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Senate Bill 346 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator Mark C. Jansen  
Committee: Finance

Date Completed: 3-25-09

### **CONTENT**

**The bill would amend the Income Tax Act to allow a taxpayer to claim a refundable credit equal to 10% of the purchase price or \$10,000, whichever was less, for the purchase of a home.**

Specifically, if a taxpayer purchased a parcel of property that he or she was going to use as his or her principal residence and for which he or she was going to claim an exemption under Section 7cc of the General Property Tax Act as a principal residence, the taxpayer could claim a credit against the income tax equal to 10% of the purchase price of the property or \$10,000, whichever was less. The credit would apply to property that was purchased after the bill's effective date and before January 1, 2011.

If the credit exceeded the tax liability of the taxpayer for the tax year, the excess would have to be refunded.

(Under Section 7cc of the General Property Tax Act, a principal residence is exempt from the tax levied by a school district for school operating purposes to the extent provided under the Revised School Code.

"Principal residence" means the one place where an owner of the property has his or her true, fixed, and permanent home to which, whenever absent, he or she intends to return and that continues as a principal residence until another principal residence is established.)

Proposed MCL 206.254

Legislative Analyst: Craig Laurie

### **FISCAL IMPACT**

The bill would reduce income tax revenue an estimated \$76.1 million in FY 2008-09, \$1,197.8 million in FY 2009-10, and \$1,339.3 million in FY 2010-11. This loss in revenue would reduce both General Fund revenue and School Aid Fund revenue, as shown in the table below.

Homebuyers would not receive this credit when they finalized the purchase of a home; instead, this credit would be realized by homebuyers through a combination of a refund payment from the State and lower income tax withholding payments. Since the credit would be much larger than most taxpayers' income tax liability, it is estimated that the credit would primarily be realized by homebuyers through a cash refund payment from the State, but some of it also would be realized through lower income tax withholding

payments. For example, if this credit were to go into effect on April 1, 2009, a person purchasing a home in April 2009 would claim the credit when filing his or her 2009 income tax return in 2010. However, given the size of the credit, this homebuyer would have the incentive to reduce or eliminate the amount of income tax being withheld from his or her paycheck as soon as the person purchased the home, to be able to start receiving some of the benefits of the credit immediately instead of having to wait until 2010 to receive the credit through a refund payment.

It is estimated that under current law, home sales in Michigan will total about 163,000 units in 2010 and this credit would help boost sales about 25% to over 200,000 units. As a result, while this credit would undoubtedly help boost home sales, most of the cost of the proposed credit would be paid to people who would purchase a home even without the credit.

The bill does not limit the period of time a person would have to own a newly purchased home in order to be eligible for this credit. As a result, it can be argued that some people would abuse the credit by temporarily "selling" their home to someone else and then purchasing it back a short time later in order to be eligible for this large credit. For example, people who have fully paid for their home could create a very simple land contract agreement with someone else, with no cash being exchanged, and after filing a few legal documents could exchange homes with this other person. Once a homestead classification had been granted, the process could be reversed and both people would be eligible for this refundable credit. While it would be technically possible for taxpayers to abuse the proposed credit in this way, it is assumed not many people would attempt it and the estimated cost of this credit presented above does not reflect any such behavior on the part of taxpayers.

**S.B. 346 (S-1)**  
**Proposed Home Purchase Income Tax Credit**  
**Estimated Fiscal Impact**  
(dollars in millions)

	FY 2008-09	FY 2009-10	FY 2010-11
Change in Income Tax Revenue:	(\$76.1)	(\$1,197.8)	(\$1,339.3)
Fiscal Impact by Fund:			
General Fund	(\$58.4)	(\$1,109.5)	(\$1,304.2)
School Aid Fund	(\$17.7)	(\$88.3)	(\$35.1)

Fiscal Analyst: Jay Wortley

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