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BILL ANALYSIS

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Senate Bill 642 (Substitute S-1 as reported)
Sponsor: Senator Rick Jones
Committee: Veterans, Military Affairs and Homeland Security

CONTENT

The bill would amend the Income Tax Act to allow, for tax years beginning after December 31, 2017, a deduction for income attributable to the cancellation or discharge of a student loan under the Total and Permanent Disability Discharge Program.

Under the Act, for a person other than a corporation, estate, or trust, "taxable income" means adjusted gross income, as defined in the Internal Revenue Code, subject to various adjustments. For tax years beginning after December 31, 2017, the bill would allow a taxpayer who was a disabled veteran to deduct, to the extent not deducted in determining adjusted gross income, income reported on a Federal income tax Form 1099-C that was attributable to the cancellation or discharge of a student loan by the United States Department of Education under the Total and Permanent Disability Discharge Program.

"Disabled veteran" would mean an individual who either: a) has been determined by the United States Department of Veterans Affairs (VA) to be permanently and totally disabled as a result of military service and entitled to veterans' benefits at the 100% rate; or b) has been rated by the VA as individually unemployable.

MCL 206.30 Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would reduce State General Fund and School Aid Fund revenue by approximately $100,000 per year, with the majority of the impact reducing General Fund revenue. Under current law, the School Aid Fund receives approximately 23.8% of gross individual income tax revenue. If all of the income excluded from the tax base as a result of the bill were reflected in lower payments under individual income tax withholding, estimated payments, and annual payments, then the bill would reduce School Aid Fund revenue by approximately $23,800 per year. To the extent that taxpayers' withholding and estimated payments remained unchanged, and that taxpayers received a refund from the State when they filed their annual return, School Aid Fund revenue would not be affected by the bill and all of the reduced revenue would lower General Fund revenue.

Date Completed: 1-19-18 Fiscal Analyst: David Zin