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BILL ANALYSIS

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Senate Bill 749 (as introduced 1-16-18)
Sponsor: Senator Margaret E. O'Brien
Committee: Finance

Date Completed: 1-16-18

CONTENT

The bill would amend the Income Tax Act to allow an individual taxpayer to claim a credit equal to 100% of the credit the taxpayer would be able to claim under Section 21 of the Internal Revenue Code (commonly called the Household and Dependent Care Credit, or the child care credit), for tax years beginning on and after January 1, 2018. (As described below, the Federal credit is allowed for a percentage of expenses incurred by the taxpayer for household services and the care of certain dependents in order for the taxpayer to be gainfully employed.)

If the proposed credit exceeded the taxpayer's tax liability for the tax year, the excess portion would not be refunded.

Proposed MCL 206.272a

BACKGROUND

Section 21 of the Internal Revenue Code allows an individual to claim a credit against the Federal income tax for percentage of employment-related expenses for household services and expenses for the care of a qualifying individual paid by the taxpayer.

The percentage that may be claimed is 35% reduced (but not below 20%) by one percentage point for each $2,000 by which the taxpayer's adjusted gross income for the taxable year exceeds $15,000.

The amount of employment-related expenses incurred during any taxable year that may be taken into account for purposes of the credit may not exceed the following:

-- $3,000 if there is one qualifying individual with respect to the taxpayer for the taxable year.
-- $6,000 if there are two or more qualifying individuals with respect to the taxpayer for the taxable year.

The dollar amount must be reduced by the amount that is excludable from gross income under Section 129 of the Code (which provides an exclusion for certain dependent care assistance programs).

"Employment-related expenses" means amounts paid for the following expenses, but only if those expenses are incurred to enable the taxpayer to be gainfully employed for any period for which there are one or more qualifying individuals with respect to the taxpayer:

-- Expenses for household services.
-- Expenses for the care of a qualifying individual.

A "qualifying individual" is any of the following:

-- A dependent of the taxpayer who is younger than 13 years old.
-- A dependent of the taxpayer (a qualifying child or qualifying relative, as defined in the Code) who is physically or mentally incapable of caring for himself or herself and who has the same residence as the taxpayer for more than half of the taxable year.
-- The spouse of the taxpayer, if the spouse is physically or mentally incapable of caring for himself or herself and has the same residence as the taxpayer for more than half of the taxable year.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately $81.2 million per year beginning in fiscal year 2018-19. According to data from the Internal Revenue Service, 160,060 Michigan taxpayers claimed $81.1 million in credits under the Federal child care credit. The provisions making the credit nonrefundable would reduce the estimated revenue loss from the bill by an unknown amount.

Fiscal Analyst: David Zin