

QUALIFIED DEPENDENT TAX CREDIT

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 378 (S-1) as passed by the Senate
Sponsor: Sen. Jim Runestad
House Committee: Tax Policy
Senate Committee: Finance
Complete to 5-25-21

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

Senate Bill 378 would amend the Income Tax Act to allow taxpayers to claim a tax credit of \$500 for each *qualified dependent* claimed by the taxpayer in that year, for tax years beginning January 1, 2022, through December 31, 2025. If the credit allowed exceeded the tax liability of the taxpayer for that tax year, the portion of the credit that exceeded the liability would not be refunded.

Qualified dependent would mean a dependent who is younger than 19 years of age on the last day of the tax year for which the credit is claimed.

Proposed MCL 206.254

BACKGROUND:

Beginning with the 1998 tax year and until the personal income tax was restructured in 2011 (at the same time that the corporate income tax replaced the Michigan business tax), the Income Tax Act allowed taxpayers to claim a tax deduction for children or dependents. (Note: The bill proposes a tax credit. While a tax deduction lowers the taxable income and tax rate used to calculate the tax, a credit is applied after that point and may result in a refund even if the taxpayer has no withholding. The bill proposes a nonrefundable credit, however, meaning that if the credit allowed under the bill exceeded the taxpayer's tax liability, the portion exceeding the liability would not be refunded.)

1997 PA 81 introduced a \$600 tax deduction for children younger than 7 and a \$300 deduction for children between 7 and 12 years of age, based on the age of the child on the last day of the tax year. The deduction took effect beginning with the 1998 tax year.¹

2000 PA 42 revised the deduction so that, beginning with the 2000 tax year, the \$600 deduction would apply for all children who were under 19 years old on the last day of the tax year.²

As part of the repeal of the Michigan business tax, 2011 PA 38 eliminated the child deduction of \$600.³

¹ House Legislative Analysis Section analysis of 1997 PA 81/HB 4180 of 1997-98:
<http://www.legislature.mi.gov/documents/1997-1998/billanalysis/House/pdf/1997-HLA-4872-A.pdf>

² House Legislative Analysis Section analysis of 2000 PA 42/SB 1036 of 1999-2000:
<http://www.legislature.mi.gov/documents/1999-2000/billanalysis/House/pdf/1999-HLA-5389-B.pdf>

³ House Fiscal Agency analysis of 2011 PA 38/HB 4361 of 2011-12:
<http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-4361-6.pdf>

FISCAL IMPACT:

As written, the bill is expected to reduce individual income tax revenue by about \$725.2 million on a full-fiscal-year basis.

Based on 2019 population estimates, there were about 2.4 million individuals 19 years of age or younger in Michigan. At \$500 per individual, a refundable credit would reduce revenue by about \$1.2 billion. However, because the credit is nonrefundable and approximately 40% of taxpayers will not be able to use the full amount of the credit, the foregone revenue loss would be closer to \$725 million.

At least initially, the credit would affect refunds, resulting in the full impact reducing general fund revenue. To the extent that taxpayers adjust withholding payments to account for the credit, the School Aid Fund would absorb a portion of the cost.

Legislative Analyst: Jenny McInerney
Fiscal Analyst: Jim Stansell

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