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BILL ANALYSIS

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Senate Bill 315 (Substitute S-3 as reported by the Committee of the Whole)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

## CONTENT

The bill would amend the Income Tax Act to allow a "qualified taxpayer" to deduct from taxable income, to the extent included in Federal adjusted gross income (AGI), those trade and business expenses of the taxpayer that are allowed as deductions in calculating AGI under Section 162(a) of the Internal Revenue Code. (Section 162(a) allows a deduction for all ordinary and necessary expenses paid or incurred in carrying on trade or business, including reasonable salaries for personal services; travel expenses away from home, including meals and lodging; and rentals or other payments for the use of property in trade or business.) Under the bill, a "qualified taxpayer" would be an "outside salesman" as that term was used under the former provisions of Section 62(2)(D) of the Internal Revenue Code as it read immediately before the Federal Tax Reform Act of 1986. (Under that section, a person could deduct from AGI expenses attributable to a trade or business carried on by the taxpayer if the trade or business consisted of the performance of services as a solicitor of business away from the employer's place of business.) The deduction would apply to tax years after 1994.

Currently, under the Income Tax Act, a person who is not allowed to claim a personal exemption under the Internal Revenue Code (i.e., a dependent) but who is subject to the State income tax may deduct $1,000 from taxable income. The bill provides that for tax years beginning after 1994 the deduction would be indexed to inflation; that is, the amount would be adjusted each year to reflect the annual average percentage increase or decrease in the Detroit Consumer Price Index (CPI) for the preceding year. The adjusted amount would have to be rounded to the nearest $50.

MCL 206.30 Legislative Analyst: G. Towne

## FISCAL IMPACT

This bill would reduce income tax revenue by an estimated $29 million in FY 1995-96. The proposed new deduction for unreimbursed business expenses would reduce income tax revenue by an estimated $28 million and indexing the income tax exemption granted primarily to children and students who are also being claimed as a dependent by some other taxpayer, would reduce income tax revenue by an estimated $1 million. Currently, this "kiddie" exemption is $1,000, but indexing it to the Detroit CPI and rounding it to the nearest $50 increment, as proposed in this bill, would increase this exemption to $1,050 for the 1995 tax year. These reductions in income tax revenue in FY 1995-96 would affect several areas of the State's overall budget: General Fund/General Purpose revenue would be reduced by an estimated $23 million, School Aid Fund revenue would be lowered by $4 million, and revenue sharing payments would be reduced by about $2 million.

Date Completed: 3-29-95 Fiscal Analyst: J. Wortley