Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 315 (Substitute S-1)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

Date Completed: 3-21-95

SUMMARY OF SENATE BILL 315 (Substitute S-1):

The bill would amend the Income Tax Act to allow a deduction for certain business and trade expenses; and to index the deduction that dependents may claim to the rate of inflation.

The bill would allow a person to deduct from taxable income, to the extent included in Federal adjusted gross income (AGI), those trade and business expenses of the taxpayer that would have been allowed as deductions in calculating AGI under Section 62 of the Internal Revenue Code as it read immediately before the Federal Tax Reform Act of 1986. (Under the former Section 62, an employee could deduct from gross income: reimbursed expenses paid or incurred by the employee in connection with the performance of services as an employee; expenses of transportation, travel, meals, and lodging while away from home in the performance of services as an employee; and 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 away from the employer's place of business.) The deduction would apply to tax years after 1994.

The bill also would allow a taxpayer to deduct, to the extent included in AGI, the amount paid or incurred during the year for moving expenses in connection with the start of work by the taxpayer as an employee, or a self-employed person, at a new principal place of work. The amount deducted could not exceed the amount that qualified in that tax year for the moving expense deduction under Section 217 of the Internal Revenue Code. (Section 217 allows a deduction from Federal income tax, in connection with the start of work at a new principal place of work, for the reasonable expenses of moving household goods and personal effects from the former residence to the new residence; and of traveling, including lodging, from the former residence to the new residence, not including meal expenses. The new place of work must be at least 50 miles from the former workplace, or residence if the person had no former workplace. The Code does not place a limit on the amount that a person may claim.) The deduction would apply to tax years after 1994.

Currently, under the 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 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 have the following fiscal impacts:

Business Expense Deduction - The new deduction for unreimbursed business expenses would have no fiscal impact in FY 1994-95, but would reduce income tax revenue by an estimated $34 million in FY 1995-96. This loss in revenue would reduce General Fund/General Purpose revenue by $27 million, School Aid Fund revenue by almost $5 million, and revenue sharing payments by $2 million in FY 1995-96.

Child Income Exemption - Indexing the exemption granted primarily to children and students who are also being claimed as a dependent by some other taxpayer, would increase the exemption from $1,000 to $1,050 for the 1995 tax year. The Detroit Consumer Price Index increased 3.3% in 1994, which would increase the exemption for 1995 to $1,033; however, under the provisions of the bill it would be rounded to the nearest $50 increment, which would increase it to $1,050. This would reduce income tax revenue by an estimated $1 million.

Moving Expense Deduction - The proposal to create a new moving expense deduction is probably not needed because Michigan income tax payers are already receiving the benefits of a moving expense deduction due to a provision in the Federal income tax. Beginning in the 1994 tax year, the Federal income tax has a moving expense deduction that is included in the calculation of adjusted gross income (AGI). Because Michigan's income tax uses Federal AGI as the starting point for calculating Michigan taxable income, taxpayers that claim a moving expense deduction at the Federal level will also realize the benefits of this deduction on their Michigan income tax. It is estimated that the Federal moving expense deduction will lower Michigan's income tax revenue by $4 million in FY 1994-95.

Fiscal Analyst: J. Wortley

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