



**House
Legislative
Analysis
Section**

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**TREASURY: EXPLANATIONS OF
CREDITS AND DEDUCTIONS**

**House Bill 5591 as enrolled
Public Act 486 of 2002
Second Analysis (7-2-02)**

**Sponsor: Rep. Nancy Cassis
House Committee: Tax Policy
Senate Committee: Finance**

THE APPARENT PROBLEM:

The Subcommittee on Tax Simplification of the House Tax Policy Committee issued a report in October of 2001 making a number of recommendations for improving the administration of state taxes based on information gathered at four public hearings and from other sources. The subcommittee had several goals, one of which was examining the form and function of tax publications in an effort to make it easier for taxpayers to comply with state tax laws. One of the recommendations of the subcommittee was that the Department of Treasury dedicate space in the instruction booklets that accompany the state income tax returns to explaining the credits or programs for which taxpayers may be eligible, specifically mentioning the home heating credit and prescription drug programs. This recommendation has been further bolstered by requests to legislators from taxpayers for a clear, convenient listing of credits available to seniors and persons with disabilities.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to require the Department of Treasury to provide in the instruction booklet that accompanies the annual return a clear and concise listing of each credit and deduction allowed under the act, and a reference to a detailed explanation. The same list would also have to be posted on the department's official web site.

MCL 206.471

BACKGROUND INFORMATION:

Section 472 of the Income Tax Act (MCL 206.472) currently requires that before final printing, the Department of Treasury submit the draft of the proposed personal income tax forms and instructions and the proposed property tax credit forms and instructions, together with explanations of any and all

changes from the prior forms and instructions to the House Taxation [now Tax Policy] Committee and the Senate Finance Committee.

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the costs to the state from the bill would be minimal as the Department of Treasury web site and the tax booklets are updated periodically. (HFA fiscal note dated 2-10-02)

ARGUMENTS:

For:

The state income tax form ought to contain a taxpayer-friendly, easy-to-read listing of all the credits and deductions available to reduce tax liability, along with a referral to a more detailed explanation. Such explanations would be beneficial not only to those who do their own taxes but also to tax preparers. Many people who are eligible for tax credits do not claim them, according to human service specialists engaged in outreach efforts to low and moderate income households. They note that some credits can be claimed even without filing a state income tax form (by using a separate special form) and after the usual filing deadline. Representatives of senior citizens have also urged making more assistance available to taxpayers. Providing a list and explanation of all the credits and deductions would make it more likely that taxpayers would claim the credits and deductions they are due. The state tax code is complicated; people should not overpay their taxes due to a lack of information. For example, the listing of credits in this year's income tax instruction booklet does not list or describe the home heating credit or the prescription drug credit.

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Response:

In responding to the introduction of this bill, Department of Treasury representatives pointed out that the income tax instruction booklet already contains considerable information on available credits and deductions. It contains, among other things, a description of the Tele-Help system which provides recorded information on tax topics through a toll-free number, including information on various subtractions from taxable income and on tax credits; a list of credits, with the page number in the booklet where each credit is described; and a description of each credit at the section of the instructions that corresponds to the line on the tax form on which the credit could be claimed. The instructions accompanying Schedule 1 outline the available subtractions from (and additions to) taxable income. The booklet contains several pages on the homestead property tax credit and information on the 2002 tax amnesty program, among other things. It also highlights features of the income tax that are new in the current year. Sometimes when a credit is referred to in the booklet, the reader is referred to the particular form that needs to be submitted to claim the credit. The credit is then explained in detail in the instructions accompanying that form. An earlier version of the bill would have required the explanations of all credits and deductions to be in the instruction booklet. As enacted, the bill will require a listing of credits and deductions and a referral to explanations elsewhere. This will keep the instruction booklet from becoming too bulky.

Analyst: C. Couch

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