



**House
Legislative
Analysis
Section**

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**INCOME TAX: \$100 ROUNDING OF
VARIOUS EXEMPTIONS, CREDITS**

**House Bill 5824 (Substitute H-1)
First Analysis (5-16-02)**

**Sponsor: Rep. Steve Pestka
Committee: Tax Policy**

THE APPARENT PROBLEM:

The Subcommittee on Tax Simplification of the House Committee on Tax Policy issued a report in October 2001 based on four public hearings throughout southern Michigan. One of the subcommittee's recommendations was to round credit and deduction amounts to the nearest \$100 increment in order to "minimize the possibility of computational errors, make the values easier for practitioners to recognize and memorize, and add more consistency to the tax code".

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to require that several different amounts in the act "be rounded to the nearest \$100 increment". These include the following.

- Senior citizens may deduct from taxable income interest, dividends, and capital gains included in federal adjusted gross income not to exceed \$8,048 for a single return and \$16,095 for a joint return for the 2001 tax year. The deductions were set at \$7,500 and \$15,000 for the 1998 tax year and are adjusted each year based on the increase in the consumer price index. The bill would require that the amounts, after adjusting for inflation, be rounded to the nearest \$100 increment.
- Taxpayers can deduct retirement and pension benefits from private sources included in adjusted gross income, up to \$36,090 for a single filer and \$72,180 for a joint filer for the 2001 tax year. The deductions were originally set at \$30,000 and \$60,000 and are adjusted each year based on increases in the U.S. consumer price index. The bill would require that the maximum amounts, after being adjusted, be rounded to the nearest \$100 increment.
- Some taxpayers can claim a home heating credit. There are two methods for calculating the credit. One method (known as the alternative credit) is based on actual heating costs and household income. That

method imposes a maximum total cost that can be used in computing the credit. The maximum was set at \$1,190 in 1988 and then is adjusted each year based on a consumer price index for fuels and utilities (not to exceed 10 percent). Currently, the new maximum is rounded to the nearest whole dollar. The bill would require, for tax years beginning after December 31, 2001, that the maximum amount be rounded to the nearest \$100 increment. There is also a maximum household income used in this calculation. (Taxpayers above the maximum are not eligible for the alternative credit calculation.) This maximum is also adjusted annually, with the adjustment based on the increase in the average all urban Detroit consumer price index for all items. This maximum is also currently rounded to the nearest whole dollar, and the bill would require rounding to the nearest \$100 increment for tax years beginning after December 31, 2001.

MCL 206.30 et al.

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bill is not expected to have any significant impact on state revenues. (HFA fiscal analysis dated 5-14-02)

ARGUMENTS:

For:

The bill should reduce computational errors, which are among the most commonly made errors, according to information provided to the Subcommittee on Tax Simplification by the Department of Treasury. Computational errors delay the processing of tax returns. This bill would round some figures used in determining tax liability to make calculations easier.

Response:

State tax officials have said additional work may be necessary to make sure that the value of credits and

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deductions for joint filers and single filers remains at a two-to-one ratio.

POSITIONS:

The Department of Treasury supports the concept of the bill. (5-15-02)

Analyst: C. Couch

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