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BILL ANALYSIS

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Senate Bill 642 (as introduced 11-1-17)
Sponsor: Senator Rick Jones
Committee: Veterans, Military Affairs and Homeland Security

Date Completed: 1-11-18

CONTENT

The bill would amend the Income Tax Act to allow, for tax years beginning after December 31, 2017, a deduction for income attributable to the cancellation or discharge of a student loan under the Total and Permanent Disability Discharge Program.

Under the Act, for a person other than a corporation, estate, or trust, "taxable income" means adjusted gross income, as defined in the Internal Revenue Code, subject to various adjustments. For tax years beginning after December 31, 2017, the bill would allow a taxpayer to deduct, to the extent not deducted in determining adjusted gross income, income reported on a Federal income tax Form 1099-C that was attributable to the cancellation or discharge of a student loan by the United States Department of Education under the Total and Permanent Disability Discharge Program.

MCL 206.30

BACKGROUND

According to the website of the Office of Federal Student Aid (within the U.S. Department of Education), a total and permanent disability discharge relieves an individual from having to repay certain student loans (loans issued under the Direct Loan program, the Perkins Loan program, or Federal Family Education Loans), or complete a Teacher Education Assistance for College and Higher Education Grant service obligation. Before those obligations can be discharged, the loan or grant recipient must demonstrate to the U.S. Department of Education that he or she is totally and permanently disabled.

An individual can demonstrate total and permanent disability in one of three ways. If the recipient is a veteran, he or she can submit documentation from the U.S. Department of Veterans Affairs showing that the individual is unemployable because of a service-connected disability. If the recipient receives Social Security Disability Insurance or Supplemental Security Income benefits, he or she can submit a Social Security Administration (SSA) notice of award for benefits stating that his or her next scheduled disability review will be within five to seven years from the date of his or her most recent SSA disability determination. Alternatively, an individual may submit a certification from his or her physician that he or she is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that: a) can be expected to result in death; b) has lasted for a continuous period of not less than 60 months; or c) can be expected to last for a continuous period of not less than 60 months.

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would reduce State General Fund and School Aid Fund revenue by approximately $100,000 per year, with the majority of the impact reducing General Fund revenue. Under current law, the School Aid Fund receives approximately 23.8% of gross individual income tax revenue. If all of the income excluded from the tax base as a result of the bill were reflected in lower payments under individual income tax withholding, estimated payments, and annual payments, then the bill would reduce School Aid Fund revenue by approximately $23,800 per year. To the extent that taxpayers' withholding and estimated payments remained unchanged, and that taxpayers received a refund from the State when they filed their annual return, School Aid Fund revenue would not be affected by the bill and all of the reduced revenue would lower General Fund revenue.

Fiscal Analyst: David Zin

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