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BILL ANALYSIS

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Senate Bill 360 (Substitute S-1 as reported)
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Sponsor: Senator Roger Victory
Committee: Economic and Small Business Development

CONTENT

Senate Bill 360 (S-1) would amend the Income Tax Act to do the following:

-- Allow, for tax years that begin on and after January 1, 2021, a taxpayer, or a taxpayer that was an employer, that made an eligible contribution to a certified impact housing trust fund or that offered its employees the option to participate in a qualified employer-assisted housing project that met certain requirements to claim a credit against the tax imposed under Part 1 or Part 2 of the Act.
-- Require a taxpayer or employer to submit an outline of its project to the Michigan State Housing Development Authority (MSHDA) for approval, and if approved, require the employer to provide the MSHDA with certain information concerning the project in order to claim the credit for an employer-assisted housing project.
-- Require the taxpayer to submit reasonable proof of the eligible contributions made and for which certified housing impact fund a credit was claimed, and to request certification of those eligible contributions to claim the credit for a certified housing impact fund.
-- Specify that if the credit for the tax year and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, that portion that exceeded the liability could not be refunded but could be carried forward to offset tax liability in subsequent tax years.

Senate Bill 361 (S-1) would amend the State Housing Development Authority Act to do the following:

-- Authorize the MSHDA to certify certain housing impact funds and approve eligible contributions made to those funds and to approve certain employer-assisted housing projects and issue certificates to entities for the basis of an income tax credit under Part 1 or Part 2 of the Income Tax Act as proposed in Senate Bill 360.
-- Require the MSHDA to develop an application and approval process to certify certain housing impact funds, approve certain employer-assisted housing projects, approve contributions made to those funds and costs incurred to implement and maintain those projects, and to issue certificates for State income tax credits as described above.
-- Require the MSHDA certify or approve a housing impact fund or an employer-assisted housing project if it met the bill's requirements.
-- Allow a housing impact fund or a person to request that the MSHDA determine if a contribution to that housing impact fund qualified for the tax credit described above.
-- Require the MSHDA to maintain a list of certified housing impact funds on its website.

Proposed MCL 206.279 & 206.678 (S.B. 360) Legislative Analyst: Tyler VanHuyse
MCL 125.1422 et al. (S.B. 361)

FISCAL IMPACT

Senate Bill 360 (S-1) would reduce State corporate and individual income tax revenue to the

General Fund and School Aid Fund by an unknown and potentially significant amount that would depend on the number of taxpayers that made eligible contributions and, because of the nonrefundability provisions, taxpayers' liability before credits.

Over the last several decades, a variety of states have had, proposed, or continue to offer credits similar to the credit proposed by the bill. Of those states, Illinois offers a credit that bears the greatest similarity to the one proposed by the bill. For fiscal year 2018-19, the Illinois credit reduced corporate income tax revenue by approximately $19.6 million and individual income tax revenue by approximately $1.3 million. Adjusted for the differences in tax rates between the two states, these figures imply a reduction in Michigan corporate income tax revenue of $9.6 million and Michigan individual income tax revenue of $1.1 million if one assumes a similar total for eligible contributions. If eligible contributions are reduced to reflect the relative sizes of the Michigan and Illinois economies, under the assumption that total eligible contributions would represent the same portion of the State economy, it would suggest a $5.8 million reduction in corporate income tax revenue and a $700,000 reduction in individual income tax revenue.

A similar credit was proposed in California in 2018, and adjusting the estimated fiscal impact for the relative size of the California and Michigan economies and tax rates would imply a revenue reduction more than $600 million dollars, although certain aspects of the estimated fiscal impact do not appear relevant or comparable to the proposed Michigan credit and would overestimate the likely impact in Michigan.

States such as Colorado, Tennessee, and Washington have considered similar credits. However, these proposals either have capped the maximum credit a taxpayer could receive, the total amount of credits that could be awarded in a given fiscal year, and/or the maximum contributions that could be eligible for the credit. Because the bill would not place any of these limits on taxpayers, the estimated fiscal impacts for these states' proposals are not relevant in estimating the fiscal impact of the bill.

In 2006, Connecticut repealed a similar credit that had been available for at least the preceding 10 years. While credit utilization was stable between 1995 and 1997, utilization of the credit declined steadily after 1997. Based on Connecticut's experience, and adjusting for the relative size of the state economies (but not relative tax rates nor inflation or revenue growth), suggests the impact could be as large as $1.1 million per year.

Because the credit would be nonrefundable and would be subject to a 10-year carry-forward period, the bill would not result in net payments from the State (such as those that can occur with refundable credits) and the actual amount of revenue reduction would depend on a taxpayers' tax liability before credits in any years in which the credit could be claimed.

Credits claimed under the corporate income tax would reduce General Fund revenue. Any credits claimed under the individual income tax would lower annual payments; thus, 23.8% of any revenue reduction would lower School Aid Fund revenue and the remaining amount would lower General Fund revenue.

Senate Bill 361 (S-1) would have a fiscal impact on the MSHDA and no fiscal impact on local units of government. The MSHDA would incur additional administrative expenses to process applications and certify employer-assisted housing projects and contributions. These costs would be incurred by the MSHDA and supported by restricted revenue generated by the MSHDA. Accordingly, the bill would have no fiscal impact on State funds.

Date Completed: 6-14-21

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Bill Analysis @ www.senate.michigan.gov/sfa