

Legislative Analysis



INCREASING BANKRUPTCY EXEMPTION AMOUNTS

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House Bill 4901 as introduced
Sponsor: Rep. Brenda Carter
Committee: Insurance and Financial Services
Complete to 10-11-23

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 4901 would amend the Revised Judicature Act to modify the maximum value of the maximum exemptions for various categories of property that are exempt from the estate property (i.e., property that cannot be sold to pay creditors) during bankruptcy proceedings and make related changes.

Currently, the act provides that a debtor may choose to exempt property that is exempt under federal law¹ or exempt up to a maximum value of certain categories of items during bankruptcy proceedings. These amounts are adjusted every three years for inflation using the Consumer Price Index.²

The new maximum exempt amounts proposed by the bill, and the current inflation-adjusted maximums, are shown in the table below. The value of exempt property and the value of the exemption would be determined on the date that the bankruptcy petition is filed.

Category	Current Exempt Amount ³	Proposed Exemption
Household goods, furniture, utensils, books, appliances, and jewelry (up to \$700 per item)	Up to \$4,625 in value	Up to \$5,000 in value
Interest in one motor vehicle	Up to \$4,250 in value	Up to \$15,000 in value
Crops, farm animals, and feed for farm animals	Up to \$3,075 in value	Up to \$10,000 in value
Tools, implements, materials, stock apparatus, team, vehicle, motor vehicle, horses, harness, or other things to enable a person to carry on the profession, trade, occupation, or business in which they are principally engaged	Up to \$3,075 in value	Up to \$10,000 in value

¹ <https://www.law.cornell.edu/uscode/text/11/522>

² Specifically, the Consumer Price Index for all urban consumers in the area of Detroit-Ann Arbor-Flint, Michigan, published by the United States Department of Labor or, if the United States Department of Labor ceases publishing that index, the most similar index available.

³ https://www.michigan.gov/treasury/-/media/Project/Websites/treasury/Uncategorized/2023/Economic-Reports-and-Notices-2023/Notice_BankruptcyExemptions2023_Signed.pdf

Computers and computing devices, including mobile computing devices and mobile phones	Up to \$800 in value (the act now limits this category to one computer and its accessories)	Up to \$5,000 in value
<i>Homestead</i>	Up to \$46,125 in value, or if the debtor or a dependent is 65 years or older or is <i>disabled</i> , up to \$69,200 in value	Up to \$250,000 in value, or if the debtor or one of their dependents is 65 years of age or older or is disabled, up to \$350,000 in value.
Money paid or to be paid because the debtor or one of their dependents was a crime victim	None (this category would be added by the bill)	All
The debtor's aggregate interest in any property, in addition to all other exemptions	None (this category would be added by the bill)	Up to \$2,000 in value plus up to \$15,000 for any unused amount of the exemption for a homestead

As under current law, these new amounts would continue to be adjusted for inflation at the end of each three-year period. Since the last adjustments were made for April 1, 2023, they would next be adjusted for bankruptcies filed on or after April 1, 2026.

The bill would also eliminate the maximum exempt amounts for the following categories, allowing a debtor to retain their full interest in them:

- A seat, pew, or slip occupied by the debtor or their family in a house or place of public worship.
- Household pets, companion animals, and service animals.

In addition, the bill would exempt the debtor's interest in or money held in a bank account that they received in the last 18 months from any means-tested public assistance benefits, unemployment compensation benefits, the federal Earned Income Tax Credit (EITC), the Michigan EITC, a similar program of the state or a local government providing an EITC, disability benefits, or worker's compensation. The source of any money held in a bank account would be determined using the first-in, first-out assumption.⁴

Under the bill, the exemptions would apply fully to each debtor in cases of joint bankruptcy and would also apply to all property held in a revocable trust for which the debtor is the settlor to the same extent as property not held in the trust.

Finally, the bill would provide that if a debtor's interest in a homestead is less than the exemption amount when the bankruptcy petition is filed, then their interest in the property that appreciates during the pendency of the case would remain exempt.

⁴ <https://www.investopedia.com/terms/f/fifo.asp>

Homestead means one of the following owned or being purchased under an executory contract by the debtor that the debtor or a dependent of the debtor occupies as the debtor's or the dependent's principal residence:

- If the land is located outside of a recorded plat, city, or village, a residence and appurtenances and the land on which they are situated, not exceeding 40 acres.
- If the land is located within a recorded plat, city, or village, a residence and appurtenances and the land on which they are situated, not exceeding one lot or parcel.
- A residence situated on land not owned by the debtor.
- A condominium unit.
- A unit in a cooperative.
- A motor home.
- A boat or other watercraft.

Disabled means unable to engage in substantial gainful activity, as defined by 42 USC 1382c(a)(3)(E), as a result of a physical or mental impairment and receiving supplemental security income under 42 USC 1382c(a)(3)(A) and (C).⁵

MCL 600.5451

FISCAL IMPACT:

The bill would have no fiscal impact on the state or local units of government.

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

⁵ <https://www.law.cornell.edu/uscode/text/42/1382c>