

Legislative Analysis



INCOME TAX RATE REDUCTION

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4170 as introduced
Sponsor: Rep. Kathy Schmaltz
Committee: Finance
Complete to 3-10-25

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

SUMMARY:

House Bill 4170 would amend the Income Tax Act to reduce the individual income tax rate and make other changes described below.

Individual income tax rate

Currently, the individual income tax rate is 4.25%.

The bill would reduce the rate to 4.05%, effective January 1, 2025.

(Note: The bill would also retroactively codify into statute the temporary tax rate rollback triggered by the provision discussed below.)

Tax rate rollbacks

Currently, the act provides that if the growth in total general fund revenue outpaces inflation in a given fiscal year, the individual income tax rate must be reduced proportionally based on the amount by which revenue growth exceeded inflation.¹

Previously, this provision was applied to reduce the tax rate to 4.05% for the 2024 tax year.² However, the Michigan Court of Appeals ruled that, as the law is written, any rate reduction under the act is temporary and applies only to a single tax year.³ The Michigan Supreme Court declined to hear an appeal of that decision.

The bill would add language clarifying that, beginning with the 2026 tax year, any rate reduction calculated under the above provision is permanent and becomes the permanent rate for all subsequent tax years, unless another rate reduction is triggered by an increase in general fund revenue.

MCL 206.51

FISCAL IMPACT:

House Bill 4170 would reduce income tax revenue by approximately \$539.3 million in FY 2024-25, which represents three-quarters of the fiscal year due to the rate reduction starting on January 1, 2025; \$713.0 million in FY 2025-26; and \$727.6 million in FY 2026-27 (based on

¹ <https://www.legislature.mi.gov/documents/2015-2016/billanalysis/House/pdf/2015-HLA-4370-3C42FEC9.pdf>

² <https://www.bridgemi.com/michigan-government/michigan-income-tax-cut-not-permanent-court-rules>

³ <https://www.michigan.gov/treasury/reference/taxpayer-notices/the-reduction-to-the-income-tax-rate-for-tax-year-2023-was-temporary>

January 2025 consensus revenue estimating conference (CREC) estimates over the forecast horizon). However, it should be noted that the effective date of the bill's provisions (sometime after the January 1, 2025 start of the rate reduction) would likely result in some portion of the FY 2024-25 rate reduction impact being realized in FY 2025-26 individual income tax refunds. The corresponding revenue reduction in fiscal years beyond FY 2026-27 would be a function of income tax collections. The revenue reduction would only affect general fund collections due to the school aid earmark formula effectively holding the School Aid Fund harmless from any rate reduction.

The bill would also require that any future rate reduction due to the income tax rate reduction trigger provision be permanent and carry forward to future fiscal years. This would reduce revenues by an unknown amount and would depend on future rate reductions. Under current law, an income tax rate reduction under the income tax trigger provision is temporary, lasting only one calendar year.

Legislative Analyst: Alex Stegbauer
Fiscal Analyst: Ben Gielczyk

■ 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.