Legislative Analysis

ADJUST SCHOOL AID EARMARK, CREATE RENEW MICHIGAN FUND, AND MODIFY INDIVIDUAL INCOME TAX DISTRIBUTIONS

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House Bill 4991 (S-2) as passed by the Senate
Sponsor: Rep. Martin Howrylak
House Committee: Tax Policy
Senate Committee: Finance
Complete to 12-20-18

SUMMARY:

House Bill 4991 would amend the Income Tax Act to adjust the School Aid Fund (SAF) earmark. It would also establish the Renew Michigan Fund within the Department of Treasury and specify a distribution of $69.0 million of net income tax revenue to the fund.

In addition to distributing revenue to the Renew Michigan Fund, the bill would increase the existing distributions to the Michigan Transportation Fund (MTF) for FY 2018-19 and FY 2019-20.

Finally, the bill would allow a taxpayer to deduct, to the extent included in adjusted gross income, compensation received in the tax year pursuant to the Wrongful Imprisonment Compensation Act (Public Act 343 of 2016). The bill would exclude compensation received pursuant to the Wrongful Imprisonment Compensation Act from the act's definition of "total household resources," which is used in calculating the homestead property tax credit. This would start for tax years that begin after December 31, 2018.

Under current law, a percentage of gross individual income tax revenue (i.e., income tax revenue before refunds) is earmarked to the SAF. That percentage is 1.012% divided by the tax rate (currently 4.25%), which holds the SAF harmless in the event the tax rate changes. HB 4991 would change 1.012% to 0.954%, effectively reducing the percentage of gross income tax revenue earmarked to the SAF from 23.81% to 22.45%. The change offsets the additional revenue accruing to the SAF from increased sales tax collections resulting from the U.S. Supreme Court decision in *South Dakota v Wayfair* in June 2018, and would be effective beginning December 1, 2018.

The reduction in the SAF earmark results in more General Fund revenue. That increase would be divided between the $69.0 million earmarked to the Renew Michigan Fund and the distributions to the Michigan Transportation Fund beginning with FY 2018-19. Under current law, the distributions of net income tax revenue to the MTF are $150.0 million in FY 2018-19, $325.0 million FY 2019-20, and $600.0 million in FY 2020-21 and each subsequent year. House Bill 4991 would increase the distributions for FY 2018-19 and FY 2019-20 to $264.0 million and $468.0 million, respectively.

The bill would increase revenue for the Department of Environmental Quality (DEQ) by dedicating $69.0 million in tax revenue to the newly created Renew Michigan Fund administered by the department. Money in this fund would be expended for three purposes as specified in the bill.

A majority (65%, or approximately $44.9 million) of the funds would be used for environmental cleanup and redevelopment efforts, including the remediation of emerging contaminants like PFAS. The DEQ has used Clean Michigan Initiative (CMI) funding for this purpose since the CMI bond was approved by voters in 1998, but this funding is almost completely exhausted.

The Renew Michigan Fund would also be used to expand recycling programs (22%, or approximately $15.2 million). The DEQ has administered a recycling initiative annually funded by $1.0 million GF/GP since FY 2014-15; program funding was doubled to $2.0 million in FY 2018-19, with additional support of $1.0 million from the Cleanup and Redevelopment Fund.

The final portion of the Renew Michigan Fund would be used to expand the waste management program (13%, or approximately $9.0 million) which includes landfill oversight, monitoring, and postclosure maintenance. This program is funded at $5.2 million in FY 2018-19 and is primarily supported by solid waste tipping fees.

MCL 206.30, et. al.

FISCAL IMPACT:

The provisions to exclude remuneration received pursuant to the Wrongful Imprisonment Compensation Act from the calculation of taxable income and total household resources could potentially reduce income tax revenue by a small amount.

Although the change to the SAF earmark would have no impact on overall state tax revenue, it would reduce the amount of revenue accruing to the SAF from gross income tax revenue by a projected $141.1 million in FY 2018-19 and $173.8 million in FY 2019-20. These amounts are essentially identical to the estimated increases in SAF revenue resulting from the *South Dakota v Wayfair* decision.

Additionally, the bill would reduce General Fund revenue by earmarking $69.0 million to the Renew Michigan Fund and increasing the earmark to the MTF by $114.0 million in FY 2018-19 and $143.0 million in FY 2019-20.

The bill would increase reporting costs for the DEQ by requiring the department to submit an annual report to the House and Senate Appropriations Committees detailing the new fund's revenues and expenditures from the preceding year. The extent of this cost increase is likely to be minimal, as the department is already engaged in similar annual reporting efforts. The bill would increase revenues for local units of government through grants for materials management, recycling programs, and the development of recycling markets. Local governments would not be affected by the bill.

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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.