

TAX CREDIT FOR HIRING UNEMPLOYED VETERANS

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House Bill 4221 (proposed substitute H-1)

Sponsor: Rep. Mary Cavanagh

Committee: Tax Policy

Complete to 4-21-21

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

SUMMARY:

House Bill 4221 would add two sections to the Income Tax Act to allow a tax credit for qualified taxpayers that hire and retain an unemployed veteran. The two sections generally use identical language, but section 277 would amend Part 1 of the act, which pertains to the individual income tax, and section 677 would amend Part 2, which pertains to the corporate income tax.

Section 277 also provides that, when the qualified taxpayer is a *member of a flow-through entity* that qualifies for the credit (in other words, a shareholder of an S corporation, a partner in a partnership or limited partnership, or a member of a limited liability corporation), that member could claim the credit against the member's tax liability based on the distributive share of business income from that flow-through entity.

Under the bill, for tax year 2021 onward, a *qualified taxpayer* could claim a credit against its income tax equal to \$1000 for each *unemployed veteran* hired during that tax year for a *full-time job*.

Qualified taxpayer would mean a taxpayer that is an employer that employs fewer than 50 full-time employees.

Unemployed veteran would mean a *veteran* who is a Michigan resident and is eligible to receive, is currently collecting, or has exhausted unemployment benefits under a state or federal unemployment benefit program.

Veteran would mean an individual who served in the U.S. Armed Forces, including the reserve components, and was discharged or released under conditions other than dishonorable. Veteran would include an individual who died while on active duty.

Full-time job would mean a job performed for 35 hours or more each week and whose income and social security taxes are withheld from the wages earned.

If that credit exceeded the qualified taxpayer's tax liability for that tax year, the portion exceeding the taxpayer's liability would not be refunded.

If a qualified taxpayer terminated the employment of a veteran for whom a credit was claimed within a year of hire, the Department of Treasury could reduce, terminate, or have a percentage of the credit claimed added back into the taxpayer's tax liability.

Proposed MCL 206.277 and 206.677

FISCAL IMPACT:

The bill provides a nonrefundable credit to businesses with fewer than 50 full-time employees that hire unemployed veterans. Using data from the Bureau of Labor Statistics to estimate the number of unemployed veterans in Michigan along with Census data that breaks down firm size by legal form of organization, the proposed credit would reduce estimated income tax revenue by just over \$5.4 million per year.

Credits claimed by C corporations would reduce general fund revenue, while credits claimed by other businesses through the individual income tax would reduce both general fund and School Aid Fund revenue. Overall, general fund revenue would decline by an estimated \$4.4 million, and School Aid Fund revenue would fall by \$1.0 million.

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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.