

**NOTE 15 – INCOME TAX CREDITS AND REFUNDS**

***Income Tax Credits***

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits that are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax is the primary credit that falls into this category. Expenditures for this credit are recognized in the year the tax returns are filed and recipients claim the credit.

The following table summarizes the various credits, reported on the "Tax expenditures" line as an expense in the government-wide financial statements and as an expenditure in the fund financial statements (in millions):

Property tax credits:	
General homestead	\$ 494.2
Senior citizens	311.2
Farmland preservation	32.5
Other property tax credits	<u>44.2</u>
Subtotal - property tax credits	882.1
Adoption credit	1.0
Stillbirth credit	.1
Home heating (excluding federal share)	<u>.2</u>
Total tax expenditures	<u>\$ 883.4</u>

***Income Tax Refunds Payable***

The \$656.2 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.