



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

January 3, 2018

Mr. Patrick L. Anderson, Principal & CEO
Anderson Economic Group LLC
1555 Watertower Place, Suite 100
East Lansing, MI 48823

Dear Patrick:

Thank you for your December 29, 2017 letter addressing the impact of federal tax reform on Michigan income tax collections.

I agree it's an issue that should be addressed immediately. We can both agree that Congressional action to change the federal personal exemption should not lead to an unintended increase in Michigan's individual income taxes.

But I don't agree with your recommended interpretation of the implication if state law isn't changed.

You are right about the facts. Federal tax reform did not explicitly eliminate personal exemptions, instead setting the value of each exemption at zero.

But state law is clear, the number of exemptions for state taxation is determined by "*the number of exemptions or dependency exemptions allowable on the taxpayer's federal income tax return*". Since the federal 1040 will not require taxpayers to calculate personal exemptions that have zero value, Michigan residents would not be able to claim personal exemptions on their state tax returns under current state law.

More generally, and more important, we do not want to leave an ambiguous tax situation open for interpretation by individual state officials or the courts. Addressing uncertainty for taxpayers is a key responsibility of the state Legislature. That is why I believe it is incumbent upon the Legislature to clarify the treatment of personal exemptions for state tax purposes in-light-of recent changes at the federal level.

We've known each other almost 30 years. Agree or disagree (and we've done both) I always welcome your views on state fiscal issues.

Sincerely,

A handwritten signature in black ink, appearing to be "N.A. Khouri", written over a horizontal line.

N.A. Khouri
State Treasurer

Cc: Governor Rick Snyder
Attorney General Bill Schuette