



**House
Legislative
Analysis
Section**

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TAX CREDIT FOR COMMUNITY FOUNDATIONS

Senate Bill 475 (Substitute H-2)
Senate Bill 476 (Substitute H-2)
First Analysis (11-29-88)

RECEIVED

JAN 18 1989

Sponsor: Sen. Christopher D. Dingell
Senate Committee: Finance
House Committee: Taxation

THE APPARENT PROBLEM:

Taxpayers in Michigan can claim a credit against the income tax or single business tax (SBT), up to certain limits, equal to fifty percent of contributions to public broadcasting stations, public libraries, college foundations, and colleges and universities. Some people advocate extending the credit to cover contributions made to "community foundations," special philanthropic organizations (e.g., community chests) that raise funds to be distributed to other organizations within a specific geographic area to meet economic, educational, and cultural needs.

THE CONTENT OF THE BILL:

Senate Bill 475 would amend the Income Tax Act (MCL 206.261) to allow a taxpayer to claim a credit for contributions to community foundations in the same way credits can be claimed for contributions to Michigan colleges and universities, public libraries, and public broadcasting. Senate Bill 476 would allow a credit against the Single Business Tax (MCL 208.38C) for such contributions. The credits could be claimed for the 1989 through 1991 tax years. In either case, however, the credit could not be claimed in a tax year if at the end of the previous tax year the total of such credits for all tax years exceeded \$3 million. On or before July 1 of each year, the Department of Treasury would have to inform the House Taxation and Senate Finance committees of the total amount of credits claimed for the preceding year.

The limits on the credit against the income tax would be \$100 for individuals, \$200 for husbands and wives filing jointly, and \$5,000 or ten percent of tax liability before claiming credits, whichever was less, for resident estates or trusts. The limit on the credit against the SBT would be \$5,000 or five percent of tax liability prior to claiming any credits. In both cases, the credits would be nonrefundable, which means that the credit could not reduce tax liability to less than zero. (These are the same limits that exist for currently allowable credits for charitable contributions.)

A credit would only be allowed for a contribution to a community foundation certified by the Department of Treasury as meeting certain requirements, including being "organized and operated to attract contributions primarily of a capital or endowment nature to support a broad range of charitable activities within the specific geographic area of this state that it serves, such as a municipality or county." An organization would have to be incorporated or established before January 1 of the tax year prior to the tax year for which the credit was claimed, qualify for federal tax exemption as a 501 (c) (3) nonprofit organization, and meet other federal requirements (that eliminate certain kinds of institutions.)

HOUSE COMMITTEE ACTION:

The substitutes approved by the House Taxation Committee limit the use of the new tax credit to the 1989 through 1991 tax years; would not allow use of the credit in a new tax year once more than \$3 million in credits had been claimed; and provide a more restrictive definition of "community foundation."

FISCAL IMPLICATIONS:

The bill contains a rough limit on the amount the new credit can cost the state treasury by specifying that the credit would not be available in a new tax year once the total amount of credits claimed in previous tax years exceeded \$3 million. The Senate Fiscal Agency had estimated (on 10-28-87) the bills to cost \$4 million to \$5 million annually before the limitation was added.

ARGUMENTS:

For:

A community foundation is a special kind of umbrella charitable organization that raises capital in order to make contributions to other charitable organizations in a given geographic area. Its aim is to create a permanent pool of money, a permanent resource base, to use in responding quickly to specific community needs, be they economic, cultural, educational, environmental, or social. It differs from the usual charitable organization in that it does not have a single focus. It differs from the United Way in that its funds do not go to operating budgets but for specific projects. Community foundations give donors more freedom: they can designate that their dollars go for a particular purpose or to endow a specific program. Officials say there are 38 community foundations in Michigan serving about 50 counties. Because of the special role they play, and because they make public expenditures in much the same way that governments do, they are deserving of the same tax credit status that Michigan law gives to certain other organizations, including college foundations, public broadcasting, public libraries, and institutions of higher education. Community foundations are more like those organizations than they are like the United Way or individual charities. At a time when there are few donors of great wealth, and when changes in the tax law may be discouraging philanthropy, this bill would provide a boost to donations to community foundations. It should be noted that the credit is experimental: the bill would allow it for three years (or up to a certain dollar limit) only. The legislature can decide whether continuation of the credit can be justified based on experience.

Against:

There are a great many charitable organizations in Michigan; it is not at all clear why one kind should be singled out for special treatment. Why shouldn't the Cancer

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Society, the Lung Association, Boys' Clubs, or a hundred others also be able to provide donors with a tax credit? This bill opens the door to demands for a credit from other private charities, and the legislature will be hard pressed to resist despite the high cost to state revenues.

POSITIONS:

The Department of Treasury supports the bill. (11-16-88)

Representatives from the Council of Michigan Foundations testified in favor of the bill before the House Taxation Committee. (11-16-88)