SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 475 (as enrolled)
Senate Bill 476 (as enrolled)
Sponsor: Senator Christopher D. Dingell
Senate Committee: Finance
House Committee: Taxation

Date Completed: 12-21-88

RATIONALE

Under current State law, taxpayers may claim a charitable tax credit, equal to 50% of aggregate donations but not exceeding $100 for individuals, $200 for couples, or $5,000 for businesses, for contributions made to public broadcast stations, public libraries, college foundations, and institutions of higher education. Some people believe that a similar tax credit should be permitted for contributions made to a community foundation, which is a charitable organization that receives and distributes funds to serve the social, cultural, and educational needs of defined geographic areas. There are 34 such foundations in Michigan.

CONTENT

Senate Bills 475 and 476 would amend the Income Tax Act and the Single Business Tax Act, respectively, to permit a taxpayer to claim a tax credit for contributions to community foundations.

<u>Senate Bill 475</u>

The bill would amend the Income Tax Act to allow a taxpayer to claim a credit for the 1989 through 1991 tax years against income tax liability equal to 50% of the amount the taxpayer contributes during the tax year to a "community foundation". The total credit allowed could not exceed $100 for a single return and $200 for a husband/wife joint return. For a resident estate or trust, a credit could not exceed 10% of tax liability for the year (before claiming any credits allowed under the Act) or $5,000, whichever was less. The credit allowed by the bill would be nonrefundable; a taxpayer could not claim a credit amount that reduced his or her tax liability to less than zero.

The bill would define a "community foundation" as an organization that met all of the following requirements:

- It qualified for an exemption from Federal income taxation as a corporation or community chest that is organized and operated exclusively for religious, charitable, scientific, literary, testing for public safety, or educational purposes, for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition.
- It was organized and operated to attract contributions primarily of a capital or endowment nature to support charitable activities within its specific geographic area.
- It was "publicly supported" and met the requirements for treatment as a "single entity" as those terms are defined in the United States Department of Treasury regulations.
- It was incorporated or established as a trust before January 1 of the year prior to the year in which the tax credit was claimed.

The credit could not apply in a tax year for which the aggregate amount of credits claimed by all taxpayers for all prior tax years (together with the Single Business Tax credit allowed under Senate Bill 476) exceeded $3 million.

By July 1 of each year, the Department of Treasury would have to report to the House Committee on Taxation and the Senate Committee on Finance the total amount of tax credits claimed under the bill and Senate Bill 476 for the preceding tax years.

<u>Senate Bill 476</u>

The bill would amend the Single Business Tax Act to allow a taxpayer not subject to the Income Tax Act to claim a credit against the single business tax in the same manner that Senate Bill 475 would allow a credit. A taxpayer could claim a credit equal to 50% of the amount the taxpayer contributed during the tax year to a community foundation. The total credit allowed could not exceed 5% of the taxpayer's tax liability for the year or $5,000, whichever was less.

Proposed MCL 206.261 (Senate Bill 475)
208.38C (Senate Bill 476)

FISCAL IMPACT

Senate Bill 475 and Senate Bill 476 would result in an indeterminate loss of GF/GP revenues. The revenue loss would depend on the number of companies and individuals using the new tax credit. In 1986, there were 10,060 donors to community foundations. Although an average donation of $300 per household and $3000 per corporation leads to a net GF/GP revenue loss of $4 to $5 million, the bill would set a cap of $3 million on the total credits allowed for donations to community foundations over the three tax years that the credit would be allowed.

ARGUMENTS

Supporting Argument

Community foundations provide assistance to various charitable organizations active within many Michigan communities. Their funds have been used to pursue such varied and desirable efforts as crime reduction, provision of affordable housing, educational assistance, and promotion of economic development activities. Clearly,

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community foundations perform a valuable public service — a service that otherwise would be expected to be provided by the State. The bills would help to increase the visibility of community foundations, the amounts of contributions received by foundations, and the pool of contributors.

Supporting Argument

By lowering the marginal tax rates, the 1986 Federal tax reforms reduced the tax-incentive attractiveness of contributing. The bills would serve to offset that reduction partially. Also, by limiting the amount of the credit, the bills primarily would benefit smaller contributors.

Opposing Argument

A community foundation essentially is a private charitable organization. The current allowable credit is for contributions to public entities (e.g., libraries and institutions of higher education). By permitting a tax credit for community foundations, the bills would establish a dangerous precedent of allowing tax credits to be claimed for contributions to private charitable organizations. Then, the Legislature could expect to hear from other charitable organizations seeking tax credits for contributions.

Response: Community foundations are indeed "public" charitable organizations. Under the bills, in order to be recognized as a community foundation, an organization would have to receive a substantial part of its support from a governmental unit or from direct or indirect contributions from the general public.

Opposing Argument

The bills would result in a loss of revenue from both the State Income Tax and the Single Business Tax that probably would increase annually as more credits were claimed.

Response: The credit would be allowed in only three tax years, and total credit could not exceed $3 million.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.