

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 5043 (Substitute H-3 as passed by the House)
Sponsor: Representative Michael Bishop
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 10-3-00

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer to claim a credit against the tax equal to 50% of the total contributions made by the taxpayer in a tax year to an educational organization or facility.

Currently, under the Act, a taxpayer may claim a credit equal to 50% of the aggregate amount of the taxpayer's charitable contributions in a tax year to various entities (libraries, colleges, municipalities, etc.) listed in the Act. The maximum credit allowed is \$100, or \$200 for a joint return; or, for a resident estate or trust, the lesser of \$5,000 or 10% of the estate's or trust's tax liability. The credit proposed by the bill would be subject to these limitations.

The bill provides that an educational facility or organization would be either a continuing, community, or adult education program operated by a school district or a public school academy; or an "educational foundation". An educational foundation would be an organization that applied for certification by April 1 each year, that annually submitted to the Michigan Department of Treasury documentation that demonstrated continued compliance with the bill's requirements, and that the Department certified as meeting the following requirements: 1) qualified for a 501(c)(3) Federal income tax exemption under the Internal Revenue Code; 2) maintained an ongoing program to attract new funds, by seeking gifts and bequests from a wide range of potential donors in the community or area served; 3) dedicated all funds, gifts, and bequests exclusively to a school district or public school academy or a foundation exempt from Federal tax, located in Michigan in the community or area served by the educational foundation; 4) was publically supported as defined by U.S. Department of Treasury regulations; 5) met the requirements of the U.S. Department of Treasury for treatment as a single entity; 6) was incorporated or established as a trust at least six months before the beginning of the tax year in which a credit was claimed; 7) had an independent governing body that represented the general public's interest and that was not appointed by a single outside entity; and 8) was subject to program review each year and an independent financial audit every three years, and provided copies of the reviews and audits to the Michigan Department of Treasury within three months after the review or audit was completed.

The bill provides that a contribution to a community foundation, shelter for homeless persons, food kitchen, food bank, or other entity whose primary purpose is to provide accommodations or meals to the indigent could not be used to calculate a credit under the bill.

MCL 206.260

Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would reduce income tax revenue an estimated \$20 million in FY 2001-02. Under current law, 300,000 taxpayers claimed \$22 million in the public contribution credit on their 1998 tax return. It is estimated that expanding this credit to include contributions made to education foundations, public school academies, and community education programs would greatly increase the number of taxpayers who claim this credit. The estimated \$20 million reduction in income tax revenue would reduce General Fund/General Purpose revenue an estimated \$19 million and School Aid Fund revenue \$1 million.

Fiscal Analyst: J. Wortley

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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.