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BILL ANALYSIS

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Senate Bill 652 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Tom George
Committee: Finance

Date Completed: 4-14-08

RATIONALE

In Michigan, a taxpayer may take an income tax credit for 50% of the amount the taxpayer has given to certain organizations and institutions, including homeless shelters, food banks, museums, and colleges. A taxpayer may claim the credit for donations made between January and December 31 of a tax year, while the taxes are not due until April 15 the following year. Some people believe that if taxpayers could claim a credit for donations made during a tax year and through the following April 15, they would be more aware of charitable donation tax credits and would be more likely to make contributions.

CONTENT

The bill would amend the Income Tax Act to do the following:

-- **Permit taxpayers to take a credit equal to 50% of the aggregate amount of charitable donations made during a tax year (as currently allowed) and, for the 2008 tax year and each subsequent tax year, 50% of the amount donated through April 15 of the following tax year.**
-- **Specify that a charitable contribution could be used to calculate a credit amount for only one tax year.**

The Act allows a taxpayer to credit against the income tax imposed for a tax year an amount, subject to applicable limits, equal to 50% of the aggregate amount of charitable contributions the taxpayer made during the tax year to any of the following:

-- The State, pursuant to the Art in Public Places Act, of artwork created by the taxpayer.
-- The State Art in Public Places Fund.
-- A municipality, of artwork created by the taxpayer.
-- A municipality or a nonprofit corporation affiliated with a municipality and an art institute, of money or artwork, for the purpose of benefiting an art institute in the municipality.
-- A public library.
-- A public broadcast station that is not affiliated with an institution of higher education.
-- An institution of higher education located within the State.
-- The Michigan Colleges Foundation.
-- The State Museum.
-- The Department of State for the preservation of the State Archives.
-- A nonprofit corporation, fund, foundation, trust, or association organized and operated exclusively for the benefit of institutions of higher education located within the State.

Also, subject to applicable limits, a taxpayer may credit against the income tax 50% of the amount the taxpayer contributes during the tax year to an endowment fund of a community foundation or 50% of the cash amount the taxpayer contributes during the tax year to a shelter for homeless people, food kitchen, food bank, or other entity whose primary purpose is to provide overnight accommodation, food, or meals to people who are indigent, if a contribution to the entity is deductible for the donor under the Internal Revenue Code.

In addition, a taxpayer may claim a credit, subject to applicable limits, equal to 50% of the fair market value of an automobile donated by the taxpayer to a qualified organization that intends to provide the vehicle to a qualified recipient.

Under the bill, a taxpayer could claim these credits in an amount equal to 50% of the aggregate amount of charitable donations made during a tax year and, for the 2008 tax year and each subsequent tax year, 50% of the amount donated through April 15 of the following tax year.

A charitable contribution made under the provisions described above could be used to calculate a credit amount for only one tax year.

MCL 206.260 et al.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By extending the time period during which a taxpayer may make a donation that is eligible for an income tax credit, the bill would encourage more people to donate to charitable organizations. Tax credits for charitable contributions enable taxpayers to make donations that they otherwise might not be willing to make or able to afford. Currently, taxpayers may claim donations only if they are made before December 31, three and a half months before taxes are due. Because taxpayers might be more likely to donate when they realize taxes are due, organizations and institutions such as colleges and libraries that depend on charitable contributions for revenue could receive more money under the bill.

Legislative Analyst: Craig Laurie

FISCAL IMPACT

This bill would increase the collective cost of the income tax's public contribution, community foundation, homeless shelter/food bank, and motor vehicle donation credits by an estimated $7.0 million in FY 2008-09 and less than $1.0 million annually in subsequent years. The initial fiscal impact in FY 2008-09 is larger because taxpayers would be able to claim contributions made from January 1, 2008, through April 15, 2009, while in future years taxpayers would be effectively able to claim contributions only made in a 12-month period, which would include contributions made up to the time that their tax return for the previous tax year would be due, which could increase contributions slightly. Undoubtedly, this would make it more difficult for taxpayers to keep track of which contributions were claimed in which tax year, given that charitable organizations report contributions to taxpayers on a calendar year basis as required by the Federal government. As a result, this proposed timing change would likely result in unintentional double-claiming of contributions in two different tax years. This estimated loss in income tax revenue would affect the General Fund and would have no direct impact on local government.

Fiscal Analyst: Jay Wortley