



**Senate Fiscal Agency**  
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**BILL ANALYSIS**



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Senate Bill 721 (Substitute S-1 as passed by the Senate)  
 Sponsor: Senator Walter H. North  
 Committee: Finance

Date Completed: 11-16-95

**RATIONALE**

Under Michigan's home heating tax credit program, low-income taxpayers who own or rent the home where they live may claim a credit against the income tax to offset partially the cost of heating their home. The credit has been available in one form or another since 1978; the statute authorizing the credit has been modified and extended several times since its inception, the last time when Public Act 181 of 1991 was enacted to extend the credit through the 1994 tax year. If the credit is not extended, it will not be available for taxpayers to claim for the 1995 tax year.

For the first few years of its existence the credit was funded entirely with State dollars; however, Federal money has been available since 1981 for home heating assistance and has been relied on heavily in recent years to fund the credit. According to the Department of Treasury, Federal money for home heating assistance is made available to the State contingent upon a State plan that meets certain Federal regulations. In Michigan, the plan to distribute available Federal money for home heating assistance for low-income persons has been based in large part upon the home heating credit. (A small portion of the Federal money must be reserved each year for emergency home heating assistance.) In 1994, \$72.1 million in Federal funds was committed for low-income home heating assistance through the home heating credit. This represented over 95% of the \$75.4 million total committed for the credit, as the State issued \$3.3 million for the credit from the General Fund.

It has been pointed out that, for the 1995 tax year, the credit has expired and thus the State has no authority for the distribution of Federal funds for home heating assistance; and, budget discussions at the Federal level have not as yet indicated the amount of funds, if any at all, that will be available for low-income home heating assistance. It has

been suggested that the State extend the credit for one year, so that the State would have the authority to distribute available Federal funds, but provide for a reduction of the credit, if the amount received from the Federal government were less than in 1994.

**CONTENT**

**The bill would amend the Income Tax Act to extend the existence of the home heating tax credit through the 1995 tax year; and provide for the reduction of individuals' home heating credits for 1995 if Federal home heating assistance funds were reduced or eliminated.**

Under the Act, through the 1994 tax year, low-income residents who own or rent the home where they live could claim a home heating credit against the income tax. The bill would extend the credit through the 1995 tax year, but would impose the following conditions for the tax year:

- If the amount of Federal low-income home heating energy assistance block grant funds allotted to Michigan for the credit for Federal fiscal year (FY) 1995-96 were less than \$75,400,000, each individual credit claimed would have to be reduced by multiplying the credit amount by a fraction, the numerator of which was Michigan's Federal block grant allotment minus \$400,000, and the denominator of which was \$75 million.
- If there were no Federal low-income home heating energy assistance block grant funds allotted to Michigan for Federal FY 1995-96, each individual credit would have to be reduced proportionately as necessary to limit the total credits for the tax year to the amount of funds for Federal low income home heating energy assistance carried

forward from FY 1994-95 to FY 1995-96. The Department of Management and Budget would have to determine the ratio by which a reduction would be made.

MCL 206.527a

## **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**

The State's long-standing home heating credit has expired, and will not be available for low-income taxpayers unless it is extended for the 1995 tax year. The availability of the credit, however, is facing other complications as well. In the 1994 tax year, over 95% of the total credit that went to taxpayers for the home heating credit came from Federal funds. In reality, then, the credit is in great part a Federal pass-through. Due to Federal regulations, however, the Federal money available for home heating assistance cannot be made available to a state unless the state has in place a plan that meets Federal requirements. Michigan's home heating credit has satisfied Federal regulations regarding the distribution of the funds, but since it has expired the State will have no authority to distribute available home heating funds unless the credit is extended. To complicate matters further, the State at this time does not know the degree to which the pending Federal budget will fund low-income home heating assistance, or if Congress will fund it at all. By extending the credit through the 1995 tax year and providing for a proration of the credit based upon funds that were available in 1994, the bill would address these problems and, further, would allow the Department of Treasury to print and distribute home heating tax credit forms to be used for the 1995 tax year.

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

This bill would extend the ongoing home heating credit program by one year. Appropriations have been made to cover the maximum cost to the State of \$3.4 million. The costs depend on the Federal funds received for the program.

Fiscal Analyst: R. Ross

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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.