

Legislative Analysis



CHILDRENS TRUST FUND INCOME TAX CHECKOFF

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Senate Bill 503 as passed by the Senate

Sponsor: Sen. Bev Hammerstrom

House Committee: Tax Policy

Senate Committee: Finance

First Analysis (9-14-05)

BRIEF SUMMARY: The bill would re-instate the income tax checkoff allowing taxpayers to contribute money to the Children's Trust Fund.

FISCAL IMPACT: This bill would have no fiscal impact on state or local government. The revenue generated for the Children's Trust Fund depends on the number of contributions and the amount contributed. In 1999, 78,200 filers contributed \$938,300 (or on average \$12.00 per contribution) to the Children's Trust Fund.

THE APPARENT PROBLEM:

The Children's Trust Fund is a nonprofit organization administered by the Michigan Department of Human Services and dedicated to the prevention of child abuse and neglect. The trust fund was created with the enactment of Public Act 249 of 1982 and received most of its funding through an income tax checkoff, which allowed taxpayers to donate at least \$2 on their income tax return (either taken from any refund or added to tax liability). As originally established, the checkoff was to remain in place until the trust fund balance exceeded \$20 million. Between 1983 and 2000, the checkoff generated \$14,884,426 in revenue for the trust fund. The trust fund's balance reached \$20 million in 2000 after receiving a supplemental appropriation of \$13.1 million under Public Act 291 of 2000. Since then, only the interest and earnings of the trust fund have been available for disbursement. However, a sluggish economy has resulted in slower revenue growth than expected, and there is concern that the trust fund will not earn enough to adequately support the various child abuse and neglect programs receiving funding. Some people believe that the checkoff should be reinstated to allow the organization to bolster its endowment and provide sufficient programmatic support.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act (MCL 206.440) to allow an individual to designate on his or her annual return that a contribution of \$5 or more of his or her refund be credited to the Children's Trust Fund for tax years beginning January 1, 2005.

Currently under the act, an individual could contribute \$2 or more of a refund to the trust fund until the fund balance reached \$20 million. The bill would reinstate the checkoff without regard to the trust fund balance.

Under the act, if a taxpayer's refund is not sufficient to make a contribution, the taxpayer may designate a contribution amount, which will be added to his or her tax liability. The bill would retain this provision.

HOUSE COMMITTEE ACTION:

The House Committee on Tax Policy made no amendments to the bill as it passed the Senate.

BACKGROUND INFORMATION:

Currently, Public Act 249 of 1982 provides that when the balance of the trust fund exceeds \$20 million, only interest and earnings from the fund may be disbursed. That provision would be amended by Enrolled House Bill 4825, introduced by Representative Murphy, so that not more than half of the money contributed to the Children's Trust Fund each year, plus interest and earnings, and excluding unrealized gains and losses, credited to the trust funding during the previous fiscal year, shall be available for disbursement upon authorization of the state Child Abuse and Neglect Prevention Board. (House Bill 4825 essentially returned the act to its condition prior to the fund balance reaching \$20 million.)

ARGUMENTS:

For:

Reinstating the income tax checkoff for the Children's Trust Fund permits the fund to continue to provide much-needed financial support for a variety of child abuse and neglect prevention programs throughout the state. Apparently, it was believed that when the trust fund reach a balance of \$20 million, interest and earnings would allow for about \$1 million to be disbursed for programmatic support. However, the rather lackluster performance of the economy and stock market during the last few years has resulted in slower growth than expected.

Response:

While this is a very worthy cause, there is some concern over the proliferation of income tax check-offs. Once one check-off is added, the door is open to others as well, which complicates the tax form and creates problems with its design and readability. The availability of check-offs also tends to pit charitable enterprises against one another for state favoritism.

POSITIONS:

The Department of Treasury supports the bill, though cautions against creating numerous other income tax checkoffs.

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