

# Legislative Analysis



## CHILDRENS TRUST FUND: REINSTATE CHECK-OFF AND INCREASE ANNUAL DISBURSEMENTS

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**House Bill 4825 as enrolled**  
**Public Act 119 of 2005**  
**Sponsor: Rep. Michael C. Murphy**  
**House Committee: Family and Children Services**  
**Senate Committee: Families and Human Services**

**Senate Bill 503 as enrolled**  
**Public Act 160 of 2005**  
**Sponsor: Sen. Bev Hammerstrom**  
**House Committee: Tax Policy**  
**Senate Committee: Finance**

### Second Analysis (4-6-06)

**BRIEF SUMMARY:** Senate Bill 503 would reinstate the income tax check-off allowing taxpayers to contribute money to the Children's Trust Fund. House Bill 4825 would eliminate the current restriction on disbursements from the fund and, instead, specify that up to one-half of the money contributed to the fund each year, and the earnings credited to the fund during the previous fiscal year, would be available for disbursement.

**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 check-off, 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 check-off was to remain in place until the trust fund balance exceeded \$20 million. Between 1983 and 2000, the check-off 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, CTF advocates say that a sluggish economy has resulted in slower revenue growth than expected, and they are concerned that the trust fund will not earn enough to adequately support the child abuse and neglect programs receiving funding. Some people believe that the check-off should be reinstated to allow the organization to bolster its endowment and to provide sufficient programmatic support.

## ***THE CONTENT OF THE BILLS:***

Senate Bill 503 would amend the Income Tax Act (MCL 206.440) to allow an individual to designate on an annual return that a contribution of \$5 or more of a 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 (as it has). 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 tax liability. The bill would retain this provision.

House Bill 4825 would eliminate a current restriction on CTF disbursements found in Public Act 249 of 1982, which created the CTF. The act says (at MCL 21.171) that when the total assets in the fund exceed \$20 million, only the interest and earnings credited to the trust fund are available for disbursement. House Bill 4825 would specify instead that up to one-half of the money contributed to the fund each year, and the earnings (excluding unrealized gains and losses) credited to the fund during the previous fiscal year, would be available for disbursement. Disbursements must be authorized by the state Child Abuse and Neglect Prevention Board. (House Bill 4825 essentially returns 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 reached 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 has resulted in slower earnings growth than expected. To make the trust fund more effective in its work, the legislation would allow half of the contributions made each year to be disbursed (with the approval of the state Child Abuse and Neglect Prevention Board). The CTF provides funding to 71 local child abuse and neglect councils, representing 81 of Michigan's 83 counties.

### ***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.

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