

# Legislative Analysis



## HOME HEATING CREDIT INCOME LIMIT

Mitchell Bean, Director  
Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

### House Bill 5689

Sponsor: Rep. Tom Casperson

### House Bill 5690

Sponsor: Rep. David Law

Committee: Energy and Technology

Complete to 3-7-06

## A SUMMARY OF HOUSE BILLS 5689 & 5690 AS INTRODUCED 2-16-06

Since 1978, the state has provided a refundable credit against the income tax that is designed to assist low-income households with the cost of heating their homes. Generally speaking, the amount of the credit is dependent on the size of the household and household income. Funding for the credit is made available through the federal Low Income Home Energy Assistance Program (LIHEAP). The actual amount of the credit may be reduced based on the availability of federal funds.

Under the Income Tax Act, the credit may be calculated in one of two ways, with the claimant being allowed to use the calculation that yields a greater benefit. Under the standard calculation, which is typically used by the majority of claimants, the credit is equal to the difference between a "standard allowance" and 3.5 percent of household income. Under the act, the standard allowance ranges between \$272 and \$601, based on the number of exemptions claimed (generally, household size), with the amount annually adjusted by the state Department of Treasury so that a claimant with a household income of less than 110 percent of the federal poverty income standards is not denied the credit.

**House Bill 5689 would increase the household income level to 125 percent of the federal income poverty standards for 2006 and House Bill 5690 would increase the household income level to 130 percent of federal income poverty standards for tax years beginning on and after January 1, 2007.**

The act also provides for an alternate calculation which is based on actual home heating costs incurred. Under this calculation, the credit is equal to 70 percent of the difference between actual home heating costs and 11 percent of household income. Under the act, the alternate calculation may only be used by claimants with a household income below certain levels, which vary based on the number of exemptions claimed. Further, the act limits the amount of home heating costs used to calculate the credit. This limit was set at \$1,190 for the 1998 tax and has been annually adjusted for inflation for fuels and other utilities. For the 2005 tax year the limit is \$2,028. The bills do not affect the alternate calculation.

### FISCAL IMPACT:

Because the total amount of funding for the home heating credit is limited in section 527a(18) of the Income Tax Act by the availability of federal funds, the bills would have no impact on income tax revenue as written. Increasing the eligibility standard to 125 percent or

130 percent of the poverty level would allow more individuals to receive a credit, but would result in a reduction for those who already receive the credit.

For FY 2005-06, the amount of the federal block grant was \$101.7 million. The amount available for the home heating credit is reduced by administrative costs (\$10.2 million), crisis assistance to those individuals facing a disruption in service because of non-payment (\$11.7 million), and weatherization (\$3.0 million). Adding back the \$900,000 carryover from FY 2004-05 brings total to \$77.7 million.

The FY 2005-06 estimate for the full home heating credit is \$102.3 million. Thus, for the current fiscal year, home heating credits are prorated to 76 percent of the full amount. By way of comparison, if the eligibility standard had been increased to 125 percent of the poverty level for the 2005 tax year, the increased cost would have been approximately \$17.7 million, which would have reduced the proration to about 64 percent.

Increasing the eligibility standards for the 2006 tax year would increase the total amount of the home heating credit in FY 2006-07 by about \$27.1 million. However, unless additional funding is made available, this would serve to only decrease the proration further.

**BACKGROUND INFORMATION:**

The tables below show the standard allowance and income limits for the 2005 tax year.

**Standard Calculation**

<b>Exemptions</b>	<b>Standard Allowance</b>	<b>Income Limit</b>
0 or 1	\$369	\$10,529
2	\$495	\$14,129
3	\$620	\$17,700
4	\$746	\$21,300
5	\$871	\$24,871
6	\$997	\$28,471

Also, for each exemption over six, the standard allowance increases by \$126 and the income limit increases by \$3,586.

**Alternate Calculation**

<b>Exemptions</b>	<b>Income Limit</b>
0 or 1	\$11,635
2	\$15,658
3 or more	\$18,433

Legislative Analyst: Mark Wolf  
Chris Couch  
Fiscal Analyst: Jim Stansell

---

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.