



Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 503 (as enrolled)
Sponsor: Senator Bev Hammerstrom
Committee: Finance

Date Completed: 8-1-05

RATIONALE

The Children's Trust Fund (CTF) is a nonprofit organization administered by the Michigan Department of Human Services and dedicated to the prevention of child abuse and neglect. From 1983 through 2000, a checkoff on Michigan's income tax return allowed an individual to donate \$2 or more of his or her refund to the CTF. After 2000, the CTF's balance exceeded \$20 million and the checkoff was discontinued under a provision in the Income Tax Act that ended the checkoff when the Fund's balance exceeded that amount. In the years since then, volatility in the stock market has resulted in slower growth than was expected for the CTF's assets, and there is a concern that the Fund will not earn enough to cover its future obligations to the various programs it supports. Some people believe that the CTF checkoff should be reinstated to allow the organization to build its endowment and allow the Fund's payments to grow with the rate of inflation.

CONTENT

The bill would amend the Income Tax Act 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.

Under the Act, an individual could designate on his or her annual return that a contribution of \$2 or more of his or her refund be credited to the CTF until the State Treasurer certified that the assets in the CTF exceeded \$20 million (which occurred in 2000).

The bill would allow a contribution of \$5 or more, without regard to the balance of the CTF.

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.

MCL 206.440

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 CTF checkoff on Michigan income tax returns was discontinued when the Fund's balance reached \$20 million in 2000. The end of the CTF checkoff coincided with a major downturn in the nation's stock market, and the Fund's assets grew more slowly than expected. Reportedly, when the Fund was created, it was anticipated that the \$20 million amount would allow the CTF to make annual payouts of at least \$1 million annually without depleting its endowment and allow the payments to increase with inflation.

The bill would reinstate the CTF checkoff on Michigan's income tax returns (at an amount of \$5 or more) and would allow the checkoff to continue after the Fund had reached \$20 million. The checkoff should enable the CTF to increase its endowment to the point at which the investment income on its assets would cover its annual payments, and future

market downturns would no longer threaten the Fund's ability to support programs.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The Children's Trust Fund checkoff was active from 1983 through 2000. Over that time period, 2,213,858 returns generated \$14,884,426 for the CTF.

Fiscal Analyst: Bill Bowerman

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