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BILL ANALYSIS

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Senate Bill 640 (Substitute S-1 as reported)
Senate Bill 641 (Substitute S-1 as reported)
Senate Bill 642 (Substitute S-1 as reported)
Sponsor: Senator Buzz Thomas (S.B. 640 & 641)
 Senator Bill Hardiman (S.B. 642)
Committee: Banking and Financial Institutions

CONTENT

Senate Bill 640 (S-1) would create the "Individual or Family Development Account Program Act", effective January 1, 2007, to do all of the following:

- Establish the Individual or Family Development Account Program within the Michigan State Housing Development Authority (MSHDA).
- Require MSHDA to select program sites to administer the individual or family development accounts, and fiduciary organizations to provide technical assistance to program sites and establish and manage reserve accounts, based on specific criteria.
- Allow an individual or family whose income was 200% or less of the Federal poverty level to apply to a program site to establish a development account to pay for educational expenses of an account holder who was at least 17 years old; the first-time purchase of a primary residence by the account holder; or start-up capitalization of a business for an account holder who was at least 18.
- Require a program site to enter into a participant savings plan agreement with each account holder, and provide matching funds for an account holder's contributions to an account.
- Require the signature of both the account holder and a program site administrator for the withdrawal of money from an account; and require distributions to be paid by check to the order of the account holder and the entity the account holder was paying.
- Allow an entity to claim a single business tax (SBT) credit, and an individual who was not an account holder to claim an income tax credit, equal to 75% of contributions to a reserve fund (pursuant to Senate Bills 641 and 642), and limit the tax credits to an annual cumulative amount of \$1.0 million.
- Require fiduciary organizations to file annual reports with MSHDA, and MSHDA to file an annual report with the Legislature.

"Program site" would mean a charitable organization exempt from taxation under Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code (IRC) approved by the MSHDA Director, or the Director's designee, to implement the Individual or Family Development Account Program. "Fiduciary organization" would mean a charitable organization exempt from taxation under Section 501(c)(3) of the IRC approved by the MSHDA Director, or the Director's designee, to manage a reserve fund (an account established at a financial institution to hold money used to match participant savings based on a participant savings plan agreement).

Senate Bill 641 (S-1) would amend the Single Business Tax Act to specify that, for tax years beginning after December 31, 2006, a qualified financial institution or taxpayer could claim

an SBT credit equal to 75% of the contributions made in the tax year by that institution or taxpayer to the reserve fund of a fiduciary organization pursuant to the proposed Act. If the credit and any unused carryforward of the credit exceeded the institution's or taxpayer's tax liability for the tax year, the excess could not be refunded, but could be carried forward as an offset to the tax liability in subsequent tax years for 10 tax years or until the excess credit was used up, whichever occurred first. The bill is tie-barred to Senate Bill 640.

Senate Bill 642 (S-1) would amend the Income Tax Act to specify that, for tax years beginning after December 31, 2006, a taxpayer who was not an account holder under the proposed Act could claim an income tax credit equal to 75% of the contributions the taxpayer made in the tax year to the reserve fund of a fiduciary organization. If the amount of the credit exceeded the taxpayer's tax liability for the tax year, the excess portion could not be refunded. The bill is tie-barred to Senate Bill 640.

Proposed MCL 208.36e (S.B. 641)
Proposed MCL 206.272 (S.B. 642)

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The Michigan State Housing Development Authority already administers similar programs, so the cost of these additional administrative responsibilities would be minimal.

The bills would reduce single business tax and individual income tax revenue by a maximum of \$1.0 million per year. It is unknown how many accounts would be created and how much would be saved, although during 2003, approximately 2.9 million individuals in Michigan, living in 675,000 families, resided in households with incomes of 200% of poverty or less. The amount that would be saved in the proposed accounts is also unknown, and deposits to accounts would not receive any tax preferences and would not be subject to any specific maximums. Deposits to reserve funds would be eligible for credits under the bills and also would likely qualify for a deduction from Federal taxes. (Depending on the nature of the fiduciary organizations, the deposits also could be eligible for other credits under the Michigan tax structure.)

Because the bills specify a minimum matching contribution and the credits for deposits to reserve funds would be limited to \$1.0 million per year, under the assumption that reserve fund contributors would donate only to the level to which they would receive a tax credit, approximately \$1.3 million per year would be deposited into reserve funds and would be available to match a maximum of \$1.3 million in savings by account holders annually. Deposits beyond this level could be made to the reserve funds, but would not be eligible for the proposed credits.

It is unknown how the fiscal impact of the credits would be divided between the SBT and the individual income tax, but a portion of the individual income tax impact also would be expected to reduce School Aid Fund revenue. The remaining impact would reduce General Fund revenue.

Several factors not addressed by the bills could influence participation: 1) The limited availability of matching contributions relative to the number of individuals who would potentially qualify to open an account could reduce participation; 2) the income conditions for opening an account would depend only upon income at the time the account was opened—once an individual (for example, while a student) opened an account, it would be available to him or her in perpetuity—even if the person's income (for example, after graduation) rose substantially above 200% of poverty, and this could serve to increase participation; 3) it is unclear how fiduciary organizations and financial institutions would cover the costs of participation in the program (particularly the costs of providing financial literacy education or financial independence services, or verifying that withdrawals were for

eligible purposes), which could reduce participation or the availability of the program to the eligible population; 4) verification that individuals or families did not have multiple accounts would be handled at the program site level, allowing a limited number of individuals/families to gain accounts by using multiple fiduciary organizations and reducing the number of other eligible account holders who might participate in the program; and 5) there would be no restrictions upon beneficiaries, so beneficiaries could include individuals who would not be eligible to establish an account (for example, a lower-income elderly person establishing an account for a well-off child or grandchild) as well as entities that are not natural persons (such as a business or trust), which could increase participation. To the extent that low program participation would affect the willingness of contributors to donate to reserve funds, the fiscal impact could be less than the \$1.0 million if participation were low.

This estimate is preliminary and will be revised as new information becomes available.

Date Completed: 5-30-06

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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.