

INCOME TAX CHECKOFFS

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Senate Bill 347 (Substitute S-2)
Sponsor: Sen. Patricia L. Birkholz
House Committee: Tax Policy
Senate Committee: Finance

Senate Bill 348 (Substitute S-1)
Sponsor: Sen. Patricia L. Birkholz
House Committee: Health Policy
Senate Committee: Finance

Senate Bill 16 (Substitute S-1)
Sponsor: Sen. Buzz Thomas
House Committee: Health Policy
Senate Committee: Finance

Senate Bill 350 (Substitute S-1)
Sponsor: Sen. Valde Garcia
House Committee: Agriculture
Senate Committee: Finance

Revised Summary
Complete to 4-30-07

A SUMMARY OF SENATE BILLS 16, 347, 348, AND 350 AS PASSED BY THE SENATE 4-18-07

Senate Bill 347 would amend the Income Tax Act to allow for several new income tax checkoffs and to establish a number of general policies concerning income tax checkoffs.

Senate Bills 16, 348, and 350 each would create a new act describing a new tax checkoff fund.

The new checkoffs would be placed on a separate schedule to be filed along with an income tax return. As of 2010, the three existing checkoffs would also be listed on the separate schedule. Until then, they would remain on the main tax form itself.

New Income Tax Checkoffs

Senate Bill 347 would permit four checkoffs on the income tax return, beginning in the 2008 tax year, allowing taxpayers to contribute at least \$5 to the Prostate Cancer Research Fund; Amanda's Fund for Breast Cancer Research; the Animal Welfare Fund; and the Michigan Housing and Community Development Fund. Each of the funds, other than the Housing and Community Development Fund, would be created in separate legislation that is tie-barred to Senate Bill 347.

- **Prostate Cancer Research Fund:** The fund would be created by Senate Bill 16, introduced by Sen. Thomas. Under SB 16 (S-1), money in the fund would be used to provide grants to medical schools located in the state, hospitals located in the state that specialize in cancer treatment, and hospitals located in an urbanized area that provide services to African-American men. Funds may be used as matching funds for a federal grant or a grant from the National Cancer Institute.

Funds would be available for distribution upon appropriation. Senate Bill 16 is referred to the House Committee on Health Policy.

- **Amanda's Fund for Breast Cancer Research:** The fund would be created by Senate Bill 348, introduced by Sen. Birkholz. Under SB 348 (S-1), money in the fund would generally be used to support breast cancer research and to provide information to the public about the value of breast cancer research and early detection. The Department of Community Health would solicit and approve of proposals receiving funds, and would give priority to applicants located in the state. Funding would be available for distribution upon appropriation. Senate Bill 348 is referred to the House Committee on Health Policy.
- **Animal Welfare Fund:** The fund would be created by Senate Bill 350, introduced by Sen. Garcia. Under SB 350 (S-1), money in the fund would be used to provide grants to animal control shelters, animal protection shelters, and nonprofit organizations to promote the sterilization and adoption of dogs and cats, to improve awareness of the proper care of animals, to support and enhance programs that provide for the care and protection of animals, and for the purchase of equipment and supplies in furtherance of the state purposes. Money received from the fund could not be used by the recipients to supplant existing funds. Senate Bill 350 is referred to the House Committee on Agriculture.
- **Michigan Housing and Community Development Fund:** The fund was created by Public Act 479 of 2004 (see, now, MCL 125.2821 et al.) to provide grants, mortgage loans, construction loans, bridge loans, and other financial assistance for single-family or multi-family low income housing.

General Provisions/ SB 347

The checkoffs would be placed on a separate schedule to be filed with an income tax return. Any checkoff added in the future (aside from the four added here and the existing checkoffs) would be incorporated into the schedule "as soon as practical" and listed in alphabetical order. The bill also provides that the Department of Treasury may end a checkoff that fails to raise \$100,000 in each of two consecutive tax years.

Each year, an amount equal to the total amount of contributions, less an amount appropriated to the Department of Treasury for administration, would be appropriated from the General Fund to the department responsible for the administration of the checkoff for the purposes as provided by law.

Existing Income Tax Checkoffs

Currently there are three income tax checkoffs: the Children of Veterans Tuition Grant Program, the Military Family Relief Fund, and the Children's Trust Fund. The 2007 tax year is the final year for the Military Family Relief Fund checkoff. (However, House Bill 4557 proposes to extend the program for three more tax years, through 2010.) Under the bill, the checkoffs for the Children's Trust Fund and the Tuition Grant Program would

remain on the main income tax return (MI-1040) for tax years 2008 and 2009 and would be incorporated into the separate schedule beginning with returns for the 2010 tax year.

FISCAL IMPACT:

Senate Bill 347 would amend the Income Tax Act to allow taxpayers to contribute at least \$5 to new income tax checkoffs. Taxpayer donations would come from their income tax refunds or would increase their tax liability.

Based on data from Michigan and other states, between \$500,000 and \$1.5 million could be generated from a checkoff. However, the popularity of a particular checkoff and the addition of choices for checkoff contributions would also affect the revenue generated for each checkoff.

BACKGROUND INFORMATION:

Income Tax Checkoff Workgroup Report

The Fiscal Year 2007 General Government appropriations act (2006 PA 345, Article 7, Section 949) required the Department of Treasury to develop a plan for income tax checkoffs and submit the plan to the legislature by October 31, 2006. The act requires the plan to include a process for determining the legal and operational feasibility of each proposed checkoff. As a result, the department convened a workgroup composed of individuals from the department, governor's office, and the legislature. The workgroup's report states, "[a]llowing tax payers to make charitable contributions with income tax refunds has long been a popular and widespread practice in most states. While the intention of this method of fundraising is laudable, the administration of these programs begins to complicate tax processing as the number of check-offs increase. The ultimate goal is to accommodate check-off options while maintaining timely processing of tax returns and issuance of refunds." The workgroup issued the following recommendations:

- All future checkoffs will be presented on a separate schedule.
- Checkoffs enacted in 2006 will be effective after December 31, 2007.
- Checkoff designations currently on the 2006 individual income tax return will remain on the form until tax year 2010 when they will be moved to a separate schedule.
- Contributions for all current and future checkoff options should be set at \$5, \$10, or a higher amount.
- Checkoff funds are limited to the amount contributed by the taxpayers and may not be augmented by appropriations.

Existing Income Tax Checkoffs

Children's Trust Fund. The income tax checkoff for the Children's Trust Fund was created with the enactment of Public Act 211 of 1982. (The trust fund itself was created with the enactment of Public Act 249 of 1982, MCL 21.171). The checkoff permits taxpayers to contribute at least \$5 either taken from any refund or added to any tax

liability. As originally established, the checkoff was to remain in place until the trust fund balance exceeded \$20 million, with annual disbursements from the trust fund limited to half of the contributions plus any interest and earnings. Between 1983 and 1999 the trust fund generated over \$14 million in revenue from the checkoff. The trust fund's balance reached \$20 million after receiving a supplemental appropriation of \$13.1 million under Public Act 291 of 2000. Since that time, only interest and earnings have been available for disbursement for child abuse and neglect programs. Last session, Public Acts 119 (HB 4825) and 160 (SB 160) of 2005 reinstated the checkoff beginning in the 2005 tax year and increased the minimum contribution requirement from \$2 to \$5. Under current law (MCL 21.171), not more than half of the money contributed through the checkoff and interest and earnings credited to the trust fund in the prior fiscal year may be available for disbursement.

Tuition Grant Program. The income tax checkoff for the tuition grant program for the children of veterans was created with the enactment of Public Act 249 of 2005 (HB 5091 of 2005-06). The checkoff permits taxpayers to contribute at least \$2 to the Michigan Higher Education Assistance Authority for the tuition grant program. The tuition grant program was created with the enactment of Public Act 245 of 1935 (recodified with the enactment of Public Act 248 of 2005, MCL 390.1341 et al.). Generally the program provides the children of Michigan veterans killed in action or totally and permanently disabled from a service-related injury with a grant of up to \$2,800 for college tuition. The income tax checkoff was created, in part, to provide a new funding source for the tuition grant program. For many years, the program was funded by the Michigan Veterans Trust Fund (MVTF), which primarily provides emergency financial assistance grants to veterans. The use of the MVTF for tuition grants was controversial, and the MVTF Board moved on two occasions (in 1995 and 2005) to suspend the grant program due to funding constraints.

Military Family Relief Fund. The income tax checkoff for the Military Family Relief Fund was created with the enactment of Public Act 364 of 2004, HB 5953. (The fund was created with the enactment of Public Act 363 of 2004, SB 1269.) The checkoff permits taxpayers to contribute at least \$1 to the fund for the 2004-2007 tax years. In the first year of the checkoff, 53,541 taxpayers contributed \$1.2 million to the fund. The fund provides assistance grants to families of members of a reserve component of the U.S. Armed Forces based in the state, or of a resident of the state serving in a reserve component based in another state, who is called into active duty by the president or the secretary of defense in response to the September 11th attacks or a national emergency declared by the president. The grants, capped at \$2,000 in a calendar year except in extreme cases, are made to families with a documented need for financial assistance for food, clothing, housing, utilities, medical services or prescriptions, insurance payments, vehicle payments, or other related necessities of daily living. (House Bill 4557 of the current session proposes to extend the program for three more tax years, through 2010.)

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■ 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.