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BILL ANALYSIS

Senate Fiscal Agency

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Senate Bill 280 (as reported with Finance Committee amendment)

Sponsor: Senator Norman D. Shinkle

First Committee: Finance

Senate Committee: Appropriations

Date Completed: 11-10-87

RATIONALE

Under the Income Tax Act low-income taxpayers have been allowed to claim credits against the income tax by using a formula in the Act based upon a taxpayer's income and number of exemptions claimed, or by calculating the amount by which heating fuel costs exceed a certain percentage of household income. This credit, known as the home heating credit, was instituted in 1979 and has been extended periodically by amendments to the Act.

The credit is part of a State program, the Low Income Energy Assistance Program (LIEAP), that was developed in response to the Federal Low Income Energy Assistance Act, which authorizes grants to the states to "assist eligible households to meet the costs of home energy". The Federal Act requires that LIEAP provide for energy assistance to both public assistance recipients and nonpublic assistance households. To fulfill the requirement that LIEAP provide energy assistance to nonpublic assistance households, a portion of the Federal grant is used to pay for the State's home heating credit. (See Fiscal Impact statement.)

Authorization for the home heating credit expired under the Income Tax Act with the end of the 1986 tax year. According to the Department of Social Services, if the home heating credit is not extended, and an alternative method not found to fulfill Federal requirements, delivery of the entire block grant (approximately \$100 million) to the State could be at risk. Some people feel that for this reason, and because the program assists low-income persons pay for energy, the home heating credit should be extended.

CONTENT

The bill would amend the Income Tax Act to extend to the 1987 tax year provisions that allow low-income taxpayers, with household incomes under 110% of the Federal poverty standards, to claim the home heating tax credit. (Recipients of General Assistance or Aid to Families with Dependent Children are not eligible to claim the credit under the Act.)

MCL 206.527a

FISCAL IMPACT

Extending the low income home heating credit would reduce FY 1987-88 income tax revenues by \$34.0 million. Federal low income energy assistance funds reimburse the General Fund for \$25.6 million of the total. The net GF/GP cost of the credit in FY 1987-88 is \$8.6 million. The GF/GP cost of the credit was \$6.1 million in FY 1986-87.

ARGUMENTS**Supporting Argument**

The bill would continue a program that has proven effective

in helping people pay their increasingly costly winter heating bills, and the lack of a comprehensive national energy policy makes continuation of this program even more essential. Escalating energy costs and prolonged economic woes for many have created a pressing need for action to assure continued utility service for low-income residents. The bill, by extending the home heating tax credit, would help to ease home heating costs and address the needs of the working poor and senior citizens.

Supporting Argument

By continuing the home heating credit the bill would comply with Federal grant requirements, and thus not jeopardize the flow of a substantial transfer of revenue to the State.

Opposing Argument

If passed, the bill would require an outlay from the State's General Fund that the State, given its predicted financial problems, can ill-afford. If the program is to continue, it should be limited to the amount of Federal funds available.

Response: Limiting the home heating credit to Federal funds only would mean a reduction in the credit at a time when heating costs are rising. State funds must be used because heat is, quite simply, a matter of survival for the individuals involved, many of whom are senior citizens on fixed incomes. Instead of reducing the program because the budget is tight, the home heating credit should be considered as part of the total budget picture and should be given a high priority.

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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.

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