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BILL ANALYSIS

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Senate Fiscal Agency . .

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Senate Bill 706 (Substitute S-1 as passed by the Senate)**Sponsor: Senator Nick Smith****Committee: Finance****Date Completed: 9-8-88****RATIONALE**

Many educators, business leaders, and politicians have warned that rapid advances in technology and an ever-changing, more diversified, more complicated economy will demand that workers be better educated and trained in order to be effective employees. In the Governor's State of the State Message he states that, "... a 'single dose' of education and training, received in our youth, is no longer sufficient to last a lifetime", and that workers must be given opportunities for retraining and continuing education. In addition, it has been suggested by many that efforts to improve the relationship between the business community and the educational system should always be encouraged, and that a sound relationship could benefit both. As the State of the State Message points out, ill-prepared students do not make effective employees, and "... because Michigan's employers are the ultimate 'customers' of the products of our school system, the business community should be an increasing partner in improving school quality". Faced with yearly revenue problems and the unpleasant task of deciding program cuts, some school districts have responded by actively soliciting contributions from the community's businesses. Some people feel that, to encourage this type of activity further and improve cooperation among businesses and schools, employers should be allowed a tax credit for donations to schools, and for tuition payments when sending employees back to school.

CONTENT

The bill would amend the Single Business Tax Act to allow a taxpayer, beginning with the 1988 tax year, to claim a credit against the tax equal to 25% of the money, or fair market value of property, contributed to a school district, intermediate school district, or nonpublic school. A taxpayer could not claim the credit for a contribution of property unless he or she obtained a letter from the school district or nonpublic school accepting the property and identifying its intended use.

The bill also would allow a taxpayer to claim a credit, for the cost of tuition and instructional materials, for instruction of each employee [of the taxpayer] enrolled at a Michigan institution of higher learning, local school district, or intermediate school district. The credit for employee instruction could not exceed \$900 per employee, and would be calculated in the following ways:

- A 50% credit for expenditures up to \$1,000.
- A \$500 credit for expenditures between \$1,000 and \$2,000, plus 25% of the amount in excess of \$1,000.
- A \$750 credit for expenditures in excess of \$2,000, plus 15% of the amount in excess of \$2,000.

Either credit allowed under the bill could not exceed the smaller of the single business tax liability of the taxpayer, or \$2,000.

The bill would be repealed four years after its effective date.

Proposed MCL 208.37c

FISCAL IMPACT

The fiscal impact of the bill is indeterminate. Data are not available on corporate contributions to K-12 education or employee instruction.

ARGUMENTS**Supporting Argument**

By allowing employers to claim a credit against their single business tax liability for part of the cost of an employee's tuition, and for donations to school districts, the bill could increase the communication and cooperation between the business community and the educational community. The bill not only would give businesses an incentive to train, or retrain, employees, but also would give school districts help in soliciting contributions from businesses. An increasingly complicated work environment will demand better trained, more skillful employees, necessitating for many a program of life-long learning. The bill would provide encouragement for businesses to invest in employee training, by sending employees not only to college or community college classes, but to local adult or vocational education classes as well.

A significant proportion of the budgets of colleges and universities, which have had a tax credit under the income tax for some time, comes from donations by businesses, but this is a relatively new, and some feel fertile, area for school districts. By allowing tax credits for donations to schools, the bill would provide a tool for schools to use in soliciting funds, and thus help them to help themselves. The bill could prove to be particularly beneficial to vocational education programs, as businesses and local industries could donate used or outdated materials and equipment to schools that schools would otherwise find impossible to afford.

Opposing Argument

If this tax credit were allowed it would simply set up more competition among those who seek donations in an already crowded arena. People only have so much to give and will give no more, regardless of the worthiness of the cause or the integrity of its sponsors. Because businesses could only claim a credit of up to \$2,000, it must be questioned whether the effect of the bill would be to fill one pot while taking from another, increasing contributions to school districts but decreasing contributions to higher education. Further, it is possible the bill's tax credit would tend simply to reward people who would have made contributions even without a tax break, rather than encourage many new donations. Finally, the bill's tax credit would be like all

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other types of tax credits: it would take appropriations decisions on all the State's competing funding needs out of the Legislature's hands and put them into the hands of individuals, in effect transferring a business' single business tax liability from the State to a school district.

Response: Rather than causing such far-reaching consequences, the bill merely would give school districts another opportunity to sell education to the community.

Opposing Argument

The bill could prove to be expensive for the State. The State already spends a great deal of money subsidizing education, and employee training for that matter; subsidizing it further through the use of an employer credit may not be the most effective way for the State to dedicate its resources. The bill should at least contain a mechanism whereby gifts or property contributed to a school could be appraised, and some method to show that they were actually used, in order to ensure that the tax credit claimed by a business really benefited the school.

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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.