



**House
Legislative
Analysis
Section**

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THE APPARENT PROBLEM:

Under Michigan's home heating tax credit program, low income taxpayers may claim credits against the income tax to partially offset the cost of heating fuel. The program began in 1978 as a means of protecting low-income families, particularly senior citizens, from the effects of rapidly increasing heating bills. At first, the credit was wholly financed by state funds, but since 1981, federal dollars have been available to fund a significant portion of the program. In 1987, for example, the total cost of the credit was \$36 million, \$24 million of which came from the federal government. The legislation authorizing the credit has expired and been renewed several times, once as part of the 1984 Energy Assurance Program, a comprehensive restructuring of the state's energy assistance programs. In each of the last two years, the credit has been re-authorized only at the very last minute — in December of 1987 for the 1987 tax year and on December 29, 1988, for the 1988 tax year! Supporters of the home heating credit complain that each year it becomes a hostage in political conflicts over income tax policy. This is worrisome for senior citizens and other households dependent on the credit and an enormous inconvenience for the treasury department, which is responsible for preparing the state income tax forms. Advocates of the credit also point out that the value of the credit to low-income households has been declining since indexing of the credit ended after the 1983 tax year.

THE CONTENT OF THE BILL:

The bill would extend indefinitely the home heating credit that low-income families can claim against the income tax and provide for annual increases in the standard credit through the 1991 tax year based on increases in the average all-urban Detroit consumer price index for all items, up to ten percent. The bill would also delete a requirement that the Department of Social Services submit a revised state plan as required under the federal Low Income Home Energy Assistance Act by March 1, 1989.

MCL 206.527a

FISCAL IMPLICATIONS:

According to House Taxation Committee staff, the bill would stabilize the annual cost of the home heating credit at \$36 million. That is the amount budgeted for the 1990 fiscal year, with \$22.7 million to come from federal sources and \$13.3 million from the state. The cost of the credit, says the committee staff, has been declining since the 1985 fiscal year when it reached a high of nearly \$45 million. The cost in the 1989 fiscal year is estimated at \$34 million (although \$36 million is budgeted). The decline is due, in part, to the end of indexing the credit. The credit is based on household income and size (or the number of exemptions available on the income tax form), and as income levels increase (e.g., cost of living increases to social security recipients) the amount of the credit available decreases. By indexing the standard credit for the next three years, the bill will halt the decline in the cost of the credit.

HOME HEATING CREDIT: EXTEND AND INDEX

House Bill 4175 (Substitute H-2)
First Analysis (2-16-89)

Sponsor: Rep. Thomas C. Mathieu
Committee: Taxation

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ARGUMENTS:

For:

The home heating tax credit has proven to be an effective method of helping low-income families with the cost of heating their homes. Reportedly, nearly two-thirds of the more than 250,000 taxpayers who claim the credit are senior citizens, many of whom depend almost entirely on social security payments for income. Other recipients are among the working poor who deserve help in paying their costly energy bills. The credit has been in existence for over ten years and should no longer have to be reauthorized each year but instead granted a permanent existence. Furthermore, to halt the erosion in the value of the credit, the credit should once again be indexed to account for increases in the cost of living. The bill takes into account fears about the effects of indexing by providing for indexing over the next three tax years only. This will allow the policy of indexing the tax credit to be evaluated.

Against:

Making this program permanent suggests that there need be no further study of the best way to help low-income people and senior citizens with their energy needs. Perhaps the legislature should take a broader look at energy assistance programs before making the home heating credit a permanent fixture. It might make more sense to emphasize weatherization and energy education programs, or to encourage the utilities to develop alternative aid programs. Making the credit permanent also means that the state will be committed to the program even if federal funding ends. Furthermore, it is not clear why this tax credit should be indexed when others are not.

Response: The legislature is, of course, capable of ending the home heating program at any time if it is dissatisfied or if it is unwilling to commit state dollars. Eliminating the need for annual renewal of the program, however, will prevent the home heating credit from becoming a political football year after year. Further, when the credit was re-authorized in 1984, it was as part of a comprehensive energy program put together with the help of utility companies in the state. A representative of one utility has said that the existence of the tax credit provides the company with the necessary information to seek out and assist needy customers. The credit acts as a "trigger" for the activation of other programs. It should be noted that there already exist other related state programs, such as those providing weatherization of homes.

POSITIONS:

The Office of Services to the Aging supports the bill. (2-15-89)

The Department of Treasury supports the bill. (2-15-89)

A representative of the American Association of Retired Persons (AARP) testified in favor of the bill. (2-15-89)

Consumers Power Company supports the bill. (2-15-89)

Michigan Consolidated Gas Company supports the bill. (2-15-89)

H.B. 4175 (2-16-89)