



**House
Legislative
Analysis
Section**

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EXTEND HOME HEATING CREDIT

House Bill 4175 as enrolled
Second Analysis (8-23-89)

RECEIVED

SEP 21 1989

Sponsor: Rep. Thomas C. Mathieu
House Committee: Taxation
Senate Committee: Finance

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.

THE CONTENT OF THE BILL:

The bill would extend through the 1991 tax year the home heating credit that low-income families can claim against the income tax and increase the amount of the credit under the alternative credit computation. The bill would also delete a requirement that the Department of Social Services submit a revised state plan for allocating federal energy assistance money as required under the federal Low Income Home Energy Assistance Act by March 1, 1989. Instead, the bill would specify that the home heating credit would not be in effect in a year unless the state's plan, as required by federal law, allocated federal block grant money, including oil company overcharge settlement money, to fund the credit in the same percentage as in the previous year. However, the appropriation committees of the House and Senate could approve an alternative plan recommended by the director of the Department of Social Services.

The home heating credit can be claimed in one of two ways: the standard credit computation is based on a claimant's income and number of exemptions; an alternative computation bases the credit on heating fuel costs. To qualify for the alternative credit, a claimant's household income must be below a certain amount specified by the act, based on the number of exemptions claimed. In computing the alternate credit, the claimant must subtract from his or her heating fuel cost (\$1,190 maximum in 1988), 13 percent of household income, and then multiply the result by 70 percent. For example, with a qualifying

household income of \$6,000, and a total heating cost of \$1,000, the credit would be calculated as follows:

\$1,000 heating cost
- 780 (13 percent of 6,000)
\$ 220

Seventy percent of \$220 equals \$154, the amount of the home heating credit.

The bill would change the computation by requiring the claimant to subtract 11 percent, rather than 13 percent, of household income, thus increasing the amount of the credit. (In the example above, the credit would now equal \$238.)

MCL 206.527a

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that not extending the credit would lead to an increase in general fund revenues of from \$13 to \$15 million annually but could also result in a loss of federal low-income energy funds. In 1987-88, home heating credits totalled \$37.1 million, says the SFA. Of this, \$22.6 million was federal money and \$14.5 million state money. The SFA estimates the change in the alternative credit calculation would increase the cost of the program by \$1 million to \$2 million.

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 not have to be reauthorized each year. While some would prefer that the credit be extended indefinitely, a three-year extension provides some security to the program and peace of mind to beneficiaries. During that time, legislators can conduct studies to determine if there are better ways to help low-income people and senior citizens with the cost of energy. Further, the credit available through an alternative computation has been increased, benefiting those whose situations permit them to use this method to advantage.

Against:

As passed by the House, the bill would have extended the credit indefinitely and would have indexed the credit to prevent inflation from eroding its value. (The indexing would have been for three years to allow evaluation of the policy.) An open-ended extension would prevent the tax credit from being a political football periodically. (Obviously, the legislature could end the program at any time.)

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