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House Bill 4175 (Substitute S-2 as reported)
 Sponsor: Representative Thomas C. Mathieu
 House Committee: Taxation
 Senate Committee: Finance

Date Completed: 5-24-89

RATIONALE

Under Michigan's home heating tax credit program, low-income taxpayers may claim credits against the income tax to offset partially the cost of heating fuel. The credit expired at the end of the 1988 tax year. The program began in 1978 as a means for low-income families, particularly senior citizens, to counter the effects of 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, of which \$24 million came from the Federal government. The legislation authorizing the credit has expired and been renewed several times. 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. Some people feel that this has caused needless worry for senior citizens and other households dependent on the credit, and become an enormous inconvenience for the Treasury Department, which is responsible for preparing the State income tax forms. It has been suggested that the credit be extended for future tax years, and that the credit be increased to combat inflation.

CONTENT

The bill would amend the Income Tax Act to extend the home heating credit through the 1991 tax year, and to increase the amount of the credit under the alternative credit computation.

Under the Act, the credit can be claimed in one of two ways, at the discretion of the taxpayer: the standard credit computation, which is based on the claimant's income and number of exemptions claimed; and the alternate credit computation, which is based upon heating fuel costs. To qualify for the alternative credit, a claimant's household income must be below an amount as specified in a table in the Act, based upon the number of exemptions claimed. In the alternate credit computation, the claimant must subtract from his or her heating fuel cost (\$1,190 maximum in 1988), 13% of household income, and then multiply the result by 70% to obtain the credit. 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% times 6,000)
\$ 220

220 times 70% = \$154 home heating credit

The bill would amend the computation by requiring the claimant to subtract 11%, rather than 13%, of household income thus increasing the allowable credit.

The bill also would delete a requirement that the Department of Social Services (DSS) submit a revised State plan, as required under the Federal Low-Income Home Energy Assistance Act, to allocate the available Federal low-income energy assistance block grant money.

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The bill provides, instead, that the home heating credit would not be in effect in a year unless the required State plan for that year allocated the available Federal low-income energy assistance block grant money, including private-oil company overcharge settlement money, to fund the credit in the same percentage that was used to fund the credit in the previous year, unless an alternative plan recommended by the DSS was approved by the Appropriations Committees of the Legislature.

MCL 206.527a

SENATE COMMITTEE ACTION

As passed by the House the bill would have extended the home heating credit indefinitely, and provided for an annual increase in the credit based upon increases in the consumer price index. The Finance Committee adopted a substitute to the bill that would extend the credit for three years, and change the way the credit is computed to provide for an increase in the credit.

FISCAL IMPACT

Without legislation, the home heating credit will not be available for the 1989 tax year. In FY 1987-88, total Home Heating Credits equaled \$37.1 million. Of this total, \$22.6 million was funded with Federal dollars and the remaining \$14.5 million was funded through a reduction in GF/GP income tax revenues. Therefore, not extending the credit will lead to an increase in GF/GP revenues of approximately \$13 million to \$15 million but may risk losing Federal low-income energy funds.

Compared to 1988, the expansion of the alternative credit calculation from 13% to 11% of household income would increase the total cost of the program by \$1 million to \$2 million per year.

ARGUMENTS

Supporting Argument

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 need help in paying costly energy bills. The credit has been in existence for over 10 years and should no longer have to be reauthorized each year, but instead should be extended for more than one year. Furthermore, to halt the erosion in the value of the credit, the credit should be increased to account for increases in the cost of living.

Opposing Argument

Extending this credit for three years suggests that there is less need to study the best way to help low-income people and senior citizens with their energy needs. Perhaps a broader look at energy assistance programs is needed before the home heating credit is extended. It might make more sense to emphasize weatherization and energy education programs, or to encourage the utilities to develop alternative aid programs. Extending the credit for three years also means that the State would be committed to the program even if Federal funding ends.

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.

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H8990/S4175A

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.