

HOME HEATING TAX CREDIT

House Bill 5235 (as enrolled)
Second Analysis (2-12-92)

Sponsor: Rep. Ralph Ostling
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. According to information from the House Taxation Committee, the cost of the credit in fiscal year 1991 is estimated to be \$37.8 million, with \$23.6 million of that from federal funds and \$14.2 million from state funds. The legislation authorizing the credit has been extended numerous times, and was extended through the 1991 tax year in 1989. The credit can be claimed in one of two ways. The standard credit computation is based on a claimant's income and number of exemptions (with actual heating costs not part of the calculation). A maximum credit based on the number of personal exemptions is set in statute and the claimant subtracts from the maximum an amount equal to 3.5 percent of household income. An alternative credit computation bases the credit on heating fuel costs. The credit is equal to 70 percent of the amount by which heating costs exceed 11 percent of household income. The alternate credit tends to be larger but not many people are able to make use of it.

The 1991-92 budget for the Department of Social Services recommended by Governor Engler and adopted by the legislature eliminated \$45.2 million in state funds for special energy assistance grants to recipients of Aid to Families with Dependent Children (AFDC). (In total, according to the staff of the House Taxation Committee, more than \$100 million in energy assistance funds, including matching federal dollars, was eliminated in the original budget passed.) Instead, the administration has requested legislation that would make AFDC recipients eligible for the home heating tax credit, which would move expenditures on heating

assistance for this population from the DSS budget to the tax credit program.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to make the following changes in the home heating tax credit:

- * Extend the sunset on the credit through the 1994 tax year.
- * Make recipients of public assistance eligible for the tax credit.
- * Require the Department of Treasury to mail a return (to apply for the credit) by December 1 of each year to people who were recipients of AFDC or general assistance (GA) during the tax year.
- * Require the treasury department to provide a simplified procedure for claiming the credit for claimants on whose behalf, at the time of filing, the Department of Social Services is making direct vendor payments to an enrolled heating fuel provider; and also require that the treasury department send the energy draft of such a claimant directly to the enrolled fuel provider as identified by the claimant.
- * Provide a claimant shut-off protection from the date of filing a claim for the credit through the issuance of an energy draft and from December 1 to March 31 if a utility accepts the energy draft or if the claimant participates in the winter protection program. (Currently, the act says claimants are protected against the discontinuance of heating fuel service from December 1 to March 31 if they participate in the winter protection program.)
- * Reduce by one-half the amount of the credit available to a claimant whose heating costs are included in rent payments.

FISCAL IMPLICATIONS:

According to a memorandum from the staff to the House Taxation Committee, the total cost of the home heating credit for fiscal year 1991-92 under the bill is estimated at \$78.9 million. A total of \$136 million in energy assistance has been agreed to for the fiscal year, including \$54.1 million for crisis programs and \$3 million for conservation efforts contained in a supplemental appropriations bill.

ARGUMENTS:

For:

The bill, by bringing AFDC and former GA recipients under the home heating credit program, puts in place part of the state's energy assistance plan for the upcoming winter. The 1992 budget removed emergency fuel assistance for AFDC recipients from the Department of Social Services budget with the understanding that the assistance would be provided via the tax credit. Providing assistance through the credit will prevent the loss of nearly \$80 million in federal energy dollars. The substitute maintains current credit levels (except for renters whose heat is included in the rent); provides additional protection against the shutting off of heat; requires a simplified form for use by public assistance recipients and the transmission of their energy drafts directly to a utility; and requires the treasury department to mail a return for claiming the credit to AFDC and former GA recipients as a form of outreach to make sure that the newly eligible population is aware of the availability of the credit. Sending the new eligibles a simplified form should also work to increase participation.

Against:

Some people would have preferred a less costly home heating tax credit on the grounds that the current state budget cannot afford what is in this bill.

Against:

A tax credit is simply an inferior form of emergency heating assistance compared to direct assistance. Many people on public assistance will have difficulty filing a claim because they lack record-keeping and literacy skills. In fact, the estimated cost of the credit, as mentioned above, is based on large numbers of eligible persons (about 35 percent) not

filing for the credit. Those who do file will have to wait until the credit arrives rather than receive immediate assistance. It is essential that there be protections against heat shut-offs if direct help is not to be provided. In general, more aid should be available and should be provided directly.