



**House  
Legislative  
Analysis  
Section**

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**HOME HEATING TAX CREDIT**

**House Bill 4994 (Substitute H-2)  
First Analysis (11-28-95)**

**Sponsor: Rep. Sandra Hill  
Committee: Tax Policy**

***THE APPARENT PROBLEM:***

Under Michigan's home heating tax credit program, low-income taxpayers may claim a credit against the income tax to partially offset the cost of heating fuel. The program began in 1978 as an experimental 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. Public Act 181 of 1991 extended the credit through the 1994 tax year and made a number of changes in the administration of the credit. The credit can be claimed in one of two ways. The standard credit computation is based on the claimant's income and number of exemptions, with actual heating costs not part of the calculation. A maximum credit 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. Reportedly, the alternate credit tends to be larger but not many people are able to take advantage of it.

The credit needs to be extended if it is to be available for 1995. However, according to information from staff to the House Tax Policy Committee, the amount of federal funding for the program, if any, in the budget currently being debated in Washington remains in doubt. The state has anticipated \$75 million in federal funds (and the state appropriation is \$3.5 million) for the credit and related energy assistance programs. Legislation has been developed that would make the home heating credit contingent upon federal funding and to allow for reduced credits if the state does not receive the amount necessary to fully fund the credit.

***THE CONTENT OF THE BILL:***

The bill would amend the Income Tax Act (MCL 206.527a) to extend the home heating credit through the 1995 tax year. Under the bill, however, the credit would be allowed only if there is a federal appropriation before December 16, 1995 of the total amount of

federal low income home heating energy assistance block grant funds and if the grant allotment for Michigan is at least \$25.4 million. If the grant allotment for the state is less than \$75.4 million, each individual credit claimed will be reduced based on the proportion of the allotment to that total. (The credit will be reduced by a fraction, the numerator of which is the allotment minus \$400,000, and the denominator of which is \$75 million.)

***FISCAL IMPLICATIONS:***

The bill is designed to allocate federal revenues if appropriated.

***ARGUMENTS:***

***For:***

The bill would extend the home heating credit for the 1995 tax year contingent upon federal budget actions. The bill requires that a federal home heating appropriation be made by December 16th for there to be a credit for the 1995 tax year. That deadline is said to be needed for taxpayers to be given proper notice and for the treasury department to print the proper forms. The credit also would only be available if the federal appropriation is of a certain amount (at least \$25.4 million). The credit available would be pro-rated based on the level of federal appropriations.

***Response:***

Some people might question why, if the program is considered important, the state wouldn't provide additional funding in the event the federal appropriation is not forthcoming or is insufficient. Further, in the past, advocacy groups have maintained that a direct assistance program is preferable to a credit.

***POSITIONS:***

A representative of the Department of Treasury testified in support of the bill. (11-9-95)

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

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