



**House  
Legislative  
Analysis  
Section**

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**HEADLEE REFUND/HOME HEATING  
TAX CREDIT**

**House Bill 4994 as enrolled  
Public Act 245 of 1995  
Second Analysis (2-26-96)**

**Sponsor: Rep. Sandra Hill  
House Committee: Tax Policy  
Senate Committee: Finance**

***THE APPARENT PROBLEM:***

A) The state constitution contains a limit on "the total amount of taxes which may be imposed by the legislature in any fiscal year on the taxpayers of this state." The limit was placed in the constitution by voters in 1978 as one element of the so-called Headlee Amendment, and it restricts state revenue to a proportion of total personal income in the state. Revenue cannot exceed 9.49 percent of the previous calendar year's total personal income or of the average of the previous three years, whichever limit is higher. The constitution says if revenues exceed the limit by one percent or more, excess revenues must be refunded pro rata based on personal income tax and single business tax liability. If the limit is exceeded by less than that, the excess can be transferred to the State Budget Stabilization (or "rainy day") Fund. Because state revenues will exceed the revenue limit for the 1994-95 fiscal year, legislation has been proposed to refund the excess amount through the income tax.

B) 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 about \$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:***

A) The bill would amend the Income Tax Act to create a new credit, the Headlee Amendment Refund Credit, for the 1995 tax year. For the 1995 tax year only, a taxpayer could claim a credit against the income tax equal to 2.67 percent of the tax on income attributable to the period from January 1, 1995, through September 30, 1995. (This is an annualized credit of 2 percent.)

B) The bill would amend the Income Tax Act to extend the home heating credit through the 1995 tax year. Under the bill, however, the credit would be allowed only if 1) there had been a federal appropriation for fiscal year 1995-96 of the total amount of federal low income home heating energy assistance block grant funds and 2) 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

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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 \$75 million.)

The bill would be effective as of January 1, 1995.

MCL 206.512 et al.

### ***FISCAL IMPLICATIONS:***

According to the Senate Fiscal Agency, the temporary new income tax credit would reduce income tax collections by an estimated \$113 million in fiscal year 1994-95. Extending the home heating credit, says the SFA, would cost the state, from state resources, about \$3.4 million in fiscal year 1995-96, which has already been appropriated. In addition, about \$2 million of unused federal funds carried forward from fiscal year 1994-95 would be available for 1995 home heating credits in fiscal year 1995-96.

### ***ARGUMENTS:***

#### ***For:***

The so-called Headlee Amendment to the state constitution requires a refund of taxes if revenues exceed a certain percentage of personal income. For the first time since that constitutional provision was approved by voters in 1978, this has occurred. (In the recent past, tax cuts made in advance have prevented this from happening.) The bill would provide a credit equal to two percent of 1995 state income tax liability to bring state revenues under the limit for the 1994-95 fiscal year.

#### ***Response:***

Some people prefer refunding the excess revenue through a one-time increase in the personal exemption on the grounds that such an approach would be more beneficial for low and moderate income taxpayers than an across-the-board percentage reduction in tax liability.

#### ***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.

■ 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.