

EXTEND SBT CREDITS

House Bill 4091 as enrolled
Public Act 191 of 1997
Sponsor: Rep. Candace Curtis

Senate Bill 705 as enrolled
Public Act 190 of 1997
Sponsor: Sen. Joel Gougeon

Senate Committee: Finance
House Committee: Tax Policy

Second Analysis (1-5-98)

THE APPARENT PROBLEM:

Since 1989 tax credits have been available under both the Single Business Tax Act and the Income Tax Act for contributions to community foundations, and similar credits have been available since 1992 for contributions to food banks, homeless shelters, and similar organizations. Initially, the credits were of short duration, but they have been extended. Most recently, in fact, the credits for contributions that can be claimed under the Income Tax Act were extended indefinitely in legislation passed late in December of 1996 (Public Act 583/House Bill 5420). Legislation has been introduced to similarly extend indefinitely the credits available under the Single Business Tax Act.

THE CONTENT OF THE BILLS:

The bills would amend the Single Business Tax Act to extend indefinitely the credit for contributions to the endowment funds of community foundations and the credit for contributions to homeless shelters, food kitchens, food banks, and similar organizations. The credits currently extend through the 1997 tax year. Senate Bill 705 would apply to community foundations. House Bill 4091 would apply to food banks, homeless shelters, etc.

A taxpayer can credit against the SBT 50 percent of the amount contributed to the endowment fund of a community foundation, up to five percent of tax liability before claiming other credits, or \$5,000, whichever is less, and 50 percent of the amount contributed to homeless shelters, food banks, etc., subject to the same limits. The credits are nonrefundable, meaning that a taxpayer cannot claim a credit that reduces tax liability to less than zero.

The act contains a definition of "community foundation" that refers to a nonprofit organization certified by the Department of Treasury as meeting certain specified requirements, including that the organization supports a broad range of charitable activities within the specific geographic area that it serves and that it maintains an ongoing program to attract new endowment funds by seeking gifts and bequests from a wide range of potential donors in the area served.

MCL 208.38c

BACKGROUND INFORMATION:

Other related credits are available to SBT taxpayers for contributions to public broadcasting, public libraries, and institutions of higher learning in the state and nonprofit organizations affiliated with such institutions.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that the credit for homeless shelters and food banks is reducing SBT revenue by about \$300,000 per year, and the credit for contributions to community foundations is reducing SBT revenue by \$500,000 per year. (SFA analysis dated 10-8-97)

ARGUMENTS:

For:

The bills would extend indefinitely the SBT credit for contributions made by businesses to community

foundations and the credit for contributions to food banks

and homeless shelters, rather than extend them every few years as in the past. These are well-established credits with widespread popular support, and it makes little sense to keep imposing sunset dates on them. The credits to similar organizations that are available under the Income Tax Act were extended indefinitely in legislation enacted late in the 1995-96 legislative session. Community foundations are umbrella groups that bring community leaders together to address problems in the areas of education, crime, housing, health, family services, economic development, and cultural activities. Food banks, homeless shelters, and similar organizations provide the most basic of human needs to the most needy. The credits help them raise funds and carry out their work.

Against:

The traditional argument against these credits, which obviously has had little impact, is as follows. While the nonprofit organizations that benefit from the credits do valuable work and are deserving of praise and financial support, it is simply bad public policy to grant them special tax treatment over other worthy organizations. Perhaps the issue of the tax treatment of charitable contributions should be re-examined and dealt with comprehensively.

Analyst: C. Couch

■ 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.