

House Bill 4304 (Substitute H-2)
First Analysis (6-17-97)

Sponsor: Rep. Laura Baird
Committee: Tax Policy

THE APPARENT PROBLEM:

Michigan's new school funding system, created by the passage of Proposal A in 1994, restricts the ability of local taxpayers to increase their school taxes. Some communities have dealt with this by providing additional resources for the public schools through contributions to educational foundations (or directly to public schools). Under the state's income tax, people who make contributions to institutions of higher education, to community foundations, to public libraries, and to numerous other entities are eligible for a tax credit. Some proponents of public education have recommended that a similar credit be available for contributions to local and intermediate school districts and to educational foundations that support public schools. Similarly, some people advocate a tax credit for contributions to cultural facilities, which are also important to the life of Michigan communities.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to provide a credit equal to 50 percent of the amount a taxpayer contributes during the tax year to an educational facility or organization or a fine arts facility or organization, not to exceed \$100 or, for a husband and wife filing jointly, \$200. The credit would apply for the 1997 tax year and each year thereafter. The credit would not be refundable and could not exceed the tax liability of the taxpayer for the tax year.

The term "educational facility or organization" would include a school district; a community education, adult education, or continuing education program operated by a school district; and an educational foundation. The term "fine arts facility or organization" would refer to an entity located in Michigan that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is one of the following: an art institute, museum, school, or other visual arts facility or organization; a symphony, opera house, or other musical arts facility or organization; a theater or other theatrical arts or dance facility or organization; or a literary arts facility or organization.

A contribution to an entity listed in Section 260(1) or Section 261 of the act could not be used to calculate a credit under this bill. Section 260(1) contains existing credits for art-in-public-places contributions and contributions to a nonprofit corporation affiliated with both a municipality and an art institute, as well as contributions to a public library, public broadcast station, institution of higher learning, the Michigan Colleges Foundation, the state museum, the state archives, and an entity organized exclusively for the benefit of an institution of higher learning in the state. Section 261 contains the existing credits for contributions to community foundations and to shelters for homeless persons, food kitchens, food banks, and other entities in the state whose purpose is to provide overnight accommodation, food, or meals to the indigent.

MCL 206.266

FISCAL IMPLICATIONS:

The Department of Treasury estimated the cost of the bill at \$20.7 million in testimony before the House Tax Policy Committee. (6-11-97)

ARGUMENTS:

For:

The bill will encourage private investment in education programs that, while government supported, have suffered in recent years from government spending reductions. In the past voters in some school districts routinely raised their taxes to provide extra resources for their schools. Under the current school financing system, this is not possible. School districts now have limited abilities to raise additional revenue, and one way that a community can support its public schools is through fundraising, including private donations to educational foundations. These foundations, say supporters, have become crucial to providing high-quality educational resources that schools otherwise would go without. For example, the Ingham Education Foundation, according to its literature, funds creative and innovative approaches to

teaching and learning. This includes a technology project that clearly articulates expectations for students, invests in technology, and retrains teachers to create a blueprint for schools in the county that want to prepare students for 21st Century world of work and community life. The state's tax system ought to promote and reward this kind of private investment, as well as investments in the cultural life of the community.

Currently, contributions to higher education are eligible for a tax credit, so why not the K-12 system? Contributions to some art programs are eligible for contributions, why not contributions to other fine arts facilities and organizations? If education foundations and arts organizations are to compete for donations, why shouldn't they be treated equally? This bill provides educational and arts organizations the same kind of tax credit with the same kind of limits available now to numerous other organizations in the state.

Against:

This bill has a significant income tax revenue loss associated with it. How will this revenue, almost a quarter of which is dedicated to schools, be replaced? Will this credit really increase charitable giving to educational foundations and school districts, or will it simply reward taxpayers for contributions that they could have been induced to make in other ways? The Department of Treasury argues that the reduction in federal credits for contributions a decade ago did not result in a reduction in contributions, so adding this credit will not likely encourage more charitable giving. Community minded people ought to be willing to make contributions to support activities they consider worthwhile without a tax break. Further, this bill will lead to proposals for even more credits for other kinds of contributions (perhaps eventually for all contributions) and will further clutter up the state income tax return.

POSITIONS:

The East Lansing Educational Foundation supports the concept of the bill. (6-17-97)

A representative of the Waverly Education Foundation indicated support for the bill before the House Tax Policy Committee. (6-11-97)

The Department of Treasury is opposed to the bill. (6-11-97)

The Michigan Education Association is opposed to the bill. (6-17-97)

Analyst: C. Couch