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SFA BILL ANALYSIS

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Senate Bill 796 (as introduced 10-12-98)
Sponsor: Senator Bill Schuette
Committee: Finance

Date Completed: 10-19-99

CONTENT

The bill would amend the Income Tax Act to increase the maximum credit that a taxpayer may claim for contributions to a community foundation/food bank from $100 to $150 for an individual, and from $200 to $300 for a joint return for the 1999 tax year and thereafter; and to expand the criteria that an entity must meet to be certified as a community foundation.

(Under the Act, a taxpayer may claim a credit (up to the maximum allowed) against the income tax of 50% of the amount the taxpayer contributed during a tax year to the endowment fund of a community foundation or a shelter for homeless persons, food kitchen, food bank, or other entity with the primary purpose of providing overnight accommodations, food, or meals to the indigent.)

A community foundation must meet certain requirements as specified in the Act to be certified as a community foundation by the Department of Treasury. (For instance, it must qualify for exemption from the Federal income tax under Section 401(c)(3) of the Internal Revenue Code and support a broad range of charitable activities.) Currently, a community foundation must be incorporated or established as a trust before September 1 of the year preceding the tax year for which the credit is claimed. The bill instead would require incorporation or establishment at least six months before the beginning of the tax year for which the credit was claimed, and would require a community foundation to have an endowment value of at least $25,000 within six months after the foundation was incorporated or established. The bill also would require a community foundation to do the following to qualify for certification:

-- Have an independent governing body that was broadly representative of general public interest and was not appointed by a single entity.
-- Provide evidence to the Department that the community foundation had, within six months after it was incorporated or established, and maintained continually during the tax year for which the credit was claimed, at least one part-time or full-time paid employee.
-- Was subject to an annual independent financial review and an independent financial audit every three years, and provided copies of that review and audit to the Department within three months after the review or audit was completed.
-- For a community foundation that was incorporated or established after the bill's effective date, operated in a county that was not served by a community foundation when the community foundation was incorporated or established, or operated as a geographic component of an existing certified community foundation.

Currently, one of the criteria for certification requires a community foundation to be publicly supported, as defined by U.S. Department of Treasury regulations. The bill provides that to maintain certification, a community foundation each year would have to submit to the Michigan Department of Treasury documentation that demonstrated compliance with this requirement.

MCL 206.261 Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would reduce income tax revenue an estimated $0.5 million in FY 1999-2000 and $2.2 million in FY 2000-01. The fiscal impact estimate for FY 2000-01 represents the initial full year impact of this bill. In FY 1999-2000, this bill would have only a partial impact because credits claimed in FY 1999-2000 must be based on contributions made during the 1999 tax year, which for most taxpayers is calendar year 1999. Given that 1999 is almost over, it is assumed most taxpayers currently contributing just enough to claim the maximum credit, would not adjust their contribution level in 1999. This estimated loss in income tax revenue would affect both General Fund/General Purpose (GF/GP) revenue and School Aid Fund (SAF) revenue. In FY 2000-01, it is estimated that GF/GP revenue would be reduced $2 million and SAF revenue would be reduced $0.2 million.

Fiscal Analyst: J. Wortley