

## **EXPAND HOME HEATING CREDIT**

### **House Bill 4480**

**Sponsor: Rep. Ken Bradstreet**

### **House Bill 4481**

**Sponsor: Rep. Nancy Cassis**

### **House Bill 4479**

**Sponsor: Rep. Patricia Birkholz**

**Committee: Tax Policy**

**Complete to 3-16-01**

## **A SUMMARY OF HOUSE BILLS 4479, 4480, AND 4481 AS INTRODUCED 3-15-01**

House Bills 4480 and 4481 would amend the Income Tax Act (MCL 206.527a) to extend the home heating tax credit through the year 2004 and to expand the size of the credit and the number of people eligible for the credit for tax years beginning after December 31, 2000. House Bill 4479 would amend the same act to allow a new energy-related credit for taxpayers eligible for the home heating tax credit.

The current home heating credit is available to a claimant with a household income of less than 110 percent of federal poverty income standards. 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 "standard allowance" is established by the Department of Treasury each year for six categories of claimants (at an amount that guarantees a credit to any claimant with a household income of less than 110 percent of federal poverty income standards for the number of exemptions). Then, a claimant subtracts from the relevant standard allowance an amount equal to 3.5 percent of household income. An alternative method of computation (said to be used by fewer than 10 percent of claimants) bases the credit on heating fuel costs. For those who meet eligibility criteria, the alternative credit is equal to 70 percent of the amount by which heating costs exceed 11 percent of household income.

House Bill 4480 would expand the eligibility standards to make the home heating tax credit available to a claimant with a household income of less than 125 percent of federal poverty income standards (rather than 110 percent, as now); would increase the credit for claimants 65 years of age or older by allowing them an additional exemption for credit calculation purposes; and would increase the value of the credit for the 2001 tax year by using 3.8 percent of household income in the credit calculation (rather than 3.5 percent of income) and then would adjust the credit in later years by basing that percentage on the price of natural gas. The bill would also eliminate the alternative method of computing a credit.

The percentage of income to be used in calculating the credit would be 3.5 percent if the weighted total price for natural gas for the tax year was less than \$3.26 [per thousand cubic feet or Mcf]; 3.55 percent if the weighted total price was \$3.26 or more but less than \$3.51; 3.6

percent if the price was \$3.51 or more but less than \$4.26; 3.56 percent if the price was \$4.26 or more but less than \$4.51; 3.7 percent if the price was \$4.51 or more but less than \$5.26; and 3.8 percent if the price was \$5.26 or more.

The weighted total price for natural gas for the tax year would be determined by multiplying the price for natural gas each utility in the state charged its residential customers by that utility's market share and then adding those amounts.

House Bill 4481, in addition to extending the credit through 2004, would render ineffective for tax years after 2000 the provision that reduces the amount of the credit (that is, prorates the credit) if federal home energy assistance funding is reduced below anticipated levels, and instead would allow a credit [without reduction] for tax years beginning after December 31, 2000, if federal low income home energy assistance block grant funds had been appropriated in any amount.

House Bill 4479 would amend the Income Tax Act (MCL 206.269) to allow a low-income taxpayer to claim a refundable credit for 1) 10 percent of the cost of purchasing and installing an appliance with an "energy star label" under the voluntary labeling program operated by the federal Environmental Protection Agency and the federal Department of Energy; and 2) 100 percent of the cost of weatherization of the taxpayer's home. To be eligible for the credit, the taxpayer would have to be eligible for a home heating credit. The credit would be refundable; that is, if the amount of the credit allowed exceeded the tax liability of the taxpayer, then the portion exceeding tax liability would be refunded. The term "weatherization" would refer to the modification of a home or a home's heating systems to improve heating efficiency, including caulking and weather-stripping, insulation of ceilings, attics, walls, floors, or water heaters, and the installation of furnace ignition systems, clock thermostats, storm windows, or storm doors.

Analyst: C. Couch

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