



**House  
Legislative  
Analysis  
Section**

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## HOME HEATING CREDIT

**House Bill 4481 as enrolled  
Public Act 169 of 2001  
Second Analysis (1-16-02)**

**Sponsor: Rep. Nancy Cassis  
House Committee: Tax Policy  
Senate Committee: Finance**

### ***THE APPARENT PROBLEM:***

Since 1978, Michigan has provided home heating assistance to low-income households through an income tax credit that targets households with incomes below 110 percent of the federal poverty level. (See Background Information.) A special separate tax form is required, which can be filed along with the state income tax form or can be filed separately. The majority of claimants file only for the home heating credit and do not file a state income tax return. The deadline for filing for the 2000 credit was September 30, 2001. This program is primarily funded by a grant from the federal government, although some state funds are used each year. The federal program is known as LIHEAP, for low-income home energy assistance program. The credit amount is based on household income and the number of exemptions. (Calculation of the standard credit does not make use of actual heating costs, although a little-used alternative method of calculating the credit does.) Renters whose heat is included within rent can claim an amount equal to one-half of the normal credit. In 1999, over 300,000 claimants received more than \$50 million in home heating credits, with the average credit pegged at \$163.85, according to the Department of Treasury. The credit is due to expire after the 2000 tax year. Legislation has been introduced that would extend the life of the credit.

### ***THE CONTENT OF THE BILL:***

The bill would amend the Income Tax Act to extend the home heating credit indefinitely. The credit would only be allowed if there had been a federal appropriation of low income home energy assistance block grant funds for the federal fiscal year that began in the tax year. If the amount of funds was insufficient to allow a full home heating credit, each individual credit would be prorated based on the federal funds available. The bill contains a formula describing the proration.

(For the years 1996 through 2000, the credit was only allowed if the amount of federal money available was at least \$20 million. Under the bill, starting with 2001 tax year, the credit would be allowed if federal money was available in any amount.)

If the federal block grant allotment was less than required to provide a full home heating credit, the state treasurer would have to notify the chairs and vice-chairs of the Senate and House Appropriations Committees; the Senate and House committees on taxation and [government] finance issues; and the Senate and House committees on energy and technology issues.

The bill also would exempt a home heating credit from interception, execution, levy, attachment, garnishment, or other legal process to collect a debt. No portion of the credit allowed or any rights existing under the section of law establishing the credit could be applied as an offset to any delinquent tax liability under the Revenue Act or an arrearage or other debt of the claimant.

MCL 206.527a

### ***BACKGROUND INFORMATION:***

The 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

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household income. For a renter whose heat is included in rent, the credit is reduced by 50 percent. 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.

The credit can be understood, generally, to be equal to the difference between 3.5 percent of 110 percent of the federal poverty standard (plus one dollar) minus 3.5 percent of the claimant's household income. So, for example, for 2000, the standard allowance for a family of four or for a senior citizen couple (both households with four exemptions) would be \$658 and the income ceiling for the credit would be \$18,800. If the household income was \$15,000, the credit would equal \$133 (\$658 minus \$525). If the household income was \$10,000, the credit would equal \$308 (\$658 minus \$350).

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

The House Fiscal Agency reports that the bill would reduce state revenues by about \$2 million per year. Although the home heating credit is primarily paid for with federal funds, the state provides a home heating credit to certain individuals who do not qualify for energy assistance from the federal government. (12-3-01)

### ***ARGUMENTS:***

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

The bill would extend indefinitely the state's energy assistance program for low-income households. This program has been in place for over 20 years. It provides assistance in paying heating bills through an income tax credit, and is almost entirely funded through federal dollars. The bill also contains a provision that prevents state tax officials from continuing to intercept the credit and using it to pay back taxes, overdue student loans, or other debts and arrearages. This ensures that the home heating assistance money goes where it was intended - - to pay heating bills.

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.