

Legislative Analysis



PUBLIC CONTRIBUTION CREDIT: ADD HISTORICAL MUSEUMS AND ARTIFACTS

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House Bill 5669 (Substitute H-1)
Sponsor: Rep. Edward Gaffney
Committee: Tax Policy
First Analysis (5-19-04)

BRIEF SUMMARY: The bill would amend the Income Tax Act to expand the “public contribution” credit to include contributions made to certain historical museums.

FISCAL IMPACT: House Bill 5669 can be expected to reduce income tax revenues by an indeterminate amount. Because the amount that will be donated to historical museums is not known, it is not possible to determine the exact fiscal impact. The sum of all public contributions tax credits for CY2002 was approximately \$24.6 million, of which the vast majority was directed to Michigan colleges and public broadcasting stations. Therefore, while House Bill 5669 would lower income tax revenues, the fiscal impact should probably be less than \$2.5 million.

THE APPARENT PROBLEM:

Under Section 260 of the Income Tax Act, a taxpayer can claim a non-refundable “public contribution” credit for up to 50 percent of the donations made to Michigan public broadcasting stations, Michigan colleges and universities, public libraries, the state archives, the state history museum, certain art institutions, and the State Art in Public Places Fund. The maximum credit that can be taken under Section 260 for all such contributions is \$100 for a single return and \$200 for a joint return. For a resident estate or trust, the maximum credit is the lessor of 10 percent of tax liability or \$5,000.

The act specifies that the credit is available for donations (of money or artwork) made to a municipality of the state or a nonprofit corporation affiliated with both a municipality and an art institute located in that municipality. However, donations to similarly situated historical museums are not eligible for the credit. For example, a person contributing to the Detroit Institute of Arts (DIA) could claim the credit, while a person could not claim a credit for a contribution made to the Detroit Historical Museum, which sits across Woodward Avenue from the DIA. This seems inequitable. It appears only fair that the historical museum (and others throughout the state) be treated in the same manner as art institutes and be included among eligible organizations for the public contribution credit.

THE CONTENT OF THE BILL:

Section 260 of the Income Tax Act permits a taxpayer to claim a “public contribution” credit for up to 50 percent (with a maximum of \$100 for a single return and \$200 for a joint return) of the donations of money or artwork made to a municipality or a nonprofit

corporation affiliated with both a municipality and an art institute if the donation is for the benefit of the art institute in that municipality. [As described above, the credit is actually based on the aggregate contribution made to numerous entities, including certain art institutions.] The bill would expand the public contribution credit to include donations, including historical artifacts, for the benefit of a historical museum that is both affiliated with a municipality and located within that municipality.

BACKGROUND INFORMATION:

Similar bills have passed one or both houses of the legislature in the past two legislative sessions. House Bill 4667 of the 2001-2002 legislative session passed the House in March 2002 by vote of 103-0. House Bill 5821 of the 1999-2000 legislative session passed the House in October 2000 by a vote of 101-0, and passed the Senate in December 2000 by a vote of 34-0. The House failed to concur with the Senate amendments and the bill died with the adjournment of the 1999-2000 session.

ARGUMENTS:

For:

The bill would make contributions to historical museums eligible for a state income tax credit in the same manner that contributions to an art institution already are available for that credit. The two kinds of educational-cultural institutions are sufficiently similar to make this a matter of simple fairness. Moreover, it would provide an additional incentive for people to donate to these valuable institutions, which preserve the history of the state and many local communities, with the profound effects of philanthropy at little cost to state revenue.

Response:

History museums are valuable cultural institutions and probably do deserve to be treated in the same manner as art institutions. But, why stop there? There are numerous similar and equally worthwhile organizations, such as natural history and science museums, symphonies, opera companies, theatre companies, dance companies, and the like that could benefit from inclusion in the “public contribution” credit. These institutions are also integral parts of their communities.

Against:

The bill would decrease state revenue at a time when it can least afford it. While it is certainly laudable to provide a credit for donations made to historical museums, the direct financial implications of the bill on the state budget necessitate its defeat. Moreover, this credit further erodes the base of the income tax. Rather than proliferating exemptions and credits that complicate the state tax code and shift tax burdens, the legislature should work toward simplifying the tax and lowering the overall rate.

POSITIONS:

The Detroit Historical Society supports the bill. (5-19-04)

The Department of Treasury opposes the bill. (5-19-04)

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