



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 1393 (Substitute S-1 as reported)
House Bill 5021 (Substitute S-2 as reported)
House Bill 5022 (Substitute S-1 as reported)
Sponsor: Senator Bill Hardiman (S.B. 1393)
Representative Kevin Green (H.B. 5021)
Representative David Robertson (H.B. 5022)
Senate Committee: Banking and Financial Institutions
House Committee: Banking and Financial Services (H.B. 5021 & 5022)

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RATIONALE

Some people believe that low-income people should have an opportunity to use the type of "individual development accounts" that are available to public assistance recipients under State and Federal law. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, sometimes called the national welfare reform act, authorizes states to create community-based individual development account (IDA) programs with Temporary Assistance for Needy Families (TANF) block grant funds. Individual development accounts are dedicated savings accounts that may be drawn upon to purchase a home, finance a postsecondary education, or start up a business. Accounts are managed by community organizations and held at local financial institutions. The community organizations, or "program sites" as they are known in IDA programs, also may offer personal financial management and home ownership classes. Money from public and private sources (such as TANF funds and grants from foundations) typically is used to provide a match to the savings of low-income participants in IDAs, giving account holders an incentive to add to their savings.

In Michigan, Public Act 361 of 1998 amended the Social Welfare Act to require the Family Independence Agency, now called the Department of Human Services (DHS), to implement a program allowing an individual eligible for family independence assistance to establish an IDA for the

purchase of a first home. Public Act 445 of 2004 amended the Social Welfare Act to allow IDA savings also to be used for postsecondary education and business capitalization.

Some contend that use of IDAs to save for educational expenses, a first-time home purchase, or business capitalization should be available to low-income earners, regardless of whether they are eligible for assistance. To that end, the "Individual or Family Development Account Program Act", proposed by Senate Bill 640 (S-1), would extend IDA opportunities to anyone whose income is 200% of the Federal poverty level or less, through a program to be operated by the Michigan State Housing Development Authority (MSHDA). The proposed Act also would offer a tax credit to individuals or businesses contributing to reserve funds that would provide matching dollars to the deposits made by IDA holders. (The Senate passed Senate Bill 640 (S-1) on June 1, 2006, and the House passed the bill with amendments on July 26, 2006.)

It has been suggested that the Social Welfare Act should treat the proposed program similarly to the current IDA program with regard to savings deposited into the accounts, and that the Single Business Tax (SBT) Act and the Income Tax Act should authorize the proposed tax credits.

CONTENT

Senate Bill 1393 (S-1) and House Bills 5021 (S-2) and 5022 (S-1) would amend the Social Welfare Act, the Single Business Tax Act, and the Income Tax Act, respectively, to do all of the following:

- Require the DHS to disregard savings in an individual or family development account when determining eligibility for assistance and the amount of a grant.**
- Require the DHS to operate the IDA program in coordination with the individual or family development account program operated by MSHDA under the proposed Individual or Family Development Account Program Act.**
- Allow a taxpayer to claim an SBT credit equal to 75% of contributions made under the proposed Act to a fiduciary organization's reserve fund.**
- Allow a taxpayer who was not an account holder to claim a nonrefundable income tax credit equal to 75% of contributions made under the proposed Act to a reserve fund.**
- Specify that the SBT and income tax credits could not exceed an annual cumulative total of \$1.0 million.**

The bills are tie-barred to each other and to Senate Bill 640.

Senate Bill 1393 (S-1)

The bill would amend the Social Welfare Act to require the DHS to disregard all savings deposited in an individual or family development account under the proposed Individual or Family Development Account Program Act in determining an individual's eligibility for family independence assistance and the amount of the individual's grant.

The Social Welfare Act requires the DHS to operate a program allowing an individual eligible for family independence assistance to establish an IDA for postsecondary education, business capitalization, or a first-time home purchase. The DHS must disregard all savings deposited in an IDA, including accrued interest, when determining an individual's eligibility for family independence assistance and the

amount of the grant the individual receives. Under the bill, the DHS also would have to disregard all savings deposited, including accrued interest, in an individual or family development account.

The bill would require the DHS to operate the IDA program authorized under the Social Welfare Act in coordination with the individual or family development account program operated by MSHDA under the proposed Act.

House Bill 5021 (S-2)

Under the bill, for tax years beginning after December 31, 2006, a taxpayer could claim an SBT credit equal to 75% of the contributions made in the tax year by that taxpayer to the reserve fund of a fiduciary organization pursuant to the proposed Individual or Family Development Account Program Act.

If the credit and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, the excess could not be refunded, but could be carried forward as an offset to tax liability in subsequent tax years for 10 tax years or until the excess credit was used up, whichever occurred first.

The credits under the bill and House Bill 5022 (S-1) could not exceed an annual cumulative maximum amount of \$1.0 million. The determination of the maximum allowed would have to be made as provided in the proposed Act.

House Bill 5022 (S-1)

Under the bill, for tax years beginning after December 31, 2006, a taxpayer who was not an account holder under the proposed Individual or Family Development Account Program Act could claim an income tax credit equal to 75% of the contributions the taxpayer made in the tax year to the reserve fund of a fiduciary organization pursuant to the proposed Act.

If the amount of the income tax credit exceeded the taxpayer's tax liability for the tax year, the excess portion could not be refunded.

The credits under the bill and House Bill 5021 (S-2) could not exceed an annual

cumulative maximum amount of \$1.0 million. The determination of the maximum allowed would have to be made as provided in the proposed Act.

MCL 400.57k (S.B. 1393)
Proposed MCL 208.36e (H.B. 5021)
Proposed MCL 206.272 (H.B. 5022)

BACKGROUND

Senate Bill 640 (S-1) would create the Individual or Family Development Account Program Act, effective January 1, 2007, to do all of the following:

- Establish the Individual or Family Development Account Program within MSHDA, requiring that agency to establish policies and procedures for the program taking into consideration the policies and procedures adopted by the DHS to implement the IDA program under the Social Welfare Act.
- Require MSHDA to select program sites to administer the individual or family development accounts, and fiduciary organizations to provide technical assistance to program sites and establish and manage reserve accounts, based on specific criteria.
- Require MSHDA to work cooperatively with financial institutions, fiduciary organizations, program sites, and contributors to implement the program.
- Allow an individual or family whose income was 200% or less of the Federal poverty level to apply to a program site to establish a development account to pay for educational expenses of an account holder who was at least 17 years old; the first-time purchase of a primary residence by the account holder; or start-up capitalization of a business for an account holder who was at least 18.
- Require a program site to enter into a participant savings plan agreement with each account holder, and provide matching funds for an account holder's contributions to an account.
- Require matching fund distributions to be made when an account holder withdrew money for qualified expenses; and require matching distributions to be at least a match of \$1 for every \$1 withdrawn.
- Allow an entity to claim a single business tax credit, and an individual who was not an account holder to claim an income tax

credit, equal to 75% of contributions to a reserve fund, and limit the tax credits to an annual cumulative amount of \$1.0 million.

- Require fiduciary organizations to file annual reports with MSHDA, and MSHDA to file an annual report with the Legislature.

"Program site" would mean a charitable organization exempt from taxation under Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code (IRC) approved by the MSHDA Director, or the Director's designee, to implement the Individual or Family Development Account Program. "Fiduciary organization" would mean a charitable organization exempt from taxation under Section 501(c)(3) of the IRC approved by the MSHDA Director, or the Director's designee, to manage a reserve fund (an account established at a financial institution to hold money used to match participant savings based on a participant savings plan agreement).

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The proposed Individual or Family Development Account Program, to be operated by MSHDA, would be an innovative tool to help low-income earners save toward home ownership, educational advancement, or starting a small business. A similar program operated by the DHS requires that all savings deposited in an IDA, including accrued interest, be disregarded in the determination of an individual's eligibility for family independence assistance and the amount of the grant the individual receives. To maximize the effectiveness of the proposed program, Senate Bill 1393 (S-1) would require that amounts deposited in and earned by an individual or family development account also be excluded from family independence assistance eligibility and grant determination criteria. In addition, by requiring that the DHS coordinate its program operation with MSHDA, the bill would ensure that IDA programs were available both for assistance recipients and for other low-income earners on a similar basis.

Supporting Argument

By granting 75% tax credits for contributions to a reserve fund, House Bills 5021 (S-2) and 5022 (S-1) would create an incentive for taxpayers who did not hold an IDA to donate to a reserve fund that would match IDA holders' deposits. The tax credits would encourage taxpayers to invest in Michigan's people and help to ensure that sufficient matching funds were available to supplement the savings of IDA holders, thereby increasing their opportunities to further their education, develop new business concepts, and invest in home ownership.

Response: Capping the total tax credits at \$1.0 million could limit the money available for matching funds. In addition, since one or a few taxpayers conceivably could contribute enough money to claim the entire amount of the available credits, the cap could prevent some interested investors from receiving a tax benefit for their contributions.

Also, since the SBT is scheduled to expire at the end of 2007, the proposed SBT credit would be an incentive to support the IDA program for only one tax year.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

Senate Bill 1393 (S-1)

The bill would have no fiscal impact on the Department of Human Services. Section 418 of Public Act 147 of 2005 and Public Act 345 of 2006 appropriates \$200,000 in Federal Temporary Assistance for Needy Families funds "to expand the availability of individual development accounts...for allocation to qualified IDA programs...to serve TANF eligible households in Michigan". The bill would result in no additional costs to the State.

House Bills 5021 (S-2) & 5022 (S-1)

The bills would reduce single business tax and individual income tax revenue by a maximum of \$1.0 million per year. It is unknown how many accounts would be created and how much would be saved, although during 2003, approximately 2.9 million individuals in Michigan, living in 675,000 families, resided in households with incomes of 200% of poverty or less. The

amount that would be saved in the proposed accounts is also unknown, and deposits to accounts would not receive any tax preferences and would not be subject to any specific maximums. Deposits to reserve funds would be eligible for credits under the bills and also would likely qualify for a deduction from Federal taxes. (Depending on the nature of the fiduciary organizations, the deposits also could be eligible for other credits under the Michigan tax structure.)

Because Senate Bill 640 (S-1) specifies a minimum matching contribution and the credits for deposits to reserve funds would be limited to \$1.0 million per year, under the assumption that reserve fund contributors would donate only to the level to which they would receive a tax credit, approximately \$1.3 million per year would be deposited into reserve funds and would be available to match a maximum of \$1.3 million in savings by account holders annually. Deposits beyond this level could be made to the reserve funds, but would not be eligible for the proposed credits.

It is unknown how the fiscal impact of the credits would be divided between the SBT and the individual income tax, but a portion of the individual income tax impact also would be expected to reduce School Aid Fund revenue. The remaining impact would reduce General Fund revenue.

Several factors not addressed by the bills could influence participation: 1) The limited availability of matching contributions relative to the number of individuals who would potentially qualify to open an account could reduce participation; 2) the income conditions for opening an account would depend only upon income at the time the account was opened—once an individual (for example, while a student) opened an account, it would be available to him or her in perpetuity—even if the person's income (for example, after graduation) rose substantially above 200% of poverty, and this could serve to increase participation; 3) it is unclear how fiduciary organizations and financial institutions would cover the costs of participation in the program (particularly the costs of providing financial literacy education or financial independence services, or verifying that withdrawals were for eligible purposes), which could reduce participation or the availability of the program to the eligible population; 4) verification that

individuals or families did not have multiple accounts would be handled at the program site level, allowing a limited number of individuals/families to gain accounts by using multiple fiduciary organizations and reducing the number of other eligible account holders who might participate in the program; and 5) there would be no restrictions upon beneficiaries, so beneficiaries could include individuals who would not be eligible to establish an account (for example, a lower-income elderly person establishing an account for a well-off child or grandchild) as well as entities that are not natural persons (such as a business or trust), which could increase participation. To the extent that low program participation would affect the willingness of contributors to donate to reserve funds, the fiscal impact could be less than the \$1.0 million if participation were low.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.