



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 53 (Substitute S-2 as reported)
House Bill 4120 (Substitute S-2 as reported)
Sponsor: Senator Gretchen Whitmer (S.B. 53)
Representative Joan Bauer (H.B. 4120)
Senate Committee: Finance
House Committee: Tax Policy (H.B. 4120)

Date Completed: 3-14-07

RATIONALE

The City Income Tax Act authorizes a city, by ordinance, to levy, assess, and collect an excise tax on an individual's income. Currently, 22 cities take advantage of this authority and tax resident and nonresident incomes at rates from 0.5% to 2.0%. City income tax refunds are often small, and cities must spend time and money to issue them. At the same time, many Michigan cities have constrained budgets and are facing rising costs. As a result, some people believe that a city should be authorized to create an income tax check-off allowing taxpayers to donate their city income tax refunds for charitable purposes designated by the city.

ordinance would have to specify the tax years to which it would apply as well as one or more specific charitable purposes for which the money designated by taxpayers to the check-off fund would be used.

The bill specifies that a city that had included one or more check-offs on its annual return form before January 1, 2007, would be considered to have complied with both bills. Those check-offs for each year the contribution designations remained in effect would be considered ratified, binding, and enforceable as if the amendment to the city ordinance were adopted according to the House bill.

CONTENT

The bills would amend the City Income Tax Act to authorize a city to amend its income tax ordinance to allow one or more check-offs on an annual city income tax return for a charitable purpose. A check-off would permit a taxpayer to contribute a specified portion of his or her tax refund to a particular check-off fund created by the city.

House Bill 4120 (S-2) would authorize a city to amend its ordinance, beginning January 1, 2007. Senate Bill 53 (S-2) would provide for the contents of the amendment. The bills are tie-barred to each other.

House Bill 4120 (S-2)

Under the bill, if a city amended its income tax ordinance to create a check-off fund, the

Senate Bill 53 (S-2)

The bill would allow a taxpayer to designate a specified amount of his or her refund to a check-off fund. If the taxpayer's refund were not sufficient to make a contribution, the taxpayer could designate a contribution amount that would be added to his or her liability.

The purposes for which the money would be used would have to be clearly printed on the annual return or in the instruction book accompanying the return.

A check-off fund would be a restricted fund within the general fund of the city and would be subject to the following:

-- The money in the fund as well as any interest or earnings accrued from the saving and investment of that money (directed by the city treasurer) could be

spent solely for the charitable purposes specified in the amendment allowing the check-off.

- Each year that the check-off was in effect, an amount equal to the cumulative contributions, less the amount appropriated to the city for implementation, would have to be deposited into the fund.
- Money in the fund at the end of the year would remain in the fund and would not lapse to the general fund or any other fund of the city.

Proposed MCL 141.636 (S.B. 53)
Proposed MCL 141.510 (H.B. 4120)

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 bills would decrease costs while increasing revenue for a city that included a check-off on its income tax return. Cities often spend enormous amounts of money issuing what some consider insignificant city tax refunds. According to representatives of the City of Lansing, for example, in one year the city sent over 52,000 refunds averaging \$59, and 35,000 of those refund checks were worth less than \$20 each. In some instances, postage and printing costs almost equal the amount of the refunds themselves. Check-off funds would provide a voluntary way for a taxpayer to forgo his or her refund check and for a city to reduce its costs.

While the amount of money that would be donated would not likely be much, check-off donations would allow cities to provide extra resources for charitable purposes without raising taxes or diverting money from other causes.

Response: Under the current versions of the bills, money in a check-off fund could be used only for "charitable" purposes. It is not clear, however, whether charitable purposes would be limited to nonprofit charitable organizations or would encompass such purposes as community centers or city parks, or even community policing. Also, limiting check-off funds to charitable purposes would appear to exclude fire trucks or similar items that a city could need.

Opposing Argument

The bills do not specify who or what body in a city government would designate the charitable purpose of a check-off fund. Implementation difficulties could arise if the designation process were not clear.

Response: Different cities have different charters that delegate responsibilities within city government. It is likely that cities would deal with check-off funds according to their own charters and that, due to limited funds and virtually unlimited need, the designated charitable purpose of a check-off fund would be the result of a healthy debate. Regardless of how it would be done, the process of designation would be an important one; the more specifically and clearly a purpose was defined, the more likely a person would be to donate to it.

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bills would have no effect on State revenue or expenditures. The bills would have a likely negligible effect on local unit revenue and expenses. Of 1,775 local units, only 22 cities levy a city income tax and could potentially be affected by the bills; other local units would not be affected. To the extent that the bills resulted in increased contributions, the bills could increase local unit revenue in the affected cities. Similarly, to the extent that the bills reduced the number of refund checks a local unit must process, the bills would decrease local unit expenses. Under current law, taxpayers already may make contributions to a city and/or indicate that any refund be carried forward to reduce future liability. As a result, any change resulting from the bills is expected to be negligible.

Fiscal Analyst: David Zin

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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.