



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

BILL



ANALYSIS

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

Senate Bill 515 (Substitute S-1 as reported)
Sponsor: Senator Jason E. Allen
Committee: Finance

(as enrolled)

Date Completed: 7-24-07

RATIONALE

When members of the National Guard and U.S. armed forces reserves are called to active duty, their families may have to make financial sacrifices. Although the troops receive military pay while performing active duty service, they often have to forego their civilian salaries. While a family's income may drop substantially during this time, the family still incurs regular expenses such as rent or mortgage payments and utility bills, and may face unexpected costs such as car repairs. Public Act 363 of 2004 created the Military Family Relief Fund to assist the families of Michigan's active duty National Guard and military reserve members, and Public Act 364 of 2004 established an income tax check-off to provide a revenue source for the Fund.

The Military Family Relief Fund income tax check-off will sunset at the end of 2007. In order to continue supporting the Fund, it has been suggested that the sunset be eliminated and that the check-off be added to a proposed schedule of State income tax check-offs.

CONTENT

The bill would amend the Income Tax Act to eliminate the sunset on the Military Family Relief Fund income tax check-off. The check-off currently applies to tax years beginning after December 31, 2003, and before January 1, 2008. In addition, beginning on January 1, 2010, the bill would require the fund to be offered and administered in accordance with Section 435 of the Act. Also effective January 1, 2010, the contribution designation would no longer have to be printed on the first page of the

State individual income tax return and instead would be incorporated into the contributions schedule created by the Department of Treasury pursuant to Section 435. The contribution designation would have to remain on that schedule until it expired or otherwise was no longer available.

(Section 435 would be added by Senate Bill 347. As passed by the Senate, Senate Bill 347 (S-2) would allow an individual to designate on his or her annual tax return that contributions of \$5, \$10, or more of his or her State income tax refund (or additional tax liability) be credited to any of the funds specified in Section 435. Each year that a check-off was in effect, an amount equal to the cumulative contributions, less the amount appropriated to the Department for implementation, would have to be appropriated from the General Fund and distributed to the department responsible for administering the fund to which a taxpayer designated his or her contribution. The appropriation could be used solely for the purposes of that fund, would be in addition to any other allocation or appropriation, and would be "intended to enhance appropriations from the general fund and not to replace or supplant those appropriations".

Senate Bill 347 (S-2) also would require the Department of Treasury to create a schedule of the check-offs to be included with an annual income tax return and allow it to discontinue a check-off that failed to raise \$100,000 in a tax year for two consecutive years.)

BACKGROUND

The Military Family Relief Fund Act provides for grants from the fund to qualified individuals and their families. A qualified individual is a person who is or was a member of a reserve component of the U.S. armed forces based in Michigan or who is a Michigan resident serving in a reserve component in another state and is called to active duty as a result of national response to September 11, 2001, or a national emergency declared by the President and for which Federal funds are spent. ("Reserve components of the U.S. armed forces" would include the Army or Air National Guard and the Army, Naval, Marine Corps, Air Force, and Coast Guard Reserves.)

A qualified individual's family must be able to document the need for financial assistance for clothing, food, housing, utilities, medical services or prescriptions, insurance payments, vehicle payments, or other related necessities if the need occurred either during the time the individual was on active duty or because he or she incurred a line-of-duty injury or illness.

The Department of Military and Veterans Affairs must review grant applications. A qualified individual and his or her family may apply for more than one grant in a year. They may not receive more than \$2,000 from the Fund in any year, although the Department may waive that limit if it determines that the individual or family is in an emergency situation or has extreme needs.

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

Many families of National Guard members and U.S. armed forces reservists face financial difficulties when Guard or reserve troops are called into active military service. A soldier's or sailor's military pay typically is lower than his or her civilian salary. Private companies usually do not make up the difference, and some families apparently may see as much as a 70% reduction in household pay when their primary source of income is away. Those families then struggle

to keep up with regular expenses, such as mortgage or rent payments, utility bills, food and clothing costs, insurance premiums, and car payments or other transportation costs. Unexpected expenses, such as the cost of home or car repairs, put a further strain on a military family's already stretched budget. Moreover, with more troops being called to active duty for longer periods of time ever since the September 11 terrorist attacks and subsequent military actions in Afghanistan and Iraq, more families are feeling these financial burdens.

The Military Family Relief Fund has helped to address the needs of the families of Michigan's National Guard members and military reservists called to active duty. The Fund should continue to be supported by a voluntary income tax check-off.

Supporting Argument

Under Senate Bill 347 (S-2), as passed by the Senate, an income tax check-off that failed to raise \$100,000 for two consecutive years would be discontinued. Using that threshold for the Military Family Relief Fund would provide a level of oversight for the check-off, ensuring that it would be discontinued if it were no longer a viable source of funding for the Military Family Relief Fund.

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would continue a taxpayer income tax contribution option that provides a revenue source for the Department of Military and Veterans Affairs Military Family Relief Fund. The income tax check-off program otherwise will sunset with the current tax year of 2007.

While it is difficult to predict the exact amount of revenue that could be realized as a result of eliminating the current sunset as proposed, several hundred thousand dollars annually should be expected (\$200,000 to \$500,000). As the collection history below shows, the income tax check-off program for the Military Family Relief Fund has seen a decline in collections from initial contributions. This is a trend that mirrors the track record of most income tax check-off programs over time.

Total Check-Off Tax Year	\$1,183,029.00
Total Check-Off Tax Year 2005	505,529.30
Total Check-Off Tax Year 2006 (YTD)	423,822.00
Grand Total Check-Off	\$2,112,380.30

It should be noted that there are other common cash interest earnings and other sources of revenue for the Fund, including contributions. The amounts are as follows:

Total Common Cash Earnings FY 2004-05	\$50,954.64
Total Common Cash Earnings FY 2005-06	84,892.00
Total Common Cash Earnings FY 2006-07 (YTD)	83,996.80
Grand Total Common Cash Earnings	\$219,843.44
Total Donations FY 2004-05	\$11,058.00
Total Donations FY 2005-06	23,665.00
Total Donations FY 2006-07 (YTD)	3,511.00
Grant Total Donations	\$38,234.00
Total Revenue to date, all sources	\$2,370,457.74

Fiscal Analyst: Bruce Baker

A0708\515a

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.