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Senate Bill 38 (Substitute S-1 as reported by the Committee of the Whole)

Sponsor: Senator John Pappageorge

Committee: Finance

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer to credit against the tax 50% of the total amount the taxpayer contributed during the tax year to an endowment fund of an education foundation or to a specific project organized by an education foundation. The maximum amount of the credit would be \$50 for an individual taxpayer or \$100 for a husband and wife filing jointly. For a resident estate or trust, the credit could not exceed 5% of the taxpayer's tax liability for the tax year before any credits allowed by the Act were claimed, or \$2,500, whichever was less. The credit would be allowed for the 2010 tax year and each subsequent tax year.

An education foundation would have to apply to the Department of Treasury for certification by April 1 of the tax year for which the taxpayer was claiming the credit, annually submit to the Department documentation of its continued compliance with bill's requirements, and be certified by the Department for the tax year as meeting the requirements. Among other things, an education foundation would have to qualify for exemption from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code; maintain an ongoing program to attract new endowment funds from donors in the community or area served; and exclusively dedicate all funds, gifts, and bequests to providing assistance to students and teachers in the schools of this State including school districts, public school academies, and private, denominational, and parochial schools, for nonessential supplies and assistance. An education foundation also would have to be subject to a program review every year and an independent financial audit every three years, and give copies of the review and audit to the Department within three months after each was completed.

MCL 206.261 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce State income tax revenue by an unknown, and potentially significant, amount. Michigan currently offers similar credits, the Public Contribution Credit and the Community Foundation Credit, which totaled \$28.3 million for tax year 2007. While the allowable amounts for these similar credits are double those that the bill would allow, the number of contributors under the bill's credit is expected to be greater. Data from 2008 for a similar program in Arizona imply a Michigan impact of about \$17.5 million per year, given the provisions of the bill. Approximately, 80% to 90% of the reduction would lower General Fund revenue, while the remainder would lower School Aid Fund revenue.

Date Completed: 1-13-10 Fiscal Analyst: David Zin