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BILL ANALYSIS

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Senate Bill 563 (as reported without amendment) *(as enrolled)*
Sponsor: Senator Tom George
Committee: Finance

Date Completed: 10-19-09

RATIONALE

Legislation enacted in 2004 created tax credits or exemptions for the donation of an automobile to a charitable organization that intends to give the vehicle to a low-income or unemployed individual, who needs it to drive to work or accept an offer of employment. The tax credits include an income tax credit for 50% of the value of a donated automobile, subject to a cap on the credit of $50 for an individual or $100 for a married couple filing jointly. This credit is scheduled to expire at the end of 2009. To retain the incentive to donate automobiles, and the availability of vehicles for those in need, it has been suggested that the sunset be removed.

CONTENT

The bill would amend the Income Tax Act to delete the sunset on a credit for the donation of an automobile to a qualified organization.

Under the Act, for tax years that begin after December 31, 2004, and before January 1, 2010, a taxpayer may claim a credit equal to 50% of the fair market value of an automobile the taxpayer donated to a qualified organization that intends to provide the automobile to a qualified recipient. For a taxpayer other than a resident estate or trust, the credit for a tax year may not exceed $50 or, for a husband and wife filing jointly, $100. If the credit exceeds the taxpayer's tax liability for the tax year, the excess is not refundable.

The bill would delete reference to the tax years for which the income tax credit may be claimed.

(The Act defines "qualified organization" and "qualified recipient" as those terms are defined in Section 94y of the Use Tax Act. Under that section, the use tax does not apply to the storage, use, or consumption of an automobile provided to a qualified recipient by the Department of Human Services or a qualified organization. Please see **BACKGROUND** for a definition of the terms.)

MCL 206.269

BACKGROUND

Public Acts 301, 302, 312, and 313 of 2004 amended the General Sales Tax Act, the Single Business Tax Act, the Use Tax Act, and the Income Tax Act, respectively, to provide for a tax exemption or credit for the donation of an automobile to a qualified organization or the Family Independence Agency (now the Department of Human Services), and for the donation or sale of an automobile to a qualified recipient.

The Use Tax Act defines "qualified organization" as an organization that applies for certification by July 1 of the year in which an exemption is claimed and is certified by the Department of Treasury as meeting all of the following requirements:

-- The organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code.
-- The organization is licensed under the Charitable Organizations and Solicitations Act.
-- The organization administers a program to provide a qualified recipient with an

automobile for transportation to his or her place of employment or for employment-related activities.

"Qualified recipient" means a person certified by a qualified organization as meeting all of the following:

-- The recipient receives or, if he or she applied, would be eligible for public assistance through a program under the Social Welfare Act.
-- The recipient has a valid Michigan driver license.
-- He or she is financially capable of meeting any loan payment, insurance payment, or other expenditure associated with the vehicle.
-- Public transportation is not reasonably available to the recipient, he or she has no other reliable means by which to compute to his or her place of employment, and he or she will use the vehicle as his or her primary means of transportation to commute to and from the place of employment.
-- The recipient has a demonstrated ability to maintain employment.
-- If the recipient is currently employed for at least 20 hours per week, he or she needs an automobile to retain that employment or to accept a verified offer of employment in a position that is demonstrably superior to his or her current position.
-- If the recipient is not currently employed or is employed for less than an average of 20 hours per week, he or she needs an automobile to accept a verified offer of employment of at least an average of 20 hours per week and cannot begin employment in that position without an automobile.

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

A significant number of Michigan's poor residents do not own cars but live in areas that are not served by public transportation or where it is impractical to take public transportation to work. In some cases, jobs are available but the individuals cannot take them or are unable to move to better-paying employment because they lack the necessary means to get to those jobs. Several Michigan charities have stepped in to help these residents by refurbishing donated vehicles and providing them, for little or no charge, to those who demonstrate a need, an ability to hold down a job, and the financial resources to pay for the vehicle's registration, insurance, and maintenance.

The income tax credit enacted in 2004 has helped provide an incentive for individuals to donate their vehicles to qualified charities, which in turn furnish the transportation that some residents need to find work or move to better jobs. Eliminating the sunset on the tax credit would allow these benefits to continue.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce State tax revenue by approximately $0.1 million per year. According to estimates from the Department of Treasury, the current credit lowered FY 2007-08 revenue by $116,000 and is expected to reduce FY 2008-09 revenue by $121,000.

Fiscal Analyst: David Zin

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