

Legislative Analysis



NEW INCOME TAX CHECK-OFF: FOSTERING FUTURES SCHOLARSHIPS

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

**Senate Bill 543 as passed by the Senate
Sponsor: Sen. Peter MacGregor**

Analysis available at
<http://www.legislature.mi.gov>

**Senate Bill 544 as passed by the Senate
Sponsor: Sen. Marty Knollenberg**

**Senate Committee: Finance
House Committee: Tax Policy
Complete to 3-15-16**

SUMMARY:

Senate Bills 543 and 544 would place an additional check-off box on the individual state income tax return form to allow taxpayers to make voluntary donations to the Fostering Futures Scholarship Trust Fund, which is used to provide college scholarships to eligible current and former foster care students. This would apply beginning with the 2016 tax year.

This would be added to the list of funds to which a taxpayer could contribute \$5, \$10, or more on an annual tax return. Because the amount of the contribution is deducted from a refund or added to the amount of tax owed, it has no state revenue impact. Under Section 435 of the Income Tax Act, the Department of Treasury has established a separate schedule on the income tax form for contribution designations.

New contribution designations require two bills each. In this instance, Senate Bill 543 amends the Income Tax Act to create the check-off on the individual income tax form, and Senate Bill 544 would amend the Fostering Futures Scholarship Trust Fund Act to receive donations from taxpayers. Donations credited to this existing fund by the Department of Treasury, along with interest and earnings, would be used to provide college scholarships to eligible current and former foster care students. For Fiscal Year 2015-16, the Department of Health and Human Services (DHHS) budget allocates \$750,000 for those scholarships.

Under the Fostering Futures Scholarship Trust Fund Act, the Department of Treasury must collaborate with institutions of higher education to assist current and former foster care students with unmet financial education needs and assist in the effort to create sustainable futures for those students. Funds provided by the department can only be used for tuition, fees, room, board, books, supplies, and equipment required for enrollment. The department could enter into contracts with public or private agencies to fulfill the requirements of the act.

Under the act, a foster care student is eligible for a Fostering Futures Scholarship if all of the following apply: (1) due to child abuse or neglect, the student was in foster care after his or her thirteenth birthday; (2) the student is attending an institution of higher learning

as determined by the department; (3) the student has an unmet financial education need; (4) the student has completed the application and provided the department with required documentation; and (5) the student maintains satisfactory academic progress as determined by the department.

The act currently requires the Department of Treasury to administer and direct investment of the Fund. If the costs to the Department of Treasury are not absorbed in the normal course of business, any expenditures necessary to cover the costs of administering and investing the Fostering Futures Trust Fund can be covered by the proceeds of the fund. The language of the act requires that all expenses authorized under the bill be funded by the trust fund. Administrative costs are capped at 15% of the amount in the trust fund over \$500,000.

BACKGROUND INFORMATION:

The state income tax form contains a voluntary contribution schedule that allows taxpayers to make donations on a separate form to certain specially selected charitable programs. The form can be seen at: http://www.michigan.gov/documents/taxes/4642_508850_7.pdf

The recipient groups become eligible for the contributions through legislative action. The Income Tax Act must be amended to name the organization. The act also requires the Department of Treasury to remove a contribution designation from the schedule if the designation fails to raise \$50,000 in any single tax year for two consecutive tax years. A number of organizations have been removed in recent years.

The following contributions are on the 2015 tax form: ALS of Michigan Fund, Alzheimer's Association of Michigan, Animal Welfare Fund, Children of Veterans Tuition Grant Program, Children's Trust Fund, Military Family Relief Fund, Special Olympics Fund, and the United Way Fund.

The following were once on the state income tax form but have been dropped: the Amber Alert Fund (dropped for Tax Year 2015), the Girls Scouts of Michigan Fund (dropped for Tax Year 2014), the Prostate Cancer Research Fund, Amanda's Fund for Breast Cancer, the Housing and Community Development Fund, the Law Enforcement Officers Memorial Monument Fund, the Renewable Fuels Fund, the Council for the Arts Fund, the Foster Care Trust Fund, the Children's Miracle Network Fund, and the Children's Hospital of Michigan Fund.

Public Act 151 of 2012 (House Bill 5232) amended the Income Tax Act to make a number of changes to the voluntary contribution schedule. The changes include the following:

- The contributions schedule can contain no more than 10 separate contribution designations in any single tax year.
- All money appropriated from contributions must be distributed as required by the appropriate fund within one year and none can be used for administering the fund.
- If a fund receiving contributions is to be used to donate to multiple organizations, the department responsible for administering the fund must designate one local representative or agency of that organization to administer and distribute the funds (in a manner provided in the act creating the fund).

- When deciding whether to grant approval to an additional contribution designation, the Legislature must consider whether the organization:
 - Serves multiple regions throughout Michigan.
 - Has demonstrated that it is capable of raising more than \$50,000 during the tax year through means other than the income tax contribution designation.
 - Spends 30% or more of its money to cover administrative and fund-raising costs. (Presumably, lower percentages are preferred.)
 - Had previously been included on the contributions schedule within the three immediately preceding years and had been removed for failing to raise a sufficient amount.
 - Receives any other state funds or other type of financial assistance from the state.
 - Is associated with a nonprofit charitable organization.

The FY 2015-16 DHHS budget allocates \$750,000 for those scholarships.

FISCAL IMPACT:

These are voluntary contributions and have no state revenue impact.

The bills would have an indeterminate, but likely negligible, fiscal impact on the Department of Treasury. The provisions of the bill may create certain administrative costs in administering the fund and amending tax forms to accommodate the check-off, but these are expected to be minimal and will be absorbed through current appropriation levels. The following chart shows the contributions from the 2014 tax year, as provided by the Department of Treasury:

Voluntary Contributions in 2014 tax year

Fund	Contributors	Contributions
ALS of Michigan Fund	4,134	\$52,201
Alzheimer's Association of Michigan	5,967	\$69,432
AMBER Alert Fund Of Michigan	3,673	\$29,655
Animal Welfare Fund	8,827	\$98,654
Children of Veterans Tuition Grant Program	4,934	\$54,561
Children's Trust Fund	6,874	\$72,316
Military Family Relief Fund	7,838	\$101,085
Special Olympics Michigan	4,921	\$55,869
United Way Fund	4,018	\$95,201
Total:		\$628,974

Legislative Analyst: Chris Couch

Fiscal Analyst: Jim Stansell

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.