Legislative Analysis

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NEW INCOME TAX CHECK-OFF:
FOSTERING FUTURES SCHOLARSHIPS

Senate Bill 196 as passed Senate w/o amendment
Sponsor: Sen. Marty Knollenberg

Senate Bill 197 as passed Senate w/o amendment
Sponsor: Sen. Peter MacGregor

House Committee: Families, Children, and Seniors
Senate Committee: Finance
Complete to 10-18-17

SUMMARY:

Senate Bills 196 and 197 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. The Trust Fund provides educational scholarships for foster care students. This check-off would apply beginning with the 2017 tax year.

The Trust Fund 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, <u>Senate Bill 196</u> amends the Fostering Futures Scholarship Trust Fund Act to receive donations from taxpayers for credit into the Fostering Futures Scholarship Trust Fund. The Trust Fund was created by 2014 PA 530, and is a charitable and educational endowment fund that provides scholarships for postsecondary education for eligible foster care students. <u>Senate Bill 197</u> amends the Income Tax Act to create the check-off on the individual income tax form, and to increase the maximum number of check-offs from 10 to 11.

Money in the Trust Fund is subject to appropriation each year and can only be appropriated when the balance is above \$500,000. Any amount remaining in the Trust Fund at the end of the year does not lapse into the General Fund.

MCL 722.1029 and 206.435

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 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 were on the 2016 tax form: ALS of Michigan Fund, Alzheimer's Association of Michigan, Michigan Junior Achievement Fund, Red Cross Michigan Fund, 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 Girls Scouts of Michigan Fund, 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 AMBER Alert 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 contribution 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.

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 2016 tax year, through 10-16-17, as provided by the Department of Treasury:

Voluntary Contributions in 2016 tax year

Fund	**Contributors**	**Contributions**
ALS of Michigan Fund	1,944	$27,832
Alzheimer's Association of Michigan	2,948	$40,388
Animal Welfare Fund	3,802	$49,673
Children of Veterans Tuition Grant Program	2,350	$34,927
Children's Trust Fund	3,449	$45,146
Junior Achievement	677	$7,605
Military Family Relief Fund	3,152	$56,191
Red Cross	2,036	$24,390
Special Olympics Michigan	2,405	$37,731
United Way Fund	1,815	$61,491
Total		**$385,374**

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