Legislative Analysis

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NEW INCOME TAX CHECKOFF: KIWANIS FUND

House Bill 5739 as enacted
Public Act 258 of 2018
Sponsor: Rep. Steve Marino

House Bill 5740 as enacted
Public Act 259 of 2018
Sponsor: Rep. Diana Farrington

House Committee: Tax Policy
Senate Committee: Finance
Complete to 8-15-18

SUMMARY:

House Bills 5739 and 5740 place an additional check-off box on the individual state income tax return form to allow taxpayers to make a voluntary contribution to the Kiwanis Fund, which provides funds for donation to any Kiwanis club or organization located in Michigan to improve the world by making lasting differences in the lives of children.

House Bill 5740 creates a new act, the Kiwanis Fund Act, which creates the Kiwanis Fund in the Department of Treasury to provide funds for donation to any Kiwanis club or organization for the purposes described above.

The state treasurer must direct the investment of the Kiwanis Fund and credit to the fund all amounts appropriated from the income tax checkoff. Money in the fund, including interest and earnings, must be expended solely for the purposes described above. Money received as a gift or donation to the fund is available for distribution upon appropriation to each county from which a gift or donation was received. Money in the fund may be used as matching funds for a federal grant if those funds are to be used for a purpose similar to those described above. The money in the fund that is available for distribution must be appropriated each year, and any money in the fund at the close of the year remains in the fund and does not lapse to the general fund.

House Bill 5739 amends the Income Tax Act (MCL 206.435) to add the Kiwanis Fund to the list of funds to which a taxpayer can designate a contribution, beginning for tax year 2018. The bill also deletes provisions regarding organizations that have been removed from the voluntary donation schedule in recent years (see **Background Information**, below).

FISCAL IMPACT:

These are voluntary contributions that have no state revenue impact.

The bills would have an indeterminate, but likely negligible, fiscal impact on the Department of Treasury. The bills may create certain administrative costs in administering the fund and amending tax forms to accommodate the checkoff, but these are expected to be minimal and will be absorbed through current appropriation levels.

BACKGROUND INFORMATION:

The state income tax return contains a separate voluntary contribution form that allows taxpayers to make donations of $5, $10, or more to select charitable funds, with the donation either reducing a tax refund or increasing a tax due.[1] The funds become eligible for the contributions through legislative action, as the Income Tax Act must be amended to name the fund. The fund then appropriates money according to the statute that creates the fund; appropriations are generally made to a specific charitable organization or to multiple organizations that support a specific issue or cause.

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 a single tax year for two consecutive tax years. A number of funds have been removed in recent years.

The following chart shows the contributions from the 2017 tax year, through May 11, 2018, as provided by the Department of Treasury.

Voluntary Contributions in 2017 Tax Year

Fund	Contributors	Contributions
Animal Welfare Fund	8,602	$102,966
Children's Trust Fund	6,257	$72,400
Junior Achievement	2,156	$20,120
Military Family Relief Fund	6,999	$104,269
Red Cross	5,605	$67,816
United Way Fund	4,173	$96,020
Total		**$463,591**

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

- The contribution schedule cannot contain more than 10 separate contribution designations in any single tax year.
- All money appropriated from contributions must be distributed as required by the specific fund within one year, and none can be used for administering the fund.

[1] See 2017 Voluntary Contributions Schedule, Form 4642.
https://www.michigan.gov/documents/taxes/4642_608979_7.pdf

- 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:
  - Has 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.

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