

Legislative Analysis



MICHIGAN COMMUNITY INVESTMENT PILOT PROGRAM

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

House Bill 5820 as introduced
Sponsor: Rep. Aaron Miller

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

House Bill 5821 as introduced
Sponsor: Rep. Ronnie D. Peterson

Committee: Commerce and Tourism
Complete to 9-2-20

SUMMARY:

House Bill 5820 would amend the Michigan Strategic Fund Act to create a Michigan community investment pilot program to promote programs, projects, and activities to assist distressed areas or the low-income residents of a community. House Bill 5821 would amend Part 1 of the Income Tax Act to create a tax credit for qualified investments made under the community investment pilot program.

House Bill 5820 would direct the Michigan Strategic Fund (MSF) to develop a Michigan community investment pilot program to promote community participation and collaborations among nonprofit organizations, businesses, and individual residents while producing outcomes that assist a distressed area or the low-income people who live in a neighborhood, community, or commercial corridor. The program would have to include parameters and criteria to be used by the MSF board of directors for approving *community investment plans* submitted by *qualified organizations*.

Community investment plan would mean strategies to encourage small business development, provide affordable housing, promote financial empowerment, create and retain jobs, and any other strategies proposed by a qualified organization to assist a distressed area in a neighborhood, community, or commercial corridor or the low-income residents of a neighborhood or community through *qualified investments*.

Qualified organization would mean a nonprofit organization that is organized under the Nonprofit Corporation Act, that is exempt under section 501(c)(3) of the Internal Revenue Code, and that meets all of the following:

- The organization has a community investment plan approved by the MSF under the community investment pilot program.
- A majority of the organization's efforts are focused on serving one or more specific neighborhoods or communities or an economically disadvantaged constituency.
- The purpose of the organization is to engage local residents and businesses to work together to undertake community development programs, projects, and activities.
- The organization demonstrates to the MSF that its constituency, including economically disadvantaged people, has a meaningful role in its governance and

direction, which could include committees, membership meetings, and representation on the board of directors.

- The organization is not a financial institution.

Qualified investment would mean cash or cash equivalent investment certified by the MSF that is contributed to a qualified organization to promote and support implementation of the organization's community investment plan approved by the MSF under the pilot program.

Additionally, the bill would direct the MSF to establish an application, approval, and compliance process for the MSF board of directors to certify community investment plans and determine eligibility and issue certificates to taxpayers that make qualified investments in qualified organizations, as provided under HB 5821, described below. The application, approval, and compliance process would have to be posted on the MSF's website.

Proposed MCL 125.2088s

House Bill 5821 would allow a taxpayer who makes a qualified investment in a qualified organization after December 31, 2020, and before January 1, 2026, to claim a credit against the tax imposed by Part 1 of the Income Tax Act equal to 50% of the qualified investment made during the tax year.

To qualify for the tax credit, the taxpayer would have to request certification of the qualified investment from the MSF, as provided under the pilot program, at least 30 days before making the investment. A taxpayer could not claim a credit unless the MSF issued a certificate to the taxpayer. The board of directors of the MSF could not approve a credit for a taxpayer who was convicted of a felony involving a fiduciary obligation or the conversion or misappropriation of funds or insurance accounts, theft, deceit, fraud, misrepresentation, or corruption.

A copy of each certificate would have to be forwarded to the governor, the president of the MSF, the chairperson of the Senate finance committee, the chairperson of the House tax policy committee, and the directors of the House and Senate Fiscal Agencies. Section 28(1)(f) of 1941 PA 122 would not apply to this disclosure.¹ Additionally, the taxpayer would have to attach the certificate to the annual income tax return filed under Part 1 on which a credit under the bill is claimed.

The certificate would have to specify all of the following:

- The total amount of investments made during the tax year by the taxpayer in each qualified organization.
- The total amount of qualified investments made in each qualified organization if different from the previous amount.
- The total amount of the credit under the bill that the taxpayer is allowed to claim for the designated tax year.

¹ See <http://legislature.mi.gov/doc.aspx?mcl-205-28>

If the amount of the credit exceeded the tax liability of the taxpayer for the tax year, then that portion of the credit exceeding the tax liability would not be refunded, but could be carried forward to offset tax liability in subsequent tax years for up to five years or until used up, whichever was first.

The total amount of all credits that the MSF could certify under the bill could not exceed \$25.0 million.

House Bill 5821 is tie-barred to House Bill 5820, which means that it could not take effect unless House Bill 5820 were also enacted.

Proposed MCL 206.280

FISCAL IMPACT:

House Bill 5820 would create administrative costs for the Michigan Strategic Fund related to the development, operation, and administration of the Michigan community investment pilot program. No estimate of costs can currently be provided. A legislative appropriation would be necessary to accommodate any costs that exceed current appropriations.

House Bill 5821 restricts the total amount of credits that can be certified under the Michigan community investment pilot program to \$25.0 million. Because there is no limit on the amount that can be certified in any single year, the impact of the revenue loss in any given year cannot be estimated.

The credit for a taxpayer is not refundable, although any excess amount may be carried forward to subsequent tax years. As such, the credit would reduce gross income tax revenue (prior to refunds). About 23.8% of gross income tax revenue is earmarked to the School Aid Fund, with most of the remainder accruing to the general fund.

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■ 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.