Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 113 (as introduced 2-9-21)
Sponsor: Senator Jim Runestad
Committee: Finance

Date Completed: 6-2-21

CONTENT

The bill would amend the Income Tax Act to do the following:

-- **Allow a taxpayer, beginning on and after January 1, 2021, to claim a credit against the individual income tax in an amount equal to 50% of the sum of the taxpayer's contributions to a homeless shelter, food kitchen, food bank, or a community foundation.**
-- **Limit the maximum amount of the credit to no more than $100, $200 for a joint return, or, in the case of a resident estate or trust, 10% of the taxpayer's total tax liability or $5,000, whichever was less.**
-- **Allow an entity other than a community foundation to request that the Department of Treasury make a determination as to whether a contribution to that entity would qualify for the credit.**
-- **Require the Department to report to the House Committee on Tax Policy and the Senate Committee on Finance, on or before July 1 of each year, the total amount of credits claimed under the bill for the immediately preceding tax year.**

<u>Tax Credit for Contribution to Homeless Shelter or Community Foundation</u>

For tax years beginning on and after January 1, 2021, the bill would allow a taxpayer to claim a credit against the individual income tax in an amount equal to 50% of the sum of the cash amount and, if food items were contributed in conjunction with a vendor's matching contribution program, the value of those items, the taxpayer contributed during the tax year to a shelter for homeless individuals, food kitchen, food bank, or other entity located in Michigan whose primary purpose is to provide overnight accommodation, food, or meals to indigent individual. The taxpayer would receive a credit only if a contribution to that entity were tax deductible for the donor under the Internal Revenue Code.

The bill also would allow a taxpayer to claim a credit against the individual income tax for the tax year equal to 50% of the amount the taxpayer contributed to a community foundation. "Community foundation" would mean an organization that applies for certification on or before May 15 of the tax year in which the taxpayer is claiming the credit and that the Department certifies for that tax year as meeting the requirements of a community foundation as provided in Section 3 of the Michigan Community Foundation Act; however, for the bill's purposes, the organization only needs to have assets of at least $1.0 million to qualify for certification.

(Section 3 of the Michigan Community Foundation Act defines as "community foundation" as an organization that meets all of the following requirements: 1) has been in existence for at least 10 years, 2) has assets of at least $5.0 million, 3) qualifies for exemption from Federal income taxation under the Internal Revenue Code, 4) supports a broad range of charitable activities within the specific geographic area of Michigan that it serves, 5) maintains an ongoing program to attract new endowment funds by seeking gifts and bequests from a wide range of potential donors in the geographic area served, 6) is publicly supported as defined under Federal regulations, 7) meets the requirements for treatment as a single entity under Federal regulations, 8) is not an organization described in Section 509(a)(3) of the Internal Revenue Code (i.e., a private foundation), 9) has an independent governing body representing the general public's interest and that is not appointed by a single outside entity, 10) maintains continually at least one part-time or full-time employee, 11) is subject to an annual independent financial audit, and 12) if incorporated or established after January 9, 2001, operates in a county of Michigan that was not served by a community foundation when the community foundation was incorporated or established or operates as a geographic component of an existing community foundation.)

Maximum Amount of Credit

Under the bill, for a taxpayer other than a resident estate or trust, the maximum credit allowed for charitable contributions described above could not exceed $100, or $200 for a joint return. For a resident estate or trust, the maximum credit allowed could not exceed 10% of the taxpayer's tax liability for the tax year before claiming any credits allowed under the individual income tax or $5,000, whichever is greater. For a resident estate trust, the amount used to calculate the credits could not have been deducted in arriving at Federal taxable income. If the amount of the credits allowed exceeded the taxpayer's tax liability for the tax year, the portion that exceeded the tax liability could not be refunded.

Administration

Under the bill, an entity other than a community foundation could request that the Department determine if a contribution to that entity qualified for the proposed community foundation tax credit. The Department would have to make a determination and respond to a request within 30 days after receiving it.

The bill would require that, on or before July 1 of each year, the Department report to the House Committee on Tax Policy and the Senate Finance Committee the total amount of tax credits claimed under the bill for the immediately preceding tax year.

Proposed MCL 206.261 Legislative Analyst: Christian Schmidt

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately $22.0 million per year. Between tax years 2006 and 2011, the number of returns claiming the credit for contributions to homeless shelters and food banks remained relative stable, at approximately 234,500 each year, as did the number of returns claiming the community foundation credit, at approximately 38,900. Similarly, the total amount claimed each year under each credit remained stable, at approximately $18.7 million for the homeless shelter/food bank credit and approximately $3.3 million for the community foundation credit. Although the School Aid Fund receives revenue from the income tax under Part 1 of the Act, credits are applied against the portion received by the General Fund. As a result, all of the reduction in revenue under the bill would lower General Fund revenue.

Fiscal Analyst: David Zin