

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

**SFA**

BILL ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 711 (as introduced 9-30-97)

Sponsor: Senator Loren Bennett

Committee: Finance

Date Completed: 9-30-97

## **CONTENT**

**The bill would amend the City Income Tax Act to increase the personal and dependency exemptions a taxpayer is allowed to claim against a city income tax; and allow a taxpayer to claim a partial credit against the tax (similar to that allowed against the State income tax or the single business tax) for donations to the endowment fund of a community foundation.**

Currently, under the Act, a taxpayer may claim personal and dependency exemptions equal in number to those the taxpayer is allowed to claim on his or her Federal tax return. Each exemption is equal to at least \$600. The bill provides that, for the 1997 tax year and thereafter, each exemption would be equal to the amount a taxpayer could claim for a personal exemption against the State income tax (which is \$2,500 per exemption for the 1997 tax year).

The bill also provides that for the 1997 tax year and thereafter, a taxpayer could claim a credit against a city income tax for a donation to the endowment fund of a community foundation. The credit for an individual would be equal to 50% of the amount the taxpayer contributed, up to \$100/\$200 for a single/joint return. For a taxpayer other than an individual, the credit could not exceed the lesser of \$5,000 or 10% of the taxpayer's tax liability for the tax year.

The credit would be nonrefundable, so that a taxpayer could not claim a total credit amount that reduced the taxpayer's tax liability to less than zero.

Under the bill, "community foundation" would mean an organization that applied for certification on or before April 1 of the tax year for which a taxpayer claimed the credit and that the Department of Treasury certified for that tax year as meeting all of the following requirements:

- Qualified for exemption from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code.
- Supported a broad range of charitable activities within the specific geographic area of the State that it served, such as a municipality or county.
- Maintained an ongoing program to attract new endowment funds by seeking gifts and bequests from a wide range of potential donors in the community or area served.
- Was not a supporting organization as defined in the Internal Revenue Code and in the regulations of the United States Department of Treasury.
- Met the requirements for treatment as a single entity, and was publicly supported, as defined in the regulations of the United States Department of Treasury.
- Was incorporated or established as a trust before September 1 of the year immediately preceding the tax year for which a credit was claimed.

MCL 141.631 et al.

Legislative Analyst: G. Towne

## **FISCAL IMPACT**

This bill would have an impact on the cities that have an income tax, and also State government, as explained below and as summarized in the following table.

Impact on Cities with an Income Tax.

Personal Exemption Increase. Increasing the personal exemption to the same level as the State income tax personal exemption (\$2,500 in 1997 and \$2,800 in 1998) would reduce city income tax collections by an estimated \$55 million, or approximately 12%, for the 1997 tax year.

Community Foundation Contribution Credit. The credit for contributions to community foundations that cities would have to provide as part of their income tax, would reduce their income tax revenue by an estimated \$0.4 million for the 1997 tax year. This credit would be identical to the current State income tax credit for community foundation contributions, and as a result, city income tax payers could receive 100% of their contribution, up to \$200 for a single filer and \$400 for joint filers, because the State credit provides a credit of 50% of their contribution and the city income tax credit would also provide a credit of 50% of their contribution. As a result, it is assumed that the number of city income tax payers who make contributions to community foundations would double by instituting a credit against city income taxes.

Impact on State Government.

Community Foundation Contribution Credit. Because it is assumed that more city income tax payers would make contributions to homeless shelters and food banks, due to the 100% credit that would be available through the combined credits on the State and city income taxes, the cost of the State credit would increase by an estimated \$0.2 million in FY 1997-98.

City Income Tax Credit. The State income tax provides a credit to taxpayers who pay a city income tax. Under this bill, city income tax liabilities would decline and so the cost of the State city income tax credit would also decline. Based on the estimated reduction in city income tax payments for the 1997 tax year, it is estimated that the cost of the State city income tax credit would decline by \$2.6 million in FY 1997-98.

Estimated Fiscal Impact of S.B. 711  
(dollars in millions)

Impact on Cities with Income Tax:	<u>1997</u>
Personal Exemption Increase	\$(55.1)
Homeless Shelter Credit	(0.4)
Total Impact on Cities	\$(55.5)
Impact on State Government:	<u>FY 98</u>
Homeless Shelter Credit	\$(0.2)
City Income Tax Credit	2.6
Total Impact on State Government	\$2.4

Fiscal Analyst: J. Wortley

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