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CHARITABLE CONTRIBUTIONS FROM PENSION INCOME

Senate Bill 1382 as passed by the Senate
First Analysis (12-5-00)

Sponsor: Sen. Bill Bullard, Jr.
House Committee: Tax Policy
Senate Committee: Finance

THE APPARENT PROBLEM:

Distributions from an individual retirement account (IRA) or other pension plan are added to a taxpayer's income when calculating federal adjusted gross income (AGI). If the taxpayer directs the distribution to a charitable organization, that amount can be deducted when determining taxable income. When a Michigan taxpayer calculates his or her state income tax liability, he or she begins with the federal AGI. As a result, state taxes must be paid on retirement distributions even when they have been directed to a charity. Legislation has been introduced to allow a state deduction for some charitable donations.

THE CONTENT OF THE BILL:

The bill would amend the Income Tax Act to allow a deduction for a "qualified charitable distribution". This would apply for tax years beginning after December 31, 2000. A qualified charitable distribution would mean a distribution of assets to a qualified charitable organization by a taxpayer not more than 60 days after the date on which the taxpayer received the assets from a retirement or pension plan.

The amount allowed as a deduction would be equal to the amount deductible for the charitable deduction under the federal Internal Revenue Code reduced by both 1) the amount of the deduction for retirement or pension benefits claimed by the taxpayer under the state act; and 2) two times the total amount of credits claimed for public contributions and contributions to community foundations, food banks, and homeless shelters under the state act. (The first deduction cited allows a taxpayer to deduct all of a federal, state, or local pension, and allows the deduction of the first \$34,170 of a private pension plan, or \$68,340 for a married couple.)

A qualified charitable organization would include:

- a 501(c)(3) organization, other than an organization controlled by a political party, an elected official, or a candidate for an elective office; and
- a charitable remainder annuity trust or a charitable remainder unitrust, a pooled income fund, or for the issuance of a charitable gift annuity, as those terms are defined in the federal Internal Revenue Code. A trust, fund, or annuity would only be a qualified charitable organization if no person held any interest in it other than the taxpayer, the taxpayer's spouse, or a 501(c)(3) organization.

FISCAL IMPLICATIONS:

The bill would reduce income tax receipts by about \$1 million annually, according to the House Fiscal Agency. Most of this would be a reduction in General Fund revenues. (HFA fiscal note dated 12-5-00)

ARGUMENTS:

For:

The bill would encourage charitable contributions by allowing a deduction for distributions to certain charitable organizations from pension and retirement income. These contributions are deductible now for federal income tax purposes but not under the state income tax.

POSITIONS:

The Department of Treasury is neutral on the bill. (12-5-00)

Analyst: C. Couch

#This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.