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BILL ANALYSIS

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Senate Bill 1479 through 1482 (as reported without amendment)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 10-27-08

RATIONALE

Economic downturns at the State and Federal levels can force the State to cut spending or increase taxes in order to balance the State budget and fund programs. In working to balance the budget, officials often disagree on the acceptable size of State government and the amount of tax revenue that residents of the State would like their government to spend. Some people believe that, in order to provide an alternative to raising taxes and cutting spending, and to gather information on how much money individuals are willing to contribute voluntarily to government spending, a taxpayer should be able to donate money to specific State funds through contribution designations (check-offs) on his or her income tax return.

CONTENT

Senate Bills 1479, 1481, and 1482 would amend the Income Tax Act to add the State School Aid Fund, the Michigan Higher Education Fund (proposed by Senate Bill 1480), and the State General Fund, respectively, to the funds listed on the schedule of contribution designations included with a taxpayer's income tax return. Senate Bill 1480 would enact the "Michigan Higher Education Fund Act" and create the Michigan Higher Education Fund to provide funds to supplement State appropriations for the State institutions of higher education and certain State purposes related to education each fiscal year.

Senate Bills 1480 and 1481 are tie-barred. All of the bills are described in detail below.

Senate Bill 1479

Under the Income Tax Act, an individual may designate on his or her annual tax return that contributions of $5, $10, or more of his or her State income tax refund (or additional tax liability) be credited to any of the funds specified in the Act. The Department of Treasury must create a schedule of the specified check-offs to be included with an annual income tax return. New check-offs must be incorporated as soon as practical on the schedule, and the Department may discontinue a check-off that fails to raise $100,000 in a tax year for two consecutive years.

The Act includes check-offs for the Children of Veterans Tuition Grant Program, the Children's Trust Fund, the Prostate Cancer Research Fund, the Military Family Relief Fund, Amanda's Fund For Breast Cancer Prevention and Treatment, the Animal Welfare Fund, the Michigan Housing and Community Development Fund, and the Michigan Law Enforcement Officers Memorial Monument Fund. The bill would add a check-off for the State School Aid Fund.

(The State School Aid Fund, established by Article IX, Section 11 of the State Constitution, must be used exclusively for aid to school districts, higher education, and school employees' retirement systems, as provided by law.)

Senate Bill 1480

The bill would create the Michigan Higher Education Fund in the Department of Treasury to provide funds to supplement State appropriations for the State institutions of higher education and certain State purposes related to education each fiscal year.

The Department would be the administrator of the Fund for auditing purposes and the State Treasurer would have to direct the investment of the Fund. The Treasurer would have to credit to the Fund all amounts appropriated for this purpose under Section 435 of the Income Tax Act (which provides for tax check-offs) and money from any other source for deposit into the Fund. The Fund would consist of the money credited to it from income tax check-off contributions, any interest and earnings accruing from the saving and investment of that money, and money from any other source. Money in the Fund at the close of the year would have to remain in the Fund and could not lapse to the General Fund. The money, interest, and earnings of the Fund could be spent solely to supplement State appropriations for the State institutions of higher education and certain State purposes related to education.

The money in the Fund that was available for distribution would have to be appropriated each year. Money granted or received as a gift or donation to the Fund would be available for distribution upon appropriation.

"Institution of higher education" would mean an institution of higher education or a community or junior college as described in Article VIII of the State Constitution, or an independent nonprofit degree-granting institution of postsecondary education in this State that is approved by the State Board of Education.

Senate Bill 1481

The bill would add a check-off for the Michigan Higher Education Fund (proposed by Senate Bill 1480) to the funds listed on the schedule of check-offs included with a taxpayer's income tax return.

Senate Bill 1482

The bill would add a check-off for the State General Fund to the funds listed on the schedule of check-offs included with a taxpayer's income tax return.

(The State General Fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.)

MCL 206.435 (S.B. 1479, 1481, & 1482)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bills would allow a taxpayer to make a voluntary contribution directly to State funds used to pay for State operations and education, potentially providing a nonobligatory alternative to increasing taxes and cutting State spending. In recent years, the Legislature has approved a variety of income tax check-offs to allow taxpayers to contribute to cancer research, animal welfare, a police officer memorial, and other causes. State government operations and education are important to Michigan residents and would benefit from taxpayer contributions as well. While the amount of money donated would not necessarily be much, the proposed check-offs could raise revenue for the State without tax increases or the diversion of money from other causes.

Supporting Argument

The bills would provide a way for State officials to gauge taxpayer interest and commitment to State spending. The response to the check-offs created by the bills would provide useful information about the willingness of taxpayers to give voluntarily to the government and could be used to inform future decisions on government spending and taxation.

Opposing Argument

Taxation is the appropriate mechanism to raise money for State spending purposes. Check-offs on the Michigan income tax return should be used for targeted and limited purposes, traditionally charitable causes, and should not be used to generate money for State spending in general. By including State funds on the list of check-offs, the bills could decrease the amount of money donated to charitable causes by asking taxpayers with limited incomes and resources to choose between contributing to organizations and funds listed on the return and essential State operations. The bills also could inadvertently harm fund-raising efforts for individual colleges and universities, which have experience raising money from alumni and supporters and have developed fund-raising programs.

Opposing Argument

An income tax check-off is not an appropriate way to determine whether an area of State spending is important to a taxpayer. The information garnered by check-offs for State funds would not be useful because the amount of money a taxpayer donated to State funds listed on his or her return would not accurately depict his or her support of State spending on services and programs. Any donations made by a taxpayer would be in addition to taxes already paid to the State and Federal government and donations to charitable organizations made by the taxpayer.

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would have an indeterminate fiscal impact on State government. Each time a check-off is added, the Department of Treasury incurs administrative costs for implementing the necessary changes to the forms, and for processing the various contributions. In 2005, the Department of Treasury received $2.2 million in total contributions to the three check-offs then available. On average, the total amount of contributions in a given tax year has ranged from $1.5 million to $3.5 million, and the amount per check-off has varied from $300,000 to $2.1 million. It is difficult to predict the popularity of a new check-off and whether the addition of choices for check-off contributions would increase the total amount of contributions, or reduce the distribution to any given fund.

Fiscal Analyst: Joe Carrasco

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