

INCOME TAX CREDIT: EDUCATIONAL FOUNDATIONS

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House Bill 4357

Sponsor: Rep. Edward Gaffney

Committee: Tax Policy

Complete to 4-27-04

A REVISED SUMMARY OF HOUSE BILL 4357 AS INTRODUCED 4-8-03

The bill would amend the Income Tax Act to provide a credit equal to the amount a taxpayer contributes during the tax year to an educational foundation, not to exceed \$500. The bill would apply to tax years beginning after December 31, 2002. The credit would be refundable, meaning that any portion of the credit that exceeds the tax liability of a taxpayer would be refunded to the taxpayer. (A credit is a direct reduction in tax liability.)

The term “educational foundation” would mean an organization that applied to the Department of Treasury for certification on or before April 1 of the tax year for which the taxpayer was claiming a credit; that annually submitted documentation to the department demonstrating continued compliance with the requirements of the bill; and that the department 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;
- maintained an ongoing program to attract new funds by seeking gifts and bequests from a wide range of potential donors in the community or area served;
- dedicated all funds, gifts, and bequests to a school district or public school;
- was publicly supported as defined by the regulations of the United States Department of Treasury; and
- met the requirements for treatment as a single entity contained in federal treasury regulations.

The term “school district” in the bill would mean a school district, local act school district, or intermediate school district as those terms are defined in the Revised School Code. Generally, it refers to a general powers school district or a first class school district (Detroit), and school districts governed by a special or local act. In the Revised School Code, the term “public school” refers, generally speaking, to elementary and secondary schools operated by school districts, public school academy corporations, strict

discipline academy corporations, the Department of Education, or the State Board of Education, and includes a university laboratory school.

MCL 206.270

FISCAL IMPACT:

A written, House Bill 4357 could significantly reduce income tax revenues. Because the credit is refundable and represents a dollar for dollar match with the contribution, there is no net cost to the taxpayer; any contribution is directly offset with a reduction in tax liability and/or a refund. Thus, there would be little incentive not to contribute the \$500 maximum.

For example, if just one-third of taxpayers claimed a \$500 credit, the net impact would be a reduction in income tax revenue of more than \$800 million. Because the most of the revenue reduction would likely take the form of refunds, the majority of the impact would fall on the general fund.

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■ 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.