

Legislative Analysis



INDIVIDUAL & FAMILY DEVELOPMENT ACCOUNTS

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5027 (H-1, Draft 6)
Sponsor: Rep. Tupac Hunter

House Bill 5021 (H-1, Draft 4)
Sponsor: Rep. Kevin Green

House Bill 5022 (H-1, Draft 2)
Sponsor: Rep. David Robertson

Committee: Banking and Financial Services
Complete to 3-28-06

A SUMMARY OF HOUSE BILLS 5021, 5022 AND 5027 AS SUBSTITUTED

Together the bills would newly establish in statute an Individual Development or Family Development Account Program, to be housed within the Michigan State Housing Authority (MSHDA), and would provide related Single Business Tax and individual Income Tax credits. There would be a limit on total credits of \$1 million per calendar year.

House Bill 5027 would create a new act, *the Individual or Family Development Account Program Act*, under which eligible individuals and families would be provided with an opportunity to establish special savings accounts to be used for education, the first-time purchase of a primary residence, or business capitalization. The program would apply to individuals and families whose household incomes were at or below 200 percent of the federal poverty level. The accounts would be held at financial institutions, established and managed by fiduciary organizations, and administered by nonprofit organizations (known as "program sites"). Businesses and individuals could make contributions to the accounts to provide funds to match individual and family savings. The program intends that amounts withdrawn from an account would be matched at least dollar for dollar.

House Bill 5021 would amend the Single Business Tax Act to allow **SBT credits** related to individual or family development accounts, as follows. 1) A financial institution that administers one more accounts could claim a credit equal to \$500 and an additional credit of \$50 for each tax year during which it administers one or more accounts. 2) A financial institution administering one or more accounts or any SBT taxpayer could claim a credit equal to 75 percent of the contributions made to the reserve fund of a fiduciary organization. The credits would not be refundable, but amounts that exceeded tax liability could be carried forward for 10 years or until used up, whichever occurred first. Credits would be assignable, in part or in its entirety. The credits would begin in 2007.

House Bill 5022 would amend the Income Tax Act to allow a taxpayer who was not an account holder to claim **an individual income tax credit** equal to 75 percent of the contributions made in the tax year by the taxpayer to the reserve fund of a fiduciary organization. The credit would not be refundable, meaning it could not exceed tax liability.

House Bill 5027 is described in more detail below.

Account Purposes. An account could be established for one or more of the following purposes:

- To pay for educational expenses for the account holder who would be 17 years of age or older when the funds in the account would be used if the account is an account for educational purposes.
- For first-time purchase of a primary residence by the account holder if the account is an account for the purchase of a primary residence.
- For start-up capitalization of a business for the individual account holder who is 18 years of age or older, if the account is an account for capitalization of a business based on a business plan approved by the program site.

Account Holder Eligibility and Requirements. Under the bill, an individual or family whose household income is less than or equal to 200 percent of the federal poverty level could apply to a program site to establish an individual or family development account. A household could not have more than one account for the same purpose if that purpose was a first-time purchase of a primary residence or start-up capitalization of a business. A program site could approve an individual's application as long as it had matching funds available to meet match commitments in the participant's savings plan agreement.

If the individual's or family's application to establish an account was approved, the individual or family would be required to establish an account with a financial institution; enter into a participant savings plan agreement with a program site; declare the purpose for the account; and meet any other criteria required by the program site.

Selection of Organizations. MSHDA would be required to select fiduciary organizations and program sites for the Individual or Family Development Account Program. In reviewing the qualifications of fiduciary organizations and program sites, the agency would have to consider the following factors for each organization: its not-for-profit status, its fiscal accountability, its ability to provide or raise money for matching contributions, the significance of its proposed auxiliary services, its availability of a financial literacy program for account holders, and its ability to maintain and manage necessary program data for tracking account holders and participants and for the development of reports.

Fiduciary Organization Qualifications. MSHDA would select fiduciary organizations to provide technical assistance to program sites and administer and manage reserve accounts on a not-for-profit basis. MSHDA would evaluate an organization on its ability to do the following: 1) administer one or more reserve funds to provide matching funds for account holders pursuant to participant savings plan agreements; 2) administer any money appropriated by the state for the purposes of the act; 3) collaborate with program sites on a regional basis; 4) provide technical assistance and support to program sites to assist and efficiently administer programs; 5) work in conjunction with approved program sites to hold, manage, and disburse match funds for accounts; and 6) maintain and manage necessary program data.

The administrator of a fiduciary organization that manages one or more reserve funds in cooperation with participating financial institutions would be required to submit the names of contributors and the total amount of each contribution to an individual or family development account reserve fund for each tax year to MSHDA. The director of the agency could determine a date the information would have to be submitted to the agency.

Program Site Qualifications. MSHDA would select program sites to administer accounts on a not-for-profit basis. In reviewing the qualifications of program sites, the agency would consider the ability of a program site to: 1) develop and implement participant savings plan agreements; and 2) develop a partnership with all account holders to assist them in making financial decisions about the use of the funds in the accounts and to offer support services aimed at maximizing opportunities provided by the program. Participant savings plan agreements would have to include at least 1) the purpose for which the account was established; 2) the schedule of deposits the account holder will make; 3) the agreed-upon amount of matching funds and the date they would be provided; and 4) a plan to provide financial literacy, homeownership training, and education, career, or business planning assistance.

Program Site Responsibilities. A program site would be required to enter into a participant savings plan agreement with each account holder and provide matching funds for contributions to an account by an account holder following to the savings plan agreement.

Account Withdrawals and Distributions. Two signatures would be required for withdrawals from an account, the signature of the account holder and the signature of the administrator of the program site with which the account holder had a participant savings plan agreement. Matching fund distributions would be made on behalf of the account holder under a participant savings plan agreement at the same time that an account holder withdrew money to pay qualified expenses. Matching contributions would have to be at least a \$1 match for every \$1 withdrawn to pay expenses for an approved purpose. Matching distributions would be made by check or money order to the account holder and the entity the account holder was paying.

Money withdrawn during a calendar year by an account holder would have to be matched by the program site as approved in the participant's savings plan agreement. Penalties would not be imposed on a financial institution for withdrawals not made pursuant to the participant's savings plan agreement.

Further, an account holder would have to name one contingent beneficiary at the time the account is established and could change beneficiaries at any time. If the account holder died, the account would be transferred to a contingent beneficiary. If the named beneficiary was deceased or could not accept the transfer, the funds would be transferred to the estate of the beneficiary.

Tax Credit Certification. A taxpayer that made a contribution to a reserve fund would have to apply to MSHDA for certification that the contribution qualified for a credit under the Single Business Tax Act (as provided in House Bill 5021) or the Income Tax Act (as provided by House Bill 5022). An application would have to be approved not more than 45 days after receipt. If the application was not approved or denied 45 days after receipt, the application would be considered approved, and the agency would be required to issue a

certificate. If the agency approved the application, the director, or his or her designee, would issue a certificate stating that the taxpayer was eligible for the credit based on the contribution and the amount of the credit. If an application was denied, a taxpayer would not be prohibited from subsequently applying for another contribution. A taxpayer could not claim a credit under both tax acts for the same contribution.

In reviewing the qualifications for credits, the agency would consider all of the following: the funds available to match contributions were deposited into a reserve fund in the same year the credit would be claimed; the approval of credit would not exceed the annual maximum amount; and the overall benefit to the program of the contribution for which credit was requested.

Annual Reports. A fiduciary organization selected to administer an account program would have to file a report with MSHDA about its program activity no later than September 30 of each year. The report would include all of the following information: the number of IDAs administered by the organization; the amount of deposits and matching deposits for each account; the number of withdrawals made; the number of terminated accounts and the reasons for termination; and any other information the agency required for the purpose of making a return on investment analysis.

MSHDA would be required to file a report with the Clerk of the House of Representatives and the Secretary of the Senate no later than December 31 of each year that would include all of the information reported by fiduciary organizations, as well as copies of any policies or procedures used to administer the new act that occurred during the year.

MSHDA Rules, Policies, and Procedures. MSHDA could promulgate rules to implement the act under the Administrative Procedures Act. The agency would be required to establish policies and procedures for the program based on the policies and procedures adopted by the Department of Human Services to implement the individual development account act under the Social Welfare Act.

FISCAL IMPACT:

These bills would provide for single business tax and income tax credits not to exceed \$1.0 million annually for contributions to individual or family developments accounts. In addition, interest earned on individual or family development accounts would be exempt from the income tax. The fiscal impact of these bills would primarily affect General Fund/General Purpose revenue.

Legislative Analyst: E.Best
Chris Couch
Fiscal Analyst: Rebecca Ross

■ 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.