



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



BILL ANALYSIS

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

House Bill 5021 (Substitute S-2 as reported)  
House Bill 5022 (Substitute S-3 as reported by the Committee of the Whole)  
Sponsor: Representative Kevin Green (H.B. 5021)  
Representative David Robertson (H.B. 5022)  
House Committee: Banking and Financial Services  
Senate Committee: Banking and Financial Institutions

### **CONTENT**

House Bill 5021 (S-2) would amend the Single Business Tax (SBT) Act to allow a taxpayer, for tax years beginning after December 31, 2006, to claim an SBT credit equal to 75% of contributions made under the proposed "Individual or Family Development Account Program Act" to a fiduciary organization's reserve fund. If the credit and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, the excess could not be refunded, but could be carried forward as an offset to tax liability in subsequent years for 10 tax years or until the excess credit was used up, whichever occurred first.

The credits under House Bills 5021 (S-2) and 5022 (S-3) could not exceed an annual cumulative maximum amount of \$1.0 million. The determination of the maximum allowed would have to be made as provided in the proposed Act.

The bill is tie-barred to House Bill 5022 and to Senate Bill 640, which would create the Individual or Family Development Account Program Act, and Senate Bill 1393, which would require the Department of Human Services to disregard all savings deposited in an individual or family development account in determining an individual's eligibility for family independence assistance and the amount of the individual's grant.

House Bill 5022 (S-3) would amend the Income Tax Act to allow a taxpayer, for tax years beginning after December 31, 2006, to claim an income tax credit equal to 75% of the contributions the taxpayer made in the tax year to the reserve fund of a fiduciary organization pursuant to the proposed Individual or Family Development Account Program Act, if the taxpayer were not an account holder under that Act. If the amount of the income tax credit exceeded the taxpayer's tax liability for the tax year, the excess portion could not be refunded.

The credit under House Bill 5022 (S-3) could not exceed an annual cumulative maximum amount of \$1.0 million. The determination of the maximum allowed would have to be made as provided in the proposed Act.

The bill is tie-barred to Senate Bills 640 and 1393.

Proposed MCL 208.36e (H.B. 5021)  
Proposed MCL 206.272 (H.B. 5022)

Legislative Analyst: Patrick Affholter

## **FISCAL IMPACT**

House Bill 5022 (S-3) would reduce individual income tax revenue by a maximum of \$1.0 million per year (while House Bill 5021 (S-2) would reduce SBT and income tax revenue by a maximum of \$1.0 million annually). A portion of the individual income tax impact also would be expected to reduce School Aid Fund revenue. The remaining impact would reduce General Fund revenue.

It is unknown how many accounts would be created and how much would be saved, although during 2003, approximately 2.9 million individuals in Michigan, living in 675,000 families, resided in households with incomes of 200% of poverty or less. The amount that would be saved in the proposed accounts is also unknown, and deposits to accounts would not receive any tax preferences and would not be subject to any specific maximums. Deposits to reserve funds would be eligible for credits under the bills and also would likely qualify for a deduction from Federal taxes. (Depending on the nature of the fiduciary organizations, the deposits also could be eligible for other credits under the Michigan tax structure.)

Because Senate Bill 640 specifies a minimum matching contribution and the credits for deposits to reserve funds would be limited to \$1.0 million per year, under the assumption that reserve fund contributors would donate only to the level to which they would receive a tax credit, approximately \$1.3 million per year would be deposited into reserve funds and would be available to match a maximum of \$1.3 million in savings by account holders annually. Deposits beyond this level could be made to the reserve funds, but would not be eligible for the proposed credits.

Several factors not addressed by the bills could influence participation: 1) The limited availability of matching contributions relative to the number of individuals who would potentially qualify to open an account could reduce participation; 2) the income conditions for opening an account would depend only upon income at the time the account was opened—once an individual (for example, while a student) opened an account, it would be available to him or her in perpetuity—even if the person's income (for example, after graduation) rose substantially above 200% of poverty, and this could serve to increase participation; 3) it is unclear how fiduciary organizations and financial institutions would cover the costs of participation in the program (particularly the costs of providing financial literacy education or financial independence services, or verifying that withdrawals were for eligible purposes), which could reduce participation or the availability of the program to the eligible population; 4) verification that individuals or families did not have multiple accounts would be handled at the program site level, allowing a limited number of individuals/families to gain accounts by using multiple fiduciary organizations and reducing the number of other eligible account holders who might participate in the program; and 5) there would be no restrictions upon beneficiaries, so beneficiaries could include individuals who would not be eligible to establish an account (for example, a lower-income elderly person establishing an account for a well-off child or grandchild) as well as entities that are not natural persons (such as a business or trust), which could increase participation. To the extent that low program participation would affect the willingness of contributors to donate to reserve funds, the fiscal impact could be less than the \$1.0 million if participation were low.

Date Completed: 12-6-06

Fiscal Analyst: David Zin

Floor\hb5021

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.