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BILL ANALYSIS

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Senate Bill 132 (as passed by the Senate)
Sponsor: Senator Sam Singh
Committee: Finance, Insurance, and Consumer Protection

Date Completed: 7-1-25

RATIONALE

Legislation enacted in 2011 deleted a provision of the Income Tax Act that allowed individuals to receive a 50% tax credit for the sum of their contributions to certain entities. Following this elimination, it has been reported that organizations saw a decrease in contributions, leading some people to believe that the tax credit incentivized individuals to contribute. Accordingly, it has been suggested that these tax credits be reinstated to encourage more philanthropy.

CONTENT

The bill would amend the Income Tax Act to do the following:

-- **Allow a taxpayer, beginning on and after January 1, 2026, to claim a non-refundable tax credit against the individual income tax in an amount equal to 50% of the sum of the taxpayer's contributions to a community foundation's endowment fund.**
-- **Limit the maximum amount of the credit to no more than $100, $200 for a joint return, or, in the case of a resident estate or trust, 10% of the taxpayer's total tax liability or $5,000, whichever was less.**
-- **Require the Department of Treasury to report to the House Committee on Finance and the Senate Committee on Finance, Insurance, and Consumer Protection on or before July 1 of each year, the total amount of credits claimed under the bill for the immediately preceding tax year.**

Tax Credit for Contribution to Community Foundation

For tax years beginning on and after January 1, 2026, and subject to the applicable limitations described below, the bill would allow a taxpayer to claim a credit against the individual income tax in an amount equal to 50% of the amount the taxpayer contributed during the tax year to an endowment fund of a community foundation. "Community foundation" would mean an organization that applies for certification on or before May 15 of the tax year in which the taxpayer is claiming the credit and that the Department certifies for that tax year as meeting the requirements of a community foundation as provided in Section 3 of the Michigan Community Foundation Act; however, for the bill's purposes, the organization only would need to have assets of at least $1.0 million to qualify for certification.

(Section 3 of the Michigan Community Foundation Act defines "community foundation" as an organization that meets all of the following requirements: 1) has been in existence for at least 10 years, 2) has assets of at least $5.0 million, 3) qualifies for exemption from Federal income taxation under the Internal Revenue Code, 4) supports a broad range of charitable activities within the specific geographic area of Michigan that it serves, 5) maintains an ongoing program to attract new endowment funds by seeking gifts and bequests from a wide range of potential donors in the geographic area served, 6) is publicly supported as defined under Federal regulations, 7) meets the requirements for treatment as a single entity under Federal regulations, 8) is not an organization described in Section 509(a)(3) of the Internal Revenue Code (i.e., a private foundation), 9) has an independent governing body representing the general public's interest and that is not appointed by a single outside entity, 10) maintains continually at least one part-time or full-time employee, 11) is subject to an annual independent financial audit, and 12) if incorporated or established after January 9, 2001, operates in a county of Michigan that was not served by a community foundation when the community foundation was incorporated or established or operates as a geographic component of an existing community foundation.)

Maximum Amount of Credit

Under the bill, for a taxpayer other than a resident estate or trust, the maximum credit allowed for charitable contributions described above could not exceed $100, or $200 for a joint return. For a resident estate or trust, the maximum credit allowed could not exceed 10% of the taxpayer's tax liability for the tax year before claiming any credits allowed under the individual income tax or $5,000, whichever was less. To claim the credit, the taxpayer would have to have received a gift acknowledgment from the community foundation indicating that the contribution was made to an endowment fund of a community foundation. For a resident estate trust, the amount used to calculate the credits could not have been deducted in arriving at Federal taxable income. If the amount of the credit allowed exceeded the taxpayer's tax liability for the tax year, the portion that exceeded the tax liability could not be refunded.

Report

The bill would require that, on or before July 1 of each year, the Department report to the House Committee on Tax Policy and the Senate Finance Committee the total amount of tax credits claimed under the bill for the immediately preceding tax year.

Proposed MCL 206.261

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

Charitable organizations and other nonprofit groups provide necessary services to individuals in Michigan. According to testimony before the Senate Committee on Finance, Insurance, and Consumer Protection, community foundations and food banks depend on reoccurring donations. While making charitable contributions can become a habit among taxpayers, Public Act (PA) 38 damaged the "pipeline" of charitable donations. The Johnson Center at Grand Valley University completed a survey on donations to Michigan community foundations and examined changes to the number of $200 and $400 donations, those being the amount to achieve the maximum credit before it was repealed by PA 38. The survey found an 84% decline in first-time donors at the $400 level and a 37.5% decline in first-time donors at the $200 level from 2010 to 2013. Additionally, the survey showed a 76% decline in $400 donations from 2010 to 2013 and a 44% decline in $200 donations from 2011 to 2013 as a whole.[1]

These $200 to $400 donors have the potential to become long-term givers to the organization through planned gifts such as a will or estate. In many cases, the donations are used as part of endowment funds. Endowment funds are investment portfolios established for nonprofit organizations and activities that can provide funding to support the community foundation and offer stability in uncertain economic times. Through endowment funds, organizations can work toward long term goals that support their missions. Private residents want to assist organizations in their efforts and would be more likely to do so with the bill's incentive.

Opposing Argument

In 2011, PA 38 was enacted to simplify the tax code and remove unnecessary complexity. That goal was accomplished, and it remains a good policy. As it stands, nothing prevents taxpayers from contributing to charitable foundations and nonprofits, and so the bill should not be passed.

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[1] Johnson Center, *Impact of Giving After the Repeal of the Michigan Community Foundation Tax Credit*, 2013.

PREVIOUS LEGISLATION

(This section does not provide a comprehensive account of previous legislative efforts on this subject matter.)

The bill is similar to Senate Bill 127 of the 2023-2024 Legislative Session. Senate Bill 127 passed the Senate and then the House with amendment but was not concurred.

Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately $3.3 million per year. Between tax years 2006 and 2011, Michigan allowed an identical credit and the number of returns claiming the credit remained relatively stable, at approximately 38,900 each year. Similarly, the total amount claimed each year under the credit remained stable, at approximately $3.3 million per year. Although the School Aid Fund receives revenue from the income tax under Part 1 of the Act, credits are applied against the portion received by the General Fund. As a result, all the reduction in revenue under the bill would lower General Fund revenue.

Fiscal Analyst: David Zin