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**SFA****BILL ANALYSIS**

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Senate Bill 695 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator Bill Schuette  
Committee: Finance

Date Completed: 1-16-98

### **RATIONALE**

Under the Income Tax Act, since 1989 a taxpayer has been allowed to claim a credit against the income tax equal to 50% of the amount the taxpayer contributed during a tax year to a community foundation. The maximum amount a taxpayer may claim is \$100 (\$200 for a joint return); a resident estate or trust may claim up to 10% of tax liability or \$5,000, whichever is less. The credit for foundations has been a useful tool for raising money for community causes, and has been used for various public services. According to the Council of Michigan Foundations, there are 52 community foundations and 39 affiliate funds in the State; the total assets of community foundation endowments in Michigan were \$864 million in 1996, which allowed community foundations to issue grants to local communities that year in excess of \$39 million.

Under the Act, a community foundation must be certified by the Michigan Department of Treasury as meeting certain criteria, such as being Federally tax-exempt, supporting a broad range of charitable activities within a specific geographic area, and maintaining a program to attract new endowment funds. It has been suggested that, to ensure that all community foundations are legitimate organizations and to strengthen their operation, additional qualification requirements should be placed on community foundations.

### **CONTENT**

The bill would amend the Income Tax Act to expand eligibility criteria for community foundations.

Currently, under the Act, in addition to meeting other requirements, a community foundation must be publicly supported as defined by U.S. Department of Treasury regulations. The bill provides that, to maintain its certification, a

community foundation would have to submit documentation to the Michigan Department of Treasury, each year, that demonstrated compliance with this requirement. Currently, a community foundation must be incorporated or established as a trust before September 1 each year. The bill provides that a community foundation would have to be incorporated or established as a trust at least six months before the beginning of the tax year for which a credit was claimed; and have an endowment value of at least \$25,000 within six months after being incorporated or established.

A community foundation also would have to: have an independent governing body that was not appointed by a single entity; provide evidence to the Department that the community foundation had at least one part-time or full-time paid employee, within six months after the community foundation was incorporated or established, and maintained continually during the tax year for which the credit was claimed; be subject to an annual independent financial review, and an independent financial audit every three years, and provide copies of the review and audit to the Department within three months after their completion; and, for a community foundation that was incorporated or established after the bill's effective date, operate in a county that was not served by a community foundation when the community foundation was incorporated or established, or operate as a geographic component of an existing certified community foundation.

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**

Community foundations provide assistance to various charitable organizations active within many Michigan communities. Their funds have been used to pursue such varied and desirable efforts as crime reduction, the provision of affordable housing, educational assistance, and the promotion of economic development activities. Clearly, community foundations perform a valuable public service--a service that the State otherwise would be expected to provide. Further, community foundations offer unique opportunities for charitable giving because of their endowment nature. Contributions to a foundation can be thought of as a permanent gift to the community. Usually, funds spent by a foundation within a community come from the interest generated on the foundation's endowment fund. Annual contributions to a fund enlarge it, enabling the interest to grow and making more money available each year. By increasing the qualification requirements in the Act, the bill would help to ensure that all community foundations were valid organizations, and were operated efficiently and properly. The additional criteria would reinforce the role of community foundations as permanent tools to help their communities grow, promote basic financial standards and accountability, and encourage communities to work together. Thus, the bill would further ensure that tax exempt gifts to community foundations were going to benefit the communities in which the donations were made.

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

Information is still being gathered on how these proposed new requirements and standards would affect the status of the current qualifying community foundations; however, based on preliminary information, it is estimated that these new requirements and standards would have very little, if any, impact on the dollar amount of the community foundation credits claimed.

Fiscal Analyst: J. Wortley

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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.