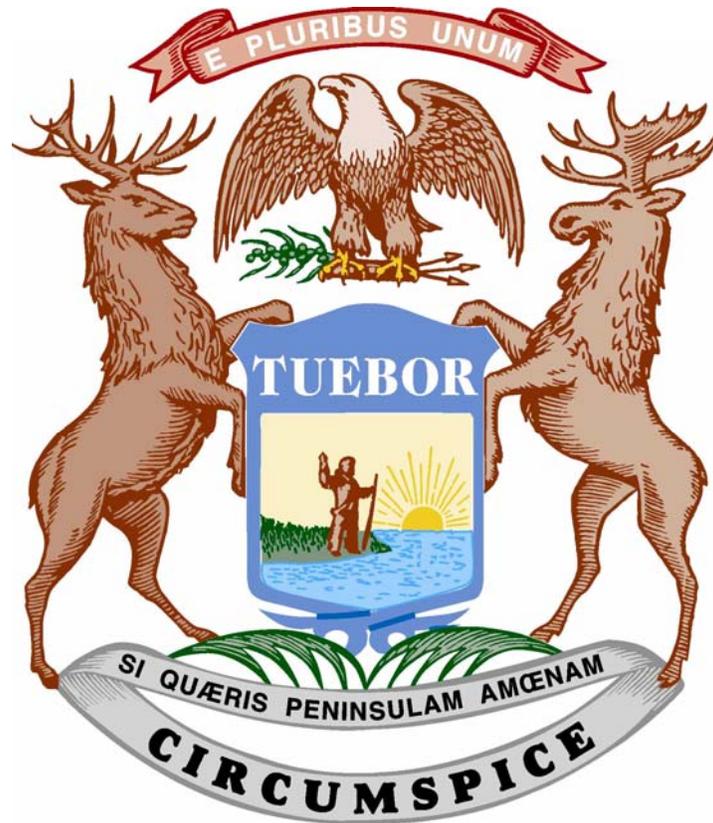
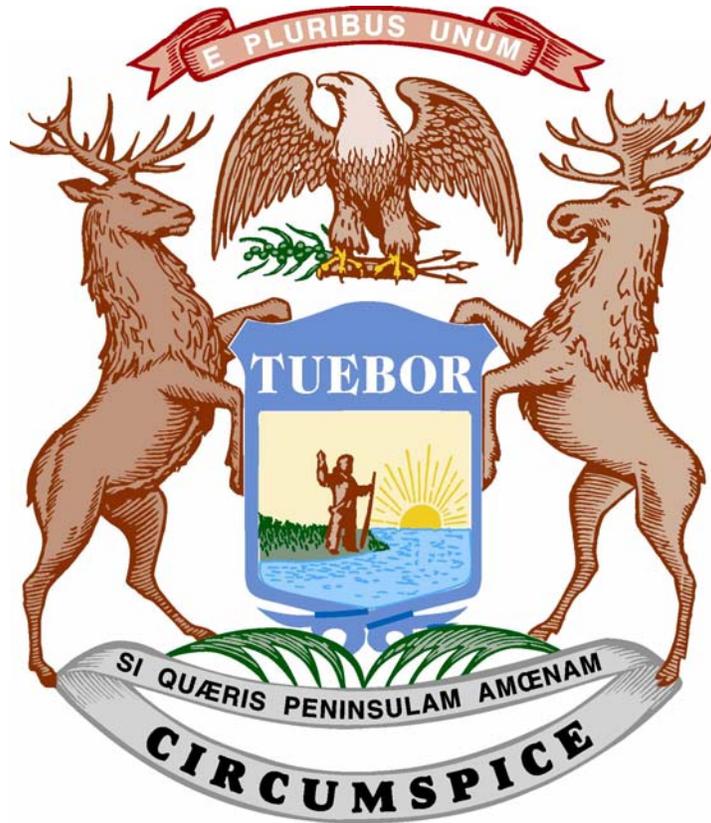


Michigan Home Heating Credit 1978 to 2002



Office of Revenue and Tax Analysis
Michigan Department of Treasury
July 2004

Michigan Home Heating Credit 1978 to 2002



**Office of Revenue and Tax Analysis
July 2004**

Denise T. Heidt prepared this report under the direction of Howard Heideman, Director of Tax Policy Analysis, Office of Revenue and Tax Analysis (ORTA), Michigan Department of Treasury. Eric L. Krupka, ORTA, provided research and technical assistance.

Michigan Home Heating Credit Executive Summary

- The program began in 1978 as a state funded low income heating assistance program. Federal funds have been the primary source of funding since 1980.
- The home heating credit is either based on household income and number of exemptions or an alternative credit based on heating costs.
- Over 339,000 Michigan households received home heating credits in 2002. The number of recipients has ranged from 235,000 to 407,000 per year.
- Over \$69 million was paid out in home heating credits in 2002. Since 1978, the amount paid out has ranged from \$31 million to \$76 million per year.
- The average credit in 2002 was \$204. Since 1978, this average credit has ranged from \$92 to \$204 per recipient.
- Over 91 percent of the recipients received the standard credit in 2002. About 9 percent of the recipients claimed the alternative credit.
- About 86 percent of the money is sent to recipients as an energy draft, which can only be used to pay energy bills, while about 14 percent of the money is sent as a warrant (check) directly to recipients.
- Home heating credits are administered by the Michigan Department of Treasury.

Michigan Home Heating Credit

The home heating credit is a refundable credit designed to assist low-income families with the cost of heating their homes. The credit was created by Public Act 458 of 1978 (see Exhibit 1), and is funded predominantly by Federal funds disbursed to Michigan through the Low-Income Home Energy Assistance Program (LIHEAP) (See Exhibit 2 and Appendix for MI-1040 CR-7 form and LIHEAP information).

There are two methods to calculate a home heating credit (See Exhibit 3). If a claimant is eligible to use both methods, they may use the one that provides the higher benefit. The standard credit is equal to a standard allowance amount determined by the number of exemptions for which the household is eligible less 3.5 percent of household income. Senior citizens as well as individuals who are disabled, deaf, blind, or have received unemployment compensation greater than 50 percent of their federal adjusted gross income (AGI) are entitled to extra exemptions, and therefore use an increased standard allowance. Taxpayers who rent their homestead may have heating expenses included in their rent. These taxpayers claim the credit using the standard calculation. The credit for renters with heat included in their rent is then reduced by 50 percent. The alternative credit is equal to 70 percent of the difference between heating costs and 11 percent of household income. Prior to 1991, recipients of Aid to Families with Dependent Children or General Assistance were not eligible for the home heating credit, but were provided comparable benefits from other state and local programs.

The detailed information in this report was gathered from the Home Heating Credit Production Report prepared by the Finance and Accounting Division of the Department of Treasury.

For tax year 2002, about 339,000 taxpayers received home heating credits totaling \$69.4 million (See Exhibit 4). This represented an increase of 19,700 credits (6.2 percent) over the 2001 total, while \$7.3 million in additional heating assistance (11.8 percent) was provided to low-income families. The average credit for 2002 (\$204.57) was 5.3 percent higher than the 2001 average (\$194.36).

In tax year 2002, over 91 percent of all home heating credits were based on the standard calculation. The average credit for taxpayers receiving a standard credit was \$183.62, while taxpayers receiving the alternate credit received an average of \$419.41 (See Exhibit 8).

Taxpayers who are responsible for paying their heating bills receive their home heating credit in the form of State of Michigan energy drafts, as long as their heat providers are enrolled in Michigan's energy assistance program. Those drafts can only be used to pay heating bills. However, when the heat providers are not enrolled in Michigan's energy assistance program, or the taxpayers use bulk fuel and have already bought their energy supply for the year, credits are issued in the form of warrants (checks). More taxpayers (75 percent) received the credit through energy drafts than through warrants (25 percent)

in tax year 2002. The average credit paid through energy drafts was \$234.81, compared to \$112.69 paid through warrants (See Exhibit 9).

Michigan law requires home heating credits to be prorated or uniformly reduced so that the expected amount of total credit payments does not exceed the available federal funding. Since the adoption of the proration calculation for tax year 1995, claimants have received a higher percentage of their credit each year. For tax year 1995, each claimant received 64 percent of the credit amount. The percentage increased to 70 percent for 1996, 74 percent for 1997, 82 percent for 1998, 90 percent for 1999, and 100 percent for tax years 2000 through 2002.

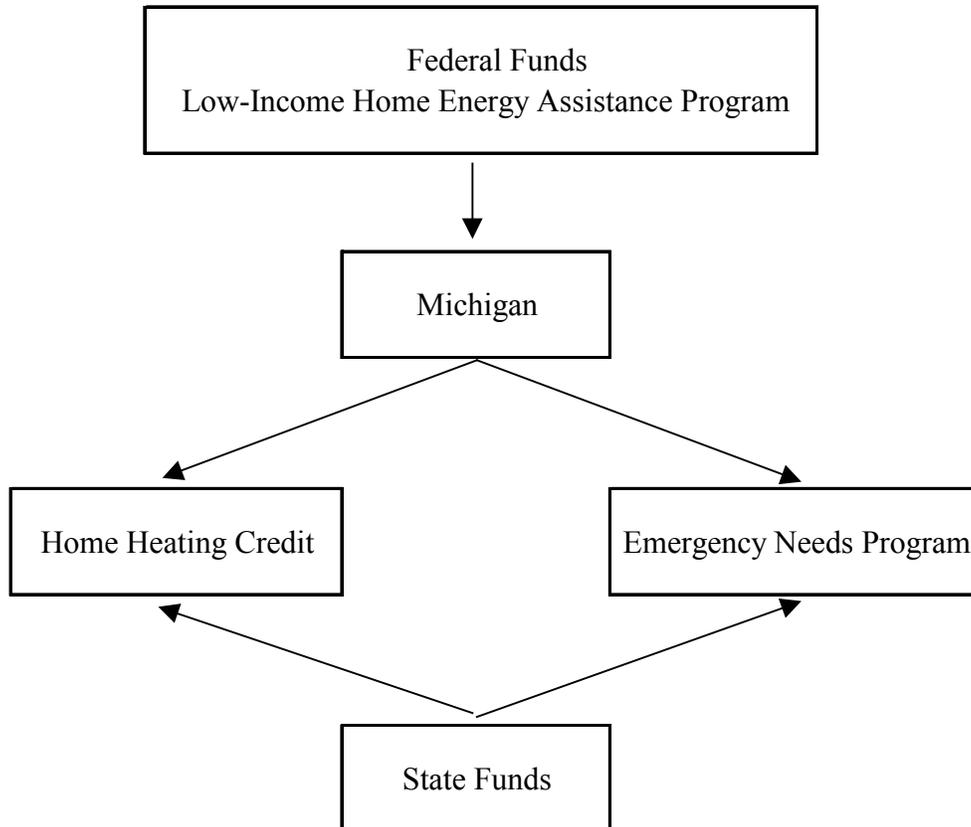
Exhibit 1
Legislative History of the Home Heating Credit

<u>Year</u>	<u>Public Act</u>	<u>Sunset Date</u>
1978	P.A. 458 of 1978	After 1978 tax year
1979	P.A. 126 of 1979	After 1980 tax year
1981	P.A. 152 of 1981	After 1983 tax year
1984	P.A. 36 of 1984	After 1986 tax year
1987	P.A. 254 of 1987	After 1987 tax year
1988	P.A. 516 of 1988	After 1988 tax year
1989	P.A. 75 of 1989	After 1991 tax year
1991	P.A. 181 of 1991	After 1994 tax year
1995	P.A. 245 of 1995	After 1995 tax year
1996	P.A. 485 of 1996	After 2000 tax year
2001	PA 169 of 2001	Extended Indefinitely*

Notes:

* Credit is allowed provided that there has been a federal appropriation of Low-Income Home Energy Assistance Program (LIHEAP) block grant funds for the federal fiscal year that began in the tax year.

Exhibit 2 Funding Sources



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Exhibit 3
Michigan Home Heating Credit
Two Calculation Methods
Taxpayer chooses the highest amount

Example below is based on a household with 4 exemptions, household income of \$12,000, and annual home heating costs of \$1,400.

Standard Credit Calculation (Used by 91 percent of claimants)

Standard allowance from 2002 MI-1040 CR-7 Table A	\$698
Less: 3.5 percent of household income ($\$12,000 \times 0.035$)	<u>\$420</u>
Standard Credit amount **	\$278

Alternative Credit Calculation (Used by 9 percent of claimants)

Annual heating costs (limited to \$1,578 or less)	\$1,400
Less: 11 percent of household income ($\$12,000 \times 0.11$)	<u>\$1,320</u>
Difference	\$80
Alternate Credit amount (Multiply difference by 70 percent)	\$56

Taxpayer would receive the higher home heating credit amount of \$278.

** Taxpayers with heat included in their rent payments reduce their credit by 50 percent.

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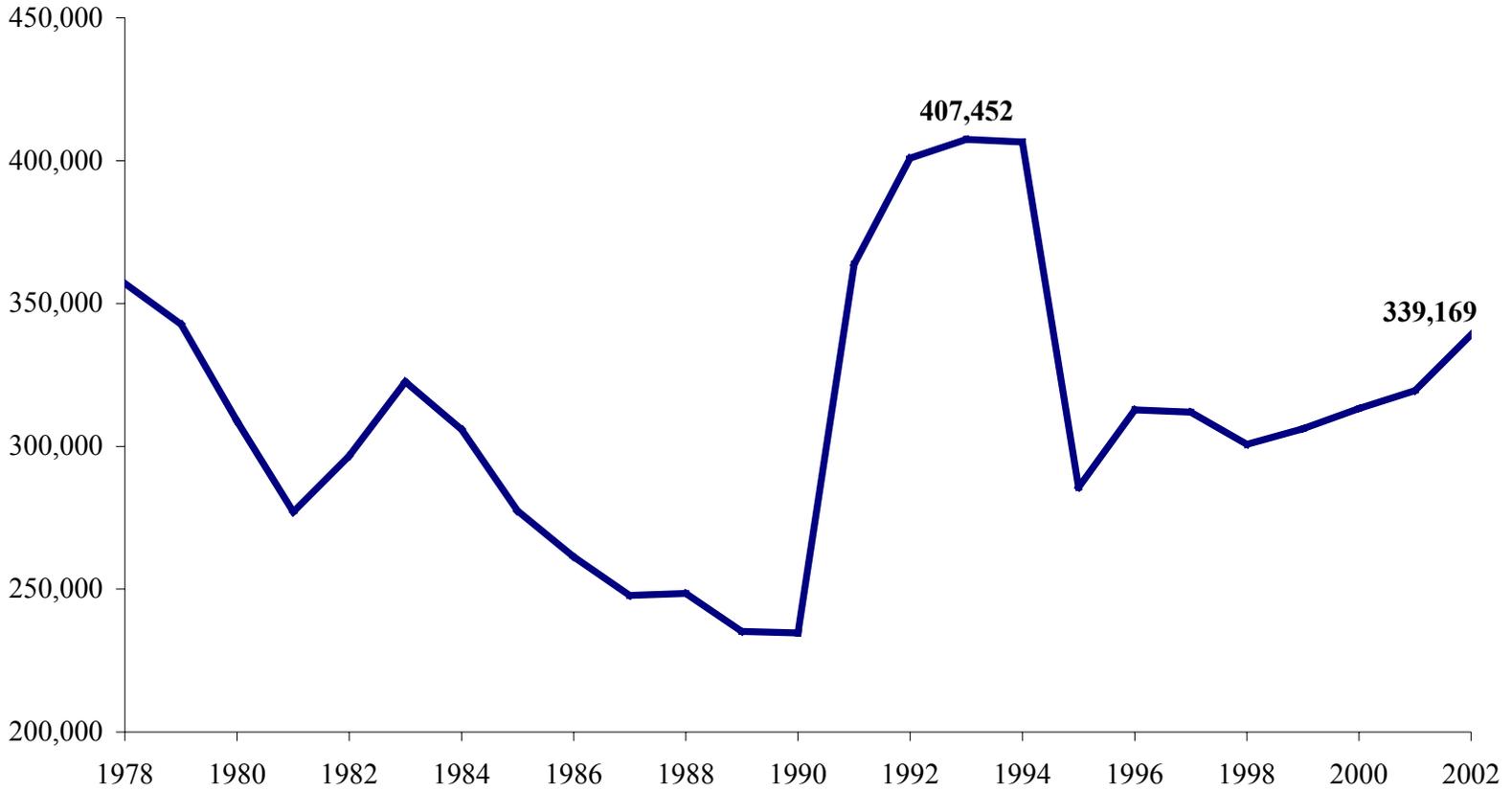
Exhibit 4
History of Michigan Home Heating Credit
1978 to 2002

<u>Tax Year</u>	<u>Recipients</u>	<u>Credit Amount</u>	<u>Percentage Federally Funded</u>	<u>Average Credit</u>	<u>Proration Factor</u>
1978	357,000	\$34,215,400	0.0%	\$95.84	
1979	342,700	\$31,583,400	0.0%	\$92.16	
1980	308,800	\$33,914,000	88.2%	\$109.83	
1981	277,000	\$30,990,600	100.0%	\$111.88	
1982	296,609	\$37,321,902	91.7%	\$125.83	
1983	322,616	\$43,429,658	63.2%	\$134.62	
1984	305,852	\$44,377,042	52.4%	\$145.09	
1985	277,490	\$39,637,131	62.6%	\$142.84	
1986	261,313	\$36,618,403	61.8%	\$140.13	
1987	247,766	\$37,082,416	62.4%	\$149.67	
1988	248,553	\$37,811,994	58.0%	\$152.13	
1989	235,272	\$38,329,650	50.1%	\$162.92	
1990	234,744	\$38,463,395	52.0%	\$163.85	
1991	363,720	\$66,239,928	96.1%	\$182.12	
1992	400,902	\$75,013,238	95.3%	\$187.11	
1993	407,452	\$75,965,475	95.5%	\$186.44	
1994	406,588	\$76,448,953	93.8%	\$188.03	
1995	285,715	\$32,404,135	96.7%	\$113.41	62%
1996	312,801	\$41,003,969	99.3%	\$131.09	70%
1997	311,985	\$43,975,710	96.7%	\$140.95	74%
1998	300,722	\$44,586,505	97.2%	\$148.26	82%
1999	306,173	\$50,166,767	97.1%	\$163.85	90%
2000	313,260	\$58,408,168	95.7%	\$186.45	
2001	319,422	\$62,083,924	98.9%	\$194.36	
2002	339,169	\$69,384,340	99.9%	\$204.57	

Sources:

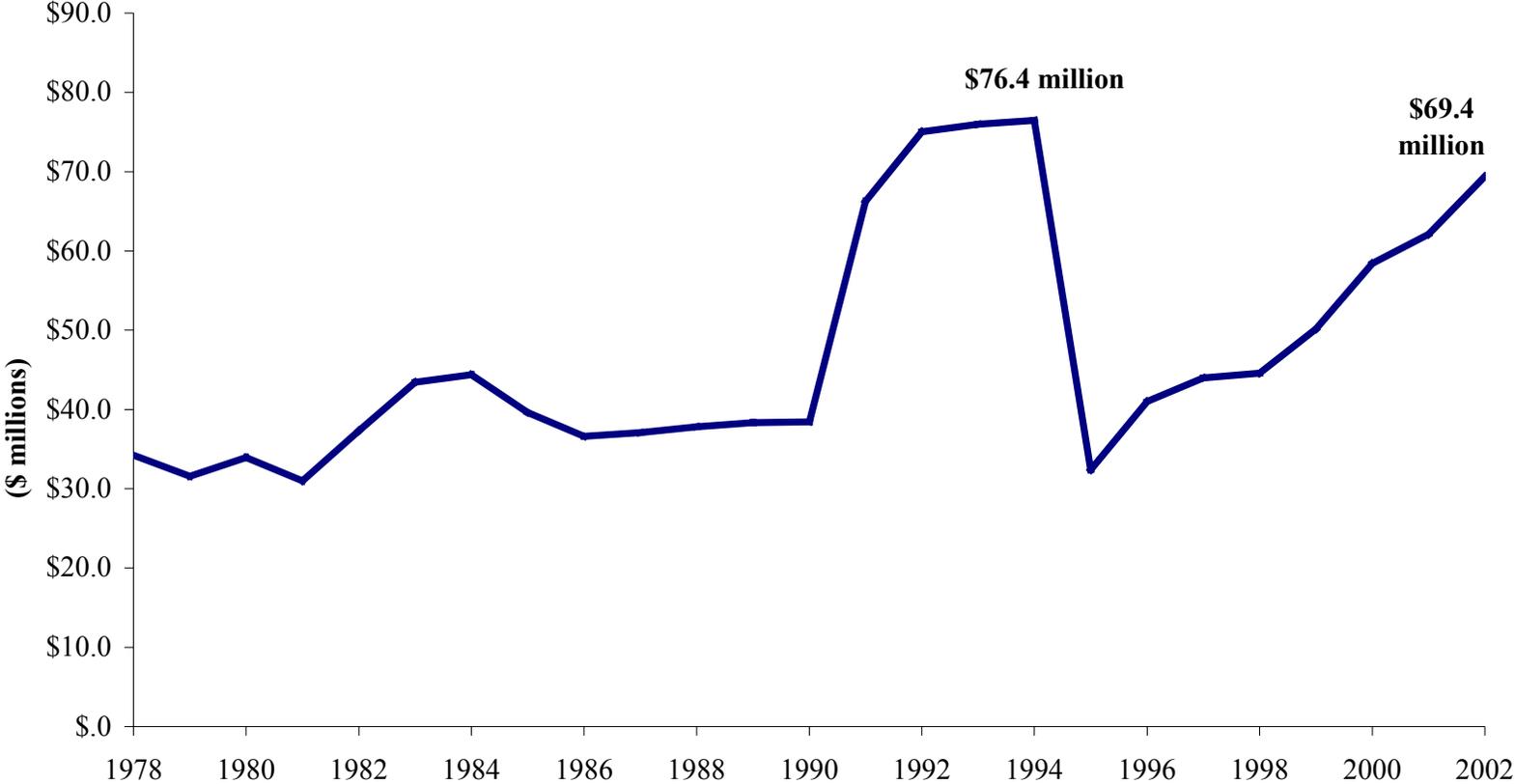
1. Analysis of the Michigan Individual Income Tax, 1978 and 1982.
2. Home Heating Credit Production Report, Michigan Department of Treasury, 1982-2002.
3. Percentage of federal funding for 1978 through 1982 was taken from a Memorandum of House Taxation Committee, February 15, 1989

Exhibit 5
Families Receiving the Home Heating Credit



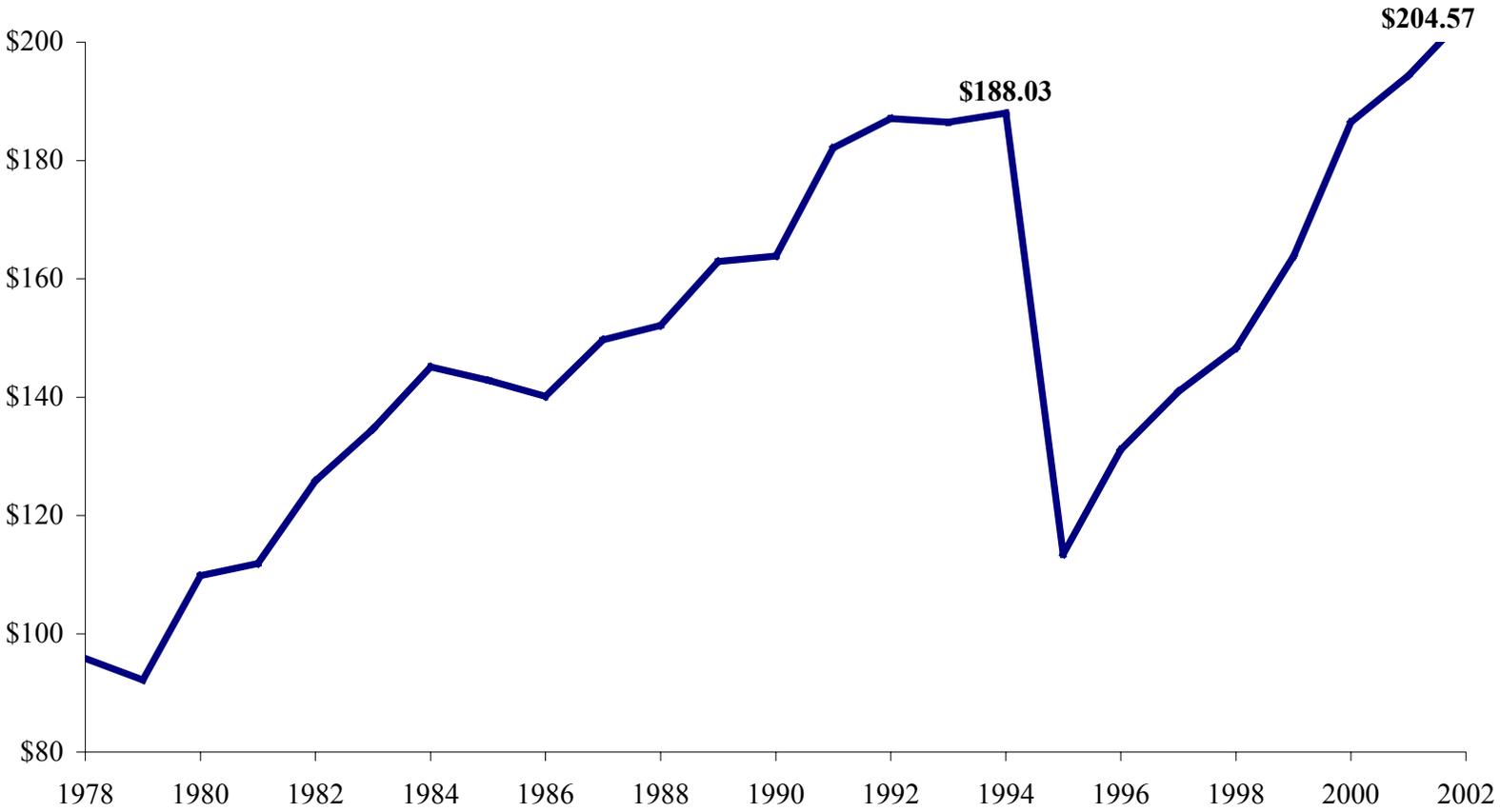
Prepared by: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 6
Amount of Home Heating Credits
Paid to Michigan Families



Prepared by: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

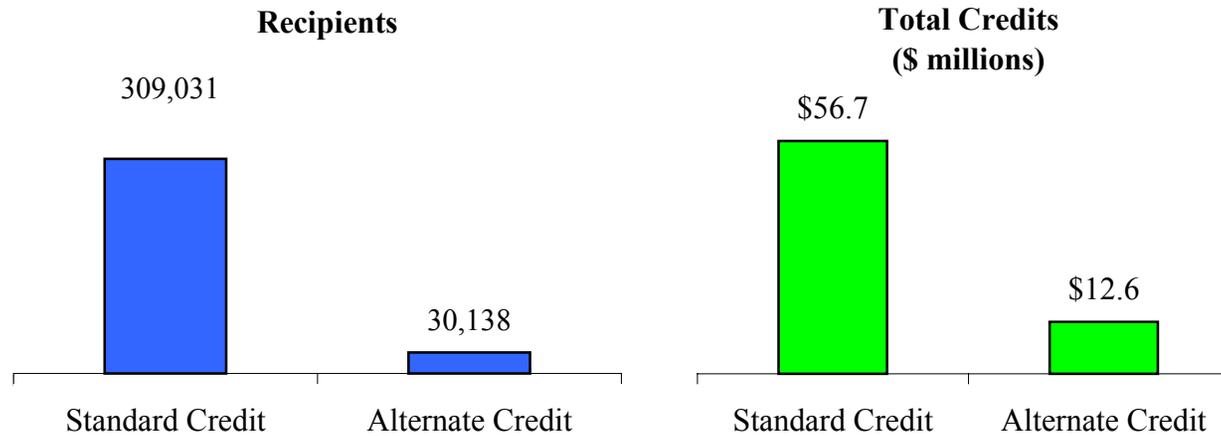
Exhibit 7
Average Home Heating Credit



Prepared by: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 8
Home Heating Credit by Calculation Method
Tax Year 2002

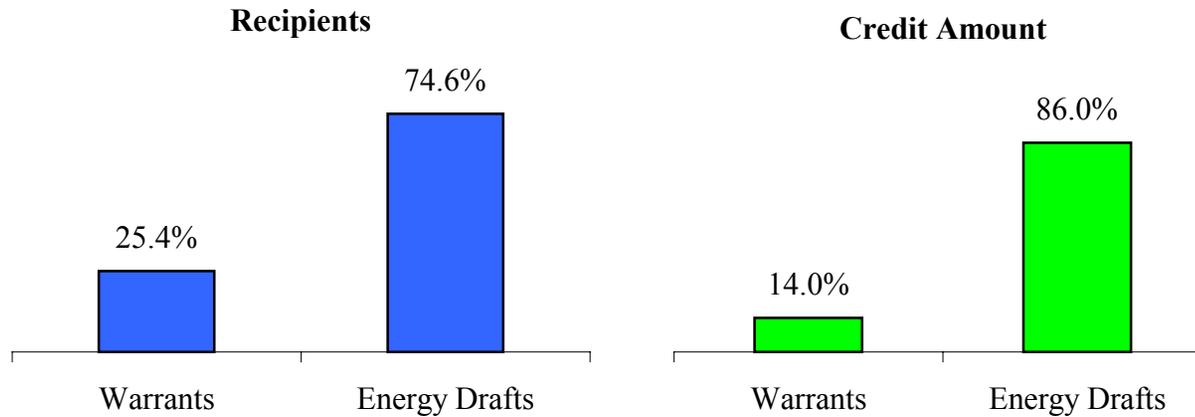
	<u>Recipients</u>	<u>Credit Amount</u>	<u>Average Credit</u>
Standard Credit	309,031	\$56,744,261	\$183.62
Alternate Credit	30,138	\$12,640,079	\$419.41
Total	339,169	\$69,384,340	\$204.57



Source: Home Heating Credit Production Report, Michigan Department of Treasury.

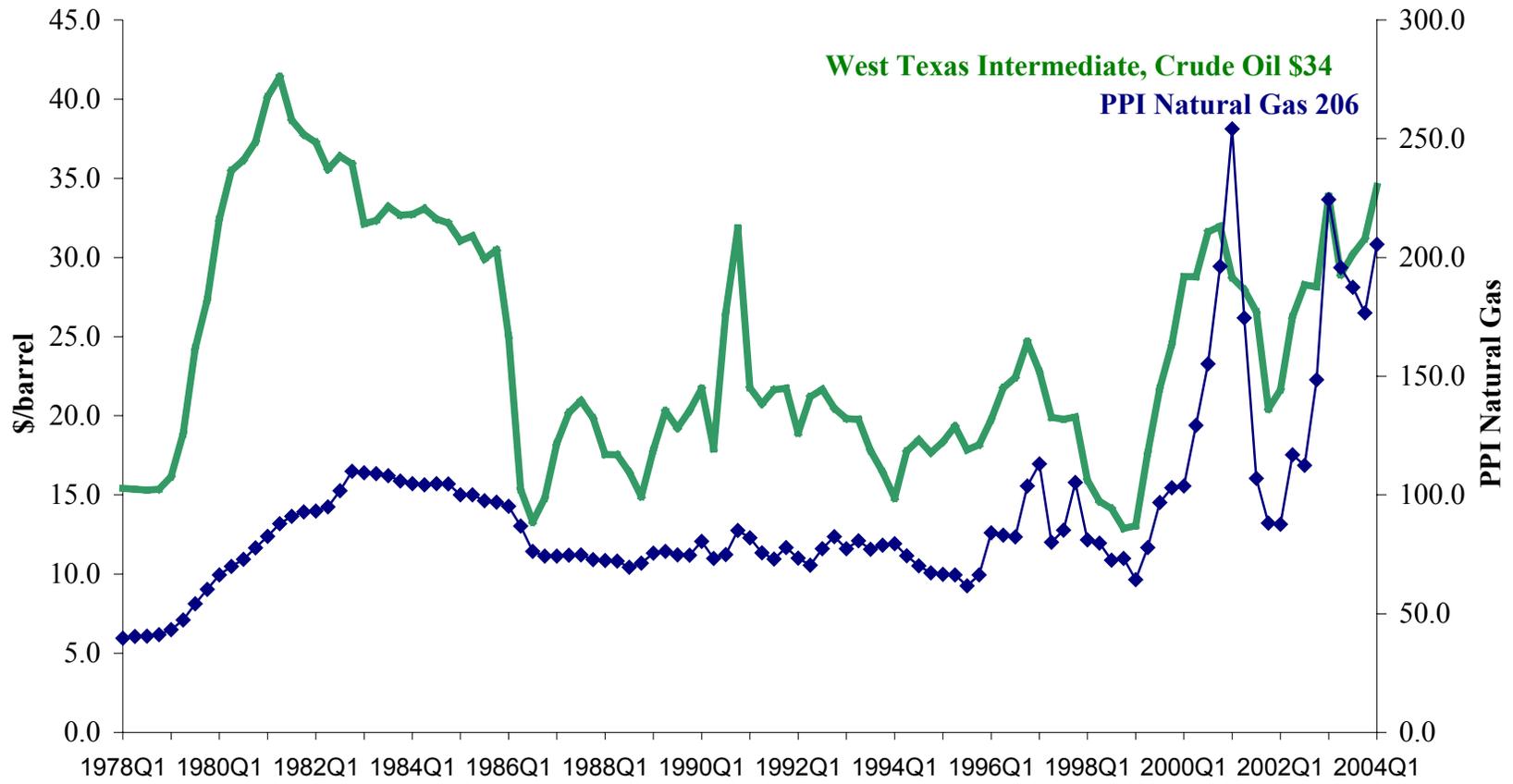
**Exhibit 9
Home Heating Credit by Payment Type
Tax Year 2002**

	<u>Percentage of Recipients</u>	<u>Percentage of Total Amount Paid</u>	<u>Average Credit Amount</u>
Warrants	25.4%	14.0%	\$112.69
Energy Drafts	74.6%	86.0%	\$234.81



Source: Home Heating Credit Production Report, Michigan Department of Treasury.

Exhibit 10
U.S. Energy Price History
1978 to 2004



Note: Crude oil price as of March 2004.

Source: US Department of Labor, Bureau of Labor Statistics.

Exhibit 11 US Energy Price History

Date	West Texas Intermediate		Date	West Texas Intermediate		Date	West Texas Intermediate	
	Crude Oil, \$/barrel	Price Index Natural Gas		Crude Oil, \$/barrel	Price Index Natural Gas		Crude Oil, \$/barrel	Price Index Natural Gas
1978Q1	15.4	39.7	1987Q1	18.3	74.3	1996Q1	19.8	84.0
1978Q2	15.4	40.4	1987Q2	20.2	74.6	1996Q2	21.8	83.0
1978Q3	15.3	40.5	1987Q3	21.0	74.8	1996Q3	22.4	82.3
1978Q4	15.4	41.1	1987Q4	19.9	72.8	1996Q4	24.7	103.8
1979Q1	16.2	43.3	1988Q1	17.6	72.4	1997Q1	22.8	113.1
1979Q2	18.9	47.3	1988Q2	17.5	72.1	1997Q2	19.9	80.1
1979Q3	24.3	54.2	1988Q3	16.4	69.6	1997Q3	19.8	85.2
1979Q4	27.3	60.3	1988Q4	14.9	71.3	1997Q4	19.9	105.2
1980Q1	32.4	66.3	1989Q1	17.9	75.5	1998Q1	15.9	81.1
1980Q2	35.5	69.9	1989Q2	20.3	76.2	1998Q2	14.6	79.7
1980Q3	36.2	72.9	1989Q3	19.2	74.8	1998Q3	14.1	72.5
1980Q4	37.3	77.7	1989Q4	20.3	74.6	1998Q4	12.9	73.3
1981Q1	40.1	82.6	1990Q1	21.7	80.4	1999Q1	13.1	64.4
1981Q2	41.4	87.9	1990Q2	17.9	73.3	1999Q2	17.7	77.8
1981Q3	38.7	91.0	1990Q3	26.5	74.9	1999Q3	21.7	96.8
1981Q4	37.8	92.8	1990Q4	31.9	85.0	1999Q4	24.5	103.0
1982Q1	37.3	93.2	1991Q1	21.8	81.9	2000Q1	28.8	103.7
1982Q2	35.6	95.0	1991Q2	20.8	75.6	2000Q2	28.8	129.3
1982Q3	36.4	101.8	1991Q3	21.7	73.0	2000Q3	31.6	155.2
1982Q4	35.9	110.0	1991Q4	21.7	77.8	2000Q4	32.0	196.2
1983Q1	32.1	109.4	1992Q1	18.9	73.4	2001Q1	28.7	254.1
1983Q2	32.3	109.0	1992Q2	21.2	70.4	2001Q2	28.0	174.6
1983Q3	33.2	108.1	1992Q3	21.7	77.4	2001Q3	26.6	107.0
1983Q4	32.7	105.9	1992Q4	20.5	82.5	2001Q4	20.4	88.2
1984Q1	32.7	104.7	1993Q1	19.8	77.3	2002Q1	21.6	87.6
1984Q2	33.1	104.2	1993Q2	19.8	80.7	2002Q2	26.3	116.9
1984Q3	32.4	104.7	1993Q3	17.8	77.1	2002Q3	28.3	112.4
1984Q4	32.2	104.6	1993Q4	16.5	78.8	2002Q4	28.2	148.5
1985Q1	31.1	100.1	1994Q1	14.8	79.5	2003Q1	33.9	224.4
1985Q2	31.3	100.1	1994Q2	17.8	74.4	2003Q2	28.9	195.8
1985Q3	29.9	97.6	1994Q3	18.5	70.2	2003Q3	30.2	187.5
1985Q4	30.5	97.0	1994Q4	17.7	67.2	2003Q4	31.2	176.7
1986Q1	25.0	95.2	1995Q1	18.4	66.6	2004Q1	34.5	205.5
1986Q2	15.3	86.9	1995Q2	19.3	66.3			
1986Q3	13.3	76.3	1995Q3	17.9	61.7			
1986Q4	14.8	74.3	1995Q4	18.2	66.3			

Source: US Department of Labor, Bureau of Labor Statistics.

APPENDIX

Information from the Family Independence Agency on the Low Income Home Energy Assistance Program (LIHEAP) is available at:

http://www.michigan.gov/fia/0,1607,7-124-5453_5531-15420--,00.html

The 2003 Michigan Home Heating Credit Claim form (MI-1040CR-7) is available at:

http://www.michigan.gov/documents/MI-1040CR7_81085_7.pdf