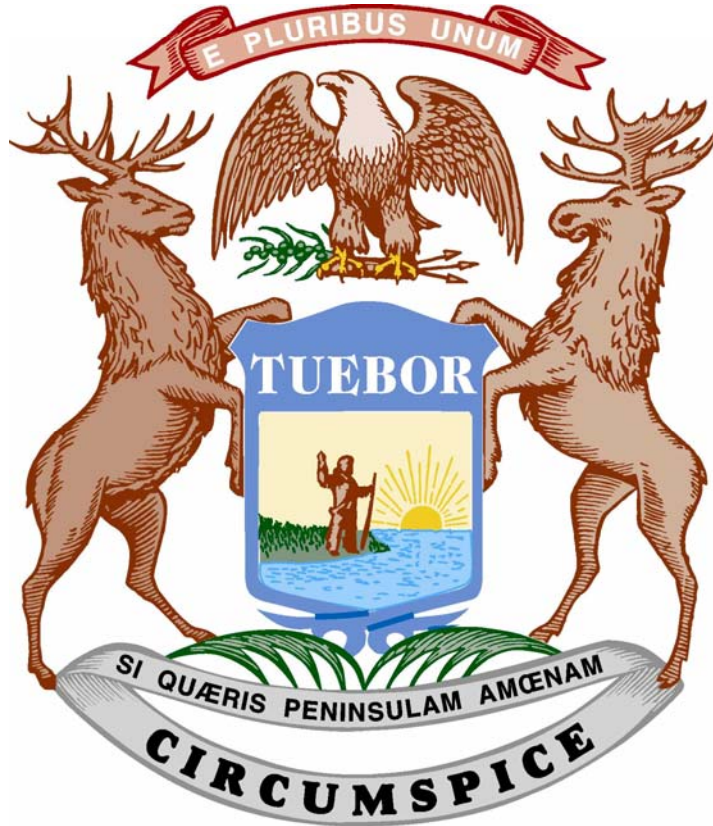


Michigan Home Heating Credit 1978 to 2001



Prepared by
Office of Revenue and Tax Analysis
Michigan Department of Treasury

Denise T. Heidt prepared this report under the direction of Mark P. Haas, Director, and 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 dependents or an alternative credit.
- Over 319,000 Michigan households received home heating credits in 2001. The number of recipients has ranged from 235,000 to 407,000 per year.
- Over \$62 million was paid out in home heating credits in 2001. Since 1978, the amount paid out has ranged from \$31 million to \$76 million per year.
- The average credit in 2001 was \$194. Since 1978, this average credit has ranged from \$92 to \$188 per recipient.
- Over 91 percent of the recipients received the standard credit in 2001. About 9 percent of the recipients claimed the alternative credit.
- About 83 percent of the money is sent to recipients as an energy draft which can only be used to pay energy bills while about 17 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.)

The credit is based on the number of exemptions for which the household is eligible. 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. Prior to 1991, recipients of Aid to Families with Dependent Children or General Assistance were not eligible for this credit, but were provided comparable benefits from other state and local programs.

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 for most claimants is equal to a standard allowance amount determined by family size less 3.5 percent of household income. The standard allowance is increased for senior citizens and claimants with disabilities. 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.

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

For tax year 2001, about 319,000 taxpayers received home heating credits totaling \$62.1 million. (See Exhibit 4.) This represented an increase of 3,200 credits (1.0 percent) over the 2000 total, while \$3.6 million in additional heating assistance (6.3 percent) was provided to low-income families. The average credit for 2001 (\$194.36) was 4.2 percent higher than the 2000 average (\$186.45).

In tax year 2001, over 91 percent of all home heating credits were based on the standard calculation. The average credit for taxpayers receiving a standard credit was \$175.12, while taxpayers receiving the alternate credit was \$398.76. (See Exhibit 8.)

More taxpayers (72 percent) received the credit through energy drafts than through warrants (28 percent) in tax year 2001. The average credit paid through energy drafts was \$223.46, compared to \$116.71 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 since 2000.

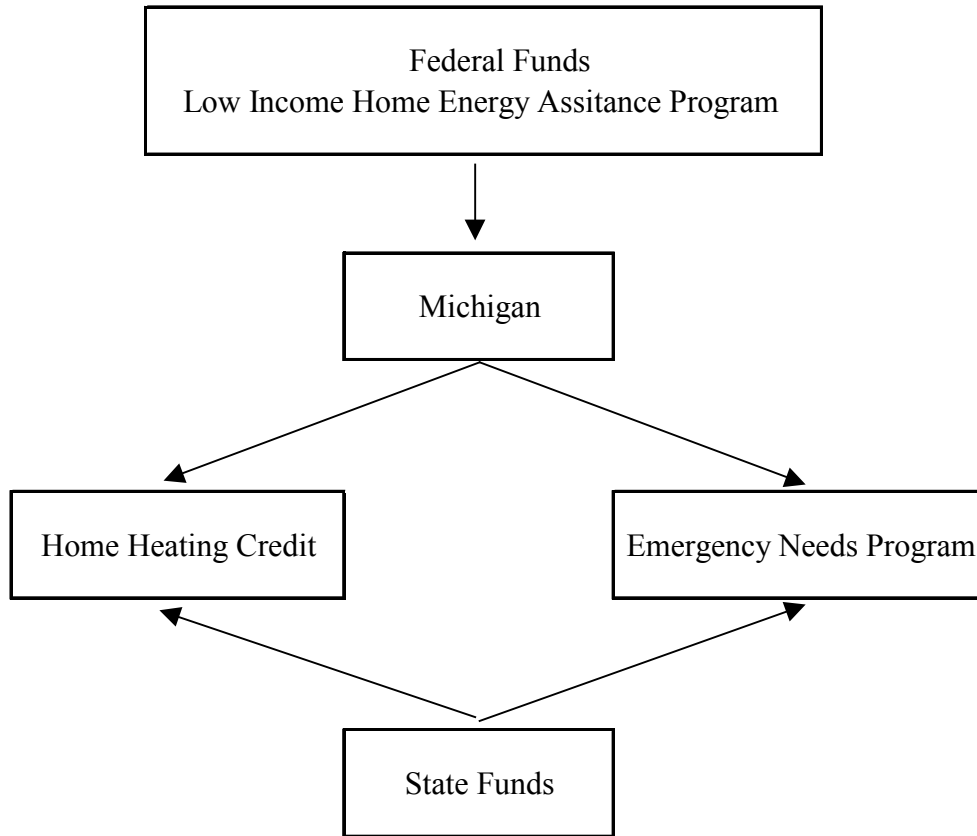
Exhibit 1
Legislative History of the Home Heating Credit

<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



Prepared By: Office Of Revenue and Tax Analysis, Michigan Department of Treasury

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 2001 MI-1040 CR-7 Table A	\$681
Less: 3.5 percent of household income ($\$12,000 \times 0.035$)	<u>\$420</u>
Standard Credit amount **	\$261

Alternative Credit Calculation (Used by 9 percent of claimants)

Annual heating costs (limited to \$1,493 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 \$261.

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

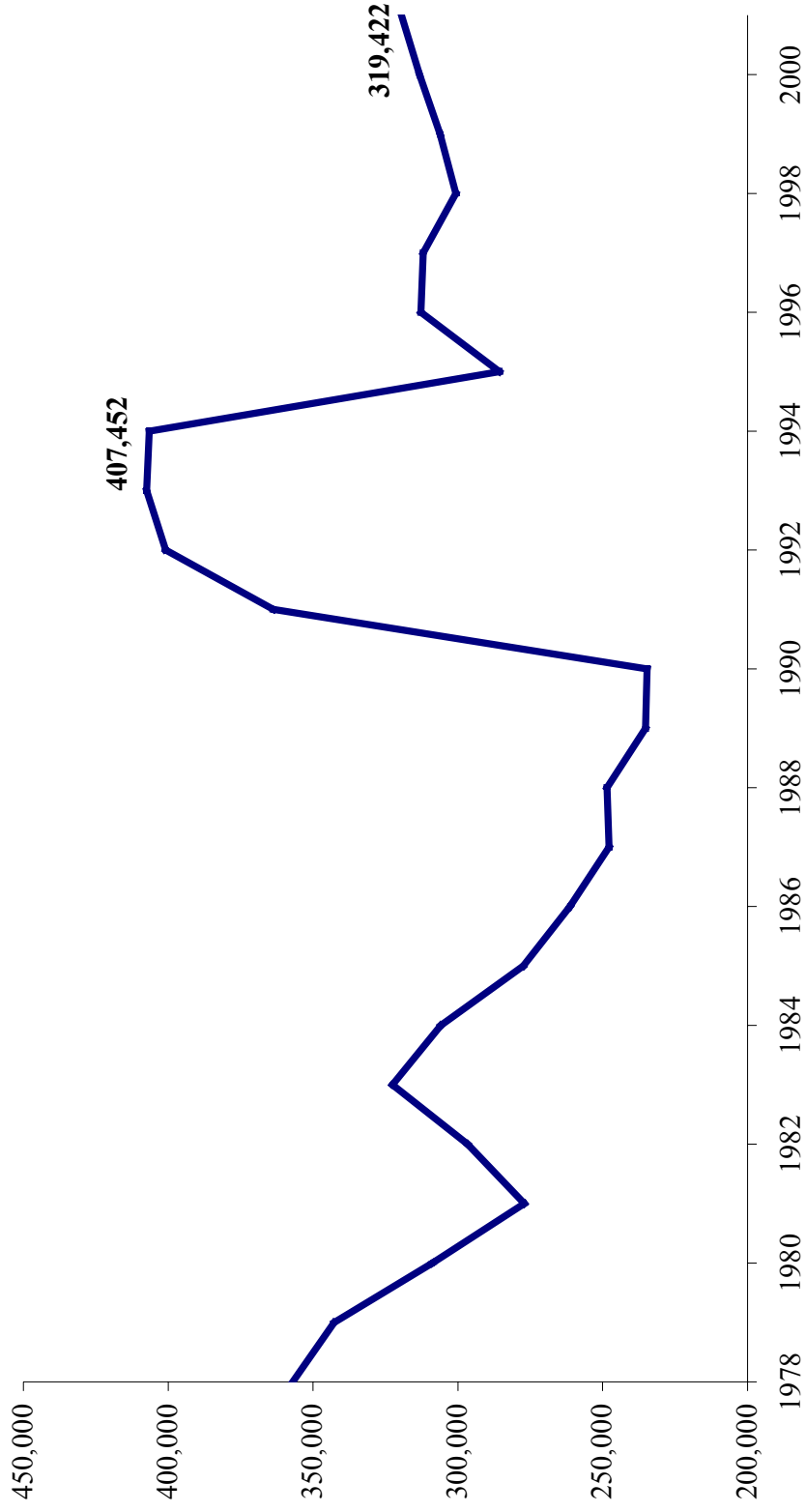
Exhibit 4
History of Michigan Home Heating Credit
1978 to 2001

<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	

Sources:

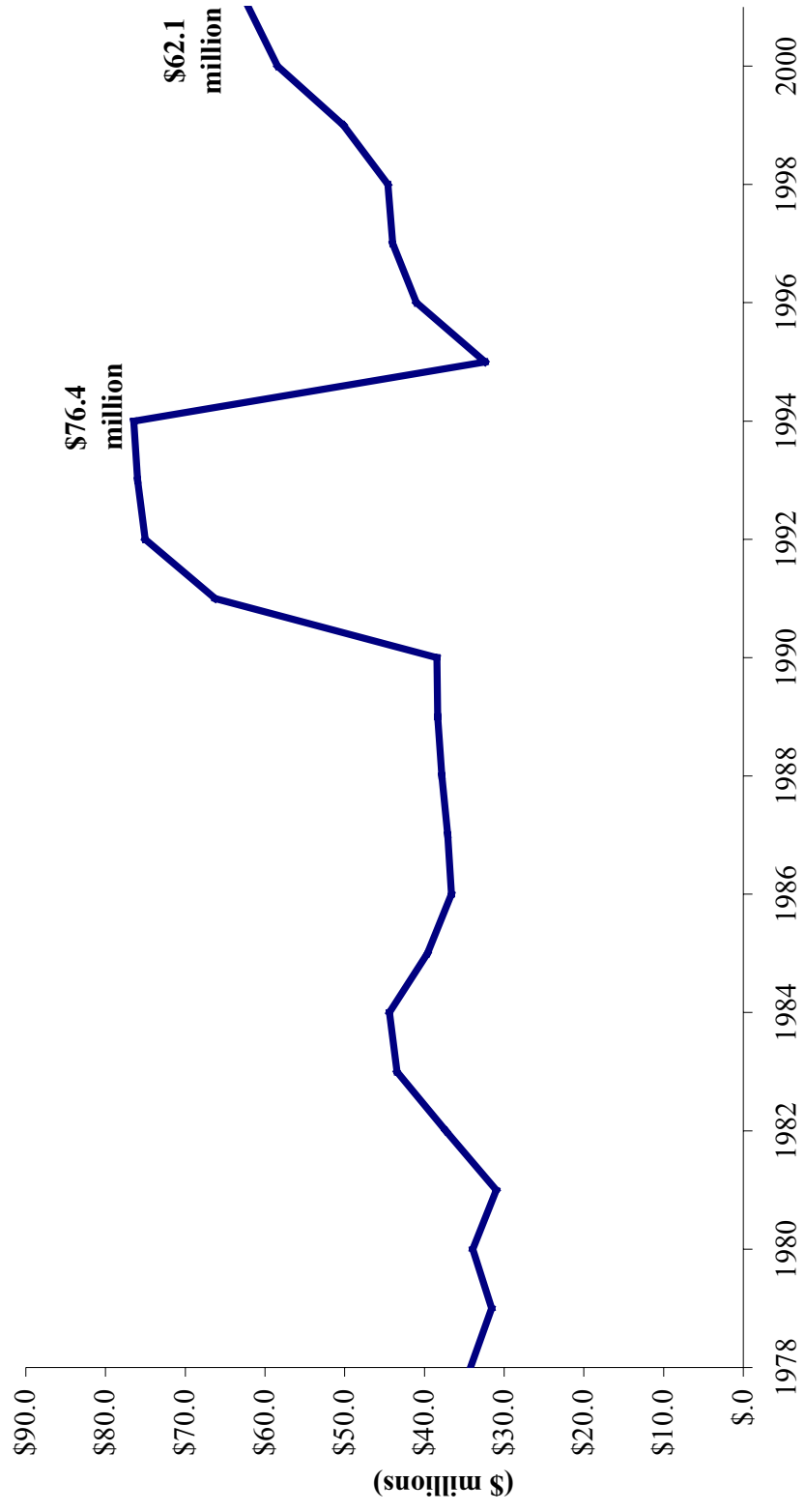
1. Analysis of the Michigan Individual Income Tax, 1978 and 1982.
2. Home Heating Credit Production Report, Michigan Department of Treasury, 1982-2001.
3. Percentage of federal funding for 1978 through 1982 was taken from a Memorandum of House Taxation Committee, February 15, 1989

Exhibit 5
Families Receiving the Home Heating Credit



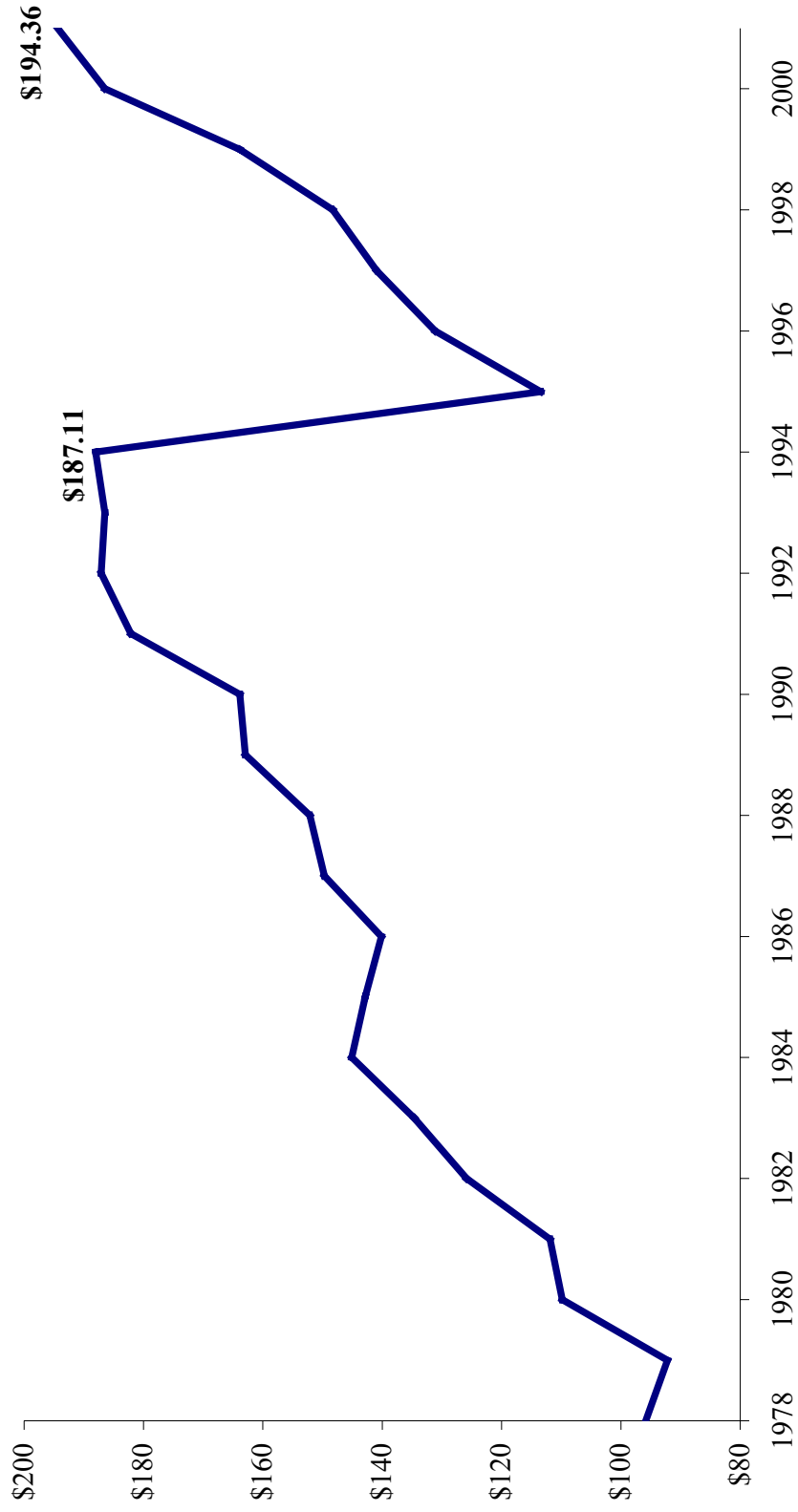
Prepared by: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 6
Amount of Home Heating Credits
Paid to Michigan Families



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

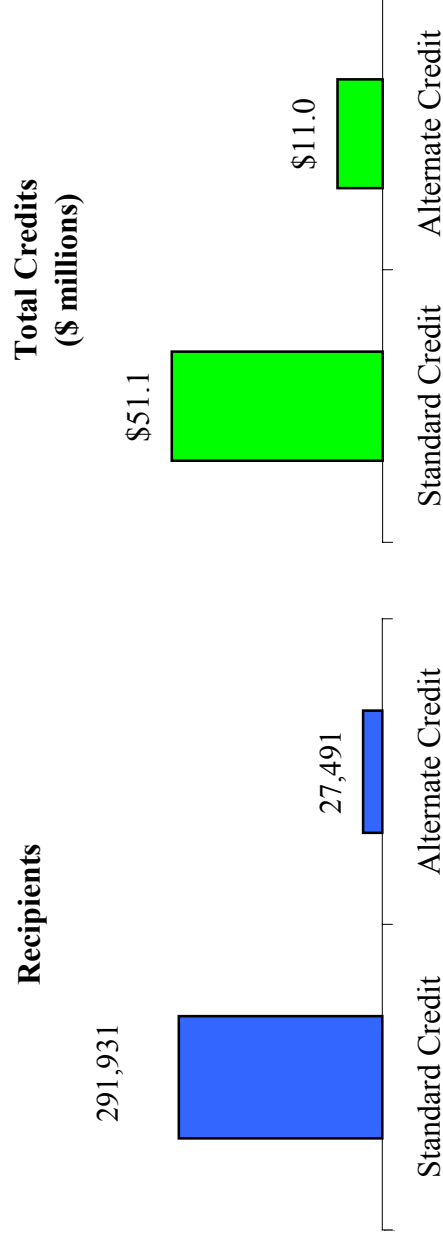
Exhibit 7
Average Home Heating Credit



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

Exhibit 8
Home Heating Credit by Calculation Method
Tax Year 2001

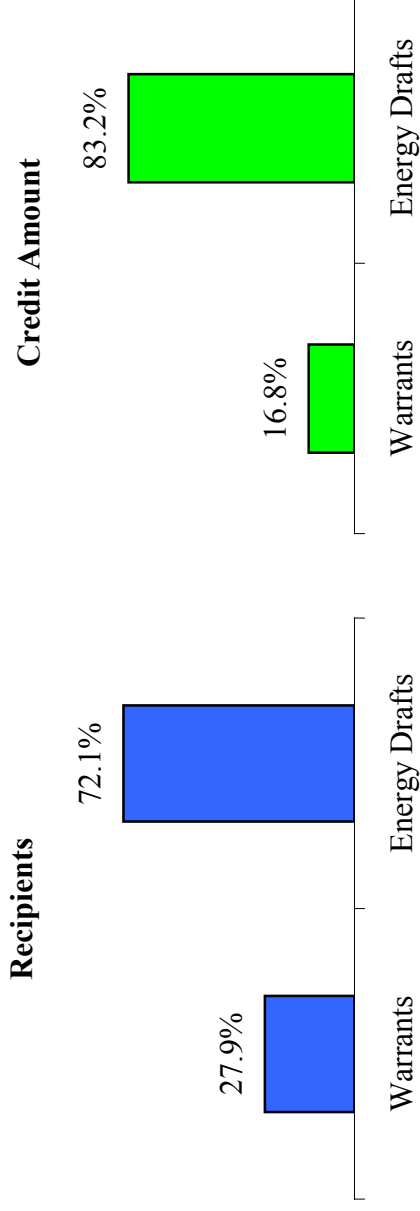
	<u>Recipients</u>	<u>Credit Amount</u>	<u>Average Credit</u>
Standard Credit	291,931	\$51,121,656	\$175.12
Alternate Credit	27,491	\$10,962,268	\$398.76
Total	319,422	\$62,083,924	\$194.36



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

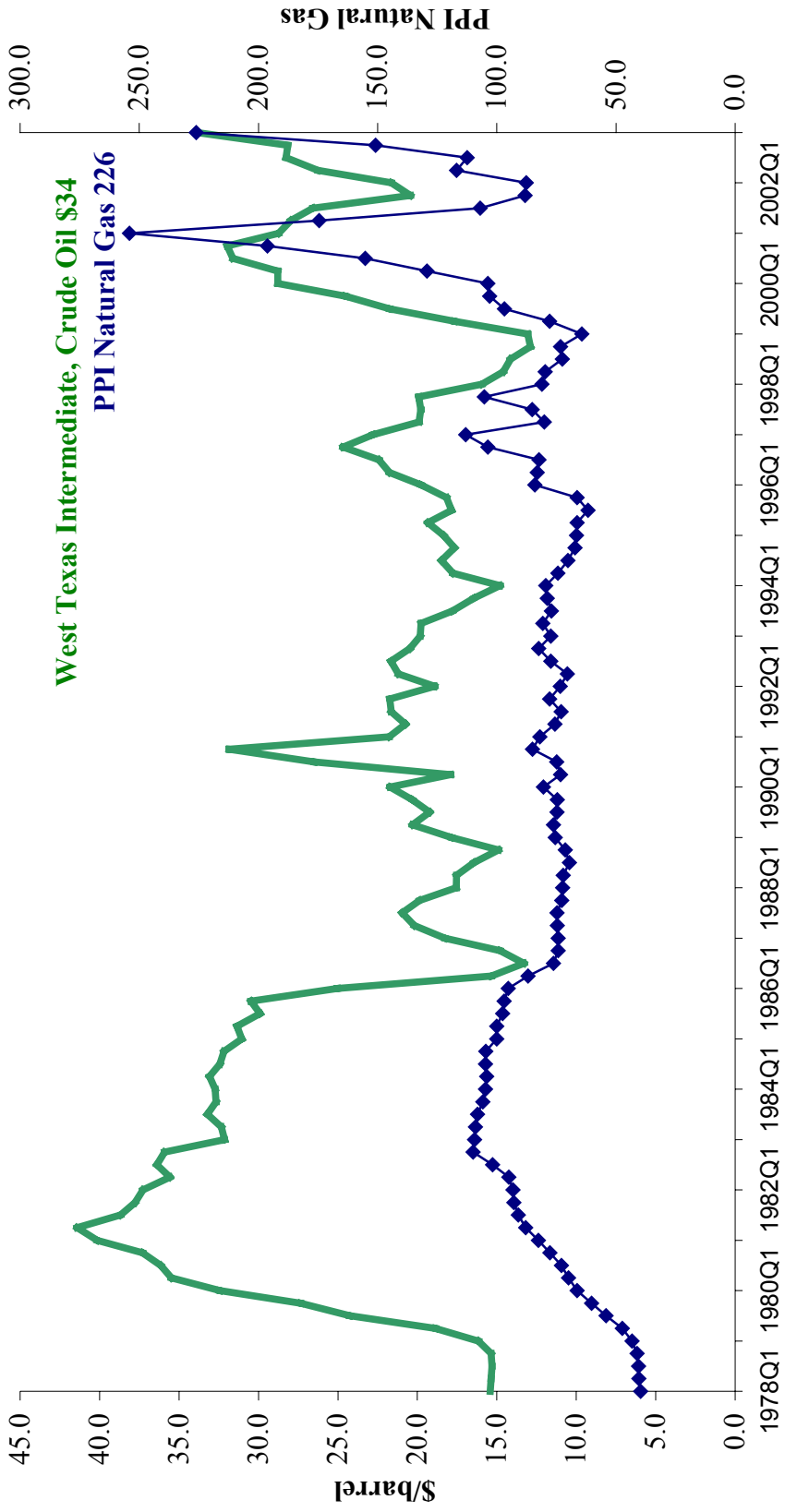
**Exhibit 9
Home Heating Credit by Payment Type
Tax Year 2001**

	<u>Percentage of Recipients</u>	<u>Percentage of Total Amount Paid</u>	<u>Average Credit Amount</u>
Warrants	27.9%	16.8%	\$116.71
Energy Drafts	72.1%	83.2%	\$223.46



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

Exhibit 10
U.S. Energy Price History
1978 to 2003



Note: Crude oil price as of March 2003.

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	150.9
1985Q1	31.1	100.1	1994Q1	14.8	79.5	2003Q1	33.9	226.1
1985Q2	31.3	100.1	1994Q2	17.8	74.4			
1985Q3	29.9	97.6	1994Q3	18.5	70.2			
1985Q4	30.5	97.0	1994Q4	17.7	67.2			
1986Q1	25.0	95.2	1995Q1	18.4	66.6			
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



Low Income Home Energy Assistance Program Division of Energy Assistance/OCS/ACF

Eligibility Guidelines

[To LIHEAP Home Page](#)

[Jump to Content](#)

[Income Eligibility--State Median Income/Poverty Guidelines](#) | [Categorical Eligibility](#) | [Additional Eligibility Criteria](#)

LIHEAP assists eligible **low income** households in meeting the heating or cooling portion of their residential energy needs. In order to be eligible to receive LIHEAP assistance, a household must be low income and meet any additional eligibility criteria established by the LIHEAP grantee.

Low Income Households

The LIHEAP statute defines **low income** households in either one of two ways:

Income eligibility

The LIHEAP statute establishes 150 percent of the poverty level as the maximum income level allowed in determining LIHEAP income eligibility, except where 60 percent of a state's median income is higher. Income eligibility criteria for LIHEAP may not be set lower than 110 percent of the federal poverty income guidelines. The Federal LIHEAP statute does not define "income." Therefore, each LIHEAP grantee is responsible for defining income. The definition of income should identify the items or sources of funds that are to be counted as income.

Below are **important points** concerning LIHEAP income eligibility criteria:

- LIHEAP grantees can set the household income cutoff at any figure between 110 percent of the poverty level and the greater of 150 percent of the **the poverty level** or 60 percent of **state median income**. Usually 60 percent of state median income is higher than 150 percent of the poverty levels. Both the poverty levels and state median incomes are adjusted by the number of persons living in a household that is applying for assistance.
- Some LIHEAP grantees use "gross" income instead of "net" income (income after certain deductions) in determining income eligibility for LIHEAP. As part of gross income, a number of LIHEAP grantees count the receipt of money such as child support payments as income. That amount would then be

included in the gross income total when determining a household's income eligibility for LIHEAP benefits. Using gross income is a generally accepted (though not a required) practice in many programs, including the LIHEAP program. Total gross income provides a "base" from which to evaluate a potentially eligible household in the fairest way possible, relative to other potential eligible households.

- The federal government issues the poverty levels as the **HHS Poverty Guidelines** and state median income as **State Median Income Estimates**. Both the HHS Poverty Guidelines and State Median Incomes are published each year in the *Federal Register*.
- The [State Median Income Estimates for FFY 2003](#) and the [2002 HHS Poverty Guidelines](#) were the LIHEAP income eligibility criteria in effect on October 1, 2002, the beginning of the Federal Fiscal Year (FFY) 2003.
- The [2003 HHS Poverty Guidelines](#) were published on February 7, 2003 in the *Federal Register*.
- [State Median Income Estimates for FY 2004](#) were published on April 15, 2003 in the *Federal Register*.

Upon publication in the *Federal Register*, LIHEAP grantees have the option of switching to the 2003 HHS Poverty Guidelines and/or the State Median Income Estimates for FFY 2004 for the remainder of FFY 2003. However, LIHEAP grantees must by the beginning of FFY 2004 (October 1, 2003) or by the beginning of a LIHEAP grantee's fiscal year, whichever is later, adjust their income eligibility criteria so that they are in accord with these new income eligibility criteria.

Historical information on the income eligibility guidelines is available for State Median Income Estimates for [FY 1974 - FY 2003](#) and the HHS Poverty Guidelines for [1996 -2003](#).

NOTE: The amount of any LIHEAP payments or allowances provided directly to, or indirectly for the benefit of, an eligible household shall not be considered income or resources of such household (or any member thereof) for any purpose under any Federal or State law, including any law relating to taxation, food stamps, public assistance, or welfare programs.

Categorical eligibility

Under the law, LIHEAP grantees have the flexibility of serving households with at least one member who also receives assistance under the following federal programs (also referred to as categorical eligibility):

- [Temporary Assistance for Needy Families](#) (TANF),
- [Supplemental Security Income](#) (SSI),
- [Food Stamps](#), or
- certain needs-tested [veteran benefits](#).

Additional Eligibility Criteria

LIHEAP grantees have the flexibility of serving only those low income households that meet additional LIHEAP eligibility criteria, such as passing an assets test, living in nonsubsidized housing; having a household member who is elderly, disabled, or a young child; or receipt of a utility disconnection notice.

www.acf.hhs.gov/programs/liheap
Updated 5/1/03
