COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4494-04
Bill No.: SCS for HCS for HB 1485
Subject: Revenue Department; Taxation and Revenue.
Type: Original
Date: May 3, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	($46,394 to Unknown)	($46,357 to Unknown)	($47,523 to Unknown)
Total Estimated Net Effect on General Revenue Fund*	**($46,394 to Unknown)**	**($46,357 to Unknown)**	**($47,523 to Unknown)**

*** SUBJECT TO APPROPRIATION**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Insurance Dedicated	($2,164)	$0	$0
Total Estimated Net Effect on Other State Funds**	**($2,164)**	**$0**	**$0**

**** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government**	**$0**	**$0**	**$0**

**** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation authorized a tax credit equal to 50% of a taxpayer's contribution to a pregnancy resource center, not to exceed $50,000 per taxable year. The tax credit is non-refundable, but can be carried over to the next 4 years. In order to receive the credit, the taxpayer's contributions must have a value of $100 or more. The total tax credits allowed for all taxpayers cannot exceed $2,000,000 per fiscal year. Tax credits shall be issued in the order contributions are received.

DOR assumes more than 6,000 taxpayers will contribute to the qualifying pregnancy resource centers, and therefore, requests 1 Tax Processing Technician I (at $23,000 annually) for processing the new tax credits with their carry forward provisions. DOR assumed a total cost from the additional FTE of roughly $38,000 per year.

Oversight assumes DOR will be able to administer this new tax credit without additional FTE. Oversight assumes that if the volume of tax credits for contributions to pregnancy resource centers is sufficiently high, DOR will request additional FTE through the budgetary process.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** assume the proposal would have a negative impact on Total State Revenue and General Revenue between $0 and $2 million annually.

BAP assumes the proposal expands the groups who could use the adoption tax credit, and gives the General Assembly the option to appropriate additional funds for this program. The proposal creates the “children in crisis” tax credit, which together with the resident portion of the adoption tax credit, could result in up to $2 million of tax credit claims. Should this amount not be claimed, then the remaining amount could be applied in tax credits for nonresident adoption claims which exceed the current limit of $2 million. Finally, the General Assembly could appropriate additional funds to cover nonresident adoption tax credit claims that further exceed the current cap. BAP defers to the DOR for an estimate of outstanding claims, but assumes these claims could exceed $1 million.

Oversight assumes in 2004, HB 1453 increased the annual limit for the Special Needs Adoption Tax Credit program from $2 million to $4 million. According to the Form 14 (Tax Credit Analysis) prepared by DOS, in FY 2005, the amount of tax credits redeemed under the program was $2.6 million. DOS anticipates roughly $2.6 million of the tax credits will be redeemed in Fiscal Years ‘06 and ‘07.

Since this proposal utilizes unused Resident Special Needs Adoption tax credits for other programs, this will result in an increased utilization of the tax credits. <u>If DOS’ estimate of $2.6 million of tax credits being redeemed under the current program is accurate, then this program could result in an additional $1.4 million in tax credits being used for children in crisis tax credits</u>. However, **Oversight** has already reflected the potential loss of the Special Needs Adoption tax credit program of up to $4 million annually.

Oversight assumes this substitute also allows the General Assembly to appropriate funds in excess of the $4 million stated program cap. Therefore, in addition to increasing the utilization of the current program, possibly up to the stated limit of $4 million from the anticipated utilization of $2.6 million, the program could be appropriated additional funds in a given year. Oversight will reflect this potential additional appropriation as a potential fiscal impact to the General Revenue fund, subject to appropriation.

ASSUMPTION (continued)

Officials from the **Department of Social Services (DOS)** state a procedure will be established to determine those organizations in Missouri that meet the criteria of a Pregnancy Resource Center and a mechanism for which taxpayers can access this information will be implemented. These procedures will also ensure that taxpayers can claim all the tax credits possible up to the cumulative amount of tax credit available for the fiscal year. DOS' Division of Budget and Finance (DBF) will allocate the available tax credits equally to all organizations designated as a Pregnancy Resource Center on an annual basis. If during the fiscal year, it is determined that a Pregnancy Resource Center fails to use all or some percentage of it's allocation, DBF will then reapportion any unused tax credits to those Pregnancy Resource Centers that have used the entire amount of their tax credit allocation.

DOS states that there are approximately 60 pregnancy resource centers that might meet the criteria outlined in the proposal. DOS assumed the need for one FTE Accounting Analyst I (at $29,784 annually) to carry out the responsibilities outlined in the bill. DOS estimates a cost of the FTE for 10 months in FY 2007 and assumes that new equipment and furniture would be required but that existing space would be utilized. In summary, DOS assumed a cost to implement the proposal of roughly $46,000 per year.

Officials from the **Department of Insurance (INS)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. INS estimates that from $0 - $2 million per year could be lost in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

INS assumes they will require $2,164 for contract computer programming to add the new tax credit to the premium tax database.

Oversight assumes up to $2 million per year could be lost in premium tax revenue as a result of the tax credits. Premium tax revenue is split 50/50 between General Revenue and the County Foreign Insurance Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. Therefore, this potentially could impact locals schools.

ASSUMPTION (continued)

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than $1,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight has ranged the fiscal impact of the new tax credit from $0 (no taxpayer taking utilizing the program) to a $2 million decrease in tax collections. This tax credit can be utilized against several tax types, so funds other than General Revenue (i.e. County Foreign Insurance) could be impacted by the program. The tax credit may be applied to all tax years beginning on or after January 1, 2007. Therefore, taxpayers may make contributions in calendar year 2007 and utilize the credit on their returns filed after January 1, 2008. Therefore, up to $2 million in tax credits could be utilized in FY 2008.

This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Cost – Dept. of Social Services			
Personal Service (1 FTE)	($25,430)	($31,292)	($32,074)
Fringe Benefits	($11,205)	($13,787)	($14,132)
Expense and Equipment	($9,759)	($1,278)	($1,317)
Total Costs to DOS	($46,394)	($46,357)	($47,523)
Loss – Tax credits for contributions made to Pregnancy Resource Centers	$0	$0 to ($2,000,000)	$0 to ($2,000,000)
Loss – Possible increase in Special Needs Adoption Tax Credits from the current $4 million annual cap*	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	**($46,394 to Unknown)**	**($46,357 to Unknown)**	**($47,523 to Unknown)**

*** SUBJECT TO APPROPRIATION**

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

INSURANCE DEDICATED FUND			
Cost – Dept. of Insurance			
Reprogramming costs	($2,164)	$0	$0
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	**($2,164)**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

The proposed legislation requires two million dollars in tax credits be made available annually for resident adoptions. The cumulative amount of adoption tax credit which may be issued annually is limited to four million dollars, but such limit may be increased by appropriation. Applications for resident adoption tax credits must be filed between July 1st and April 15th of each year. Applications for non-resident adoption tax credits must be filed between July 1st and December 31st of each year. The proposal repeals the requirement that the director of the department of revenue submit an annual report to the general assembly on the income levels of taxpayers claiming the adoption tax credit. The proposal creates the “Children in Crisis” tax credit which is equal to up to fifty percent of an approved contribution to a qualified agency which includes entities receiving funding under the court appointed special advocate fund, child advocacy, or crisis care centers.

In order to become an eligible agency, an agency must apply to the Department of Social Services prior to December 31st of each year. Upon a determination that an agency is eligible as a qualified agency, the Department of Social Services will provide the agency with a letter of eligibility. The Department of Social Services is required to provide the Department of Revenue with a list of all qualified agencies no later than February 1st of each year. Upon receipt of a contribution, a qualified agency will issue a contribution verification. In order to claim the tax credit provided under this section, a taxpayer must attach the contribution verification to such taxpayer’s income tax return.

DESCRIPTION (continued)

The children in crisis tax credit is non-refundable, but may be carried forward for up to five consecutive years. The children in crisis tax credit has a cumulative cap equal to the unclaimed portion of the resident adoption tax credit. The amount of remaining credits under the resident adoption tax credit program shall be divided equally among contributions to the agencies eligible under the children in crisis tax credit. In the event the total amount of tax credits claimed exceeds the amount available, the amount redeemed will be apportioned equally to all eligible taxpayers claiming the credit. In the event the children in crisis tax credits do not use all of the remaining tax credits under the resident adoption tax credit program, the remaining amount shall be used for non-resident adoption tax credits.

The director of the Department of Revenue must annually calculate and report to the general assembly and the office of budget and planning the level of appropriation necessary to issue all credits for non-resident special needs adoptions. The report must be submitted by January 31st of each year.

This proposal authorizes an income tax credit for 50% of contributions to qualified pregnancy resource centers. Pregnancy resource centers are nonresidential facilities that provide assistance and support to women with crisis or unplanned pregnancies and do not provide abortions or referrals for abortion services. The tax credit may be taken against income tax, corporate franchise tax, insurance premium tax, financial institutions tax, and express company tax liability. The tax credit is not refundable, but can be carried forward and claimed for up to four taxable years. The maximum credit a taxpayer can claim is $50,000 per year, and the minimum contribution must be at least $100. The statewide maximum of tax credits that can be taken in any one year is $2 million. The Department of Social Services is to designate the centers and apportion the credits when the applications exceed the statewide cap. The provisions of this act shall expire six years from the effective date unless reauthorized.

The provisions of the bill will expire six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Department of Social Services
Department of Insurance
Office of the Secretary of State

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May 3, 2006