

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4507-01
Bill No.: HB 1697
Subject: Education, Elementary and Secondary; Revenue Department; Taxation and Revenue
Type: Original
Date: February 28, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$174,364)	(\$123,102 to \$3,123,102)	(\$126,214 to \$3,126,214)
Total Estimated Net Effect on General Revenue Fund*	(\$174,364)	(\$123,102 to \$3,123,102)	(\$126,214 to \$3,126,214)

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 <u>Other</u> 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 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

* 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 Labor and Industrial Relations** assume the proposal will not fiscally impact their agency.

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 SOS 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 the SOS for Administrative Rules is less than \$1,500. The SOS 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 the office can sustain with the 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.

ASSUMPTION (continued)

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 - \$3 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 this new tax credit to the premium tax database.

Officials from the **Office of Administration - Budget and Planning** state this legislation will establish a tax credit for employers who hire high school students for summer employment. To qualify a business must pay to a student a minimum of \$100, and cannot receive credits totaling more than \$50,000 in a given year. This program has a cumulative cap of \$3 million, so general revenue may be reduced up to that amount each year.

Officials from the **Department of Revenue (DOR)** state the proposal would have the following administrative impact to their agency;

DOR's Personal Tax will require 1 Tax Processing Technician I for every 6,000 claims.

This legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). COINS will also need to be modified for a programming cost of \$23,085 (692 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, DOR's IT staff will be moved to the Office of Administration pursuant to consolidation, but DOR has no reason to believe this transfer will limit DOR's ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

In summary, DOR assumes the proposal will cost roughly \$38,000 per year to administer this program.

ASSUMPTION (continued)

Oversight assumes DOR will not require additional floor space for the new FTE and have removed that expense from DOR's estimate. Since the tax credit is for tax years beginning on or after January 1, 2007, Oversight assumes the tax credits will not be utilized until FY 2008 and therefore assume DOR will not need the additional FTE until FY 2008.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the proposal would allow a taxpayer to claim a tax credit equal to 35% of the amount paid to a qualified high school student in wages for summer employment. The amount of the tax credit shall not exceed the taxpayer's state tax liability and such taxpayer shall not be allowed to claim a credit in excess of \$50,000. The cumulative amount of tax credits claimed by all taxpayers under this program shall not exceed \$3 million in any one fiscal year.

The proposal requires DESE to establish a procedure by which a taxpayer can determine if a student is a qualified high school student, and by which such taxpayer can then claim a tax credit.

DESE does not currently collect individual student records and would have no knowledge of a student's GPA. DESE would have to collect the GPA of every student, in addition to parental approval, and develop a system which has the ability to cross reference minimum attendance requirements, and free or reduced lunch eligibility. Adding an additional element to student data collection will cost approximately \$100,000. In addition DESE would require 1.0 FTE director to implement this program and review claim forms annually.

DESE states that local school districts will likely incur costs to collect and send data to the department on a continual basis.

This proposal may reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Costs - Department of Revenue (DOR)</u>			
Personal Service (1 FTE)	\$0	(\$24,156)	(\$24,760)
Fringe Benefits	\$0	(\$10,643)	(\$10,909)
Expense and Equipment	<u>\$0</u>	<u>(\$531)</u>	<u>(\$547)</u>
<u>Total Costs - DOR</u>	\$0	(\$35,330)	(\$36,216)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
<u>Costs - Department of Elementary and Secondary Education (DESE)</u>			
Personal Service (1 FTE)	(\$45,838)	(\$56,381)	(\$57,790)
Fringe Benefits	(\$20,182)	(\$24,825)	(\$25,445)
Expense and Equipment	(\$8,344)	(\$6,566)	(\$6,763)
Data system updates	<u>(\$100,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Costs - DESE</u>	<u>(\$174,364)</u>	<u>(\$87,772)</u>	<u>(\$89,998)</u>
<u>Loss - Tax credits of 35% of amount paid to a qualified high school student in wages for summer employment</u>	<u>\$0</u>	<u>\$0 to (\$3,000,000)</u>	<u>\$0 to (\$3,000,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$174,364)</u>	<u>(\$123,102 to \$3,123,102)</u>	<u>(\$126,214 to \$3,126,214)</u>

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

<u>Cost - Dept. of Insurance</u>			
Reprogramming costs	<u>(\$2,164)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>(\$2,164)</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
SCHOOL DISTRICTS			
<u>Costs</u> - to assist DESE to administer the tax credit program	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO SCHOOL DISTRICTS	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be fiscally impacted from this proposal.

DESCRIPTION

This proposal authorizes a tax credit for employers who hire qualified high school students for summer jobs. The tax credit is equal to 35% of the wages paid to the student employee, but can only be claimed if the employer pays the student at least \$100. An employer can claim up to \$50,000 per year. The program has a cumulative annual cap of \$3 million.

To qualify, a student must be currently enrolled as a junior or senior in high school, meet minimum attendance requirements, earn a grade point average of 2.0 or better, and be eligible for the free or reduced lunch program. Students who are home schooled and meet these requirements are also eligible. The Department of Elementary and Secondary Education must establish a procedure by which an employer can determine if he or she is eligible to receive the tax credit based on if the student employee qualifies. The department must also track students for whom employers receive this tax credit.

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 Insurance
Department of Labor and Industrial Relations
Department of Elementary and Secondary Education
Office of the Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 28, 2006