

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5083-01
Bill No.: HB 1778
Subject: Education, Elementary and Secondary; Revenue Department; Taxation and Revenue
Type: Original
Date: April 7, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	\$0	(\$1,000,000)	\$0
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$1,000,000)	\$0

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 of the tax credits 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 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
	\$0	\$0	\$0
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	\$0	\$0

***The fiscal impact of the tax credits 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 with their agency involved in the process of administering the credits with DESE, Corporate Tax will require 1 Tax Processing Technician I in order to track, monitor, apportion, and correspond with the taxpayer. Personal Tax will require 1 Tax Processing Technician I for every 6,000 credits claimed.

DOR does not expect the number of credits claimed to warrant additional FTE at this time. If additional FTE are needed, they will be requested through the regular budget process.

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

ASSUMPTION (continued)

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.

Officials from the **Office of Administration - Budget and Planning (BAP)** states the proposal would authorize a non refundable or transferable income tax credit for the upkeep and beautification of school exterior and grounds. The tax credit is capped at \$1 million dollars.

BAP assumes this is an annual cap. There would be no costs or savings to BAP. There would, however, be an annual loss of general revenue up to \$1 million annually.

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 can not estimate how much would be lost in premium tax revenue as a result of tax credits. Due to the limitation of the credit, however, the amount would not exceed \$1,000,000 (\$500,000 GR/\$500,000 County School Funds). 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 will require \$2,164 for contract computer programming to add this new tax credit to the premium tax database.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the bill authorizes a tax credit, in an amount not to exceed fifty percent or \$10,000 of the amount of the taxpayer's state tax liability in a taxable year. The cumulative amount of tax credits which may be allocated to all taxpayers shall not exceed \$1 million. Tax credits will reduce income tax receipts flowing to the general revenue fund. More tax credits mean less GR available statewide for distribution to local schools through the foundation formula.

DESE, in conjunction with DOR, shall establish a procedure by which the cumulative amount of tax credits is apportioned among all taxpayers claiming the credit. In addition, DESE shall establish a procedure by which a taxpayer may apply for a tax credit. DESE will require 1.0 FTE supervisor to perform these duties. DESE assumes the cost of this supervisor will be \$65,959 in FY 2007, \$77,596 in FY 2008 and \$79,565 in FY 2009.

ASSUMPTION (continued)

For purposes of the fiscal note, **Oversight** will assume the Department of Elementary and Secondary Education will not require an additional FTE to administer this program, since the program has a cumulative cap (instead of an annual cap) of only \$1,000,000. Oversight will assume this cumulative cap will be exhausted in the first year. There is a \$10,000 limit per taxpayer per taxable year; therefore, there could be as few as 100 taxpayers (\$1,000,000 / \$10,000) utilizing the program.

Since the tax credits are for years beginning on or after January 1, 2007, **Oversight** will assume the state would see the reduction of revenue from the new credit starting in January 1, 2008, or FY 2008.

This proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Loss</u> - to General Revenue from tax credit for school upkeep and beautification projects	<u>\$0</u>	<u>(\$1,000,000)</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$1,000,000)</u>	<u>\$0</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</u> - Dept. of Insurance 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>

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

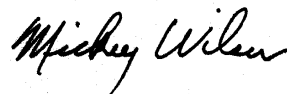
This proposal authorizes an income tax credit beginning January 1, 2007, for any taxpayer who assists in the upkeep and beautification of a school exterior and grounds. The credit is limited to the lesser of 50% of the taxpayer's state tax liability or \$10,000. The cumulative amount of tax credits cannot exceed \$1 million. A taxpayer can apply to the Department of Elementary and Secondary Education for the 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 Elementary and Secondary Education
Office of the Secretary of State



Mickey Wilson, CPA
Director
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