

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2555-01
Bill No.: HB 1104
Subject: Education, Elementary and Secondary; Elementary and Secondary Education
Dept.; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: April 17, 2007

Bill Summary: Would provide an income tax credit for contributions to nonprofit special needs education support organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue *	(\$57,971)	(\$102,147 to \$2,102,147)	(\$105,211 to \$2,105,211)
Total Estimated Net Effect on General Revenue Fund *	(\$57,971)	(\$102,147 to \$2,102,147)	(\$105,211 to \$2,105,211)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>Other</u> State Funds *	\$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.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	1.0	2.0	2.0
Total Estimated Net Effect on FTE	1.0	2.0	2.0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
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 **University of Missouri, Economic Policy Analysis and Research Center** stated that they were not able to estimate the potential impact of this proposal.

Officials from the **Office of the Secretary of State (SOS)** provided the following response:

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 SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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, we reserve 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 **Department of Elementary and Secondary Education (DESE)** assume this proposal would allow a taxpayer to claim a tax credit equal to 50% of the amount contributed to a nonprofit special needs education support organization. The cumulative amount of tax credits claimed by all taxpayers under this program could not exceed \$2 million in any one fiscal year.

The proposal would require the commissioner to determine, at least annually, which organizations in this state could be classified as nonprofit special needs education support organizations and would the commissioner to establish a procedure by which a taxpayer can determine if an organization has been classified as a nonprofit special needs education support organization. In addition, the commissioner would be required to establish a procedure by which the cumulative amount of tax credits are equally apportioned among all facilities classified as nonprofit special needs education support organizations.

DESE would require 1.0 FTE director to handle the additional duties required by this proposal.

ASSUMPTION (continued)

DESE submitted a cost estimate to implement this proposal including the 1.0 FTE additional employee and related equipment, expense, and tax credits, totaling \$2,076,731 for FY 2008, \$2,091,865 for FY 2009, and \$2,094,621 for FY 2010.

Oversight has, for fiscal note purposes only, changed the starting salary for the new position to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DESE estimate of equipment and expense costs in accordance with OA budget guidelines. Finally, Oversight assumes this employee would have minimal travel.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a new tax credit with carry-forward provisions, administered by DESE. Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed.

Information Technology ITSD/DOR estimates the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement the proposal. ITSD/DOR estimates that this legislation could be implemented utilizing 4 existing CIT III for 2 months and an additional 2 CIT III for 1 month at a cost of \$41,860.

DOR submitted a cost estimate to implement this proposal including the 1.0 FTE additional employee and related equipment, expense, totaling \$37,623 for FY 2008, \$39,742 for FY 2009, and \$40,935 for FY 2010.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight assumes the additional FTE would be required beginning in FY 2009. Oversight has also adjusted the DOR estimate of cost in accordance with OA budget guidelines. Finally, Oversight assumes this proposal could be implemented with existing IT resources.

ASSUMPTION (continued)

In response to a similar proposal (HB 210, LR 0726-01), officials from the **Department of Insurance, Financial Institutions and Professional Registration** (DIFP) state it is unknown how many insurance companies would choose to participate in this program and take advantage of the tax credits. DIFP can not estimate how much would be lost in premium tax revenue as a result of tax credits. Credits cannot exceed total tax liability (both Premium tax and Retaliatory tax). Premium/Retaliatory 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 by this tax credit each year.

DIFP would require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$15,000,000 of credits are issued, Oversight would assume \$12,450,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight will assume these credits could be redeemed in fiscal year 2009 since the proposal allows the credit to be taken for all tax years beginning after January 1, 2008. Oversight will range the fiscal impact of the tax credits from \$0 (no credits being redeemed in a given year) to the annual limit of \$2,000,000.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Cost - DESE</u>			
Personal Service (1.0 FTE)	(\$38,570)	(\$47,673)	(\$49,103)
Fringe Benefits	(\$16,994)	(\$21,005)	(\$21,635)
Expense and Equipment	(\$2,407)	(\$1,221)	(\$1,257)
Total cost - DESE	<u>(\$57,971)</u>	<u>(\$69,899)</u>	<u>(\$71,995)</u>
FTE Change - DESE	1.0 FTE	1.0 FTE	1.0 FTE
<u>Cost - DOR</u>			
Personal Service (1.0 FTE)	\$0	(\$22,026)	(\$22,686)
Fringe Benefits	\$0	(\$9,704)	(\$9,996)
Expense and Equipment	\$0	(\$518)	(\$534)
Total cost - DOR	<u>\$0</u>	<u>(\$32,248)</u>	<u>(\$33,216)</u>
FTE Change - DOR	0.0 FTE	1.0 FTE	1.0 FTE
<u>Revenue reduction - tax credit for</u> contributions to nonprofit special needs education support organizations	\$0	\$0 to <u>(\$2,000,000)</u>	\$0 to <u>(\$2,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$57,971)</u>	<u>(\$102,147 to \$2,102,147)</u>	<u>(\$105,211 to \$2,105,211)</u>
Estimated Net FTE change for General Revenue Fund	1.0 FTE	2.0 FTE	2.0 FTE
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.			
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

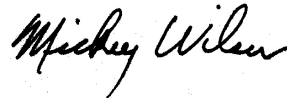
FISCAL DESCRIPTION

This proposal would provide an income tax credit for contributions to nonprofit special needs education support organizations.

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

Office of the Secretary of State
Department of Elementary and Secondary Education
Department of Revenue
University of Missouri
Economic Policy Analysis and Research Center



Mickey Wilson, CPA
Director
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