

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4422-01
Bill No.: HB 2136
Subject: Education, Elementary and Secondary; Revenue Department; Tax Credits;
Taxation and Revenue
Type: Original
Date: April 22, 2008

Bill Summary: This proposal authorizes an income tax credit for donations to public school foundations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(33,060 to \$20,033,060)	(\$34,193 to \$20,034,193)	(\$35,218 to \$20,035,218)
Total Estimated Net Effect on General Revenue Fund*	(\$33,060 to \$20,033,060)	(\$34,193 to \$20,034,193)	(\$35,218 to \$20,035,218)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
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 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1	1	1

☐ 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 2009	FY 2010	FY 2011
Local Government*	\$0 to \$40,000,000	\$0 to \$40,000,000	\$0 to \$40,000,000

*** 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 **Office of Administration - Budget and Planning (BAP)** state the proposal creates a tax credit for donations to qualifying public school foundations. The tax credit is for 50% of the donation, up to 50% of state tax liability or \$800,000. These credits are not refundable, nor transferable, nor sellable. The program is capped at \$20 million annually. This proposal may reduce general and total state revenues by that amount.

Officials from the **Office of the Secretary of State (SOS)** assume 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 \$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** state they cannot estimate the benefit to public schools as a result of increased charitable donations by taxpayers to a 'public school foundation'.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the 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 by tax credits each year.

DIFP states they will 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

ASSUMPTION (continued)

multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Department of Revenue (DOR)** state this legislation establishes a new tax credit. DOR's Personal Tax section would require 1 Tax Processing Technician I for every 4,000 credits claimed. DOR's Corporate Tax section would require 1 Tax Processing Technician I for every 5,200 returns verified and 2,080 pieces of correspondence generated. DOR's Customer Assistance Section would require;

- 1 Tax Collection Technician I for every 15,000 calls a year on the income tax phone line;
- 1 Tax Collection Technician I for every 24,000 calls a year to the delinquency phone line; and
- 3 Tax Processing Technician I for every additional 4,800 contacts in the field offices (Taxation anticipates most customers will contact the department via phone; therefore, will only request 1 full time employee for each of the larger field offices including Kansas City, St. Louis and Springfield).

Due to the Statewide Information Technology Consolidation, DOR's response to the proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed To and Finally Passed, the OA-IT costs shown will be requested through appropriations by OA-IT.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 1 month for modifications to MINITS and 3 existing CIT III for 1 month for modifications to the corporate tax systems. DOR assumes a cost of \$16,744.

DOR assumes a cost to the General Revenue Fund of roughly \$245,000 annually for the additional 7 FTE.

In response to a similar proposal from 2007 (HB 970), the Department of Revenue assumed they would require only one additional FTE to administer this program. Therefore, **Oversight** will assume DOR will require only one additional FTE to implement this program. If the volume of donations and resulting credits arise to the thresholds indicated, Oversight assumes DOR could

ASSUMPTION (continued)

request additional funding through the appropriations process.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I 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 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DOR will not incur additional floor space expense for one new FTE.

Oversight has ranged the fiscal impact of the new tax credit from \$0 (no additional tax credits will be redeemed) to a \$20 million loss to the general revenue fund. The credits are for taxable years beginning on or after January 1, 2008, therefore, Oversight assumes the tax credits could not be utilized until the returns are filed for calendar year 2008, which would be in FY 2009.

Oversight compared the total tax credit issuances for all programs 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 \$20,000,000 of additional credits are issued, Oversight would assume \$16,600,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

Oversight will assume the proposal could result in an additional \$40 million (\$20 million potential tax credits at rate of 50 percent of donation) in donations to public school foundations for the benefit of public school districts. Even though the public school districts will not receive the potential donations directly, Oversight will assume the foundations will simply pass all of the donations/proceeds on to the school districts they represent. Therefore, Oversight will reflect the potential increase in revenue to schools.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Loss</u> - Department of Revenue			
Tax credits for donations made to public school foundations	\$0 to (\$20,000,000)	\$0 to (\$20,000,000)	\$0 to (\$20,000,000)
<u>Cost</u> - Department of Revenue			
Personal Service	(\$18,901)	(\$23,361)	(\$24,062)
Fringe Benefits	(\$8,358)	(\$10,330)	(\$10,640)
Expense and Equipment	(\$5,801)	(\$502)	(\$516)
<u>Total Costs - DOR</u>	<u>(\$33,060)</u>	<u>(\$34,193)</u>	<u>(\$35,218)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$33,060 to <u>\$20,033,060</u>)	(\$34,193 to <u>\$20,034,193</u>)	(\$35,218 to <u>\$20,035,218</u>)
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 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 2009 (10 Mo.)	FY 2010	FY 2011
SCHOOL DISTRICTS			
<u>Income</u> - potential donations to public school foundations - for the benefit of public school districts	\$0 to <u>\$40,000,000</u>	\$0 to <u>\$40,000,000</u>	\$0 to <u>\$40,000,000</u>
ESTIMATED NET EFFECT TO SCHOOL DISTRICTS	\$0 TO <u>\$40,000,000</u>	\$0 TO <u>\$40,000,000</u>	\$0 TO <u>\$40,000,000</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

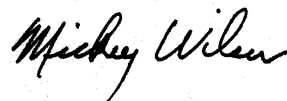
This proposal authorizes a 50% income tax credit for certain specified donations to public school foundations beginning with the 2008 tax year. The cumulative amount of credits is capped at \$20 million, with no more than \$8 million of credits awarded for donations to school foundations of districts with 10,000 or more students and \$12 million for school districts with less than 10,000 students.

The provisions of the bill will expire December 31 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
Department of Elementary and Secondary Education
Office of Administration - Budget and Planning
Office of the Secretary of State
Department of Insurance, Financial Institutions and Professional Registration



Mickey Wilson, CPA
Director
April 22, 2008