COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5611-01
Bill No.: HB 2556
Subject: Economic Development Department; Education, Elementary and Secondary; Tax Credits
Type: Original
Date: April 29, 2008

Bill Summary: This proposal establishes the 'Child Initiative Development' and creates a tax credit for certain taxpayers who participate in the program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($69,826)	($101,415 to $20,101,415)	($115,413 to $20,115,413)
Total Estimated Net Effect on General Revenue Fund*	**($69,826)**	**($101,415 to $20,101,415)**	**($115,413 to $20,115,413)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Child Initiative	$0	$0	$0
Total Estimated Net Effect on Other 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 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All 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	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**1**	**2**	**2**

☒ 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**	**$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 Higher Education** and the **Office of the State Treasurer** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Budget and Planning** state the proposal creates the Child Initiative Program. The amount of tax credits available for this program is $20 million. This proposal could therefore lower general and total state revenues by that amount.

Officials from the **Office of the Secretary of State (SOS)** state that 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 (DESE)** state the proposal authorizes a tax credit which shall not exceed $20 million in any one fiscal year. DESE states that tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

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. The department estimates that from $0 - $12 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 by tax credits each year.

ASSUMPTION (continued)

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 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 subsection 7 of the proposal allows for a tax credit against the taxpayer's state tax liability. DOR's Personal Tax section would require 1 Tax Processing Technician I for every 6,000 credits claimed.

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 2 existing CIT III for 2 months for modifications to MINITS and 3 existing CIT III for 1 month for modifications to the corporate tax systems. DOR assumes a cost of $29,302.

Officials from the **Department of Economic Development (DED)** state the legislation would require DED to administer a new tax credit program -- the Child Initiative Program. The program has a $20 million cap each fiscal year. It's a 50% tax credit based on the amount paid into the student's fund and the tax credit is limited to $50K per taxpayer. DED is responsible for setting up a tracking procedure for which employers receive tax credits.

DED assumes the need for one (1) FTE (an Economic Development Incentive Specialist III at $48,180 annually) to administer the new program and ITSD to set up a tracking database. DED assumes the need for floor space. DED assumes a total administrative cost of $82,945 in FY 2009, $93,994 in FY 2010 and $96,815 in FY 2011.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I and DED's Economic Development Incentive Specialist III 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. Floor space expense has been taken out of DOR's and DED's estimates, as Oversight assumes additional floor space will not be required for one additional FTE for each agency.

Oversight has ranged the fiscal impact of the new program 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, 2009, therefore, Oversight assumes the tax credits could not be utilized until the returns are filed for calendar year 2009, which would be in FY 2010. Since the credits will not be utilized until FY 2010 at the earliest, Oversight assumes the Department of Revenue would not need an additional FTE until January 1, 2010, or six months remaining in FY 2010.

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 all donations into the Child Initiative Fund will be utilized in the same year for subsidized part-time employment under the program.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Costs - DOR			
Personal Service	$0	($11,681)	($24,062)
Fringe Benefits	$0	($5,165)	($10,640)
Expense and Equipment	$0	($6,791)	($599)
Total Costs - DOR	$0	($23,637)	($35,301)
FTE Change DOR	0 FTE	1 FTE	1 FTE
Costs - DED			
Personal Service	($34,763)	($42,966)	($44,255)
Fringe Benefits	($15,371)	($18,998)	($19,568)
Expense and Equipment	($19,692)	($15,814)	($16,289)
Total Costs - DED	($69,826)	($77,778)	($80,112)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - DED			
Tax credit of 50% of wages paid to certain students or 50% of donation to the Child Initiative Program	$0	$0 to ($20,000,000)	$0 to ($20,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($69,826)**	**($101,415 to $20,101,415)**	**($115,413 to $20,115,413)**
Estimated Net FTE Change for General Revenue Fund	1 FTE	2 FTE	2 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.

FISCAL IMPACT - State Government (continued)	FY 2009 (10 Mo.)	FY 2010	FY 2011
CHILD INITIATIVE FUND			
Income - Potential donations from taxpayers	$0	$0 to Unknown	$0 to Unknown
Expenses - subsidizing of part-time employment	$0	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO THE CHILD INITIATIVE PROGRAM	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that participate in the program could be positively fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This bill establishes the Child Initiative Program within the Department of Economic Development and creates the Child Initiative Fund consisting of moneys appropriated and made available for subsidized part-time employment as part of this program. The program is to provide:

(1) Information and support to students to consider college and actively prepare for it as early as middle school;

FISCAL DESCRIPTION (continued)

(2) Subsidized part-time employment; and

(3) A college savings account for eligible student participants.

Eligible students must reside in Missouri, be enrolled in the fifth grade or higher in a public metropolitan school district, and agree to specified program requirements.

The Commissioner of Education must designate a not-for-profit agency to coordinate the solicitation of donations and employment opportunities and to work with school districts to provide program information and support to students through school-related activities and facilities.

When a student begins working as a condition of the program, the employer must deposit 50% of the student's weekly wages into a college savings account established for the student. Entities that do not participate as employers may make monetary donations to the fund. These donations will be divided among the students in proportion to the number of hours worked by each individual student.

Beginning January 1, 2009, the bill authorizes a tax credit equal to 50% of the amount paid to a participating student or 50% of the amount of a donation made by the taxpayer to the program. A taxpayer cannot claim more than $50,000 per year, and the cumulative amount of tax credits that may be claimed by all taxpayers in any fiscal year cannot exceed $20 million. The credits may be carried forward four years.

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
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration
Department of Economic Development
Office of the State Treasurer
Department of Elementary and Secondary Education
Office of the Secretary of State
Department of Higher Education

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Director
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