COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0096-01
Bill No.: HB 45
Subject: Elderly; Revenue Department; Tax Credits; Taxation and Revenue
Type: Original
Date: February 17, 2009

Bill Summary: This proposal authorizes an income tax credit for food or cash donations to senior citizen service centers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($82,839)	($89,110) to ($2,089,110)	($91,784) to ($2,091,784)
Total Estimated Net Effect on General Revenue Fund	**($82,839)**	**($89,110) to ($2,089,110)**	**($91,784) to ($2,091,784)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**2**	**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 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates a tax credit program to encourage donations to senior citizen service centers. The program is capped at $2 million annually. While not refundable, the program has a three-year carry-forward provision. General and total state revenues may be reduced by $2 million annually.

BAP states the proposal may cause administrative issues for the Department of Revenue. BAP defers to DOR for estimated costs.

Officials from the **Department of Revenue (DOR)** state their Personal Tax section will require:

- One (1) Revenue Processing Technician I (Range10, Step L) for every 4,000 credits claimed;
- Two (2) Temporary Tax Employees for key entry of the new modification;
- One (1) Revenue Processing Technician I (Range 10, Step L) per 19,000 returns verified; and
- One (1) Revenue Processing Technician I (Range 10, Step L) for 2,400 pieces of correspondence.

DOR estimates their Corporate Tax section will require:

- One (1) Revenue Processing Technician I (Range 10, Step L) for every 5,200 returns verified;
- One (1) Revenue Processing Technician I (Range 10, Step L) for every 2,080 pieces of additional correspondence.

Note: The FTE listed above is different from the Department of Revenue fiscal note response to FN 4570-02 (2008). In 2008, Personal Tax stated they would require 1 Tax Processing Technician I for every 5,200 returns verified. This was incorrect. In addition to the one Revenue Processing Technician I for every 5,200 returns verified, the change on the MO-A form would create a need for 2 additional temporary employees for key entry and 1 additional Revenue Processing Technician I to verify returns.

In 2008, Corporate Tax stated that they would require 1 Tax Processing Technician I for every 5,200 returns verified and 2,080 pieces of correspondence generated. This should have been a request for two separate FTE.

ASSUMPTION (continued)

Due to the Statewide Information Technology Consolidation, DOR's response to a 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. The Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 3 months and 3 existing CIT III for 1 month for system modifications to MINITS, COINS, Café and E-file. The estimated cost is $26,646.

DOR assumes the cost of the five additional FTE plus the two temporary tax employees to total $206,460 in FY 2010, $221,978 in FY 2011 and $228,638 in FY 2012.

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 $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, 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.

Officials from the **Department of Health and Senior Services** assume the proposal will not fiscally impact their agency.

Oversight will utilize DOR's estimated need of 2 FTE from the similar proposal in 2008. Oversight will include the estimated need for two additional temporary employees during the tax season as well.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Technicians 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

ASSUMPTION (continued)

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 rental/lease expense for housing the four additional persons.

Oversight will range the fiscal impact of the new tax credit from $0 (no one taking advantage of the new program) to the annual limit of $2 million. Oversight assumes there will be positive benefits as a result of this program; however Oversight considers them to indirect and has not reflected them in the fiscal note. Since the program is for all tax years beginning on or after January 1, 2010, Oversight will assume the first year the tax credits could be utilized is in FY 2011. Oversight assumes DOR will have several responsibilities regarding the program before the returns containing the credits are filed; therefore, Oversight assumes DOR may require the additional FTE in FY 2010.

Oversight compared the total tax credit issuances for all programs relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 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 $2,000,000 of additional credits are issued, Oversight would assume $1,660,000 (83%) of credits to be redeemed, reducing Total State Revenues.

This proposal may reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Personal Service (2 FTE)	($38,934)	($48,122)	($49,566)
Fringe Benefits	($18,931)	($23,402)	($24,104)
Expense and Equipment	($11,584)	($1,036)	($1,067)
Temporary Tax Employees	($13,390)	($16,550)	($17,047)
Total Costs - DOR	($82,839)	($89,110)	($91,784)
FTE Change DOR	2 FTE	2 FTE	2 FTE
Loss - DOR			
Tax credit for 50% of donation to Senior Citizen Services Centers	$0	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($82,839)**	**($89,110) TO ($2,089,110)**	**($91,784) TO ($2,091,784)**
Estimated Net FTE change for General Revenue Fund	2 FTE	2 FTE	2 FTE

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Beginning January 1, 2010, this bill authorizes an income tax credit for donations of cash or food to any senior citizen services center. The amount of the tax credit will be 50% of the donation's value and cannot exceed $2,500 per taxpayer. The taxpayer must file an affidavit with his or her income tax return verifying the contribution. The tax credit is nonrefundable and cannot be transferred, sold, or assigned but can be carried forward three years. The annual cumulative amount of tax credits that can be issued is $2 million. If the applications exceed that amount, the Director of the Department of Revenue will establish a procedure by which the credits are apportioned among all applicants.

The provisions of the bill will expire December 31 five 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 Health and Senior Services
Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State

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Director
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