COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1221-01
Bill No.: HB 527
Subject: Disabilities; Revenue Department; Taxation and Revenue - Income; Tax Credits
Type: Original
Date: April 1, 2009

Bill Summary: This proposal creates a tax credit for contributions to mentally retarded and developmental type disability care providers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue *	$0	$0	$0
Total Estimated Net Effect on General Revenue Fund*	**$0**	**$0**	**$0**

* Offsetting income and losses.

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**

*** 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 8 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	0	0	0
Total Estimated Net Effect on FTE	**0**	**0**	**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 2010	FY 2011	FY 2012
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 Mental Health** assume no fiscal impact from this proposal.

Officials from the **Department of Social Services (DOSS)** state the bill establishes a tax credit for donations made to a provider from a taxpayer that are used solely to provide direct care services to the mentally retarded and persons with developmental type disabilities. Taxpayers include individuals, corporations, insurance companies, and financial institutions that pay income taxes. Eligible donations may include cash, publicly traded stocks and bonds, and real estate. The credit is limited to 50% of the eligible donation. Providers are limited to those who provide services under contract with the Missouri Department of Social Services.

The Department of Social Services would promulgate rules to implement the tax credit. In order to claim the tax credit, taxpayers must submit an application and be approved by the Department of Social Services.

The tax credit would automatically sunset 12 years after the effective date unless reauthorized.

Based on the Division of Finance and Administrative Services' (DFAS) response to FN 5386-01 last year, there is no fiscal impact to DOSS. DFAS believes DOSS could administer the tax credit with existing resources since the process would be very similar to the Residential Treatment Agency Tax Credit, which DOSS already administers.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates a tax credit for contributions to qualified mentally retarded and developmentally disabled care providers. The provider must be under contract with the Department of Social Services. However, the majority of MRDD providers contract with the state through the Department of Mental Health.

There are 1,321 developmental disability care providers that are under contract with the Department of Mental Health. There is no cap on the program; therefore, BAP is unable to determine the potential decrease to general and total state revenues.

ASSUMPTION (continued)

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 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. The department has no means to arrive at a reasonable estimate of loss 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.

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, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Department of Revenue (DOR)** assume this proposal would create a new tax credit program, which could reduce state revenues.

The proposal would create the "Mentally Retarded and Developmental Type Disability Care Provider Tax Credit" program. Any taxpayer, as defined, would be allowed a credit in an amount equal to 50% of the amount of an eligible donation. The credit would not be refundable, but could be carried forward 4 subsequent tax years and could be transferred, sold, or assigned.

ASSUMPTION (continued)

The Department of Social Services would promulgate rules for the program, and would certify the credit to the taxpayer.

DOR officials stated that modifications to individual income tax forms and instructions would be required, modifications to corporate income tax forms and instructions would be required, modifications to the MINITS system would be required, and modifications to the COINS and CAFÉ systems would be required.

DOR officials assume this proposal would have the following administrative impact. Personal Tax would require one FTE Revenue Processing Technician I for every 6,000 claims filed, and Corporate Tax would require one FTE Revenue Processing Technician I for every 5,200 additional returns to be verified and one FTE Revenue Processing Technician I for every 2,080 pieces of additional correspondence.

DOR provided an estimate of the cost to implement this proposal including three additional employees and the related equipment and expenditures totaling $115,843 for FY 2010, $123,257 for FY 2011, and $126,954 for FY 2012.

Oversight assumes there would not be sufficient donations and tax credits to warrant three additional FTE for the Department of Revenue. Oversight asked DOR how many credits have been redeemed for the similar program of contributions to Residential Treatment Agencies. DOR responded that only 72 credits were redeemed in FY 2008. Therefore, Oversight will assume that DOR could implement this proposal with existing resources. If the proposal is successful and the volume warrants the need for additional FTE, Oversight assumes DOR could apply for additional resources through the budget process.

Oversight assumes that since the program would start with tax years beginning on or after January 1, 2010, the first fiscal year in which the tax credits would offset revenues would be FY 2011. There is no annual limit to this program, therefore, Oversight will range the fiscal impact of the tax credits from $0 to (Unknown).

ASSUMPTION (continued)

DOR officials provided this estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration**, **Information Technology Service Division** (ITSD/DOR) estimated the cost to implement the IT portion of this request using one FTE existing CIT III for two months for modifications to the MINITS system and three FTE existing CIT III for one month for modifications to the corporate income tax systemsat a total cost of $22,205. ITSD/DOR officials assume this proposal could be implemented with with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Oversight assumes that ITSD/DOR could implement this proposal with existing resources.

Oversight notes that the provider would remit the value of the tax credit (fifty percent of the contribution) to the state with the application for the tax credit. Upon approval of the tax credit application, the state would issue the certificate. Oversight assumes the General Revenue Fund would see an increase in funds (accompanying a valid tax credit application) as well as an offsetting decrease in funds (from the utilization of tax credits) in the same year. The timing difference between the purchasing of the tax credit by the provider and the utilization of the tax credit by the taxpayer, could potentially result in a positive cash flow into the General Revenue Fund in one fiscal year and negative cash flow in the next fiscal year. However, Oversight will assume the purchase of the tax credits and the utilization of the tax credits would occur in the same fiscal year and will indicate no net fiscal impact to the state.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Income - money accompanying the application from qualified mentally retarded and developmental type disabilities care providers to DOS for tax credit	$0	$0 to Unknown	$0 to Unknown
Loss - Department of Social Services Tax credit for contributions to mentally retarded and developmental type disability care providers - no annual limit	$0	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$0**	**$0**

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

FISCAL IMPACT - Small Business

This proposal could have a direct impact to small businesses which use the tax credits.

FISCAL DESCRIPTION

This proposal would create an income tax credit equal to fifty percent of the amount of an eligible donation made, on or after January 1, 2010, to a qualifying mentally retarded and developmental type disability care provider. The tax credit may not be applied against withholding taxes. The tax credit is non-refundable, but may be carried forward four years. The tax credit is transferable. A provider may apply to the Department of Revenue for the tax credits. The provisions of this act would automatically sunset six years after the effective date of the act unless reauthorized.

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 Social Services
Department of Mental Health
Office of the Secretary of State
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration

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