

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4785-02
Bill No.: HB 1176
Subject: Tax Credits; Education, Elementary and Secondary; Elementary and Secondary
Education Department
Type: Original
Date: April 29, 2014

Bill Summary: This proposal authorizes an income tax credit for contributions to a public school foundation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(\$78,121)	(\$59,424) to (Unknown could exceed \$1,222,781)	(\$60,041) to (Unknown could exceed \$1,225,066)
Total Estimated Net Effect on General Revenue Fund	(\$78,121)	(\$59,424) to (Unknown could exceed \$1,222,781)	(\$60,041) to (Unknown could exceed \$1,225,066)

Note: The fiscal note 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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	1 FTE	1-5 FTE	1-5 FTE
Total Estimated Net Effect on FTE	1 FTE	1-5 FTE	1-5 FTE

☐ 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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal creates a tax credit equal to 65% of a taxpayer's donation to a qualified public school foundation. The tax credit is not refundable but has a three year carryforward. There is no annual cap on the amount of credits that may be authorized or redeemed.

This proposal will reduce General and Total State Revenues. BAP does not have data on the number of qualifying public school foundations there may be in Missouri or the amount of donations that may be made. However, a report by GivingUSA notes that nationally, \$41.33 billion was donated to elementary and higher education groups in 2012. Assuming 2% of these donations were made by Missouri taxpayers implies \$827 million in donations were made to education. 65% of this figure is \$538 million, but it is unclear what portion of this estimate may apply to qualified public school foundations.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students. This proposal would direct donations received by a qualified public school foundation to school districts that are above the median of all school districts in the state in current expenditures per average daily attendance divided by assessed valuation. This would not appear to result in an equitable distribution among school districts. Any impact on local school districts cannot be determined as it depends upon the actions of taxpayers.

The administration of tax credits is not an area with which DESE has experience. DESE will require 1 FTE Supervisor and 1 FTE Administrative Assistant to carry out the requirements of this proposal.

Oversight assumes this proposal requires DESE to create an application for the tax credit and maintain a list of qualified public school foundations. Oversight assumes that DESE would be able to handle the requirements of this proposal with the 1 FTE Supervisor. Oversight has, for fiscal note purposes only, adjusted the salary and benefits of the supervisor to correspond with the range for starting salary posted by DESE for a similar position and has excluded travel costs, assuming the program could be administered with minimal travel.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume this proposal would require computer programming changes to various tax systems. The IT portion of this proposal is estimated at \$22,932 for 336 FTE hours for programming individual income tax systems and 504 FTE hours programming corporate tax systems.

DOR's Personal Tax Division would need two Revenue Processing Technicians I required for error correction and correspondence. The Corporate Tax Division would need one Revenue Processing Technician I plus CARES equipment and license. The Collections & Tax Assistance Division will see additional customer contacts about the credit and any adjustment made to a requested credit. CATA requires two Tax Collection Technicians I for contacts to the delinquent and non-delinquent lines and one (1) Revenue Processing Technician I for contacts at field offices. Each position requires CARES phone equipment.

Oversight assumes this proposal creates a tax credit for taxpayers that make contributions to public school foundations. This proposal does not have a cap. Oversight will show the loss of revenue to the State as \$0 (no credits are claimed) or Unknown expected to exceed \$1,000,000. Oversight assumes this tax credit begins with tax years starting on January 1, 2015, and therefore Fiscal Years 2016 and 2017 will be impacted.

Oversight assumes that the DOR's Corporate Tax Division will be able to handle the increased number of claims with existing staff. Additionally, the Collections and Tax Assistance Division will not need the Revenue Processing Technician I. Should the number of claims reach the number to justify additional FTE, for these Divisions, DOR could request those FTE through the appropriation process. Oversight assumes that DOR would not need their staff until FY 2016.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state an unknown reduction of premium tax revenues as a result of the authorization of the Qualified Public Schools Foundation Tax Credit is possible. 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 throughout 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 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 **Office of the 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
		\$0 or (Unknown expected to exceed	\$0 or (Unknown expected to exceed
<u>Revenue Reduction</u> - tax credit for contributions to public school foundations	\$0	\$1,000,000)	\$1,000,000)
<u>Cost</u> - Dept of Elementary & Secondary			
Personal Service	(\$31,640)	(\$38,348)	(\$38,731)
Fringe Benefit	(\$16,138)	(\$19,559)	(\$19,755)
Equipment and Expense	<u>(\$7,411)</u>	<u>(\$1,517)</u>	<u>(\$1,555)</u>
<u>Total Cost</u> - DESE	(\$55,189)	(\$59,424)	(\$60,041)
FTE Change - DESE	1 FTE	1 FTE	1 FTE
<u>Cost</u> - Department of Revenue - one time computer programming upgrades	(\$22,932)	\$0	\$0
<u>Cost</u> - Department of Revenue			
Personal Service	\$0	\$0 to (\$106,591)	\$0 to (\$107,657)
Fringe Benefit	\$0	\$0 to (\$54,367)	\$0 to (\$54,910)
Equipment and Expense	<u>\$0</u>	<u>\$0 to (\$2,399)</u>	<u>\$0 to (\$2,458)</u>
<u>Total Cost</u> - DOR	<u>\$0</u>	<u>\$0 to (\$163,357)</u>	<u>\$0 to (\$165,025)</u>
FTE Change - DOR	0 FTE	0-4 FTE	0-4 FTE
		(\$59,424) to (Unknown could exceed	(\$60,041) to (Unknown could exceed
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$78,121)</u>	<u>\$1,222,781)</u>	<u>\$1,225,066)</u>
Estimated Net FTE Change on General Revenue	1 FTE	1-5 FTE	1-5 FTE

Note: The fiscal note 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 2015
(10 Mo.)

FY 2016

FY 2017

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that qualify for the credit may be positively impacted.

FISCAL DESCRIPTION

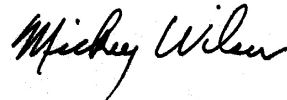
Beginning January 1, 2015, this bill authorizes an income tax credit for an individual or a business of 65% of the amount of any donation made to a qualified public school foundation. A qualified public school foundation is a not-for-profit charitable organization operating in Missouri to benefit elementary and secondary education in a school district that is above the median of all school districts in the state in current expenditures per average daily attendance divided by assessed valuation. If the taxpayer and the contribution comply with all required criteria and approval is granted by the foundation, the foundation must issue a tax credit certificate in the appropriate amount. Each qualified public school foundation must provide donor information to the Director of the Department of Elementary and Secondary Education who must provide that information to the Director of the Department of Revenue. The credit can be carried forward for up to three years or sold.

The provisions of the bill will expire on December 31 six years after 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 Elementary and Secondary Education
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Office of the Secretary of State



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April 29, 2014

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