COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5125-03
Bill No.: SCS for SB Nos. 632 & 675
Subject: Tax Credits
Type: Original
Date: February 20, 2018

Bill Summary: This proposal modifies provisions relating to tax credits for contributions to certain benevolent organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	Could exceed ($500,000)	Could exceed ($500,000)	Could exceed ($6,700,000)
Total Estimated Net Effect on General Revenue	**Could exceed ($500,000)**	**Could exceed ($500,000)**	**Could exceed ($6,700,000)**

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 2019	FY 2020	FY 2021
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§135.090 Peace Officer Surviving Spouse Tax Credit
Officials at the **Office of Administration Division of Budget and Planning** (**B&P**) assume this section would extend the sunset date for the Surviving Spouse of Public Safety Officers tax credit from 12/31/2019 to 12/31/2026. B&P estimates that this provision will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Peace Officer Surviving Spouse tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Amount Redeemed	$70,941	$117,554	$89,502	$90,000	$90,000

Oversight notes the Peace Office Surviving Spouse tax credit does not have an annual cap. Currently, this tax credit is to sunset on December 31, 2019 (FY 2020). This proposal extends the sunset date until December 31, 2026. Oversight notes the bill would extend this tax credit from FY 2020 to FY 2027. Oversight will show the impact as Up to $100,000.

§135.341 Champion for Children tax credit
Officials at the **B&P** assume this legislation extends the final date to issue tax credits for contributions to qualified crisis child agencies to December 31, 2025. It also imposes a $1,500,000 cap on the Champion for Children Tax Credit. The current cap is $1,000,000; but B&P notes the average amount of redemptions over the last three fiscal years is $999,950. B&P estimates this proposal could decrease Total State Revenue and General Revenue by $500,000 annually beginning with FY 2019.

Officials at the **Department of Social Services** assume there is no fiscal impact from this proposal.

Officials at the **Department of Revenue** (**DOR**) assume this proposed legislation increases the maximum redeemable amount for the Champion for Children Tax Credits from $1 million to $1.5 million annually. Subsequently, Total State Revenue could decrease by an estimated $500,000.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Champion for Children tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Amount Redeemed	$999,990	$999,987	$999,873	$999,999	$999,999

Amount Outstanding - not declared   Amount Authorized but Unissued - not declared

Oversight notes this tax credit has a $1 million annual cap. This proposal increases the annual cap to $1.5 million and changes the stop date of this tax credit from December 31, 2019 (FY 2020) to December 31, 2025. The credit is given to a taxpayer up to 50% of the donation they made to a qualified agency.

Oversight notes this proposal expands the definition of child advocacy centers which could increase the number of taxpayers eligible of this credit. This tax credit has been near the $1 million cap. Increasing the number of qualifying centers and the cap could result in more taxpayers filing for the credit. Oversight will reflect the increase in the cap starting in FY 2019.

§135.562 Residential Dwelling tax credit
Officials at the **B&P** assume this would extend the sunset date for the Residential Dwelling Access tax credit from 12/31/2019 to 12/31/2026. B&P estimates that this provision will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Residential Dwelling tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Amount Redeemed	$18,190	$10,233	$7,053	$8,000	$8,000

Oversight notes the Residential Dwelling tax credit has a $100,000 annual cap. Currently, this tax credit is to sunset on December 31, 2019 (FY 2020). This proposal extends the sunset date until December 31, 2026. Oversight notes the bill would extend this tax credit from FY 2020 to FY 2027. Oversight will show the impact as Up to $100,000 in FY 2021.

ASSUMPTION (continued)

§135.600 Maternity Home tax credit
Officials at the **B&P** assume this section extends the sunset date for the Maternity Home tax credit to December 31, 2024. This section also reduces the carry-forward period from the current four years down to one year.

Additionally, §135.600.6 states that if the amount of tax credits redeemed in a fiscal year is less than the amount authorized, the difference shall be carried forward and shall be added to the cumulative amount of tax credits that may be authorized. B&P notes that the language appears to add the difference between authorizations and redemptions in year 1 and that difference is to be added to the authorization limit allowed in year 2. This could allow authorizations in subsequent fiscal years to exceed the cap set in statute. The three-year average authorizations amount is $2.4 million, while the three-year average redemption amount is $1.9 million. Based on that difference, B&P estimates that this provision could add approximately $500,000 to the authorization cap every fiscal year. Therefore, B&P estimates that this provision could reduce Total State Revenue and General Revenue by $500,000 in FY 2019, and compounding by $500,000 every fiscal year thereafter.

Officials at the **DOR** assume this proposal changes the carry forward provision from four years to one year and re-authorizes the sunset date.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Social Services regarding this program, the Maternity Home tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	2,572	2,883	2,113	2,500	2,500
Amount Authorized	$2,104,022	$2,499,405	$2,482,714	$2,450,000	$2,450,000
Amount Issued	$2,104,022	$2,499,405	$2,482,714	$2,450,000	$2,450,000
Amount Redeemed	$1,511,157	$1,657,333	$2,422,510	$1,850,000	$1,850,000

Amount Outstanding - $2,115,891   Amount Authorized but Unissued - $0

Oversight notes the Maternity Home tax credit has a $2,500,000 annual cap. Currently, this tax credit is to stop on June 30, 2020. This proposal adds sunset language and now will expire on June 30, 2024. Oversight notes this Maternity Home tax credit would extend from FY 2021 to FY 2024. Additionally, this proposal adds language allowing the cumulative cap to be increased in future years by the amount of credits not redeemed annually. Oversight will show a potential unknown amount of tax credits issued because of this cap increase.

ASSUMPTION (continued)

§135.630 Pregnancy Resource Center tax credit
Officials at the **B&P** assume this section extends the sunset date for the Pregnancy Resource Center tax credit to December 31, 2024. This section also reduces the carry-forward period from the current four years down to one year.

Officials at the **DOR** assume this proposal changes the carry forward provision from four years to one year and re-authorizes the sunset date.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Social Services regarding this program, the Pregnancy Resource Center tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	4,245	4,363	4,628	4,400	4,400
Amount Authorized	$2,326,435	$2,499,442	$2,443,386	$2,450,000	$2,450,000
Amount Issued	$2,326,435	$2,499,442	$2,443,386	$2,450,000	$2,450,000
Amount Redeemed	$1,581,045	$1,845,875	$2,183,505	$1,900,000	$1,900,000

Amount Outstanding - $2,369,413   Amount Authorized but Unissued - 0

Oversight notes the Pregnancy Resource Center tax credit has a $2,500,000 annual cap. Currently, this tax credit is to sunset on December 31, 2019 (FY 2020). This proposal extends the sunset date until December 31, 2024. Oversight notes this Pregnancy Resource Center tax credit would extend from FY 2021 to FY 2024.

§135.1125 Unmet Health Needs Tax Credit
Officials at the **B&P** assume this section would create a new tax credit for donations to organizations that provide funding for unmet health, hunger, and hygiene needs of children in school, beginning with tax year 2019. The tax credit shall be worth 50% of the donation made. The organization receiving the donation shall remit 50% of the donation to the Department of Social Services before a tax credit is granted. There is no cap on this tax credit; it shall be non-refundable and may be carried forward for four tax years. The tax credit includes a sunset provision with a 12/31/2024 date. Since the organization receiving the donation is required to remit 50% of that donation before a tax credit is granted, B&P estimates that this section will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Officials at the **DOR** assume this allows for a tax credit equal to 50% of the total eligible donation made to an eligible provider. The tax credit is not to exceed tax liability but has

ASSUMPTION (continued)

provisions for a four year carryforward. Eligible provider is to remit 50% of eligible donation to DOR.

Corporate Tax Section requires one Revenue Processing Technician I ($26,340) for every 6,000 tax credits redeemed. Corporate Tax requires one Revenue Processing Technician I ($26,340) for every 4,000 tax credit transfers. Corporate Tax requires one Revenue Processing Technician I ($26,340) for every 520 SB1099 compliance mailings and correspondence. Personal Tax Section requires one Revenue Processing Technician I ($26,340) for every additional 4,000 tax credits redeemed.

Oversight notes this proposal creates the Unmet Health Needs tax credit. Oversight assumes that §135.1125.3(3) requires payment from the provider equal to the amount of the value of the tax credit. Oversight assumes that receipt of payment and the application of the tax credits could affect various state funds, so for the purpose of this note Oversight is showing all the payments and costs to General Revenue. However, the overall result of this proposal is no impact to Total State Revenue.

Oversight notes this proposal begins with tax year January 1, 2019, and therefore the first year in which those tax forms can be filed is FY 2020.

Oversight notes that based on other pre-pay tax credits (such as the Development Disability and Residential Treatment Agency tax credits), redemptions have been minimal. Therefore, Oversight assumes DOR could implement the responsibilities in this proposal with current staff. Should DOR experience the number of additional tax credit redemptions to justify other FTE, they could seek those FTE through the appropriation process.

Prepay Credits	Number of Filers	FY 2017 Redemption
Residential Treatment	255	$389,077
Developmental Disability Care Providers	17	$28,130
Amateur Sporting Event - Contribution	13	$12,500

ASSUMPTION (continued)

Bill as a Whole
Officials at the **Department of Social Services** and the **Joint Committee on Administrative Rules** each assume there is no fiscal impact from this proposal.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown reduction to premium tax revenues may occur as a result of continuing Maternity Homes Contribution and the Pregnancy Resource Center 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.

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.

Since this proposal contains language regarding the extension of tax credits that were going to sunset, per **Oversight** fiscal note policy, the fiscal note will reflect the extension of the tax credits starting in FY 2021.

Oversight notes that some of the tax credits have language added that no longer allow the credits to be assigned, transferred or sold. Oversight will show an unknown savings from these provisions.

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
Savings - change in the ability to assign, transfer or sell some tax credits	Unknown	Unknown	Unknown
Revenue Reduction - extension of the Peace Officer Surviving Spouse tax credit sunset from 12/31/19 to 12/31/26 §135.090	$0	$0	(Up to $100,000)
Revenue Reduction - expanding cap from $1M to $1.5M and extension of the Champion for Children tax credit sunset date to 12/31/25 §135.341	(Up to $500,000)	(Up to $500,000)	(Up to $1,500,000)
Revenue Reduction - extension of the Residential Dwelling tax credit program from 12/31/19 to 12/31/26 §135.562	$0	$0	(Up to $100,000)
Revenue Reduction - extension of the Maternity Home tax credit tax credit sunset date from 12/31/19 to 12/31/24 §135.600	$0	$0	(Up to $2,500,000)
Revenue Reduction - potential increase in the Maternity Home cumulative cap §135.600.6 from difference in redemptions and amounts authorized - increases amounts authorized in future years	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - extension of the Pregnancy Resource Center tax credit sunset date from 12/31/19 to 12/31/24 §135.630	$0	$0	(Up to $2,500,000)

FISCAL IMPACT - State Government (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE (continued)			
Revenue - DSS - payment for the tax credit filed with the application §135.1125.3(3) (offsets against cost below)	$0	Unknown	Unknown
Cost - DSS - Needs of children tax credit §135.1125.3(3) (offsets against payment for tax credit above)	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Could exceed ($500,000)**	**Could exceed ($500,000)**	**Could exceed ($6,700,000)**

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 2019 (10 Mo.)	FY 2020	FY 2021
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that make a donation and receive the tax credit may be positively impacted.

FISCAL DESCRIPTION

This proposal extends the Peace Officer Surviving Spouse tax credit sunset from December 31, 2019 to December 31, 2026. (§135.090)

The Champion for Children Tax Credit is currently scheduled to expire on December 31, 2019. This bill re-authorizes the credit until December 31, 2025. The cumulative amount of tax

FISCAL DESCRIPTION (continued)

credits redeemed cannot exceed $1.5 million (changed from $1.0 million) in any tax year. (§135.341)

This proposal changes the expiration date from December 31, 2019 to December 31, 2026 for the Residential Dwelling tax credit. (§135.562)

This proposal removes the expiration date of June 30, 2020 on the maternity home tax credit and replaces it with sunset language. The new sunset date is December 31, 2024. Additionally, this proposal increases the annual cap from $2.5 million to $3.5 million. (§135.600)

This proposal changes the sunset date on the pregnancy resource center tax credit to December 31, 2024. Additionally, this proposal increases the annual cap from $2.5 million to $3.5 million. (§135.630)

This proposal creates the Unmet Health Needs tax credit. This credit has no cap but is a prepaid credit. (§135.1125)

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 Insurance, Financial Institutions and Professional Registration
Department of Revenue
Department of Social Services
Joint Committee on Administrative Rules
Office of Administration
  Division of Budget and Planning
Office of the Secretary of State

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