

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3507H.011
 Bill No.: HB 1731
 Subject: Taxation and Revenue - General; Tax Credits; Charities; Hospitals; Taxation and Revenue - Income; Department of Revenue
 Type: Original
 Date: January 17, 2024

Bill Summary: The proposal authorizes a tax credit for certain charitable donations to local hospital foundations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue fund*	Up to (\$2,293,934)	Up to (\$2,284,718)	Up to (\$2,289,165)
Total Estimated Net Effect on General Revenue	Up to (\$2,293,934)	Up to (\$2,284,718)	Up to (\$2,289,165)

*Oversight notes the above fiscal impact represents the maximum allotted cap of \$2 million and up to four (4) FTE for the Department of Revenue.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE
Total Estimated Net Effect on FTE	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would create a tax credit for qualified donations to a hospital foundation beginning with tax year 2024. The hospital foundation must be a non-profit and provide financial relief for unpaid hospital bills.

An individual may receive a tax credit for 50% of their donation, up to \$2,500. B&P notes that this tax credit is only available for individuals. The tax credit is non-refundable and may not be transferred, sold, or otherwise conveyed. The tax credit may be carried forward for up to three years. In addition, a taxpayer may only claim this tax credit if they are not also claiming the donation as a charitable deduction on their state income taxes.

No more than \$2 million in credits may be claimed per year. If the amount of tax credits claimed exceeds the \$2 million limit, tax credits will be granted on a first-come, first-served basis. This program shall sunset August 28, 2029.

Therefore, B&P estimates that this proposal may reduce TSR and GR by up to \$2 million annually beginning in FY 25, for tax year 2024 donations.

Officials from the **Department of Revenue (DOR)** note:

Starting January 1, 2024, a tax credit shall be allowed to a taxpayer who contributes to a hospital foundation. The credit shall be 50% of the donation. In order to qualify for the credit, the donated amount, must have been subtracted from a taxpayer's federal adjusted gross income, and added back when calculating Missouri adjusted gross income.

The credit is not refundable, not sellable or transferable but can be carried forward three years. Additionally, this credit has an annual cap of \$2 million but no taxpayer can receive more than \$2,500. It should be noted that this bill will not become effective until August 28, 2024, and yet it wants the credit to start on January 1, 2024. It should be noted that this will not fiscally impact the state until January 2025, when the first returns are filed claiming the credit.

Fiscal Year	Loss to General Revenue
2024	\$0
2025	(\$2,000,000)
2026+	(\$2,000,000)

This proposal requires that the taxpayer claiming the credit file an affidavit with their tax return verifying the donation amount. Therefore, the Department would need to verify that the taxpayer met the requirements of this proposal. Additionally, it requires DOR to hand-out the credits on a

first-come, first-serve basis. Verification and certification processes are usually handled by other agencies and would be best done by the Department of Social Services who works with the hospitals daily. Once another agency verifies a person's qualifications, they are given a receipt that is attached to the tax return for DOR to process. Requiring DOR to do the verification and certification is outside our normal administrative scope. DOR assume, in order to do this, verification we will need 1 Auditor (\$50,462) and 2 Associate Customer Service Representatives (\$35,880) to do the necessary verifications.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC (\$7,138), updates to our website and changes to our individual income tax computer system (\$1,785). These changes are estimated to cost \$8,923. DOR's existing tax credit redemption staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed DOR is not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$35,880 to handle the redemptions.

Oversight notes the for all tax years beginning on or after January 1, 2024, a qualified taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to the taxpayer's qualified amount, but not exceeding \$2,500 donation annually.

Oversight notes the proposal allows up to \$2 million dollar cap annually effective FY 2025. Therefore, Oversight will reflect cost Up to \$2 million dollar annually effective FY 2025 in the fiscal note.

Oversight notes this would allow approximately 800 (\$2M/\$2,500) taxpayers to take advantage of the tax credit annually if each taxpayer claimed the maximum tax credit allowed.

Oversight notes DOR assumes the need for one (1) Auditor (\$50,462) and two (3) Associate Customer Service Representatives (\$35,880) to do the verification of the tax credit because it is outside of the DOR usual scope. Additionally, the DOR requests one-time cost of \$8,923 for website income tax changes updates to comply with the proposed language. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect the DOR estimated expense for FTE but notes that DOR is appropriate monies for routine website updates and will not show those costs in the fiscal note.

Officials from the **Oversight Division** state they are responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, Oversight can absorb the cost with the current budget authority.

Officials from the **Department of Commerce and Insurance** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DCI.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 \$5,000. 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 its 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Cost</u> – Section 135.640 tax credit for certain charitable donations to local hospital foundations	Up to (\$2,000,000)	Up to (\$2,000,000)	Up to (\$2,000,000)
<u>Costs</u> – 135.640 – FTE’s		Up to...	Up to...
Personnel Service	(\$131,752)	(\$161,264)	(\$164,489)
Fringe Benefits	(\$100,016)	(\$121,173)	(\$122,350)
Expense & Equipment	(\$62,166)	(\$2,281)	(\$2,326)
<u>Total Costs - DOR</u>	<u>(\$293,934)</u>	<u>(\$284,718)</u>	<u>(\$289,165)</u>
FTE Change	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to</u> <u>(\$2,293,934)</u>	<u>Up to</u> <u>(\$2,284,718)</u>	<u>Up to</u> <u>(\$2,289,165)</u>
Estimated Net FTE Change on General Revenue	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses, who are allowed to participate in the tax credit would be expected as a result of this proposal.

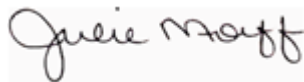
FISCAL DESCRIPTION

Beginning January 1, 2024, this bill authorizes a nonrefundable tax credit for local hospital foundation donations. A qualified taxpayer, as defined in the bill, may claim a tax credit in an amount equal to the taxpayer's qualified amount of the donations made to a local hospital foundation. The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state tax liability for the tax year that the credit is claimed and cannot exceed \$2,500 per taxpayer claiming the credit. The cumulative amount of tax credits allowed to all taxpayers cannot exceed \$2 million per tax year. This credit constitutes a domestic and social tax credit under the provisions of the Tax Credit Accountability Act. This program sunsets December 31, 2030.

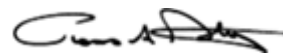
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Commerce and Insurance
Office of Administration – Budget & Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
Oversight Division



Julie Morff
Director
January 17, 2024



Ross Strope
Assistant Director
January 17, 2024