COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1205-02
Bill No.: HCS for HB 428
Subject: Tax Credits; Children and Minors
Type: Original
Date: April 21, 2015

Bill Summary: This proposal authorizes a tax credit for contributions to organizations meeting health, hunger, and hygiene needs of schoolchildren.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	($37,584)	(Up to $2,547,765)	(Up to $2,541,765)
Total Estimated Net Effect on General Revenue	**($37,584)**	**(Up to $2,547,765)**	**(Up to $2,541,765)**

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 2016	FY 2017	FY 2018
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 2016	FY 2017	FY 2018
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**1 FTE**	**1 FTE**

☒ 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 2016	FY 2017	FY 2018
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Elementary and Secondary Education (DESE)** assume this proposal reduces the state's tax revenues and decrease the amount of money available for public schools and all public school students. The program appears to be limited to $2.5 million annually.

Officials from the **Department of Social Services** assume they could absorb costs related to the administration of this tax credit program.

Officials at the **Department of Insurance, Financial Institutions, and Professional Registration** (**DIFP**) assume an unknown reduction of premium tax revenue as a result of the authorization of the tax credit for contributions to school foundations 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.

DIFP also assumes 56 hours of programming at an hourly rate of $75 for a total of $4,212.

Oversight assumes DIFP is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DIFP could absorb the programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DIFP could request funding through the appropriation process.

Officials at the **Office of Administration's Division of Budget and Planning** assume this proposal would create a tax credit for individuals or certain companies that make contributions to organizations that provide funding for unmet health, hunger, and hygiene needs for children in school, beginning January 1, 2016. Taxpayers can claim a tax credit for an amount equal to 50% of their contribution, but will not exceed $50,000 per taxable year. The tax credits are capped at $2,500,000 annually, and issued on a first-come, first-serve basis. This proposal could therefore reduce General and Total State Revenues by this amount annually.

ASSUMPTION (continued)

In response to a previous version, officials at the **Department of Revenue (DOR)** assumes this proposal defines terms applicable to this proposed section of law. Beginning January 1, 2016, the proposal allows a taxpayer a tax credit against their state tax liability for 50 percent of the amount donated to an organization that provides funding for unmet health, hunger, and hygiene needs for children in school. The provisions of this section prohibit any one taxpayer from claiming over $50,000 per tax year.

DOR requires 501.12 hours of form and programming changes at $75 per hour for a total of $37,584.

Personal Tax requires one (1) Revenue Processing Technician I for every 6,000 credits claimed. Corporate Tax requires one (1) Revenue Processing Technician I for every 6,000 credits claimed.

This proposal creates additional customer contacts from question on the credit and notice of adjustments. Collections & Tax Assistance requires two (2) Tax Collection Technicians I for every additional 15,000 contacts annually on the delinquent and non-delinquent tax line. Both technicians require CARES equipment and license.

Oversight assumes DOR could implement the responsibilities in this proposal with 1 FTE. Should DOR experience the number of additional tax credit redemptions to justify other FTE, they could seek that FTE through the appropriation process.

Oversight assumes this proposal begins with tax years starting January 1, 2016, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2017. Oversight will reflect the impact as $0 (no credits claimed) to the $2.5 million annual cap.

FISCAL IMPACT - State Government	FY 2016 (6 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
Revenue Reduction - creation of tax credit in §135.1910	$0	$0 to ($2,500,000)	$0 to ($2,500,000)
Cost - DOR			
Personal Service	$0	($25,884)	($26,143)
Fringe Benefits	$0	($13,461)	($13,731)
Equipment and Expenses	$0	($8,420)	($1,974)
Programming	($37,584)	$0	$0
Total Cost - DOR	($37,584)	($47,765)	($41,848)
FTE Change - DOR	0 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($37,584)**	**(Up to $2,547,765)**	**(Up to $2,541,848)**
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 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 2016 (6 Mo.)	FY 2017	FY 2018
	$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

For all tax years beginning on or after January 1, 2016, a taxpayer must be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's contribution to a qualified organization that provides funding for unmet health, hunger, and hygiene needs for children in school. The amount of the tax credit claimed must not exceed the amount of the taxpayer's state tax liability for the taxable year that the credit is claimed, and the taxpayer is not allowed to claim a tax credit in excess of $50,000 per taxable year. Any tax credit that cannot be claimed in the taxable year that the contribution was made may be carried over to the next four succeeding taxable years until the full credit has been claimed. A taxpayer's minimum contribution or contributions to a qualified organization or organizations must be $100, except for any excess credit that is being carried over.

The Director of the Department of Elementary and Secondary Education must determine, at least annually, which organizations in the state may be classified as qualified organizations and may require the organization seeking the classification to provide any information that is reasonably necessary to make the determination. The director must establish a procedure for a taxpayer to determine if an organization is classified as a qualified organization. Qualified organizations must be permitted to decline a contribution from a taxpayer. The total amount of tax credits for all taxpayer contributions to qualified organizations in any one fiscal year must not exceed $2.5 million for all fiscal years beginning on or after July 1, 2016. Tax credits must be issued in the order contributions are received.

The director must establish a procedure, as specified in the bill, by which the cumulative amount of tax credits are equally apportioned among all organizations classified as qualified organizations. If a qualified organization fails to use all, or some percentage to be determined by the director, of its apportioned tax credits during the predetermined period of time, the director may reapportion these unused tax credits to those qualified organizations that have used all, or some percentage to be determined by the director, of their apportioned tax credits during this predetermined period of time. The director may establish more than one period of time and reapportion more than once during each fiscal year. To the maximum extent possible, the director must establish the procedure in such a manner as to ensure that taxpayers can claim all the tax credits possible up to the cumulative amount of tax credits available for the fiscal year. Each qualified organization must provide information to the director with the identity of each taxpayer making a contribution to the qualified organization who is claiming a tax credit and the amount of the contribution. The director must provide the information to the Director of Revenue. The director must be subject to the confidentiality and penalty provisions of Section 32.057, RSMo, relating to the disclosure of tax information. These provisions must not limit or in any way impair the department's ability to issue tax credits authorized on or before the date the program expires or a taxpayer's ability to redeem the tax credits.

FISCAL DESCRIPTION (continued)

The provisions of the bill will expire on December 31, 2021.

HCS: Changes the responsible department to the Department of Social Services and clarifies that the qualified organization must use the taxpayers' donations solely for the unmet health, hunger, and hygiene needs of schoolchildren.

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 Administration's Division of Budget and Planning
Department of Revenue

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