

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3259-01
Bill No.: HB 1704
Subject: Business and Commerce; Education; Science and Technology; Taxation and Revenue.
Type: Original
Date: February 22, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
All State Funds*	(\$10,080,177)	\$0	\$0
Total Estimated Net Effect on <u>All State Funds</u>*	(\$10,080,177)	\$0	\$0

*Tax credits could be claimed in succeeding years; however, the cumulative amounts of tax credits which could ever be claimed is \$10,000,000.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All Federal Funds</u>	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	(\$0 to \$5,000,000)	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation allows a state income tax credit equal to 50% (75% of donations to schools which have a high percentage of high risk students) of donations of high technology equipment made to a school district. Another tax credit is authorized for donations made to a school district library. This tax credit is equal to 50% of the donations.

These tax credits are not to exceed \$5,000 per donor. The credits are not refundable, may not be carried back or forward and are not transferrable. The total amount of each credit would not exceed \$5,000,000 (\$10,000,000 total). The tax credits available each year is \$5 million.

ADMINISTRATIVE IMPACT:

DOR states Personal Tax will need one Tax Processing Tech I for every 10,000 credit claims to verify and edit and one Tax Processing Tech I for every 3,000 additional pieces of correspondence generated by this legislation. Business Tax will need one Tax Processing Tech I for every 3,680 additional credit claims received in Corporate Tax.

Because the number of taxpayers eligible for the tax credit is unknown at this time, the department will request one FTE to verify and edit the credits and one FTE to process correspondence in Personal Tax. One FTE will be requested to verify and edit the credit claims received in Business Tax. Any additional FTE will be requested during the normal budget process.

This legislation will require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor, a cost of \$46,170. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs.

Oversight notes that the definition of "business" is that contained in the Neighborhood Assistance Act and assumes that the number of eligible businesses would be less than 200,000. The maximum credit any one business could take is \$5,000 (for each credit); therefore 100 businesses, theoretically, could use up both credits. Therefore, Oversight assumes DOR will not require additional FTE for this new tax credit program. Oversight does assume, however, the DOR will incur the stated program charges in FY 2003 to implement this program.

ASSUMPTION (continued)

Officials of **Department of Elementary and Secondary Education** would request a Supervisor to develop rules and regulations for the tax credits and to work with DOR in developing the tax credit form and procedures for issuing credits. Costs to the General Revenue Fund would be about \$73,000 per year.

Oversight assumes that developing rules, forms and procedures would be one-time efforts and notes that Department of Elementary and Secondary Education officials indicated in their response to SB 623 (Fiscal Note 2522-01) from the 2000 legislative session that they could perform these one-time tasks for a cost of less than \$25,000 using existing personnel. Therefore, this fiscal note will reflect that estimate.

Officials from the **Department of Insurance (INS)** state this proposal grants tax credits against premium tax payments (RSMO chapter 148) for contributions of high technology equipment to a public school district. The maximum credit per taxpayer is \$5,000.

INS states the tax credits for this legislation would begin with 2002 tax year which would be paid in March 2003. The legislation could potentially be taken by approximately 1,600 insurance companies. Premium tax revenue is split 50/50 between GR and County Foreign Insurance Fund, which are later distributed to school districts after they have been collected by the state. INS assumes the loss of revenue to GR and County Foreign Insurance Fund will occur from this legislation depending on the participation by insurance companies. Loss of revenue is estimated at a range of \$0 to 5 million.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Elementary and Secondary Education's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 14 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 21 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$861, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal; however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

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.

Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

ASSUMPTION (continued)

Oversight assumes, for fiscal note purposes, that all available credits would be taken on returns for the 2002 tax year and would be reflected on returns filed in Fiscal Year 2003. (It should be noted that credits could be taken for tax years 2002, 2003, 2004 and 2005 until the two \$5 million limits are reached.)

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
ALL STATE FUNDS			
<u>Loss</u> - Tax Credits for donations to school districts and their libraries.	(\$10,000,000)	\$0	\$0
<u>Costs</u> - Department of Elementary and Secondary Education: rules, forms and procedures	(\$25,000)	\$0	\$0
<u>Costs</u> - Department of Revenue programming charges	(\$55,177)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON ALL FUNDS	<u>(\$10,080,177)</u>	<u>\$0</u>	<u>\$0</u>

Note: Tax credits could be claimed in succeeding years; however, the cumulative amounts of tax credits which could ever be claimed is \$10,000,000.

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
SCHOOL DISTRICTS			
<u>Loss</u> - County Foreign Insurance Premium Fund	<u>\$0</u>	(\$0 to <u>\$5,000,000</u>)	\$0
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	<u>\$0</u>	<u>(\$0 to \$5,000,000</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses which would make donations would incur costs donations and receive tax credits for making donations.

DESCRIPTION

This proposal establishes two income tax credits for business firms for gifts to public schools and their libraries for the years 2002 through 2006.

The first authorizes an income tax credit for donations of high technology equipment to a public school district. The tax credit will be 50% of the value of the donation. In districts with a high percentage of at-risk students, the credit will be 75% of the value. The limit on each taxpayer is \$5,000.

The second authorizes tax credits for cash donations to public school district libraries to purchase books, materials, computers, or Internet services or for donations of new books, new equipment, or Internet services to maintain or update the school libraries. The credit will be up to 50% of the value or \$5,000, whichever is less.

Neither type of credit is refundable nor transferrable, and the Department of Elementary and Secondary Education will promulgate rules for each type of credit. The amount of credits statewide is limited to \$5 million for each program.

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 Revenue
Office of the Secretary of State
Department of Insurance



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