

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0649-01
Bill No.: HB 345
Subject: Charities; Economic Development Department; Education, Elementary and Secondary; Revenue Department; Taxation and Revenue - Income.
Type: Original
Date: February 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0	\$0	(\$122,022)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	(\$122,022)

* Note: the fiscal impact of the tax credits is beyond the scope of this fiscal note.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state that they would be required to administer this program, which would include reviewing documentation, approving charities as well as allocating and re-allocating credits between approved charities. DED would allocate \$2 million in credits to authorized charities, as well as answer questions and promote and oversee the program. Tax credits claimed would need to be tracked by DED. The Department of Revenue would have to be notified when \$2 million in credits had been claimed in any one year. The \$2 million in credits issued plus carry forward of unused credits may mean that more than \$2 million is requested each year when tax returns are filed. This might mean that some taxpayers may be denied use of the credit in any given year.

DED assumes the responsibility for administering the program would require one FTE, an Economic Development Incentive Coordinator (at \$43,308 annually) plus associated expenses. DED assumes the credits will not go into effect until January of 2006 and will not be claimed until 2007. The cost of the credits will be \$2 million in 2007. DED assumes the new FTE would be needed in FY 2006 to set

ASSUMPTION (continued)

up the program. DED also assumes some computer programming will be needed to adjust existing systems to track the credits claimed. The cost for credits could be realized in earlier years, depending on the economy. If credits are issued in earlier years, the cost for personnel, expense, and equipment would be needed earlier.

DED assumes expenses for the new FTE in FY 2006 to total \$89,220.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Coordinator to correspond to other such positions within DED. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this bill would provide a tax credit for donations to "scholarship charities." This credit would not be effective until FY 2007 unless Total State Revenues (TSR) exceed the TSR limit by at least 20 percent. Current projections are that TSR will be at least \$1 billion below the TSR limit for Fiscal Years 2003 - 2007. Thus, this bill should have no fiscal impact during Fiscal Years 2004 - 2006.

Officials from the **Department of Revenue (DOR)** state although there will be minimal costs during FY 2003 through FY 2006 due to the effective date of the legislation, DOR anticipates a decrease in revenue due to the legislation beginning in FY 2007.

DOR assumes the earliest effective date, with the state of the budget, will be 2006. The Division of Taxation will need to modify the MINITS, COINS, Speedup and PTC to allow for the credits. It is estimated that 1,384 hours of programming will be needed at a cost of \$46,170. Personal Tax will need one Tax Processing Tech I (at \$21,192 annually) for every 10,000 credit claims received. Business Tax will need one Tax Processing Tech I for every 3,700 additional applications received on corporate tax.

DOR assumes programming cost of \$46,170 to prepare for the new credit as well as costs of \$83,957 for the two new FTE anticipated by DOR, all in FY 2006.

Oversight assumes DOR would incur the programming expenses as estimated; however, Oversight assumes DOR could administer the provisions of this proposal with existing resources or request additional staff through the budget process.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education (DESE)** state that DOR will likely experience an administrative burden. DESE states there would be no fiscal

impact to their agency. DESE states that more tax credits mean less General Revenue available statewide for state use including education and fully funding the foundation formula.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately eight new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and twelve new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$492, 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.

Based on the DOR and BAP responses, **Oversight** assumes the proposal would not become effective until calendar year 2006. Therefore, the credits would not be utilized against state tax liability until January 2007 (FY 2007), which is beyond the scope of this fiscal note. Expenses would be incurred by the state in FY 2006 however, in preparing for and administering the program. Starting in FY 2007, the state would incur a reduction to the General Revenue Fund of up to \$2 million per year from this program.

This proposal could result in a reduction in Total State Revenues, probably starting in FY 2007.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE			
<u>Cost - Department of Revenue</u>			
Programming costs	\$0	\$0	(\$46,170)

Costs - Department of Economic
 Development (DED)

Personal Service (1 FTE)	\$0	\$0	(\$38,781)
Fringe Benefits	\$0	\$0	(\$15,695)
Expense and Equipment	<u>\$0</u>	<u>\$0</u>	<u>(\$21,376)</u>
Total Costs - DED	<u>\$0</u>	<u>\$0</u>	<u>(\$75,852)</u>

**ESTIMATED NET EFFECT TO THE
 GENERAL REVENUE FUND**

<u>\$0</u>	<u>\$0</u>	<u>(\$122,022)</u>
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FISCAL IMPACT - Local Government

FY 2004 (10 Mo.)	FY 2005	FY 2006
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

Beginning in 2006 or for all tax years beginning after the fiscal year following a determination that total state revenues have exceeded 120% of total state revenue for Fiscal Year 2000, a taxpayer who makes a contribution of more than \$100 to a scholarship charity may claim an income tax (Chapter 143, RSMo), corporation franchise tax (Chapter 147), or express company tax (Chapter 153) credit of up to 50% of the contributed amount, as long as the amount does not exceed the taxpayer's tax liability, with an absolute cap of \$50,000. The cumulative amount of tax credits must not exceed \$2

DESCRIPTION (continued)

million. Scholarship charities are defined in the bill, as are qualified elementary and secondary schools and students. Scholarship charities provide funds to assist in payment of tuition, transportation, instructional materials, and fees relating to extracurricular activities, among others. This proposal contains provisions relating to reapportionment of unused tax credits and

the determination of how charities are classified as scholarship charities for purposes of making the information available to taxpayers.

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 Economic Development
Department of Elementary and Secondary Education
Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State



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Director
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