

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1468-01
Bill No.: HB 547
Subject: Education, Elementary and Secondary: Revenue Department; Tax Credits;
 Taxation and Revenue - Income
Type: Original
Date: March 3, 2009

Bill Summary: Authorizes an income tax credit for donations to public school foundations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$34,281 Up to \$20,034,281)	(\$35,731 Up to \$20,035,731)	(\$36,804 Up to \$20,036,804)
Total Estimated Net Effect on General Revenue Fund*	(\$34,281 Up to \$20,034,281)	(\$35,731 Up to \$20,035,731)	(\$36,804 Up to \$20,036,804)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	\$0	\$0

* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1	1	1

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government*	\$0 Up to \$40,000,000	\$0 Up to \$40,000,000	\$0 Up to \$40,000,000

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the proposal. 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.

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.

Officials from the **Department of Elementary and Secondary Education** state they cannot estimate the benefit to public schools as a result of increased charitable donations by taxpayers to a 'public school foundation'.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the 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 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 states they will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state there should be no added cost to BAP as a result of this bill.

BAP further states this proposal creates a tax credit for donations to qualifying public school

ASSUMPTION (continued)

foundations. The tax credit is for 50% of the donation. These credits are not refundable, nor transferable, nor sellable. The program is capped at \$20M annually. This proposal may reduce general and total state revenues by that amount.

Officials from the **Department of Revenue (DOR)** state this legislation establishes a new tax credit. DOR would require the following additional staff:

Personal Tax

One (1) Revenue Processing Technician I for every 4,000 credits claimed

Corporate Tax

One (1) Revenue Processing Technician I for every 5,200 returns verified

One (1) Revenue Processing Technician I for every 2,080 pieces of correspondence generated

Collections and Tax Assistance

One (1) Tax Collection Technician I for every 15,000 calls a year on the income tax phone line

One (1) Tax Collection Technician I for every 24,000 calls a year to the delinquency phone line

One (1) Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts in the field offices;

DOR assumes a cost to the General Revenue Fund of roughly \$245,000 annually for the additional 6 FTE.

The **Office of Administration Information Technology (ITSD DOR)** estimates that this legislation could be implemented utilizing 2 existing CIT IIIs for 2 months for system modifications to MINITS and 3 existing CIT IIIs for 1 month for system modifications to COINS, Café, and E-file at a rate of \$4,441/mo for a total cost of \$31,087. ITSD DOR estimates the IT portion of this request can be accomplished within existing resources; however; if

ASSUMPTION (continued)

priorities shift, additional FTE/overtime would be needed to implement the provisions of the proposal.

In response to a similar proposal from 2007 (HB 970 FN 1996-01), DOR assumed they would require only one additional FTE to administer this program. Therefore, **Oversight** will assume DOR will require only one additional FTE to implement this program. If the volume of donations and resulting credits arise to the thresholds indicated, **Oversight** assumes DOR could request additional funding through the appropriations process.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Tax Processing Tech I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. **Oversight** also assumes DOR will not incur additional floor space expense for one new FTE.

Oversight will range the fiscal impact of the new tax credit from \$0 (no one taking advantage of the new program) to the annual limit of \$20 million. **Oversight** assumes there will be positive benefits as a result of this program; however **Oversight** considers them to indirect and has not reflected them in the fiscal note. Since the program is for all tax years beginning on or after January 1, 2009, **Oversight** will assume the first year the tax credits could be utilized is in FY 2009. **Oversight** assumes DOR will have several responsibilities regarding the program before the returns containing the credits are filed; therefore, **Oversight** assumes DOR may require the additional FTE in FY 2009.

Oversight compared the total tax credit issuances for all programs relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. **Oversight** discovered that the annual redemptions ranged from 81 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, **Oversight** will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if \$20,000,000 of additional credits are issued, **Oversight** would assume \$16,600,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight will assume the proposal could result in an additional \$40 million (\$20 million potential tax credits at rate of 50 percent of donation) in donations to public school foundations for the benefit of public school districts. Even though the public school districts will not receive

ASSUMPTION (continued)

the potential donations directly, **Oversight** will assume the foundations will simply pass all of the donations/proceeds on to the school districts they represent. Therefore, Oversight will reflect the potential increase in revenue to schools.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
<u>Loss - Department of Revenue</u>			
Tax credits for donations made to public school foundations	\$0 Up to (\$20,000,000)	\$0 Up to (\$20,000,000)	\$0 Up to (\$20,000,000)
<u>Cost - Department of Revenue</u>			
Personal Service	(\$19,168)	(\$23,692)	(\$24,403)
Fringe Benefits	(\$9,321)	(\$11,521)	(\$11,867)
Expense and Equipment	(\$5,792)	<u>(\$518)</u>	<u>(\$534)</u>
<u>Total Costs - DOR</u>	<u>(\$34,281)</u>	<u>(\$35,731)</u>	<u>(\$36,804)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$34,281 Up to <u>\$20,034,281</u>)	(\$35,731 Up to <u>\$20,035,731</u>)	(\$36,804 Up to <u>\$20,036,804</u>)
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

Note: This 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.

<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL POLITICAL SUBDIVISIONS			

<u>Income</u> - School districts - Potential donations to public school foundations - for the benefit of public school districts	\$0 Up to <u>\$40,000,000</u>	\$0 Up to <u>\$40,000,000</u>	\$0 to <u>\$40,000,000</u>
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ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	\$0 Up to <u>\$40,000,000</u>	\$0 Up to <u>\$40,000,000</u>	\$0 Up to <u>\$40,000,000</u>
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FISCAL IMPACT - Small Business

Small business could have a positive fiscal impact on reduction of taxes due to utilizing the tax credit.

FISCAL DESCRIPTION

This proposal authorizes a 50% income tax credit for certain specified donations to public school foundations beginning with the 2009 tax year. The cumulative amount of credits is capped at \$20 million, with no more than \$8 million of credits awarded for donations to school foundations of districts with 10,000 or more students and \$12 million for school districts with less than 10,000 students. The tax credit is nonrefundable and cannot be transferred.

The provisions of the bill will expire December 31 six years from the effective date.

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

LMD:LR:OD (12/02)

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Department of Revenue
Department of Elementary and Secondary Education
Office of the Secretary of State
 Administrative Rules Division
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration
 Division of Budget and Planning



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Director
March 3, 2008