

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0944-01
Bill No.: HB 362
Subject: Children and Minors; Health Care; Revenue Department; Tax Credits
Type: Original
Date: February 21, 2011

Bill Summary: This proposal establishes Bryce’s Law which authorizes a tax credit for individuals who donate to a scholarship-granting organization if the donation is not claimed on their federal income tax return.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|--|--|--|
| FUND AFFECTED | FY 2012 | FY 2013 | FY 2014 |
| General Revenue | (Unknown greater than \$59,716) | (Unknown greater than \$65,674) | (Unknown greater than \$66,406) |
| Total Estimated Net Effect on General Revenue Fund* | (Unknown greater than \$59,716) | (Unknown greater than \$65,674) | (Unknown greater than \$66,406) |

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 2012 | FY 2013 | FY 2014 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

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

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2012 | FY 2013 | FY 2014 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2012 | FY 2013 | FY 2014 |
| General Revenue | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

- 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 2012 | FY 2013 | FY 2014 |
| Local Government | Unknown to (Unknown) | Unknown to (Unknown) | Unknown to (Unknown) |

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. This proposal creates a tax credit against income taxes equal to 80% of contributions toward organizations that provide scholarships for students with individualized education programs (IEP) to attend qualified schools. BAP notes there is no annual cap on this proposal; therefore, this proposal may reduce general and total state revenues by an unknown amount.

Section 135.1220.8 of this legislation allows scholarships for up to 10 percent of students with an individualized education program to be granted by scholarship granting organizations. The legislation is unclear on the process by which these special needs students will be selected for these scholarships. BAP defers to DESE regarding federal IDEA issues related to the proposed scholarships for students with IEP's.

Officials at the **Department of Economic Development (DED)** assume there is no limit on the amount of tax credits that could be issued; therefore DED assumes an unknown fiscal impact over \$100,000. The program provides for an 80% tax credit to someone who contributes to the program based on the contribution amount. No taxpayer can be issued more than \$800K per tax year. The program provides a four-year carry forward and allows the tax credit to be sold or transferred.

DED assumes the need for one FTE, an Economic Development Incentive Specialist III, to be responsible for the administration of the program including certifying the granting organizations, establishing the procedures to certify the granting organizations, determining the number of students in Missouri with an individualized education program, providing standardized forms for the program, issuing the tax credits, conducting a study of the program, and contracting with a researcher that has experience in evaluating similar programs to provide assistance with the study.

Oversight assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,590.

Officials at the **Department of Revenue (DOR)** assume that DED will administer the program. DED shall provide a standardized format for a receipt to be issued by a scholarship granting organization to a taxpayer to indicate the value of a contribution received and shall require a taxpayer to provide a copy of this receipt when claiming the Missouri special needs scholarship

ASSUMPTION (continued)

tax credit.

DOR's Personal Tax Division will require one Revenue Processing Technician for every 6,000 credits claimed. Corporate Tax Division will require one Revenue Processing Technician I per 6,000 additional tax credit redemptions, with CARES phone and Agent license.

DOR will need to make form changes. DOR and ITSD-DOR will need to make programming changes to various tax systems.

OA-ITSD's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$26,712, which is 1,008 FTE hours.

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

Oversight assumes it is unclear how many scholarship granting organizations will be classified by DED as eligible for issuing the tax credits. Therefore, Oversight assumes that DOR can absorb the processing of the tax credits with existing staff. Should DOR experience a measurable increase in its workload as a direct result of this proposal then DOR could request additional FTE through the budget process.

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. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of 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 through out 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.

ASSUMPTION (continued)

DIFP 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 at the **Department of Elementary and Secondary Education** assume tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students. A public school accepting a student with a scholarship limits its revenue for that student to the value of the scholarship rather than the tuition the district charges non-resident students.

Oversight assumes that the legislation does not specify the amount of the educational scholarship and therefore, it is unclear whether it would be less than or equal to the amount of state aid.

Officials from the **Office of the Secretary of State (SOS)** state 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 \$2,500. 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 the 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.

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.

Oversight assumes the fiscal impact of the new tax credit program would range from \$0 (no additional tax credits issued) to an unknown amount since the program has no annual limit. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore has not reflected them in the fiscal note.

Oversight assumes that there could be a savings to the State Foundation Formula and a loss to

ASSUMPTION (continued)

Local Public School Districts if a student were to switch from a public to private school. Oversight has not shown that impact in the fiscal note as it is unclear if that would occur.

This proposal could result in a decrease in Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2012 (10 Mo.) | FY 2013 | FY 2014 |
|---|---|---|---|
| GENERAL REVENUE | | | |
| <u>Cost - Dept of Economic Development</u> | | | |
| Personal Service | (\$33,510) | (\$40,614) | (\$41,020) |
| Fringe Benefits | (\$17,539) | (\$21,257) | (\$21,470) |
| Equipment and Expenses | (\$8,667) | (\$3,803) | (\$3,916) |
| <u>Total Costs - DED</u> | (\$59,716) | (\$65,674) | (\$66,406) |
| Total FTE Change - DED | 1 FTE | 1 FTE | 1 FTE |
| <u>Loss - tax credit for donations to a scholarship - granting organization</u> | <u>\$0 or (Unknown)</u> | <u>\$0 or (Unknown)</u> | <u>\$0 or (Unknown)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>(Unknown greater than \$59,716)</u> | <u>(Unknown greater than \$65,674)</u> | <u>(Unknown greater than \$66,406)</u> |

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.

| <u>FISCAL IMPACT - Local Government</u> | FY 2012 (10 Mo.) | FY 2013 | FY 2014 |
|---|------------------------------------|------------------------------------|------------------------------------|
| LOCAL SCHOOL DISTRICT FUNDS | | | |
| <u>Income</u> - scholarships for children attending new school districts | \$0 or Unknown | \$0 or Unknown | \$0 or Unknown |
| <u>Savings</u> - school districts that lose students would realize savings from not incurring education expenses specific to those students with developmental disabilities | \$0 or Unknown | \$0 or Unknown | \$0 or Unknown |
| <u>Costs</u> - districts that receive students based upon this proposal would incur additional educational expenses higher than what the state would provide as a scholarship | <u>(\$0 or Unknown)</u> | <u>(\$0 or Unknown)</u> | <u>(\$0 or Unknown)</u> |
| ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICT FUNDS | <u>Unknown to (Unknown)</u> | <u>Unknown to (Unknown)</u> | <u>Unknown to (Unknown)</u> |

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be affected by this proposal.

FISCAL DESCRIPTION

This bill establishes Bryce's Law which authorizes, beginning January 1, 2011, a tax credit for an individual who donates to a scholarship-granting organization if the donation is not claimed on the taxpayer's federal income tax return. The tax credit may be taken against income tax, corporate franchise tax, insurance premium tax, financial institutions tax, and express company tax liability. The credit will be for 80% of the amount of the contribution but cannot exceed 50% of the taxpayer's state tax liability, up to \$800,000 per year, and is non-refundable but may be carried forward for four years or transferred or sold for between 75% and 100% of its par value. The Director of the Department of Economic Development must determine, at least annually, which organizations may be classified as scholarship-granting organizations and the number of Missouri students with an individualized education program (IEP). Up to 10% of students with an IEP may receive a scholarship each year. Scholarship-granting organizations must meet requirements for fiscal soundness, percentage of revenues devoted to educational scholarships,

FISCAL DESCRIPTION (continued)

and public reporting. Private schools qualify to accept scholarship students by meeting specified requirements including employee background checks and providing data as requested, among others. Scholarships may also be used at an accredited public school outside the student's resident school district. The bill specifies how scholarship checks will be distributed.

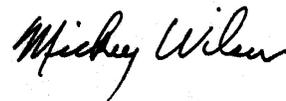
The department must conduct a study to measure student achievement, satisfaction with the program, and its fiscal impact on the state and public schools and provide the General Assembly with a final copy of the evaluation by December 31, 2014. The department cannot use state funds for the study and may contract with one or more qualified researchers who have previous experience evaluating similar programs.

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

Budget and Planning
Department of Economic Development
Department of Elementary and Secondary Education
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of the Secretary of State



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Director
February 21, 2011