COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0091-02
Bill No.: HB 458
Subject: Children and Minors; Health Care; Revenue Department; Tax Credits
Type: Original
Date: February 19, 2013

Bill Summary: This proposal establishes Bryce's Law which authorizes a tax credit for a person donating to a scholarship-granting organization for special needs students if it is not claimed on the person's federal income tax return.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	($51,591 to Unknown)	($59,325 to Unknown)	($59,540 to Unknown)
Total Estimated Net Effect on General Revenue Fund	**($51,591 to Unknown)**	**($59,325 to Unknown)**	**($59,540 to Unknown)**

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.

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**1 FTE**	**1 FTE**

☐ 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 2014	FY 2015	FY 2016
Local Government	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Elementary and Secondary Education** (**DESE**) assume by federal law, the obligation to educate students with developmental disabilities or other special needs would remain with the public schools, although private schools would receive state funds to educate the students.

It appears that private schools accepting the scholarship money would be allowed to implement a self-designed selection process to decide whom they will choose to educate, yet public schools to which students would transfer will not be allowed to deny enrollments due to legitimate needs, such as the need for additional teachers, aids, nurses, etc., to meet the needs of students who opt to transfer into the school district.

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. There does not appear to be an incentive for a school to accept such a student.

The administration of tax credits is not an area with which DESE has experience. DESE will require 1 FTE supervisor and 1 FTE administrative assistant to carry out the many requirements of this proposal.

Subsection 21 of the proposal requires DESE to conduct a study of the program with funds other than state funds. It indicates that DESE may accept grants to assist in funding this study. It should be noted that the study will not likely get completed unless DESE receives external funding.

Oversight assumes it is unclear how many potential tax credits would be issued under this proposal. Oversight assumes the Supervisor position would be needed to oversee the program. Should the number of applicants increase by a measurable amount then DESE could seek additional FTE through the appropriation process.

Oversight has, for fiscal note purposes only, adjusted the salary and benefits for the Supervisor position to correspond to the starting salary for that position as posted by DESE on their web site for a similar position.

ASSUMPTION (continued)

Officials at the **Department of Revenue** (**DOR**) assume that Information Technology Services Division - Department of Revenue (ITDS-DOR) will need to make programming changes to various tax systems and form changes. These changes are estimated to cost $22,722 for 840 FTE hours.

DOR's Personal Tax Division will need one Revenue Processing Technician I ($25,884) per 6,000 credits claimed and the Corporate Tax Division will need one Revenue Processing Technician I ($25,884) per 6,000 additional tax credit redemptions.

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

Oversight assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE they could seek that FTE through the appropriation process.

According to officials from the **Office of Administration - Division of Budget and Planning (BAP)**, this proposal should no result in additional costs or savings to their agency. BAP notes there is no annual cap on this proposal; therefore, this proposal may reduce general and total state revenues by an unknown amount.

Officials from the **Department of Insurance, Finance and Professional Registration (DIFP)** state that it is unknown how many insurance companies will choose to participate in this program and take advantage of the "Bryce's Law" tax credit. 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.

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, DIFP may need to

ASSUMPTION (continued)

request more expense and equipment appropriation through the budget process.

Officials from the **Department of Social Services (DOS)** state that although the scholarships could assist some children in DOS custody, there is no direct fiscal impact to DOS since all administrative responsibilities fall to the Department of Elementary and Secondary Education and the Department of Revenue.

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 act. The SOS's office 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 Secretary of State's office for Administrative Rules is less than $2,500. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 their office can sustain with their core budget. Therefore, 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 with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Health and Senior Services**, **Department of Economic Development - Division of Business and Community Services**, **Department of Mental Health**, and the **Joint Committee on Administrative Rules** each assume the proposal would not fiscally impact their respective agencies.

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 loss to 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

ASSUMPTION (continued)

it is unclear if that would occur.

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

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Costs - Department of Elementary and Secondary Education (DESE)			
Personal Service	($31,640)	($38,348)	($38,731)
Fringe Benefits	($16,056)	($19,460)	($19,654)
Equipment and Expenses	($3,895)	($1,517)	($1,555)
Total Costs - DESE	($51,591)	($59,325)	($59,940)
Total FTE Change DESE	1 FTE	1 FTE	1 FTE
Revenue Reduction - Tax credit for donations to a scholarship-granting organization	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($51,591 to Unknown)**	**($59,325 to Unknown)**	**($59,540 to Unknown)**
Estimated Net FTE Change on General Revenue	1 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 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL POLITICAL SUBDIVISIONS			
Income - School districts - Scholarships for children attending new school districts	$0 or Unknown	$0 or Unknown	$0 or Unknown
Savings - School districts - 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
Costs - School districts - Districts that receive students based upon this proposal would incur additional educational expenses higher than what the state would provide as a scholarship	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICT FUNDS	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**

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, 2013, an income tax credit equal to 80% of the donation to a scholarship-granting organization for special needs students if it is not claimed on the taxpayer's federal income tax return. The credit cannot exceed 50% of the taxpayer's state tax liability for the year it is claimed, cannot exceed $800,000 per taxpayer per tax year. The credit can be carried forward for up to four years or sold. The credit can be claimed by an individual, firm, partner in a firm, shareholder in an S corporation, corporation, corporation paying franchise tax, insurance company, financial institution paying taxes to Missouri or any political subdivision, express company, or tax-exempt charitable organization with Missouri unrelated business taxable income. The bill requires the Department of Elementary and Secondary Education (DESE) to determine which organizations can be classified as scholarship-granting organizations and share the results with interested

DESCRIPTION (continued)

taxpayers. DESE must track all contributions and taxpayer identities and report the information to the Director of the Department of Revenue.

A scholarship-granting organization must: provide scholarships to eligible students attending qualified public or nonpublic schools of their parents' choice from at least 90% of its revenue from donations for tuition, fees, and transportation costs; demonstrate its financial accountability and viability; provide a surety bond payable to the state in the amount of its expected annual donations; and send an annual report to DESE by June 1.

An "eligible student" is defined as any elementary or secondary student who attended school in Missouri the preceding semester and has an individualized education program (IEP) based on the medical diagnosis of autism spectrum disorder, Down syndrome, Angelman syndrome, or cerebral palsy.

Provisions for determining the number of scholarships based on a percentage of the special needs IEPs are included.

DESE must conduct a study to determine: the level of participating students' and parents' satisfaction with the program; the change in the percentage of students bullied or harassed; the number of students exhibiting behavioral problems; class size comparisons between the resident school district and the qualified school; and, the fiscal impact of the program. DESE must present the report to the General Assembly by December 31, 2016.

The provisions of the bill expire December 31 six years after 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.

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SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Economic Development
Department of Insurance, Finance and Professional Registration
Department of Mental Health
Department of Health and Senior Services
Department of Social Services
Department of Revenue
Division of Taxation
Joint Committee on Administrative Rules
Office of Secretary of State
Administrative Rules Division

Ross Strope
Acting Director
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