

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0548-01
Bill No.: SB 74
Subject: Charities; Education, Elementary and Secondary; Revenue Dept.; Taxation and Revenue-General-Income
Type: Original
Date: December 29, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	(\$27,391) to (\$5,027,391)	\$0 to (\$5,000,000)
County Foreign Insurance	\$0	\$0 to (\$2,500,000)	\$0 to (\$2,500,000)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$27,391) to (\$5,027,391)	\$0 to (\$5,000,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0 to (\$2,500,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Elementary and Secondary Education (DES)** state this proposal would not fiscally impact their agency.

Officials of the **Department of Revenue (DOR)** state this legislation authorizes a tax credit equal to 50% of contributions made to a scholarship charity, as long as the donation is not for the direct benefit of a dependent of the taxpayer. The tax credit is non-refundable, but can be carried forward to the next four succeeding tax years. The tax credit must be at least \$100, and cannot exceed \$50,000 per taxable year. A scholarship charity must be exempt from federal taxation and allocate at least 90% of its annual revenue for educational scholarships. The director of revenue is to determine annually which charities in this state may be qualified as scholarship charities. The cumulative amount of tax credits which may be claimed cannot exceed five million dollars.

ADMINISTRATIVE IMPACT:

The number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation, Personal Tax Bureau will need one Tax Processing Technician I for every 1,680 new credits claimed per year and one Tax Season Temporary for every 75,000 credits claimed per year. Also, one Tax Processing Technician I will be needed for six months for every 20,000 additional individual income tax errors. The Business Tax Bureau will need one Tax Processing Technician I for every 3,680 new credits received and one Tax Processing Technician I for every 12,000 additional corporate tax errors generated from this legislation.

This legislation will require modifications to the income tax system and credit application system. The Division of Taxation estimates these modifications, including programming changes, will require 1,125 hours of programming at a cost of \$38,296. Modifications to the income tax return 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 \$3,936 is requested for implementation costs.

Based on a previous response to a similar proposal **Oversight** has allowed the Department of Revenue \$27,391 for reprogramming expenses, State Data Center charges and implementation costs. Oversight assumes the Department of Revenue could handle the provisions of this proposal with existing resources or request additional staff through the budget process.

Officials of the **Department of Insurance (INS)** state this proposal grants tax credits against an insurer's premium tax payments (chapter 148 RSMo) for contributions to an authorized scholarship charity. INS officials state that this tax credit could potentially be taken by 1,638 insurance companies. INS estimates that the maximum tax credits of \$5 million would be taken,

ASSUMPTION (continued)

resulting in a decrease in premium tax revenue. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Funds. County Foreign Insurance Funds are later distributed to school districts after they have been collected by the state.

Oversight has reflected the revenue impact of this proposal as a range of \$0 to (\$5,000,000) for the potential decrease in taxes collected.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Income tax credits for charitable scholarships	\$0	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue</u>			
Reprogramming costs	\$0	(\$27,391)	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$27,391) to (\$5,027,391)</u>	<u>\$0 to (\$5,000,000)</u>
COUNTY FOREIGN INSURANCE FUND			
<u>Loss to County Foreign Insurance Fund</u>			
Income tax credits for charitable scholarships	\$0	\$0 to (\$2,500,000)	\$0 to (\$2,500,000)
ESTIMATED NET EFFECT ON COUNTY FOREIGN INSURANCE FUND	<u>\$0</u>	<u>\$0 to (\$2,500,000)</u>	<u>\$0 to (\$2,500,000)</u>

FISCAL IMPACT - Local Government

FY 2002
(10 Mo.)

FY 2003

FY 2004

Loss to local school districts

Income tax credits for charitable
scholarships

\$0

\$0

\$0 to
(\$2,500,000)

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent they would incur cost for making the voluntary cash contributions and receive benefit from the tax credit for making the contribution.

DESCRIPTION

This act authorizes a state tax credit for contributions to authorized scholarship charities. To qualify as a scholarship charity, the organization must be a 501(c)(3) charitable organization and must allocate at least ninety percent of its annual revenue for educational scholarships to children attending qualified schools of their choice.

The credit may be claimed, for all taxable years beginning on or after January 1, 2002, in an amount equal to 50% of the taxpayer's contribution to the scholarship charity, but cannot exceed fifty thousand dollars per taxable year for any taxpayer. The credit is not refundable but may be carried over for up to four succeeding taxable years. The cumulative amount of all scholarship charity tax credits is limited to five million dollars per fiscal year. The Director of Revenue is authorized to allocate the tax credits as necessary to ensure their maximum use.

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 Revenue
Department of Insurance
Department of Elementary and Secondary Education



Jeanne Jarrett, CPA
Director

December 29, 2000

