

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0413-01  
Bill No.: SB 3  
Subject: Taxation and Revenue; Children and Minors.  
Type: Original  
Date: January 12, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$1,630,000 to Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>(\$1,630,000 to Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>Total Estimated Net Effect on <u>Other</u> State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\*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 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**\*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

Officials from the **Department of Social Services** assume the proposal will not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this bill would remove the annual limit on the adoption tax credit, which is currently \$4 million. Applications for adoption tax credits reach the cap early in the fiscal year. This proposal would result in a cost to General Revenue. BAP defers to the Department of Revenue or the Department of Social Services to estimate the incremental cost. This proposal would decrease total state revenue, but would have no impact on BAP.

Officials from the **Department of Revenue (DOR)** state their Division of Taxation would not have an impact since Personal Tax is currently spending time apportioning or prorating credit amounts on the ones that would be approved with this legislation.

ASSUMPTION (continued)

DOR states these changes are beneficial to their agency in administering this tax credit. This bill removes the administrative burden and also will allow DOR to reduce the information needed on the claims.

While DOR anticipates an increase in total credits in FY 2005, a significant portion of those applications are for credits that have been denied in the prior years due to the limited amount allotted for the credit. With the cap and separation of residency being removed, DOR anticipates a one time increase in credits that would not reoccur in the years following.

As of 12/10/2004, the credits that have been applied for are as follows:

Non Resident Child	\$3,121,267
Resident Child	\$ 279,003
Residency Unknown	<u>\$ 515,869</u>
Total applied for	<u>\$3,916,139</u>

Under the current law, \$1,121,267 (\$3,121,267 - \$2,000,000) in non resident credit pool will have to be denied. This bill would allow DOR to approve those credits.

**Oversight** will assume DOR's "Residency Unknown" will fall under the Non Resident Child category for purposes of this fiscal note. With that assumption, there are roughly \$1.63 million (\$3,121,267 + \$515,869 - \$2,000,000 cap) in nonrecurring adoption expenses that are beyond the current annual statutory limit of \$2 million. Oversight assumes, with passage of this legislation, these \$1.63 million in denied tax credits will flow through in FY 2006.

This Statute was changed in the 2004 Legislative Session (HB 1453) from a \$2 million annual cap with no mention of residents versus non-Missouri residents to a combined cap of \$4 million (with at least \$2 million for children who are Missouri residents). With less than one year of history under the new limits, it is difficult to determine if the bottleneck of tax credit applications that had not been accepted in previous years will be completely utilized in one year and then subsequent years' tax credits returning to a smaller annual pattern. **Oversight** will make the assumption that an additional \$1.63 million in unutilized tax credits will be utilized in FY 2006 with the changes in the proposal. Oversight will also assume a \$0 to Unknown amount of additional tax credits being claimed in future years since the removal of the annual cap may result in an increased utilization of the credit.

ASSUMPTION (continued)

These tax credits can be sold to and utilized by insurance companies against their premium tax liability. Premium tax revenue is split evenly between General Revenue Fund and the County Foreign Insurance Fund which is later distributed to school districts. Therefore, **Oversight** has footnoted the possibility that some of the additional tax credits resulting from this proposal could be utilized by insurance companies and therefore, reduce revenue to the local school districts.

**This proposal could reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
<b>GENERAL REVENUE FUND</b>			
<u>Loss - General Revenue</u>	(\$1,630,000 to	\$0 to	\$0 to
Increase in adoption tax credits	<u>Unknown</u> )	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*</b>	<b>(\$1,630,000 to <u>Unknown</u>)</b>	<b>\$0 to <u>(Unknown)</u></b>	<b>\$0 to <u>(Unknown)</u></b>

**\*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.**

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<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

This proposal modifies the adoption tax credit by eliminating the aggregate cap on the credit.

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 Social Services  
Office of Administration - Budget and Planning



Mickey Wilson, CPA  
Director  
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