COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3603-03
Bill No.: HCS for SCS for SB 614
Subject: Social Services Department; Taxation and Revenue - Income.
Type: Original
Date: April 7, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue* **	$0	$0	$0
Total Estimated Net Effect on General Revenue Fund* **	**$0**	**$0**	**$0**

*** Offsetting income and costs.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Insurance Dedicated	($2,164)	$0	$0
Total Estimated Net Effect on Other State Funds**	**($2,164)**	**$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 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government*	**$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.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Health and Senior Services** assume the proposal would not fiscally impact their agency.

Officials from the **Department of Insurance (INS)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. INS can not estimate how much would be lost 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 tax credits each year.

INS states they will require $2,164 for contract computer programming to add this new tax credit to the premium tax database.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning** state they have no means of estimating the amounts of contributions that may occur or the number of qualifying agencies. BAP assumes the proposal will result in an unknown reduction in General and Total State Revenues.

Officials from the **Department of Social Services (DOS)** state the bill establishes a tax credit for donations to Residential Treatment Agencies for children. Credits are equal to 50% of the amount donated. DOS must determine which agencies meet the requirements and are eligible beneficiaries. An eligible agency may apply for tax credits in an aggregate amount that does not exceed 40% of the payments made by DOS to the agency in the preceding 12 months.

In response to a similar proposal from 2005, DOS stated approximately $67,000,000 of General Revenue and Federal funds were paid to residential treatment centers in FY 04.

Oversight has, therefore, ranged the fiscal impact of the tax credit from $0 (no taxpayer utilizing the program) to $26,800,000 ($67,000,000 x 40%) for the Residential Treatment Agency Tax Credit.

In response to a previous version of this proposal, officials from the **Department of Revenue (DOR)** stated the legislation will require modifications to their individual and corporate income tax systems. DOR's Division of Taxation estimates these modifications will require (MINITS/1,384 hours) a programming cost of $46,170. COINS will also need to be modified (692 hours) for a programming cost of $23,085. DOR assumes these costs will be covered with current IT staff. In the event multiple new credits are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

The number of taxpayers who will contribute and become eligible for this credit is unknown at this time. Personal Tax believes the number of taxpayers will be below 6,000, therefore, the need for FTE is not being requested at this time. However, if the credits claimed reached above 6,000, one Tax Processing Technician I would be required which would be requested through the regular budget process.

Officials from the **Office of 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 $1,500. The SOS recognizes that this is a small

ASSUMPTION (continued)

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 General Revenue Fund would see an increase in funds (accompanying a valid tax credit application) as well as an offsetting decrease in funds (from the utilization of tax credits) in the same year. The timing difference between the purchasing of the tax credit by the agency and the utilization of the tax credit by the donor, could potentially result in a positive cash flow into the General Revenue Fund in one fiscal year and negative cash flow in the next fiscal year. However, Oversight will assume the purchase of the tax credits and the utilization of the tax credits will occur in the same fiscal year.

This proposal could result in an increase or decrease to Total State Revenues, depending upon the timing of the tax credit application versus the utilization of the tax credit. The proposal could also result in an increase to the General Revenue Fund and a decrease in other funds (Such as the County Foreign or County Stock Funds) if the credits are utilized against insurance premium taxes.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
Income - money accompanying the application from residential treatment agencies to DOS for tax credit (Section 135.1142)	$0 to $26,800,000	$0 to $26,800,000	$0 to $26,800,000
Loss - Tax credits for contributions made to qualifying residential treatment agencies (Section 135.1142)	$0 to ($26,800,000)	$0 to ($26,800,000)	$0 to ($26,8000,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**$0**	**$0**	**$0**

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.

INSURANCE DEDICATED FUND			
Cost - Dept. of Insurance Reprogramming costs	($2,164)	$0	$0
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	**($2,164)**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that are residential treatment agencies could be affected by this proposal.

DESCRIPTION

This proposal creates an income tax credit in an amount equal to fifty percent of the amount of an eligible monetary donation made, on or after January 1, 2007, to a qualifying residential treatment agency. The tax credit may not be applied against withholding taxes. The tax credit is non-refundable, but may be carried forward four years. The tax credit is fully transferable. An agency may apply to the Department of Revenue for the tax credits in an aggregate amount that does not exceed forty percent of the payments made by the Department of Social Services to the agency in the preceding twelve months. The provisions of this act shall automatically sunset six years after the effective date of the act unless reauthorized.

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 Social Services
Office of Administration - Budget and Planning
Department of Revenue
Department of Insurance
Office of the Secretary of State

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April 7, 2006