

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5458-06
Bill No.: HCS for SS for SCS for SB 1229
Subject: Children and Minors; Taxation and Revenue - General.
Type: Original
Date: April 26, 2006

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|-------------------------|-------------------------|-------------------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| General Revenue | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund* | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |

*** SUBJECT TO APPROPRIATION**

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

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 <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2007 | FY 2008 | FY 2009 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state their Corporate and Personal Tax will require one FTE for each section for every 4,000 credits received. At this time, the number of credits is not expected to reach this level and therefore the FTE mentioned here are not being requested. Should the volume of credit reach that level, the additional FTE will be requested through the regular budget process.

DOR states this legislation will require modifications to individual and corporate income tax systems. Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). COINS will also need to be modified for a programming cost of \$23,085 (692 hours). DOR proposes to cover these costs with current IT staff. Effective July 1, 2006, DOR's IT staff will be moved to the Office of Administration pursuant to consolidation, but DOR has no reason to believe this transfer will limit their ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

In FY 2005, \$5.2 million of credits from parents of "non-resident" adopted children were received and \$2 million of this was paid. In theory, this language would allow the General Assembly the option of adding funds to the non-resident pool to pay down the backlog of these credits.

ASSUMPTION (continued)

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 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.

Officials from the **Department of Social Services (DOS)** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to their agency.

BAP states the legislation expands the groups who could use the adoption tax credit, and gives the General Assembly the option to appropriate additional funds for this program. The proposal creates the "children in crisis" tax credit, which together with the resident portion of the adoption tax credit, could result in up to \$2 million of tax credit claims. Should this amount not be claimed, then the remaining amount could be applied in tax credits for nonresident adoption claims which exceed the current limit of \$2 million. Finally, the General Assembly could appropriate additional funds to cover nonresident adoption tax credit claims that further exceed the current cap. BAP defers to the DOR for an estimate of outstanding claims, but assumes these claims could exceed \$1 million.

This proposal will reduce general and total state revenues.

In 2004, HB 1453 increased the annual limit for the Special Needs Adoption Tax Credit program from \$2 million to \$4 million. According to the Form 14 (Tax Credit Analysis) prepared by DOS, in FY 2005, the amount of tax credits redeemed under the program was \$2.6 million. DOS anticipates roughly \$2.6 million of the tax credits will be redeemed in Fiscal Years '06 and '07.

Since this proposal utilizes unused Resident Special Needs Adoption tax credits for other programs, this will result in an increased utilization of the tax credits. If DOS' estimate of \$2.6 million of tax credits being redeemed under the current program is accurate, then this program

ASSUMPTION (continued)

could result in an additional \$1.4 million in tax credits being used for children in crisis tax credits. However, **Oversight** has already reflected the potential loss of the Special Needs Adoption tax credit program of up to \$4 million annually.

This substitute also allows the General Assembly to appropriate funds in excess of the \$4 million stated program cap. Therefore, in addition to increasing the utilization of the current program, possibly up to the stated limit of \$4 million from the anticipated utilization of \$2.6 million, the program could be appropriated additional funds in a given year. Oversight will reflect this potential additional appropriation as a potential fiscal impact to the General Revenue fund, subject to appropriation.

This proposal could reduce Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|--|------------------------------------|------------------------------------|------------------------------------|
| GENERAL REVENUE | | | |
| <u>Loss - Possible increase in Special Needs Adoption Tax Credits from the current \$4 million annual cap*</u> | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> |
| ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND* | \$0 or <u>(Unknown)</u> | \$0 or <u>(Unknown)</u> | \$0 or <u>(Unknown)</u> |

*** SUBJECT TO APPROPRIATION**

| <u>FISCAL IMPACT - Local Government</u> | FY 2007 (10 Mo.) | FY 2008 | FY 2009 |
|---|---------------------|------------|------------|
| | <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

The act creates the "Children in Crisis" tax credit which is equal to up to fifty percent of an approved contribution to a qualified agency which includes entities receiving funding under the court appointed special advocate fund, child advocacy, or crisis care centers.

In order to become an eligible agency, an agency must apply to the Department of Social Services prior to December 31st of each year. Upon a determination that an agency is eligible as a qualified agency, the Department of Social Services will provide the agency with a letter of eligibility. The Department of Social Services is required to provide the Department of Revenue with a list of all qualified agencies no later than February 1st of each year. Upon receipt of a contribution, a qualified agency will issue a contribution verification. In order to claim the tax credit provided under this section, a taxpayer must attach the contribution verification to such taxpayer's income tax return.

This proposal splits the application deadlines for the Special Needs Adoption Tax credits. For special needs children that are residents or wards of Missouri at the time of the adoption is initiated, the applications shall be filed between July 1st and April 15th of each fiscal year. For applications to claim the adoption tax credit for special needs children who are not residents or wards of Missouri at the time the adoption is initiated shall be filed between July 1st and December 31st of each year.

This proposal allows the Legislature to appropriate funds above the \$4 million annual cap for this program.

The children in crisis tax credit has a cumulative cap equal to the unclaimed \$2 million portion of the resident adoption tax credit. The amount of remaining credits under the resident adoption tax credit program shall be divided equally among contributions to the agencies eligible under the children in crisis tax credit. In the event the children in crisis tax credits do not use all of the remaining tax credits under the resident adoption tax credit program, the remaining amount shall be used for non-resident adoption tax credits.

In the event a credit denial, due to lack of available funds, causes a balance due notice to be generated by the Department of Revenue, or any other redeeming agency, the taxpayer will not be held liable for any penalty or interest, provided the balance is paid, or approved payment arrangements have been made, within sixty days from the notice of denial.

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

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



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