COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2212-02
Bill No.: HCS for SB 463
Subject: Charities; Disabilities; Tax Credits
Type: Original
Date: May 14, 2015

Bill Summary: This proposal removes the sunset dates for the Residential Treatment Agency Tax Credit Act and the Developmental Disability Care Provider Tax Credit Program and authorizes an earned income tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented FY 2022
General Revenue	$0	$0	$0	($58,887,642)
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**	**($58,887,642)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented FY 2022
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

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 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented FY 2022
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented FY 2022
Total Estimated Net Effect on FTE	**0**	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented FY 2022
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§135.760 Earned Income Tax Credit

Officials from the **Office of Administration's Division of Budget and Planning (BAP)** state this proposal provides an Earned Income Tax Credit to resident taxpayers in an amount equal to 20% of the federal EITC, for tax years beginning 1/1/21. According to the IRS Statistics of Income, in Tax Year 2012, MO taxpayers claimed $1.222 billion in federal EITCs. Using data provided by DOR, BAP estimates that the non-refundable portion of the earned income tax credit will reduce general and total state revenues by $58.8 million per year beginning FY 2022.

Officials from the **Department of Revenue (DOR)** stated similar language in SB 40 LR 0341-01 would create the Missouri Earned Income Tax Credit Act. Beginning January 1, 2015, individuals could receive a credit of 20 percent of the allowable federal EITC against individual income taxes due.

Fiscal impact

DOR officials noted 530,692 Missouri taxpayers claimed federal EITC totaling $1,215,416,612 in 2012 and assume if each taxpayer received a credit equal to 20 percent of the federal credit, the total reduction in tax would be $243,083,322 in the first year the credit is authorized.

DOR officials also noted the legislation would require the Department to contract with one or more nonprofit groups to provide notice of the credit to eligible taxpayers, and to prepare an annual statistical report regarding the tax credits issued.

Administrative Impact

DOR officials assumed Personal Tax would require four additional Temporary Tax Employees for key-entry, four additional Revenue Processing Technicians I for verification of returns, correspondence and compliance assurance once Taxation processes the return, and one additional Management Analyst Specialist II to manage reporting and contract requirements.

DOR officials assume Collections and Tax Assistance (CATA) would require two additional Tax Collections Technicians I for contacts on the delinquency and income tax phone lines; the new technicians would require CARES phone systems.

The DOR estimate of administrative cost for this proposal including four additional temporary

ASSUMPTION (continued)

employees and seven additional full time employees with related benefits, equipment, and expense totaled $337,720 for FY 2016, $356,245 for FY 217, and $359,926 for FY 2018.

Oversight notes this proposal would implement a state tax EITC program based on and dependent on the federal EITC program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

Oversight therefore assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $75,573 based on 1,008 hours of programming to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost in this fiscal note in FY 2022.

§135.1150 & 135.1180 Residential Treatment Agency Tax Credit

In response to a previous version, officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** stated an unknown reduction in premium tax revenue as a result of changes to these tax credits is possible. 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 throughout 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.

Oversight notes the Residential Treatment Agency Tax Credit and the Developmental Disability Care Provider Tax Credit Program allows a donor a tax credit of 50% of the eligible donation. Of the donation, the agency keeps 50%, and writes a check to the state for the other 50%. The

ASSUMPTION (continued)

donor gets a tax credit in the amount of 50% of their donation. There is no cost to the state for the tax credit.

Oversight notes, according to the Tax Credit Analysis submitted by the Department of Social Services (DSS) regarding this program, the Residential Treatment Agency Tax Credit program had the following activity:

	FY 2012	FY 2013	FY 2014
Certificates Issued (#)	148	197	242
Amount Issued	$373,588	$513,212	$348,604
Amount Redeemed	$283,501	$292,396	$490,033

Oversight notes, according to the Tax Credit Analysis submitted by the Department of Social Services regarding this program, the Developmental Disability Care Provider Tax Credit Program had the following activity:

	FY 2012	FY 2013	FY 2014
Certificates Issued (#)	0	15	18
Amount Issued	$0	$62,292	$49,588
Amount Redeemed	$0	$7,819	$92,993

Oversight assumes this proposal would prohibit the issuance of any additional tax credits for these programs after December 31, 2027. Any income to the state from tax credits not issued and taxes being collected would be outside the fiscal note period.

For fiscal note purposes, **Oversight** is using DSS' projected amounts issued for the Residential Treatment Agency Tax Credit and the Developmental Disability Care Provider Tax Credit Program.

Officials at the **Department of Social Services**, the **Joint Committee on Administrative Rules**, and the **Department of Economic Development State** each assume the proposal would not fiscally impact their respective agencies.

In response to a previous version, officials from the **Office of Secretary of State** assumed the proposal would not fiscally impact their agency.

FISCAL IMPACT - State Government	FY 2016 (6 Mo.)	FY 2017	FY 2018	Fully Implemented FY 2022
GENERAL REVENUE FUND				
Revenue Reduction- Missouri Earned Income Tax Credit Act	$0	$0	$0	($58,800,000)
Cost - DOR programming	$0	$0	$0	($87,642)
Revenue - DSS (§135.1150) Revenue for tax credit	$200,000	$400,000	$400,000	$400,000
Revenue - DSS (§135.1180) Revenue for tax credit	$0	$50,000	$100,000	$100,000
Cost - DSS (§135.1150) Tax credit issued	($200,000)	($400,000)	($400,000)	($400,000)
Cost - DSS (§135.1180) Tax credit issued	$0	($50,000)	($100,000)	($100,000)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$0**	**$0**	**$0**	**($58,887,642)**

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 2016 (6 Mo.)	FY 2017	FY 2018	Fully Implemented FY 2022
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Currently, the Residential Treatment Agency Tax Credit is set to expire on December 31, 2015, and the Developmental Disability Care Provider Tax Credit is set to expire on December 31, 2016. This act removes the sunset for both programs.

This act also authorizes a Missouri Earned Income Tax Credit beginning in tax years starting on or after January 1, 2021.

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 Insurance, Financial Institutions and Professional Registration
Department of Revenue
Department of Social Services
Joint Committee on Administrative Rules
Office of Administration's Division of Budget and Planning
Office of Secretary of State
Department of Economic Development

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