

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5011-01
Bill No.: SB 699
Subject: Charities; Economic Development; Tax Credits
Type: Original
Date: January 4, 2016

Bill Summary: This proposal creates a tax credit for donations to an endowment fund of a community foundation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue*	(\$90,711)	\$0 to (\$500,000)	\$0 to (\$500,000)
Total Estimated Net Effect on General Revenue	(\$90,711)	\$0 to (\$500,000)	\$0 to (\$500,000)

***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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE			

☒ 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 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development (DED)** assume §135.1805 creates a tax credit for donations to an endowment fund of a community foundation.

- §135.1805.2 allows a taxpayer to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the donation made to an endowment fund for a qualified community foundation.
- §135.1805.3 limits the credit claimed to the taxpayers' tax liability in the tax year in which the donation was made.
- §135.1805.4 limits the total number of credits that can be claimed in one year to \$500,000.
- §135.1805.6 & §135.1805.7 require DED to monitor and implement the program. This will require that DED hire one FTE to administer the program.

Oversight assumes DED could implement the responsibilities in this proposal with current staff. Should DED experience and increase in the number of additional tax credit issuances to justify an FTE, they could seek that FTE through the appropriation process.

Officials at the **Department of Revenue (DOR)** assumes §135.1805 allows a taxpayer a tax credit of 50 percent of the amount donated to an endowment fund for a qualified community foundation. The credit cannot exceed the taxpayer's state tax liability and can only be applied in the year the taxpayer makes the donation. The legislation caps the aggregate amount of tax credits at \$500,000 and bases issuance on a first-come, first-served basis. The Department of Economic Development must submit a report to the General Assembly annually.

Personal Tax requires one (1) Revenue Processing Technician I for every 6,000 claims processed. This section also requires form changes. The Business Tax section requires two (2) Revenue Processing Technicians I per 4,000 credit redemptions and every 520 SB 1099 compliance mailings and correspondence.

The integrated tax system incurs additional costs of \$65,520 to implement the provisions of this legislation.

Computer programming costs are estimated to be \$25,191 for 336 hours at \$75 an hour.

Oversight assumes DED could implement the responsibilities in this proposal with current staff. Should DED experience and increase in the number of additional tax credit redemptions to justify an FTE, they could seek that FTE through the appropriation process.

ASSUMPTION (continued)

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would create a tax credit for individuals, partnerships, or corporations that make donations to endowment funds for a qualified community foundation. Taxpayers can claim a tax credit for an amount equal to 50% of their contribution, but will not exceed the amount of the taxpayer's state tax liability for that taxable year. The tax credits are capped at \$500,000 annually, and issued on a first-come, first-serve basis. This proposal could therefore reduce general and total state revenues by this amount annually.

Officials at the **Department of Insurance, Financial Institutions, and Professional (DIFP) Registration** assume an unknown reduction of premium tax revenues as a result of the creation of a tax credit for donations to an endowment fund of a community foundation 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 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 by tax credits each year.

DIFP anticipates \$4,212 in computer programming costs.

Oversight assumes DIFP is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DIFP could absorb the programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DIFP could request funding through the appropriation process.

Officials at the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

Officials from the **Office of the 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 \$2,500. 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

ASSUMPTION (continued)

review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes this proposal begins with tax years starting January 1, 2017, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2018. Oversight will reflect the impact as \$0 (no credits claimed) to the \$500,000 annual cap.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue Reduction</u> - creation of tax credit	\$0	\$0 to (\$500,000)	\$0 to (\$500,000)
<u>Costs - DOR</u>			
Integrated System Changes	(\$65,520)	\$0	\$0
Programming	(\$25,191)	\$0	\$0
<u>Total Cost - DOR</u>	<u>(\$90,711)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$90,711)</u>	<u>\$0 to (\$500,000)</u>	<u>\$0 to (\$500,000)</u>

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.

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<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.

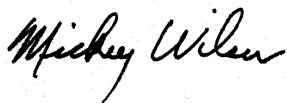
FISCAL DESCRIPTION

This act creates a tax credit for donations to an endowment fund of a community foundation. Community foundations are nonprofit entities with a primary mission of revitalizing the economy of a rural area. The tax credit is nonrefundable, nontransferable, and cannot be carried forward or back to any other tax year. The total amount of tax credits that may be issued in a calendar year is \$500,000. No tax credits may be issued after August 28, 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 Revenue
Office of Administration's Division of Budget and Planning
Department of Insurance, Financial Institutions, and Professional Registration
Joint Committee on Administrative Rules
Office of the Secretary of State



Mickey Wilson, CPA
Director
January 4, 2016

Ross Strobe
Assistant Director
January 4, 2016