

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6683-01  
Bill No.: SB 1137  
Subject: Charities; Corrections Department; Crimes and Punishment; Revenue Department; Tax Credits  
Type: Original  
Date: April 19, 2016

Bill Summary: This proposal creates a tax credit for certain organizations working with ex-offenders.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Could Exceed \$65,146)	\$0 to (Could Exceed \$2,000,000)	\$0 to (Could Exceed \$2,000,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Could Exceed \$65,146)</b>	<b>\$0 to (Could Exceed \$2,000,000)</b>	<b>\$0 to (Could Exceed \$2,000,000)</b>

**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.

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

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

**Oversight** was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

In response to similar legislation filed this year (HB 2759), officials at the **Office of Administration's Division of Budget and Planning** assumed the proposal would create a new tax credit program to be administered by the Department of Revenue for taxpayers who make donations over \$100 to an approved qualified organization that works to promote and encourage ex-offender's reintegration into society and avoid reincarceration. The taxpayer could claim up to 50% of the contribution for each taxable year beginning January 1, 2017, including contributions made during any of the prior three tax years. Therefore, General and Total State Revenues may be reduced as early as FY 2018. There is a \$2,000,000 annual cap on the credits.

In response to similar legislation filed this year (HB 2759), officials at the **Department of Insurance, Financial Institutions and Professional Registration** assumed an unknown reduction of premium tax revenues as a result of the creation of a tax credit for contributions to certain organizations working with ex-offenders 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.

The department will require minimal contract computer programming to add these new tax credits to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

In response to similar legislation filed this year (HB 2759), officials at the **Department of Revenue (DOR)** assumed beginning January 1, 2017, the legislation allows taxpayers a 50

ASSUMPTION (continued)

percent credit for contributions to qualified organizations made in the past three tax years. Qualified organizations are 501(c)(3) organizations that have been helping ex-offenders to reintegrate into society for over one year.

Personal Tax requires one Revenue Processing Technician I per 6,000 tax credits claimed. Corporate Tax requires one Revenue Processing Technician I per 4,000 tax credits redeemed. Collections & Tax Assistance will see additional customer contacts from this legislation and notice of adjustments. The section requires two Tax Collection Technicians I one for every additional 15,000 contacts annually on the non-delinquent tax line and one for every additional 15,000 contacts annually on the delinquent tax line. Each technician requires CARES equipment and license.

In order to implement the provisions of this legislation, the integrated tax system requires updates at a cost of \$65,146.

In response to similar legislation filed this year (HB 2759), officials at the **Department of Corrections (DOC)** assumed the bill proposes to allow persons to claim tax credits for contributions made to non-profit organizations that have been accredited by the Department of Corrections to provide reentry services if those organizations can provide documentation that they have provided reentry services to offenders who, in aggregate, have a recidivism rate that is seven percent lower than the statewide average.

There does not appear to be a simple manner in which to use recidivism as a qualifying factor for determining the qualifications of organizations in order to claim the tax credit.

The DOC does develop and publish recidivism statistics each year. The most common statistic is to look at the return to prison after first release within two years of being released from prison. This rate is used for all offenders released from prison and is not specific to the offender's risk to reoffend or the level of need for reentry services. Using this recidivism rate as a baseline to compare each organization's efforts to qualify for the tax credit does not account for an individual offender's risk to return to prison or need for reentry services. The risk level and need for services may be attributable to the type of crime or the offender's history such as educational achievement, substance abuse history and employment skills.

The DOC does not track the majority of these offenders through our Program Tracking system so it would be difficult to project which offenders would be impacted by the reentry services and what the impact would be. The DOC can calculate a recidivism rate for an organization but if risk and needs are not taken into effect, it could result in some unfairness in determining the

ASSUMPTION (continued)

qualifications of organizations wishing to be included in the tax credit. Organizations could provide a range of services (substance abuse treatment, sex offender housing, employment services, etc.) that would make it difficult to rate them under one baseline standard.

Under this legislation, the Department Director is responsible for certifying organizations for the tax credit. There appear to be over a thousand organizations who could apply to be qualified for the tax credit and it could take a significant amount of administrative time to track and respond to the requests.

This legislation is designed to increase the amount of reentry services provided or increase the chance of released offenders successfully remaining in the community. The DOC has cost avoidance as follows for each offender that doesn't return to prison or supervision: the FY15 average cost of supervision is \$6.04 per offender per day or an annual cost of \$2,205 per offender. The DOC cost of incarceration is \$16.809 per day or an annual cost of \$6,135 per offender.

A very significant issue is whether only measuring the recidivism of the organization's programs provides any indication of the efficiency of providing the tax credit. The current activities of the organizations are already included in the overall recidivism statistics. The effectiveness of the tax credit would seem to be in encouraging additional donations to provide for increased or enhanced services. That is not measured by recidivism and DOC's lack of interaction with many of these providers would make it difficult to determine if any additional offenders would be impacted by the tax credit.

Therefore, the impact of this legislation is "Unknown".

**Oversight** assumes the duties outlined in this proposal can be handled by current staff. Should DOR see an increase in responsibilities to justify additional FTE, they can seek those FTE 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 \$2 million annual cap.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - creation of tax credit	\$0	\$0 to (\$2,000,000)	\$0 to (\$2,000,000)
<u>Cost</u> - DOC - administrative expenses	(Unknown)	(Unknown)	(Unknown)
<u>Cost</u> - DOR - computer programming	(\$65,146)	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>(Could Exceed <u>\$65,146</u>)</b>	<b>\$0 to (Could Exceed <u>\$2,000,000</u>)</b>	<b>\$0 to (Could Exceed <u>\$2,000,000</u>)</b>

**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

Beginning January 1, 2017, this bill authorizes a taxpayer to receive a tax credit equal to 50% of the amount of any donation made to an organization that works with ex-offenders to reduce recidivism. Tax credits are non-refundable but may be carried forward for four years. A taxpayer must donate at least \$100 to receive the credit.

The Department of Corrections is charged with determining whether an organization is qualified. To be qualified, an organization must be a valid 501(c)(3) organization that has reduced recidivism in the group of ex-offenders it has worked with by at least 70%. The director of the department must establish a procedure for taxpayers to determine which organizations are qualified and notify the Department of Revenue of any taxpayer wishing to claim a credit. The

FISCAL DESCRIPTION (continued)

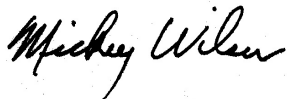
Department of Revenue may authorize up to \$2 million in tax credits each calendar year under this section.

The provisions of the bill will expire six years from the effective date.

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

Office of Administration's Division of Budget and Planning  
Department of Revenue  
Department of Insurance, Financial Institutions and Professional Registration  
Department of Corrections



Mickey Wilson, CPA  
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April 19, 2016

Ross Strobe  
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April 19, 2016