COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2211-02
Bill No.: SB 517
Subject: Tax Credits
Type: Original
Date: March 13, 2017

Bill Summary: This proposal creates a tax credit for contributions to certain benevolent organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue*	($130,713)	$0	$0
Total Estimated Net Effect on General Revenue	**($130,713)**	**$0**	**$0**

*** Offsetting payments and tax credits net to zero.**

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 2018	FY 2019	FY 2020
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**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 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** (**B&P**) assume this proposal would create a tax credit for taxpayers making a contribution to an eligible provider which provides funding for unmet health, hunger, and hygiene needs of children in school, for tax years beginning on or after January 1, 2018. Taxpayers can claim a tax credit for an amount equal to 50% of their contribution, but the amount cannot exceed the taxpayer's state tax liability for the tax year in which the credit is claimed. However, any portion of the tax credit which cannot be claimed in the tax year the contribution was made may be carried over to the next four succeeding tax years. There is no cap on the amount of tax credits which can be granted annually. The provider must submit to the Department of Social Services an application form, a statement attesting to the donation, and a payment equal to 50% of the eligible donation.

This proposal should not directly impact General and Total State Revenues, but may impact the calculations under Article X, Section 18(e).

Officials at the **Department of Revenue** (**DOR**) assume the Department requires form and programming changes, to the Integrated Tax System as a cost of $130,713. The Integrated Tax System would need updates to both the Personal and Corporate tax filing system. The contractor for the system charges $130 an hour and estimates 1,005 hours or work.

The Personal Tax Division requires one Revenue Processing Technician I ($27,185) for every 6,000 credits claimed. The Corporate Tax Division requires one Revenue Processing Technician I ($27,185) for every 6,000 credits claimed. The Collections & Tax Assistance Division requires two Tax Collection Technicians I ($27,185) for every additional 15,000 contacts annually on the delinquent and non-delinquent tax line. Both technicians require CARES equipment and license.

Oversight notes that based on other pre-pay tax credits (such as the Development Disability and Residential Treatment Agency tax credits), redemptions have been minimal. Therefore, Oversight assumes DOR could implement the responsibilities in this proposal with current staff. Should DOR experience the number of additional tax credit redemptions to justify other FTE, they could seek those FTE through the appropriation process.

Oversight will show the costs to upgrade the Integrated tax system in this fiscal note. Oversight notes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes that if a limited number of bills pass, DOR may be able to absorb the programming costs related to this proposal.

ASSUMPTION (continued)

Officials at the **Department of Social Services** assume there is no fiscal impact from this proposal.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown reduction of premium tax revenues as a result of the creation of a tax credit for donations to certain benevolent organizations 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.

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.

Oversight assumes that §135.1125.3(3) requires payment from the provider equal to the amount of the value of the tax credit. **Oversight** assumes that receipt of payment and the application of the tax credits could affect various state funds, so for the purpose of this note Oversight is showing all the payments and costs to General Revenue. However, the overall result of this proposal is no impact to Total State Revenue.

Oversight notes this proposal begins with tax year January 1, 2018, and therefore the first year in which those tax forms can be filed is FY 2019.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

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

ASSUMPTION (continued)

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 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.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
Revenue - Dept of Social Services payment for the tax credit filed with the application	$0	Unknown	Unknown
Cost - Dept of Social Services needs of children tax credit §135.1125.3(3)	$0	(Unknown)	(Unknown)
Cost - DOR Integrated Tax System updates	($130,713)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($130,713)**	**$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.

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

To the extent a business contributes to a qualified organization, the legislation allows a business to receive a tax credit for 50% of that contribution.

FISCAL DESCRIPTION

This act provides a tax credit for any taxpayer who makes a contribution to an eligible provider. Eligible providers shall be organizations that provide funding for the unmet health, hunger, and hygiene needs of children in school. The tax credit shall be in an amount of fifty percent of the value of the contribution.

An eligible provider may submit an application for the tax credit to the Department of Social Services on behalf of a taxpayer, as described in the act.

The tax credits issued under this act shall be transferable and non-refundable, but may be carried forward to any of the taxpayer's four subsequent taxable years.

This act shall sunset six years after the effective date of this act unless re-authorized by the General Assembly.

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
  Division of Budget and Planning
Office of the Secretary of State

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