

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2537-01
BILL NO.: SB 592
SUBJECT: Children and Minors; Education, Elementary and Secondary; Revenue Dept.;
 Taxation and Revenue-General-Income
TYPE: Original
DATE: February 7, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$1,945,789)	(\$4,000,000)	(\$4,000,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$1,945,789)	(\$4,000,000)	(\$4,000,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Elementary and Secondary Education (DES)** state this proposal authorizes a state income tax credit for cash contributions to school tuition organizations. A claimant cannot claim a credit in excess of \$500 in a tax year.

Tax credits will reduce income tax receipts flowing to the General Revenue fund. It is not possible to provide a specific estimate of the impact of this proposal since DES has no information regarding charitable contributions to school tuition organizations. However, it is believed the amount would exceed \$100,000 since it would only require 200 \$500 contributions to reach this level. The credits are dollar-for-dollar therefore a taxpayer could give the \$500 contribution without incurring any cost at all.

Office of Administration (COA) officials state there is no data available that would indicate how much would be contributed under this proposal.

Officials of the **Department of Revenue (DOR)** state this legislation authorizes a tax credit, not to exceed \$500 per return, equal to the amount of voluntary cash contributions made by the taxpayer to a school tuition organization. Married taxpayers filing separate can claim one-half of the credit they would have received if they filed a joint return. The tax credit can be carried over for five consecutive tax years. A qualified school tuition organization must be a charitable organization that allocates at least 90% of its annual revenue for educational scholarships or tuition grants to children.

The number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation, Personal Tax Bureau, indicates if the credit does not need to be certified and the amount of credit allowed is whatever the taxpayer submits, it would need one Tax Season Temporary for every 180,000 returns claiming the credit and One Tax Processing Tech I for every 20,000 additional errors received for this credit. If Personal Tax has to verify all the credits and documentation, it would need one Tax Processing Tech I for every 1,000 claims filed.

This legislation will require modifications to the income tax system and credit application system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$36,192. Modifications to the income tax return and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs and \$587 will be needed for on-going costs.

ASSUMPTION (continued)

Currently the state of Arizona has an income tax credit of up to \$500 for contributions made to a school tuition organization. According to the staff of the Joint Legislative Budget Committee, the net fiscal impact for the tax credit was estimated at \$4.5 million per year. For tax year 1998 the Arizona Department of Revenue stated that 5,200 taxpayers utilized the tax credit for a loss of \$1.9 million. According to Arizona Department of Revenue personnel, they expect participation to increase at least by 200% in the next couple of years.

Oversight will reflect the revenue impact of this proposal based on the state of Arizona experience and expectation.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Loss - General Revenue Fund</u>			
School tuition organizations tax credits	(\$1,900,000)	(\$4,000,000)	(\$4,000,000)
<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$45,786)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$1,945,786)</u>	<u>(\$4,000,000)</u>	<u>(\$4,000,000)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses who make cash contributions to school tuition organizations would be expected to be fiscally impacted to the extent that they would receive a tax credit for making the contribution.

DESCRIPTION

This act authorizes, for taxable years beginning on or after January 1, 2000, a state income tax

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credit for cash contributions, not exceeding \$500 per year, to a school tuition organization, defined as a charitable organization exempt from federal income tax that allocates at least 90% of its annual revenue for educational scholarships or tuition grants to children. The credit may be carried forward for up to five years. The credit is not allowed if the contribution is part of the taxpayer's itemized deductions on the state income tax return for that taxable year.

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 Elementary and Secondary Education
Office of Administration
Department of Revenue



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Director
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