

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2772-02
BILL NO.: SB 656
SUBJECT: Economic Development Department; Education, Elementary and Secondary;
Taxation and Revenue - General; Taxation and Revenue - Income; Charities
TYPE: Original
DATE: January 17, 2000

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|------------|--|---------------------------------------|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| General Revenue | \$0 | (\$106,420 to \$20,106,420) | (\$70,382 to \$20,070,382) |
| Total Estimated Net Effect on <u>All</u> State Funds | \$0 | (\$106,420 to \$20,106,420) | (\$70,382 to \$20,070,382) |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| None | | | |
| 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

Department of Revenue (DOR) officials state the number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation would need one (1) Tax Processing Technician I for every 1,680 credits claimed per year. One (1) Tax Season Temporary for every 260,000 credits claimed per year. One (1) Tax Processing Technician I would be needed for every 30,000 additional income tax errors and one (1) Tax Processing Technician I for every 12,000 additional corporate tax errors generated from this proposal.

DOR state the proposal would require modifications to the income tax system and credit application system. The Division of Taxation estimates the modifications, including programming changes, would require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax return and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 would be requested for implementation costs.

Officials from the **Office of Administration (COA)** state there is no data available that would indicate how much would be donated under this proposal. COA assumes the amount of credits is capped at \$20 million per fiscal year. COA ranges the fiscal impact from \$0 to (\$20,000,000) annually starting in fiscal year 2002.

Officials from the **Department of Economic Development (DED)** state this proposal requires DED to approve 501C(3) organizations as Scholarship charities, allocate credits to these entities, and approve tax credits of \$20,000,000 per year. DED is to establish a procedure to reallocate unused credits as well as a procedure to notify the general public of organizations that are approved as Scholarship charities. DED assumes they will need to audit the charities to insure funds are used appropriately for scholarships and that they are not directed to the donors children. DED assume that one (1) Community Development Program Coordinator, two (2) Community Development Representative IIs, one (1) Economic Development Incentive Specialist II, and one (1) Clerk Typist II would be needed to administer the program and conduct audit activities.

Oversight assumes DED will be able to assume most of the additional responsibilities with existing staff, but will need one (1) additional Community Development Program Coordinator to oversee this program. Oversight also assumes the DOR could accomplish changes to their automated systems at the amount they estimated in a similar proposal last year, \$20,808 (692 hours). Oversight also assumes this would proposal would be for all tax years beginning on or after January 1, 2001.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education (DESE)** state that the administrative burden of the proposal will be borne by DED and DOR. DESE expects no fiscal impact from the proposal.

This proposal would result in a decrease in Total State Revenues.

| | | | |
|---|---------------------|---------|---------|
| <u>FISCAL IMPACT - State Government</u> | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---------------------|---------|---------|

GENERAL REVENUE FUND

Loss - General Revenue Fund

| | | | |
|-------------------------------------|-----|--------------------------|--------------------------|
| Income tax credits for scholarships | \$0 | \$0 to (\$20,000,000) | \$0 to (\$20,000,000) |
|-------------------------------------|-----|--------------------------|--------------------------|

Cost - Department of Revenue

| | | | |
|---------------------|-----|------------|-----|
| Reprogramming costs | \$0 | (\$29,815) | \$0 |
|---------------------|-----|------------|-----|

Cost - Department of Economic Development

| | | | |
|--------------------------|------------|-------------------|------------------|
| Personal service (1 FTE) | \$0 | (\$48,413) | (\$49,623) |
| Fringe benefits | \$0 | (\$14,887) | (\$15,259) |
| Expense and Equipment | <u>\$0</u> | <u>(\$13,305)</u> | <u>(\$5,500)</u> |

| | | | |
|-------------------------|-----|----------|----------|
| Total <u>Cost</u> - DED | \$0 | \$76,605 | \$70,382 |
|-------------------------|-----|----------|----------|

**ESTIMATED NET EFFECT ON
 GENERAL REVENUE FUND**

| | | |
|----------------------|----------------------|---------------------|
| <u>\$0</u> | <u>(\$106,420 to</u> | <u>(\$70,382 to</u> |
| <u>\$20,106,420)</u> | <u>\$20,070,382)</u> | |

| | | | |
|---|---------------------|---------|---------|
| <u>FISCAL IMPACT - Local Government</u> | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---------------------|---------|---------|

| | | |
|------------|------------|------------|
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
|------------|------------|------------|

FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent they would incur cost

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for making the voluntary cash contributions and receive benefit from the tax credit for making the contribution.

DESCRIPTION

This proposal would authorize a state income tax credit for donations to scholarship charities, as determined by this proposal. A scholarship charity is a tax-exempt charitable organization which would allocate at least 90% of its annual revenue for scholarships to children to allow them to attend a public or non-discriminatory private elementary or secondary school. The credit would not be refundable, but may be carried forward and applied to future tax liabilities for up to four years. The total annual amount of credits would be limited to \$20 million per fiscal year. The Director of the Department of Economic Development would determine which organizations qualify as scholarship charities. Credits would be allocated equally at the beginning of each year to all scholarship charities and those not used by a date determined under rules of the Director may be reallocated by the Director to ensure the maximum amount of credits are used each 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 Revenue
Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Economic Development



Jeanne Jarrett, CPA
Director
January 17, 2000