COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4530-01
Bill No.: HB 1278
Subject: Tax Credits; Revenue Department
Type: Original
Date: January 23, 2012

Bill Summary: This proposal sunsets certain tax credits and creates a developmental disability care provider tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	$0 to ($2,000,000)	$0 to ($8,100,000)	$0 to ($8,116,360)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($2,000,000)**	**$0 to ($8,100,000)**	**$0 to ($8,116,360)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on Other State Funds	**$0**	**$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.

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION
SUNSET OF TAX CREDITS

Section 135.090 Surviving Spouse Tax Credit
Officials at the **Budget and Planning** (**BAP**) assume this proposal extends the Surviving Spouse Tax Credit from 8/28/13 until 12/31/17. $16,861 in credits were redeemed in FY11. This will continue the current reduction in General and Total State Revenue by similar amounts in future years.

Oversight assumes this tax credit was to sunset on August 28, 2013 (FY 2014). This proposal extends the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued in FY 15. This tax credit does not have a statutory cap and therefore, **Oversight** for the fiscal note is showing the amount of loss of revenue in future years to the State as being equal to the average amount issued in the last three years.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after December 31, 2017. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2018.

Section 135.327 Children in Crisis Tax Credit
Officials at the **Budget and Planning** (**BAP**) assume this proposal extends the Children in Crisis Tax Credit from 8/28/12 until 12/31/16. $587,137 in credits were redeemed in FY11. This will continue the current reduction in General and Total State Revenue by similar amounts in future years.

Oversight assumes this tax credit was to sunset on August 28, 2012. This proposal would extend the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued in FY 14. This tax credit shares a statutory cap of $4 million with the Adoption Tax Credit. The Children in Crisis Tax Credit is calculated after the Adoption credits are applied. In the last five years an average of $2,675,221 has been issued for the Children in Crisis credit. **Oversight** will range the fiscal impact of the program from $0 to the annual statutory limit of $4 million.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2016. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start

ASSUMPTION (continued)

being collected in FY 2017.

Section 135.562 Residential Dwelling Access - Individuals Tax Credit
Officials at the **Budget and Planning** (**BAP**) assume this proposal extends the Residential Dwelling Tax Credit from 12/31/12 until 12/31/17. $20,086 in credits were redeemed in FY11. This will continue the current reduction in General and Total State Revenue by similar amounts in future years.

Oversight assumes this tax credit was to expire on December 31, 2013. This proposal would extend the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued in FY 14. This tax credit has a statutory cap of $100,000. In the last five years an average of $19,830 credits have been issued. Oversight will range the fiscal impact of the program from $0 to the annual statutory limit of $100,000.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after December 31, 2017. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2019.

Section 135.630 Pregnancy Resource Center
Officials at the **Budget and Planning** (**BAP**) assume this proposal extends the Pregnancy Resource Center credit from 8/28/12 until 12/31/16. $1.1 million in credits were redeemed in FY11. This will continue the current reduction in General and Total State Revenue by similar amounts in future years. This proposal also removes language regarding the transferability of the credit, which may impact future redemptions by an unknown amount.

Oversight assumes this tax credit was to sunset on August 28, 2012. This proposal would extend the tax credit and therefore Oversight will show the loss to state revenue of the tax credits issued in FY 14. This tax credit has a statutory cap of $2 million. In the last five years an average of $1,301,308 credits have been issued. **Oversight** will range the fiscal impact of the program from $0 to the annual statutory limit of $2 million.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after December 31, 2016. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2017.

ASSUMPTION (continued)

Section 135.647 Food Pantry Tax Credit
Officials at the **Budget and Planning (BAP)** assume this proposal renews the Food Pantry tax credit, which has expired, and extends it until 12/31/16. $1 million in credits were redeemed in FY11. This will reduce General and Total state revenues by similar amounts in FY 2013 and beyond.

Oversight assumes this tax credit expired on August 28, 2011. This proposal would extend the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued starting in FY 13. This tax credit has a statutory cap of $2 million. In the last five years an average of $644,583 credits have been issued. **Oversight** will range the fiscal impact of the program from $0 to the annual statutory limit of $2 million.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2015. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2016.

Section 135.1150 Residential Treatment Agency
Officials at the **Budget and Planning (BAP)** assume this proposal extends the Residential Treatment Agency credit from 8/28/12 until 12/31/16. This proposal expands the types of taxpayers that are eligible for the credit. Because agencies are required to remit payments for the credits, this proposal has no direct impact on General and Total State Revenues.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after December 31, 2016. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2017.

SUNSETS AS A WHOLE
Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume no anticipated fiscal impact to the department in FY 2013, FY 2014, FY 2015 or FY 2016. This legislation may have an unknown increase to premium tax revenue beginning in FY 2017 due to the possible sunset of tax credits. 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

ASSUMPTION (continued)

principal office of the insurer is located. It is unknown how each of these funds may be impacted by the potential sunset of tax credits beginning in FY 2017.

Officials at the **Department of Social Services** assume these changes can be handled with existing staff.

Officials at the **Department of Economic Development** and the **Joint Committee on Administrative Rules** assume that there is no fiscal impact from this proposal.

Sections 135.800 and 138.825 Review Of All Tax Credits Being Sunset
Officials at the **Legislative Research Oversight Division** assume no additional cost.

Oversight assumes that the review of the tax credits would be handled as a part of the regular duties of the staff and can be handled with existing resources.

Section 135.1180 Developmental Disability Care Provider Tax Credit
Officials at the **Budget and Planning** assume this proposal has no direct impact on General and Total State Revenue.

Officials at the **Department of Revenue** (**DOR)** assume this section creates the "Developmental Disability Care Provider Tax Credit Program." This tax credit is for all tax years beginning on or after January 1, 2012, taxpayers will be allowed a credit against the taxes due under Chapters 143, 147, or 148 excluding withholding tax in an amount equal to 50% of the amount of an eligible donation, subject to the restrictions in this section. The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state income tax liability. The credit is not refundable and may be carried forward four years. Tax credits issued under this section may be assigned, transferred, sold, or otherwise conveyed.

DOR assumes DOR and ITSD-DOR will need to make programming changes to multiple processing systems. The Department will need to make forms changes. In addition Personal Tax will need a Revenue Processing Technician (starting salary $25,380) per 4,000 tax credits to handle the tax credit redemptions. Corporate Tax will need a Revenue Processing Technician (starting salary $25,380) to handle the tax credit redemptions.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. **Oversight** assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs,

ASSUMPTION (continued)

OA-ITSD (DOR) could request funding through the appropriation process.

Oversight assumes that due to a limited number of individuals that may take advantage of this program that DOR could absorb the duties of this bill with existing staff. Should the number of individuals taking advantage of the credit exceed expectations DOR could request additional funding through the appropriation process.

Oversight assumes that section 135.1180.4(3) requires payment from the provider equal to the amount of the value of the tax credit. However, the overall result of this proposal is no impact to total state revenue.

Officials at the **Department of Social Services** assume this creates another tax credit for the department to administer. The administration can be done with existing staff.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. 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 will require minimal contract computer programming to add this new tax credit 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.

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

ASSUMPTION (continued)

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 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
Cost- extension of sunset dates			
Surviving Spouse (135.090)	$0	$0	($16,360)
Children in Crisis (135.327)	$0	$0 to ($4,000,000)	$0 to ($4,000,000)
Residential Dwelling (135.562)	$0	$0 to ($100,000)	$0 to ($100,000)
Pregnancy Resource Center (135.630)	$0	$0 to ($2,000,000)	$0 to ($2,000,000)
Food Pantry (135.647)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($2,000,000)**	**$0 to ($8,100,000)**	**$0 to ($8,116,360)**

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 2013 (10 Mo.)	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that have received these credits in the past could be affected.

FISCAL DESCRIPTION

This proposal sunsets several state tax credits and creates the Developmental Disability Care Provider tax credit.

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

Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Department of Social Services
Joint Committee on Administrative Rules
Office of the Secretary of State

Mickey Wilson

Mickey Wilson, CPA
Director
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JH:LR:OD