

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4696-01  
Bill No.: HB 1718  
Subject: Children and Minors; Health Care; Revenue Department; Tax Credits  
Type: Original  
Date: March 6, 2012

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Bill Summary: This proposal establishes Bryce's Law which authorizes a tax credit for a person donating to a scholarship-granting organization for special needs students if it is not claimed on his or her federal income tax return.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
General Revenue	(Unknown greater than \$52,193)	(Unknown greater than \$60,153)	(Unknown greater than \$60,776)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Unknown greater than \$52,193)</b>	<b>(Unknown greater than \$60,153)</b>	<b>(Unknown greater than \$60,776)</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.**

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

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</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 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Local Government</b>	<b>Unknown to (Unknown)</b>	<b>Unknown to (Unknown)</b>	<b>Unknown to (Unknown)</b>

### **FISCAL ANALYSIS**

#### ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume this proposal creates a tax credit against income taxes equal to 80% of contributions toward organizations that provide scholarships for students with individualized education programs to attend qualified schools. BAP notes there is no annual cap on this proposal; therefore, this proposal may reduce General and Total State Revenues by an unknown amount.

Section 135.1220.8 of this proposal allows scholarships for up to 10 percent of students with an individualized education program (IEP) to be granted by scholarship granting organizations, and an amount based on 50 percent of students with a special needs diagnosis, but no IEP. The legislation is unclear on the process by which these special needs students will be selected for these scholarships.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume by federal law, the obligation to educate students with developmental disabilities or other special needs would remain with the public schools, although private schools would receive state funds to educate the students. It appears that private schools accepting scholarship money would not be required to guarantee that the quality of educational and related services to be provided to students would meet or exceed the quality provided by the public schools and would not be subject to the strict accreditation standards of Missouri's public schools.

It appears that private schools accepting the scholarship money would be allowed to implement a self-designed selection process to decide whom they will choose to educate, yet public schools to which students would transfer will not be allowed to deny enrollments due to legitimate needs,

ASSUMPTION (continued)

such as the need for additional teachers, aids, nurses, etc., to meet the needs of students who opt to transfer into the school district.

Tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

A public school accepting a student with a scholarship limits its revenue for that student to the value of the scholarship rather than the tuition the district charges non-resident students. There does not appear to be an incentive for a school to accept such a student."

The administration of tax credits is not an area with which DESE has experience. DESE will require 1 FTE supervisor and 1 FTE administrative assistant to carry out the many requirements of this proposal.

Subsection 21 of the proposal requires DESE to conduct a study of the program with funds other than state funds. It indicates that the department may accept grants to assist in funding this study. It should be noted that the study will not likely get completed unless the department receives external funding.

**Oversight** assumes it is unclear how many potential tax credits would be issued under this proposal. Oversight assumes the Supervisor position would be needed to oversee the program. Should the number of applicants increase by a measurable amount then DESE could seek additional FTE through the appropriation process.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the Supervisor position to correspond to the posted salary for that position. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials at the **Department of Revenue (DOR)** assume that ITSD-DOR will need to make programming changes to various tax systems and form changes. These changes are estimated to cost \$26,712 for 1,008 FTE hours.

**DOR's** Personal Tax Division will need one Revenue Processing Technician I (\$25,380) per 6,000 credits claimed and the Corporate Tax Division will need one Revenue Processing Technician I (\$25,380) per 6,000 additional tax credit redemptions.

ASSUMPTION (continued)

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

**Oversight** assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE they could seek that FTE through the appropriation process.

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

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.

**Oversight** assumes the fiscal impact of the new tax credit program would range from \$0 (no additional tax credits issued) to an unknown amount since the program has no annual limit. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore has not reflected them in the fiscal note.

**Oversight** assumes that there could be a savings to the State Foundation Formula and a loss to Local Public School Districts if a student were to switch from a public to private school. Oversight has not shown that impact in the fiscal note as it is unclear if that would occur.

**This proposal could result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
<b>GENERAL REVENUE</b>			
<u>Cost - Dept of Elementary &amp; Secondary Education</u>			
Personal Service	(\$31,640)	(\$38,348)	(\$38,731)
Fringe Benefits	(\$16,750)	(\$20,301)	(\$20,504)
Equipment and Expenses	(\$3,803)	(\$1,504)	(\$1,541)
<u>Total Costs - DESE</u>	(\$52,193)	(\$60,153)	(\$60,776)
Total FTE Change - DESE	1 FTE	1 FTE	1 FTE
 <u>Revenue Reduction - tax credit for donation to a scholarship-granting organization</u>	 \$0 or (Unknown)	 \$0 or (Unknown)	 \$0 or (Unknown)
 <b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	 <b><u>(Unknown greater than \$52,193)</u></b>	 <b><u>(Unknown greater than \$60,153)</u></b>	 <b><u>(Unknown greater than \$60,776)</u></b>
 Estimated Net FTE Change on General Revenue	 1 FTE	 1 FTE	 1 FTE

**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 2013 (10 Mo.)	FY 2014	FY 2015
<b>LOCAL SCHOOL DISTRICT FUNDS</b>			
<u>Income</u> - scholarships for children attending new school districts	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Savings</u> - school districts that lose students would realize savings from not incurring education expenses specific to those students with developmental disabilities	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Costs</u> - districts that receive students based upon this proposal would incur additional educational expenses higher than what the state would provide as a scholarship	<u>(\$0 or Unknown)</u>	<u>(\$0 or Unknown)</u>	<u>(\$0 or Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICT FUNDS</b>	<b><u>Unknown to (Unknown)</u></b>	<b><u>Unknown to (Unknown)</u></b>	<b><u>Unknown to (Unknown)</u></b>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be affected by this proposal.

FISCAL DESCRIPTION

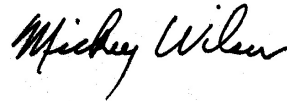
This proposal establishes Bryce's Law which authorizes a tax credit for a person donating to a scholarship-granting organization for special needs students if it is not claimed on his or her federal income tax return.

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 Elementary and Secondary Education  
Department of Insurance, Financial Institutions and Professional Registration  
Department of Revenue  
Joint Committee on Administrative Rules  
Office of the Secretary of State



Mickey Wilson, CPA  
Director  
March 6, 2012