COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0880-01
Bill No.: Perfected HB 411
Subject: Housing; Revenue, Department Of; Children and Minors; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: April 22, 2015

Bill Summary: This proposal would authorize a one-time income tax deduction to a taxpayer for the cost of construction or $5,000, whichever is less, of a storm shelter that was made in America, and would authorize a tax credit for donations to a fund established for the provision of scholarships to foster care children.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	($75,168 to $195,168)	($222,671 to $5,339,671)	($205,742 to $5,325,742)
Total Estimated Net Effect on General Revenue	**($75,168 to $195,168)**	**($222,671 to $5,339,671)**	**($205,742 to $5,325,742)**

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 change 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 12 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Foster Child Education*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

*Donations and scholarships assumed to net to zero.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	0 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	**0**	**4 FTE**	**4 FTE**

☒ 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 2016	FY 2017	FY 2018
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 143.115, RSMo. - Tax Deduction for Storm Shelters:

Officials from the **Department of Revenue (DOR)** assume this proposal would allow taxpayers a deduction for the cost of constructing a storm shelter made in Missouri or $5,000, whichever is less. The aggregate amount of deductions would be limited to two million dollars each fiscal year.

Fiscal impact

DOR officials noted the proposal could have a negative impact on Total State Revenue. If $2 million in deductions are claimed, tax revenues would be reduced by approximately $120,000.

ASSUMPTION (continued)

Administrative impact

DOR officials assumed the department would be required to make form revisions and programming changes for the deduction. Personal Tax would require two additional Temporary Tax Employees for key entry and two additional Revenue Processing Technicians for error correction and correspondence. Also, Collections and Tax Assistance (CATA) would require two additional Tax Collection Technicians for contacts on the delinquent and non-delinquent tax lines and one additional Revenue Processing Technician for contacts to the field offices. DOR officials assume all technicians would require CARES equipment.

The DOR response included two additional Temporary Tax employees and four additional employees with related benefits equipment and expense totaled $214,933 for FY 2016, $184,243 for FY 2017, and $186,154 for FY 2018.

Oversight notes this proposal would provide a maximum deduction for an individual filer of five thousand dollars with an aggregate maximum of two million dollars in deductions allowed each state fiscal year. The maximum overall revenue reduction for this proposal would be ($2,000,000 x 6%) = $120,000 per year. The deduction would be limited to ($5,000 x 6%) = $300 per filer and would be available on a first-come, first-served basis. Oversight assumes up to ($2,000,000 / $5,000) = 400 filers would be able to claim the deduction each fiscal year.

Oversight does not have any information regarding the cost of a storm shelter nor the number of storm shelters constructed in Missouri. However, based on the limited amount of deductions available and the limited number of filers who could use this deduction, Oversight assumes these claims could be processed with existing resources. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials provided an estimate of the IT impact to implement the proposal of $37,584 based on 504 hours of programming at the standard state contract rate for IT services of $75, to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost to implement this proposal in the fiscal note.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning** assume this proposal would reduce Total State Revenues (TSR) by $120,000, and would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials noted this proposal would allow a one-time deduction for a storm shelter built in Missouri. An individual could deduct the cost of building the shelter or $5,000 whichever is less, and there would be a deduction cap of $2 million per year. Since deductions do not reduce taxes on a dollar for dollar basis, BAP officials estimated this will reduce TSR by ($2,000,000 x 6%) = $120,000, and BAP officials noted the numbers may vary in the future due to the impact of SB 509 (2014).

Oversight notes the changes in the maximum individual income tax rate in SB 509 (2014) are contingent on a revenue threshold which may or may not be reached, and will include an annual revenue reduction up to the BAP calculation in this fiscal note.

Oversight also notes the proposal would be effective beginning January 1, 2015 and will include the BAP estimate of fiscal impact for FY 2016, when 2015 income tax returns would be filed, and for FY 2017 and FY 2018. Oversight is aware that some filers would adjust their income tax withholding or estimated payments in anticipation of a tax reduction, but for fiscal note purposes will include the full impact in the year the tax returns would be filed.

Officials from the **Department of Public Safety - State Emergency Management Agency** assume this proposal would have no fiscal impact on their organization.

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be greater than our office can sustain with our core budget. Therefore, we reserve 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.

ASSUMPTION (continued)

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

This proposal could reduce Total State Revenue.

Amendments

House Amendment 1 would authorize a tax credit program for donations to a scholarship fund for foster children.

Officials from the **Department of Elementary and Secondary Education (DESE)** assumed in response to similar language in HB 841 LR 1255-01 that tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students. The program appears to be limited to $5 million annually.

The administration of tax credits is not an area with which DESE has experience. DESE officials assume their organization would require one additional supervisor and two additional administrative assistant to carry out the many requirements of this proposal. DESE estimated additional cost for these employees of approximately $180,000 per year.

DESE officials also assume their organization would likely incur costs to prepare and maintain a searchable database containing statewide assessment scores of all recipients; however, those costs would not likely be significant.

Oversight assumes DESE could perform the responsibilities of this proposal with two additional employees. Should DESE experience the additional activity which would justify another employee, they could request additional resources through the budget process.

In response to similar language in HB 841 LR 1255-01 officials from the **Department of Revenue (DOR)** assumed beginning with tax year 2016, a taxpayer would be authorized a tax credit of 65 percent of the amount contributed to the Foster Child Education Fund. The Department of Elementary and Secondary Education would administer the tax credit program and issue tax credit certificates. The tax credit could not exceed 50 percent of the taxpayer's state tax liability and the legislation would set the individual taxpayer cap at $25,000 per year. A qualifying contribution would be at least $100, but no more than $50,000.

ASSUMPTION (continued)
Administrative Impact

DOR officials assume the Department would require form and programming changes, and Personal Tax would require one additional Revenue Processing Technician I for tax credits claimed and Corporate Tax would require one additional Revenue Processing Technician I for tax credits redeemed. Collections and Tax Assistance would have additional customer contacts about the tax credit and notice of adjustments, and would require two additional Tax Collection Technicians I for contacts on the delinquent and non-delinquent lines. Each technician would require CARES equipment and license.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $37,584 based on 501.12 hours of programming at a cost of $75 per hour.

Oversight assumes DOR could perform the responsibilities of this proposal with two additional employees. Should DOR experience the number of additional tax credit redemptions to justify another employee, they could request additional resources through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has adjusted the DOR estimate of cost for equipment and expense, and assumes a limited number of additional employees could be accommodated in existing office space.

Officials from the **Office of Administration- Division of Budget and Planning (BAP)** assumed in response to similar language in HB 841 LR 1255-01 the proposal would create a tax credit for individuals or certain companies that make contributions to the foster child education fund, beginning January 1, 2016. Taxpayers could claim a tax credit for an amount equal to 65% of their contribution, but the amount could not exceed either 50% of their state tax liability for the year or $25,000. Issuances of these tax credits are capped at $5,000,000 annually. This proposal could therefore reduce General Revenues by $5,000,000 annually. BAP officials noted the total amount of credits which are issued but not redeemed is capped at $15,000,000 in any fiscal year.

ASSUMPTION (continued)

BAP officials stated this proposal would also create the Foster Child Education Fund in the state treasury. Monies collected from donations would be used to provide scholarships to foster care children for attending qualified schools. BAP officials stated they cannot estimate the amount of donations that would be deposited into the fund.

Officials from the **Office of the State Treasurer** and the **Joint Committee on Administrative Rules** assumed there would be no fiscal impact from similar language in HB 841 LR 1255-01 to their organizations.

Oversight notes there could be a savings to local governments if the scholarships provided by the Foster Child Education Fund get children out of public school and into private schools.

Oversight assumes this proposal would be effective beginning with tax years starting January 1, 2016, and therefore, would be claimed on taxpayers' return beginning in FY 2017. Oversight will reflect the impact as $0 (no credits claimed) to the $5 million annual cap.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
Revenue Reduction - creation of tax credit	$0	$0 to ($5,000,000)	$0 to ($5,000,000)
Cost - DESE			
Personal Service	$0	($79,536)	($80,331)
Fringe Benefits	$0	($41,363)	($41,776)
Equipment and Expenses	$0	($5,192)	($1,907)
Total Cost - DESE	$0	($126,091)	($124,014)
FTE Change - DESE	0 FTE	2 FTE	2 FTE

Cost - DOR			
Personal Service	$0	($51,768)	($52,286)
Fringe Benefits	$0	($26,922)	($27,191)
Equipment and Expenses	$0	($14,890)	($2,251)
Computer Programming	($37,584)	$0	$0
Total Cost - DOR	($37,584)	($93,580)	($81,728)
FTE Change - DOR	0 FTE	2 FTE	2 FTE
Cost - DOR IT cost Section 143.115	($37,584)	$0	$0
Revenue reduction - additional deduction for storm shelter Section 143.115	$0 to ($120,000)	$0 to ($120,000)	$0 to ($120,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($75,168 to $195,168)**	**($222,671 to $5,339,671)**	**($205,742 to $5,325,742)**
Estimated Net FTE Change on General Revenue	0 FTE	4 FTE	4 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 change 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 - State Government (Continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018
FOSTER CHILD EDUCATION FUND			
Revenue - donations	Unknown	Unknown	Unknown
Cost - scholarships for foster care children	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON FOSTER CHILD EDUCATION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses and their owners if they are able to make a qualifying donation and claim a tax credit.

FISCAL DESCRIPTION

Tax Deductions for Storm Shelters

This proposal would, beginning January 1, 2015, authorize a one-time income tax deduction for the cost of the construction or $5,000, whichever is less, of a storm shelter that was made in America. The total amount of deductions, which would be issued on a first-come, first-served filing basis, could not exceed $2 million in any fiscal year, and the provisions of the bill would expire December 31 six years after the effective date.

FISCAL DESCRIPTION (Continued)

Ta x Credits for Scholarships for Foster Children

Beginning January 1, 2016, this proposal would authorize a tax credit equal to 65% of a taxpayer's cash donations to a newly created, Foster Child Education Fund, to be used solely for providing scholarships to eligible recipients to attend a private elementary or secondary school in this state.

A qualifying donation would be at least $100 and not more than $50,000. The credit would be further limited to 50% of the taxpayer's state tax liability for the taxable year the credit is claimed, could not exceed $25,000 per taxpayer, per taxable year, and would be capped at $5 million per fiscal year and issued but not redeemed credit at $15 million per fiscal year. The credit could not be refunded, transferred, sold or assigned, but could be carried forward for three years.

The proposal would define an eligible recipient as a school-aged child enrolled in K-12 grades in state protective custody for at least 12 of the last 36 months, and a taxpayer as a person, firm, partner in a partnership, member in a limited liability company, shareholder in an S corporation, a corporation doing business in Missouri, a corporation subject to the annual corporation franchise tax, an insurance company paying an annual tax on its gross premium receipts in this state, other financial institution paying taxes to Missouri, any political subdivision of this state under the provisions of Chapter 148, RSMo, an express company which pays an annual tax on its gross receipts in this state under Chapter 153, or any charitable organization which is exempt from federal income tax and whose Missouri unrelated business taxable income, if any, would be subject to the state income tax imposed under Chapter 143.

A scholarship is defined in the bill as an annual grant to eligible recipients to cover all or part of the applicable tuition and fees at a qualified school, the amount must be the lesser of the previous year’s tuition and fees for non-scholarship students at the qualified school or 90% of the previous year’s average current expenditure per average daily attendance for the student’s district of residence or the tuition amount set by the voluntary interdistrict coordinating council for the student’s district of residence, if applicable. Any scholarship recipient will continue to be eligible to receive his or her scholarship upon a legal adoption, or after graduation from the qualified school he or she first received a scholarship if attending a new qualified school.
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

FISCAL DESCRIPTION (Continued)

The Department of Elementary and Secondary Education would establish rules to implement this credit, issue tax credit certificates, grant scholarships, and prepare and maintain an easy-to-search database containing statewide assessment scores of all scholarship recipients. A random identification number would be assigned to each recipient by the department so no personally identifiable data will be accessible on the database.

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

Office of the Secretary of State
Office of the State Treasurer
Joint Committee on Administrative Rules
Office of Administration
    Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue

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April 22, 2015	April 22, 2015

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