

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1255-01
Bill No.: HB 841
Subject: Children and Minors; Tax Credits
Type: Original
Date: March 3, 2015

Bill Summary: This proposal authorizes 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	(\$37,584)	(\$93,580 to \$5,219,671)	(\$81,728 to \$5,205,742)
Total Estimated Net Effect on General Revenue	(\$37,584)	(\$93,580 to \$5,219,671)	(\$81,728 to \$5,205,742)

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 <u>Other</u> State Funds	\$0	\$0	\$0

*Donations and scholarships assumed to net to zero.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> 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 FTE	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

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume 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 will require 1.0 FTE supervisor and 2.0 FTE administrative assistant to carry out the many requirements of this proposal. DESE estimates FTE costs of approximately \$180,000 per year.

In addition, DESE will likely incur costs to prepare and maintain a searchable database containing statewide assessment scores of all recipients; however, these costs will not likely be significant.

Oversight assumes DESE could perform the responsibilities of this proposal with 2 FTE. Should DESE 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 Revenue (DOR)** assume beginning with tax year 2016, a taxpayer is authorized a tax credit of 65 percent of the amount contributed to the Foster Child Education Fund. The Department of Elementary and Secondary Education administers the tax credit and issues tax credit certificates. This tax credit cannot exceed 50 percent of the taxpayer's state tax liability and the legislation sets the cap at \$25,000 per taxable year. Contributions must be at least \$100, but no more than \$50,000.

Administrative Impact:

The Department requires form and programming changes. This will require 501.12 hours of programming at a cost of \$75 per hour for a total estimated cost of \$37,584.

Personal Tax requires one (1) Revenue Processing Technician I for tax credits claimed and Corporate Tax requires one (1) Revenue Processing Technician I for tax credits redeemed.

ASSUMPTION (continued)

Collections & Tax Assistance will see additional customer contacts about the tax credit and notice of adjustments. The section requires two (2) Tax Collection Technicians I for contacts on the delinquent and non-delinquent lines. Each technician requires CARES equipment and license.

Oversight assumes DOR could perform the responsibilities of this proposal with 2 FTE. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Oversight has, for fiscal note purposes only, changed the starting salary for the two Revenue Processing Technicians I (\$25,884) 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.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this 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 can claim a tax credit for an amount equal to 65% of their contribution, but the amount cannot 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 notes the total amount of credits which are issued but not redeemed is capped at \$15,000,000 in any fiscal year.

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

Officials at the **Office of the State Treasurer** and the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

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

Oversight assumes this proposal begins with tax years starting January 1, 2016, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2017. Oversight will reflect the impact as \$0 (no credits claimed) to the \$5 million annual cap.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (6 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
<u>Revenue Reduction</u> - creation of tax credit	\$0	\$0 to (\$5,000,000)	\$0 to <u>(\$5,000,000)</u>
<u>Cost - DESE</u>			
Personal Service	\$0	(\$79,536)	(\$80,331)
Fringe Benefits	\$0	(\$41,363)	(\$41,776)
Equipment and Expenses	<u>\$0</u>	<u>(\$5,192)</u>	<u>(\$1,907)</u>
<u>Total Cost - DESE</u>	\$0	(\$126,091)	(\$124,014)
FTE Change - DESE	0 FTE	2 FTE	2 FTE
<u>Cost - DOR</u>			
Personal Service	\$0	(\$51,768)	(\$52,286)
Fringe Benefits	\$0	(\$26,922)	(\$27,191)
Equipment and Expenses	\$0	(\$14,890)	(\$2,251)
Computer Programming	<u>(\$37,584)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Cost - DOR</u>	<u>(\$37,584)</u>	<u>(\$93,580)</u>	<u>(\$81,728)</u>
FTE Change - DOR	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$37,584)</u>	<u>(\$93,580 to \$5,219,671)</u>	<u>(\$81,728 to \$5,205,742)</u>
Estimated Net FTE Change on General Revenue	0 FTE	4 FTE	4 FTE
FOSTER CHILD EDUCATION FUND			
<u>Revenue</u> - donations	Unknown	Unknown	Unknown
<u>Cost</u> - scholarships for foster care children	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON FOSTER CHILD EDUCATION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (6 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2016, this bill authorizes a tax credit equal to 65% of a taxpayer's cash donations to the 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. For the donation to qualify for this credit, it must be at least \$100 and not more than \$50,000. The credit is limited to 50% of the taxpayer's state tax liability for the taxable year the credit is claimed, cannot exceed \$25,000 per taxpayer, per taxable year, and is capped at \$5 million per fiscal year and issued but not redeemed credit at \$15 million per fiscal year. The credit cannot be refunded, transferred, sold or assigned, but can be carried forward for three years.

The bill defines 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.

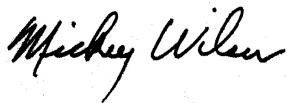
FISCAL DESCRIPTION (continued)

The Department of Elementary and Secondary Education will 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 will 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

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



Mickey Wilson, CPA
Director
March 3, 2015

Ross Strobe
Assistant Director
March 3, 2015

L.R. No. 1255-01
Bill No. HB 841
Page 8 of 8
March 3, 2015

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