

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4452-02  
Bill No.: HB 1589  
Subject: Education, Elementary and Secondary; Tax Credits; Social Services, Department of  
of  
Type: Original  
Date: January 28, 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**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$197,253)	(\$173,618 to \$5,173,618)	(\$170,276 to \$5,170,276)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$197,253)</b>	<b>(\$173,618 to \$5,173,618)</b>	<b>(\$170,276 to \$5,170,276)</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.**

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Foster Child Education*	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Donations and scholarships assumed to net to zero

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

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</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 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
General Revenue	2 FTE	3 FTE	3 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>3 FTE</b>	<b>3 FTE</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Local Government</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Unknown</b>

## FISCAL ANALYSIS

### ASSUMPTION

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 supervisor and 2 administrative assistants to carry out the many requirements of this proposal.

In addition, we will likely incur costs to prepare and maintain a searchable database containing statewide assessment scores of all recipients; however, those 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 2017, a taxpayer is authorized a tax credit of 50 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 per taxpayer cap at \$25,000 per taxable year. To qualify, contributions must be at least \$100, but no more than \$50,000.

The Department requires form and programming changes at a rate of \$75 for 335 hours for an approximate cost of \$25,191.

Personal Tax requires one Revenue Processing Technician I for tax credits claimed. Corporate Tax requires one Revenue Processing Technician I for tax credits redeemed. Collections & Tax Assistance will see additional customer contacts about the tax credit and notice of adjustments. The section requires two Tax Collection Technicians I for contacts on the delinquent and non-delinquent lines. Each technician requires CARES equipment and license.

The integrate tax system incurs additional costs of \$65,146 to implement the provisions of this legislation.

**Oversight** assumes DOR could perform the responsibilities of this proposal with 1 FTE. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they

ASSUMPTION (continued)

could seek that FTE through the appropriation process.

Oversight has, for fiscal note purposes only, changed the starting salary for the Revenue Processing Technician 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, 2017. Taxpayers can claim a tax credit for an amount equal to 50% 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 beginning in FY18. 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 allow children that previously attended public schools to attend private schools.

**Oversight** assumes this proposal begins with tax years starting January 1, 2017, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2018. Oversight will reflect the impact as \$0 (no credits claimed) to the \$5 million annual cap.

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

ASSUMPTION (continued)

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 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.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
<u>Revenue Reduction</u> - creation of tax credit	\$0	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Cost - DESE</u>			
Personal Service	(\$66,280)	(\$80,331)	(\$81,135)
Fringe Benefits	(\$34,928)	(\$42,130)	(\$42,350)
Equipment and Expenses	<u>(\$5,708)</u>	<u>(\$2,226)</u>	<u>(\$2,282)</u>
<u>Total Cost - DESE</u>	<u>(\$106,916)</u>	<u>(\$124,687)</u>	<u>(\$125,767)</u>
FTE Change - DESE	2 FTE	2 FTE	2 FTE
<u>Cost - DOR</u>			
Personal Service	\$0	(\$25,884)	(\$26,143)
Fringe Benefits	\$0	(\$15,482)	(\$17,234)
Equipment and Expenses	\$0	(\$7,565)	(\$1,132)
Integrated System Changes	(\$65,146)	\$0	\$0
Computer Programming	<u>(\$25,191)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Cost - DOR</u>	<u>(\$90,337)</u>	<u>(\$48,931)</u>	<u>(\$44,509)</u>
FTE Change - DOR	0 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$197,253)</u></b>	<b><u>(\$173,618 to \$5,173,618)</u></b>	<b><u>(\$170,276 to \$5,170,276)</u></b>
Estimated Net FTE Change on General Revenue	2 FTE	3 FTE	3 FTE
<b>FOSTER CHILD EDUCATION FUND</b>			
<u>Revenue</u> - donations	Unknown	Unknown	Unknown
<u>Cost</u> - scholarships for foster care children	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON FOSTER CHILD EDUCATION FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<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.</b>			

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2017</u> <u>(10 Mo.)</u>	<u>FY 2018</u>	<u>FY 2019</u>
<b>LOCAL SUBDIVISIONS</b>			
<u>Savings</u> - scholarships allow children that previously attended public schools to attend private schools	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<b>NET EFFECT ON LOCAL SUBDIVISIONS</b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>

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, 2017, 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, or sold, but can be carried forward for three years.

An eligible recipient is a school-aged child enrolled in grades K- 12 in state protective custody for at least 12 of the last 48 months. The credit is available to individuals, firms, partners, limited liability company members, shareholders, corporations, insurance companies, financial institutions, political subdivisions, express companies, and charitable organizations with Missouri unrelated business taxable income.

A scholarship is 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.

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  
Office of the Secretary of State



Mickey Wilson, CPA  
Director  
January 28, 2015

Ross Strobe  
Assistant Director  
January 28, 2015