COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1477-01
Bill No.: HB 688
Subject: Tax Credits; Economic Development; Business and Commerce; Probation and Parole; Taxation and Revenue - Income; Department of Revenue
Type: Original
Date: February 23, 2017

Bill Summary: This proposal authorizes a tax credit for certain organizations working with ex-offenders.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	($65,146)	(Up to $2,000,000)	(Up to $2,000,000)
Total Estimated Net Effect on General Revenue	**($65,146)**	**(Up to $2,000,000)**	**(Up to $2,000,000)**

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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning** (**B&P**) assume this proposal creates a new tax credit program administered by the Departments of Corrections and Revenue for taxpayers who make donations over $100 to an approved qualified organization that works to promote and encourage ex-offender's reintegration into society and avoid re-incarceration. The taxpayer could claim up to 50% of the contribution for each taxable year beginning January 1, 2018. There is a $2,000,000 annual cap on the credits authorized each calendar year. Therefore, General and Total State Revenues may be reduced by this amount as early as FY 2019. This proposal could result in up to a $2,000,000 direct decrease to General and Total State Revenues and could impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue** (**DOR**) assume that beginning January 1, 2018, the legislation allows taxpayers a credit equal to 50 percent of contributions of at least $100 to qualified organizations. The legislation prohibits the Director from authorizing more than $2 million in any calendar year. Qualified organizations are 501(c)(3) organizations that have been helping ex-offenders to reintegrate into society.

The Department requires forms and programming changes to implement the provisions of this legislation. The integrated tax system requires updates at a cost of $65,146. The Personal Tax Division will require one Revenue Processing Technician I ($27,185) per 6,000 tax credits claimed. The Corporate Tax Division will require one Revenue Processing Technician I ($27,185) per 4,000 tax credits redeemed. The Collections & Tax Assistance Division will see additional customer contacts from this legislation and notice of adjustments. The section requires two Tax Collection Technicians I ($27,185), one for every additional 15,000 contacts annually on the non-delinquent tax line and one for every additional 15,000 contacts annually on the delinquent tax line. Each technician requires CARES equipment and license.

Officials at the **Department of Corrections** (**DOC**) assume the bill proposes to allow persons to claim tax credits for contributions made to non-profit organizations that have been accredited by the Department of Corrections to provide reentry services. There does not appear to be a simple manner in which to use recidivism as a qualifying factor for determining the qualifications of organizations in order to claim the tax credit.

The DOC does develop and publish recidivism statistics each year. The most common statistic is to look at the return to prison after first release within two years of being released from prison. This rate is used for all offenders released from prison and is not specific to the offender's risk to re-offend or the level of need for reentry services. Using this recidivism rate as a baseline to

ASSUMPTION (continued)

compare each organization's efforts to qualify for the tax credit does not account for an individual offender's risk to return to prison or need for re-entry services. The risk level and need for services may be attributable to the type of crime or the offender's history such as educational achievement, substance abuse history and employment skills.

The DOC does not track the majority of these offenders through our Program Tracking system so it would be difficult to project which offenders would be impacted by the re-entry services and what the impact would be. The DOC can calculate a recidivism rate for an organization but if risk and needs are not taken into effect, it could result in some unfairness in determining the qualifications of organizations wishing to be included in the tax credit. Organizations could provide a range of services (substance abuse treatment, sex offender housing, employment services, etc.) that would make it difficult to rate them under one baseline standard.

Under this legislation, the Department Director is responsible for certifying organizations for the tax credit. There appear to be over a thousand organizations who could apply to be qualified for the tax credit and it could take a significant amount of administrative time to track and respond to the requests.

This legislation is designed to increase the amount of re-entry services provided or increase the chance of released offenders successfully remaining in the community. The DOC has cost avoidance as follows for each offender that doesn't return to prison or supervision: the FY16 average cost of supervision is $6.12 per offender per day or an annual cost of $2,234 per offender. The DOC cost of incarceration is $16.67 per day or an annual cost of $6,085 per offender.

A very significant issue is whether only measuring the recidivism of the organization's programs provides any indication of the efficiency of providing the tax credit. The current activities of the organizations are already included in the overall recidivism statistics. The effectiveness of the tax credit would seem to be in encouraging additional donations to provide for increased or enhanced services. That is not measured by recidivism and our lack of interaction with many of these providers would make it difficult to determine if any additional offenders would be impacted by the tax credit.

Therefore, the impact of this legislation is "Unknown."

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown reduction of premium tax revenues as a result of the creation of a tax credit for certain organizations for working with ex-offenders is possible. Premium tax

ASSUMPTION (continued)

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 principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

The department 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.

Oversight notes this proposal creates a tax credit for contributions to qualified organizations. To qualify for the credit, a contribution must be at least $100 and the credit is for 50% of the contribution. Oversight assumes this proposal begins with tax years starting January 1, 2018, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2019. The total number of credits that can be redeemed annually is $2 million. Oversight will show the impact as up to the $2 million annual cap.

Oversight is unable to determine how many taxpayers would qualify for this tax credit. Oversight assumes DOC and DOR could absorb the responsibilities of this tax credit with existing resources. Should DOC or DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
Revenue Reduction - tax credit for contributions to organizations that help ex offenders	$0	(Up to $2,000,000)	(Up to $2,000,000)
Cost - DOR Integrated Tax System upgrades	($65,146)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($65,146)**	**(Up to $2,000,000)**	**(Up to $2,000,000)**

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 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the credits can be positively impacted.

FISCAL DESCRIPTION

This proposal authorizes a tax credit for certain organizations working with ex-offenders.

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 Corrections
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of Administration
  Division of Budget and Planning

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February 23, 2017

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