

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4607-01
Bill No.: HB 2188
Subject: Taxation and Revenue - Income, Taxation and Revenue - General, Tax Incentives,
 Public Assistance
Type: Original
Date: January 29, 2018

Bill Summary: This establishes the Show Me Opportunity Scholarship Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0	(Less than \$50,000,000)	(Less than \$50,000,000)
Total Estimated Net Effect on General Revenue	\$0	(Less than \$50,000,000)	(Less than \$50,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
STO Operating Fund	(\$113,667)	(\$125,690)	(\$126,791)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$113,667)	(\$125,690)	(\$126,791)

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
STO Operating Fund	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning** assume this proposal creates the Show Me Opportunity Scholarship Program, which provides tax credits for donations to qualified non-profits. The amount of tax credits available for this program is \$50,000,000 per year. This proposal could therefore lower General and Total State Revenues by that amount indefinitely as there is no sunset date proposed.

Officials at the **Department of Revenue (DOR)** assume that beginning January 1, 2019, this proposal allows a tax credit for any taxpayer, as defined, a tax credit up to 100 percent of the amount of contribution made to a qualified nonprofit. No taxpayer shall claim a credit under the show me opportunity scholarship program for any contribution made by the taxpayer, or an agent of the taxpayer, on behalf of a dependent of such taxpayer or, in the case of a business taxpayer, on behalf of a dependent of an agent of such business taxpayer. To claim a credit, the taxpayer shall submit a tax certificate issued under subsection 3 of §135.742 with the taxpayers tax return. The amount of tax credit claimed shall not exceed the amount of the taxpayer's state tax liability for the tax year for which the credit is claimed. Any amount of tax credit that exceeds the taxpayer's state tax liability shall not be refundable but may be carried over for one succeeding tax year. No tax credit shall exceed ten thousand dollars for an individual taxpayer or one hundred thousand dollars for any other taxpayer entity. The state treasurer shall certify the tax credit amount to the taxpayer. No tax credit authorized under the program shall be transferred, sold or assigned. The cumulative amount of tax credits that may be allocated to all taxpayers making a contribution in any one calendar year shall not exceed fifty million dollars. Certificates for tax credits shall be issued on a first-come first served basis.

The Corporate Tax Section requires one Revenue Processing Technician I (\$26,340) for every 4,000 tax credits redeemed. The Personal Tax Section requires one Revenue Processing Technician I for every 4,000 (\$26,340) tax credits redeemed. Personal Tax requires one Revenue Processing Technician I (\$26,340) for every 5,700 pieces of correspondence generated.

Oversight notes this proposal creates the Show Me Opportunity tax credit in §135.741, that allows for a tax credit equal to 100% of a taxpayer's donation to a qualified nonprofit. This tax credit is capped at \$50 million annually. No individual taxpayer shall receive more than \$10,000 in tax credits and no other taxpayer entity shall receive more than \$100,000 in credits. Oversight will show the impact to General Revenue of Up to the \$50 million annual cap.

Oversight assumes that with the individual taxpayer limit of \$10,000 per filer, no more than 5,000 taxpayers could qualify for this tax credit. With the taxpayer entity limit at \$100,000 per

ASSUMPTION (continued)

entity the most that could qualify would be 500. Oversight assumes there would be both taxpayers and taxpayers entities qualifying for this credit. Since DOR would only need FTE if the number of credits claimed exceed 4,000 Oversight assumes DOR could absorb the FTE costs. Should the number of filers justify the additional FTE, DOR could request the FTE through the appropriation process.

Officials at the **Office of the State Treasurer (STO)** assume they would need one director-level FTE to administer the program. They estimated the costs for the director for salary, benefits and training supplies at \$113,667 in FY 2019, \$125,690 in FY 2020 and \$126,791 in FY 2021. This would be paid for out of the STO Operating Fund.

Oversight notes that the STO is the administrator of this tax credit. They are required to certify and issue the tax credits, maintain and post lists of eligible qualified non-profits, as well as monitor the distribution of the funds by the qualified non-profits. Oversight will show the STO's need for an FTE in the fiscal note starting in FY 2019.

Officials at the **Department of Elementary and Secondary Education** assume that tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

Oversight notes that this proposal requires the distribution of the contributions received from the taxpayers to the qualified non-profits to be distributed to qualified students (§135.740). This proposal defines "qualified student" as having the same meanings as in §166.700. Current statutes do not have a §166.700. Also, the distribution can be used for numerous things besides tuition at another school. Therefore, Oversight is unable to estimate the amount of any savings from students leaving the public school system and transferring to a private school. Oversight will show a potential unknown savings from the contributions being used for tuition at private schools and therefore a decrease in the amount of payments made to public schools

Officials at the **Summersville R-II School District** assume any voucher program takes money away from the district. The negative impact is unknown.

Officials at the **Kirksville R-III** and the **Wellsville-Middletown R-I School Districts** each assume that any time tax credits are given, it has a negative fiscal impact on their district.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

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 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.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Savings</u> - potential decreased payments for students currently in public school to use contribution to pay tuition to attend a private school	\$0	Unknown	Unknown
<u>Revenue Reduction</u> - creation of the Show Me Opportunity tax credit §135.741	<u>\$0</u>	(Up to <u>\$50,000,000</u>)	(Up to <u>\$50,000,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	(Less than <u>\$50,000,000</u>)	(Less than <u>\$50,000,000</u>)

<u>FISCAL IMPACT - State Government</u>	FY 2019	FY 2020	FY 2021
(continued)	(10 Mo.)		

**STATE TREASURER'S OFFICE
 OPERATING FUND**

<u>Cost - STO §135.740</u>			
Personal Service	(\$69,985)	(\$84,822)	(\$85,670)
Fringe Benefits	(\$29,432)	(\$35,568)	(\$35,821)
Equipment & Expenses	(\$14,250)	(\$5,300)	(\$5,300)
<u>Total Cost - STO</u>	<u>(\$113,667)</u>	<u>(\$125,690)</u>	<u>(\$126,791)</u>
FTE Change	1 FTE	1 FTE	1 FTE

**ESTIMATED NET EFFECT ON THE
 STATE TREASURER'S OFFICE
 OPERATING FUND**

<u>(\$113,667)</u>	<u>(\$125,690)</u>	<u>(\$126,791)</u>
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Estimated Net FTE Change to the State Treasurer's Office Operating Fund	1 FTE	1 FTE	1 FTE
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<u>FISCAL IMPACT - Local Government</u>	FY 2019	FY 2020	FY 2021
	(10 Mo.)		
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that make qualified contributions could receive a tax credit.

FISCAL DESCRIPTION

This bill establishes the "Show Me Opportunity Scholarship Program" to help ensure the education of students in Missouri.

Beginning January 1, 2019, this bill authorizes a tax credit for 100% of the amount of a qualifying contribution to a qualified nonprofit that is certified by the State Treasurer and allocates all of its annual revenue derived from contributions to qualified students. The tax credit is non-refundable and nontransferable, but can be carried forward for one year. The tax credit cannot exceed \$10,000 per individual taxpayer or \$100,000 per taxpayer entity, and the annual

FISCAL DESCRIPTION (continued)

cumulative amount of tax credits is limited at \$50 million, annually. Tax credits will be issued on a first-come, first-served basis.

The State Treasurer must evaluate and certify all non-profits, publish a list of all qualified non-profits, create a standardized form to report contributions, issue tax credit certificates, and have an independent CPA conduct a financial audit of any qualified nonprofit if it possesses evidence of fraud. In addition, the State Treasurer may ban a nonprofit from participating if it has failed to comply with program requirements.

A qualified nonprofit must meet certain requirements, including notifying the State Treasurer of its intent to provide scholarship accounts; being a 501(c)(3) organization; providing a receipt to taxpayers for contributions; ensuring that funds are used as specified in the bill; distributing scholarship payments four times per year or in one lump sum as specified, in an amount not to exceed the state adequacy target; providing the State Treasurer, upon request, with criminal background checks on all employees and board members; and demonstrating financial accountability and viability, as described in the bill.

Each qualified nonprofit must publicly report to the State Treasurer, by June 1 each year, the name and address of the organization, the name and address of each student who received contribution funds, the total number and dollar amount of contributions received during the previous calendar year, the total number and dollar amount given to qualified students. An educational organization can contract with private financial management firms with the supervision of the state.

A qualified student is eligible to receive a scholarship up to \$8,000 annually if he or she is identified as having a disability, or proportion based on his or her family's income, as specified in the bill.

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
Joint Committee on Administrative Rules
Kirksville R-III School District
Office of Administration
 Division of Budget and Planning
Office of the Secretary of State
Office of the State Treasurer
Summersville R-II School District
Wellsville-Middletown R-I School District

Ross Strobe



Acting Director
January 29, 2018