

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4663-03
Bill No.: Perfected with an Effective Date HCS for HB Nos. 1288, 1377 & 2050
Subject: Tax Credits, Tax Incentives, Department of Revenue, Taxation and Revenue -
 Income, Charities
Type: Original
Date: February 27, 2018

Bill Summary: This proposal modifies provisions of several of the domestic and social tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	(Up to \$150,000)	(Up to \$2,150,000)	(Up to \$10,550,000)
Total Estimated Net Effect on General Revenue	(Up to \$150,000)	(Up to \$2,150,000)	(Up to \$10,550,000)

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 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 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
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 2019	FY 2020	FY 2021
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§135.090 Peace Officer Surviving Spouse Tax Credit

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this section would extend the sunset date for the Surviving Spouse of Public Safety Officers tax credit from 12/31/2019 to 12/31/2026. B&P estimates that his provision will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Peace Officer Surviving Spouse tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Amount Redeemed	\$70,941	\$117,554	\$89,502	\$90,000	\$90,000

Oversight notes the Peace Office Surviving Spouse tax credit does not have an annual cap. Currently, this tax credit is to sunset on December 31, 2019 (FY 2020). This proposal extends the sunset date until December 31, 2026. Oversight notes the bill would extend this tax credit from FY 2020 to FY 2027. Oversight will show the impact as Up to \$100,000.

§135.341 Champion for Children tax credit

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this legislation extends the final date to issue tax credits for contributions to qualified crisis child agencies to December 31, 2025. It also imposes a \$1,500,000 cap on the Champion for Children Tax Credit. The current cap is \$1,000,000; but B&P notes the average amount of redemptions over the last three fiscal years is \$999,950. B&P estimates this proposal could decrease Total State Revenue and General Revenue by \$500,000 annually beginning with FY 2019.

This proposal amends the tax credit so that the credits can not be assigned, transferred or sold. This would have a minimal unknown positive impact on Total State Revenue and General Revenue.

The effective date amendment postpones the increase in the tax credit authorization cap until July 1, 2020. Therefore, B&P estimates that the Total State Revenue and General Revenue decrease of \$500,000 would not begin until FY 2021.

ASSUMPTION (continued)

Officials at the **Department of Social Services** assume there is no fiscal impact from this proposal.

Officials at the **Department of Revenue (DOR)** assume this proposed legislation expands the definition of Child Advocacy Centers to include any association based in this state, affiliated with a national association, and organized to provide support to entities listed in subsection 2 of section 210.001. This proposed legislation increases the amount that can be redeemed in Champion for Children Tax Credits each tax year. Therefore, an additional \$500,000 could be redeemed. Subsequently, Total State Revenue could decrease by an estimated \$500,000.

This proposed legislation re-authorizes the Champion for Children Tax Credit as of March 29, 2019 and that tax credit shall now expire on December 31, 2025, unless re-authorized.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Champion for Children tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Amount Redeemed	\$999,990	\$999,987	\$999,873	\$999,999	\$999,999

Amount Outstanding - not declared Amount Authorized but Unissued - not declared

Oversight notes this tax credit has a \$1 million annual cap. This proposal increases the annual cap to \$1.5 million and changes the stop date of this tax credit from December 31, 2019 (FY 2020) to December 31, 2025. The credit is given to a taxpayer up to 50% of the donation they made to a qualified agency.

Oversight notes this proposal expands the definition of child advocacy centers which could increase the number of taxpayers eligible of this credit. This tax credit has been near the \$1 million cap. Increasing the number of qualifying centers and the cap could result in more taxpayers filing for the credit. This proposal expands the cap on the tax credit stating July 1, 2020 (FY 2021) and therefore, Oversight will reflect the increase in the cap starting in FY 2021.

§135.562 Residential Dwelling tax credit

Officials at the **B&P** assume this would extend the sunset date for the Residential Dwelling Access tax credit from 12/31/2019 to 12/31/2026. This provision also increases the cap from \$100,000 to \$200,000; therefore, B&P estimates that this provision will reduce Total State Revenue by \$100,000 annually, beginning in FY 2021.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Residential Dwelling tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Amount Redeemed	\$18,190	\$10,233	\$7,053	\$8,000	\$8,000

Oversight notes the Residential Dwelling tax credit has a \$100,000 annual cap. Currently, this tax credit is to sunset on December 31, 2019 (FY 2020). This proposal extends the sunset date until December 31, 2026 and raises the cap to \$200,000 starting on July 1, 2020 (FY 2021). Oversight notes the bill would extend this tax credit from FY 2020 to FY 2027. Oversight will show the impact as Up to \$200,000 in FY 2021.

\$135.600 Maternity Home tax credit

Officials at the **B&P** assume no direct impact on the General and Total State Revenue as this extends the sunset date of an existing program. B&P notes the three year average of redemptions for the Maternity Home Credit is \$1.86 million.

This proposal increases the cap for the Maternity Home tax credit to \$3.5 million beginning in FY 2019. B&P notes that the current cap is \$2.5 million; therefore, B&P estimates that this provision could reduce Total State Revenue and General Revenue by \$1 million annually, beginning in FY 2019

Officials at the **DOR** assume this proposal expands the definition of maternity home to a residential facility located in this state that does not perform, induce, or refer for abortions and that does not hold itself out as performing, inducing, or referring for abortions as well as residential facilities located in this state that provide services at no cost to clients. Limits the carryforward of the Maternity Home Tax Credit to only one (the next) succeeding tax year if the credit exceeds the taxpayer's tax liability of the tax year that the credit is claimed.

Does not allow for this credit to be assigned, transferred, or sold. Tax credits shall be issued in the order contributions are received. Provision for carrying over an amount of tax credit that has been authorized that is not issued in full to a subsequent fiscal year or years and shall be added to the cumulative amount of tax credits that may be claimed in that fiscal year or years.

Changes the sunset date to December thirty-first six years after the effective date of this subsection unless re-authorized by an act of the general assembly. If such program is re-authorized, the program authorized under this section shall automatically sunset on December

ASSUMPTION (continued)

thirty-first six years after the effective date of the re-authorization of this section. The section shall terminate on September first of the calendar year immediately following the calendar year in which the program authorized under this section is sunset; and the provisions of this subsection shall not be construed to limit or in any way impair the Department's ability to issue tax credits authorized on or before the date the program authorized under this section expires or a taxpayer's ability to redeem such tax credits.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Social Services regarding this program, the Maternity Home tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	2,572	2,883	2,113	2,500	2,500
Amount Authorized	\$2,104,022	\$2,499,405	\$2,482,714	\$2,450,000	\$2,450,000
Amount Issued	\$2,104,022	\$2,499,405	\$2,482,714	\$2,450,000	\$2,450,000
Amount Redeemed	\$1,511,157	\$1,657,333	\$2,422,510	\$1,850,000	\$1,850,000

Amount Outstanding - \$2,115,891 Amount Authorized but Unissued - \$0

Oversight notes the Maternity Home tax credit has a \$2,500,000 annual cap. Currently, this tax credit is to stop on June 30, 2020. This proposal removes the stop date and replaces it with a six year sunset. This program would now sunset on December 31, 2024. Oversight notes this bill would extend the Maternity Home tax credit from FY 2020 to FY 2025. Additionally, this proposal raises the cap to \$3,500,000. Oversight will show the additional cap of \$1,000,000 in FY 2020 and the full amount of \$3,500,000 beginning in FY 2021.

Oversight notes this proposal permits the carry forward of the cap that was not claimed. If the amount of credits redeemed is less than the cumulative amount allowed by law, then the difference can be carried forward to be redeemed the following year. Oversight shows the full amount of the cap in each fiscal year, so for fiscal note purposes will not show an impact from this portion of the proposal.

This tax credit allows a taxpayer a credit up to 50% of their donation to a maternity home.

§135.630 Pregnancy Resource Center tax credit

Officials at **B&P** assume no direct impact on the General and Total State Revenue as this extends the sunset date of an existing program. B&P notes the three year average of redemptions for the Pregnancy Resource Credit is \$1.87 million.

ASSUMPTION (continued)

This proposal increases the cap for the Pregnancy Resource Center tax credit to \$3.5 million beginning in FY 2019. B&P notes that the current cap is \$2.5 million; therefore, B&P estimates that this provision could reduce Total State Revenue and General Revenue by \$1 million annually, beginning in FY 2019.

Officials at the **DOR** assume this proposal changes the carryforward provision from a four year carryforward allowance to state that the credit can only be carried forward one (the next) succeeding year. States that this tax credit shall not be assigned, transferred, or sold. If any amount of tax credits redeemed in a fiscal year is less than the cumulative amount authorized under this subsection, the difference shall be carried over to a subsequent fiscal year or years and shall be added to cumulative amount of tax credits that may be claimed in that fiscal year.

The provisions of this program authorized under this section shall automatically sunset on December thirty-first six years after the effective date of this section unless re-authorized by an act of the general assembly. If such a program is re-authorized, the program authorized under this section shall automatically sunset on December thirty-first six years after the effective date of the re-authorization of this section.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Social Services regarding this program, the Pregnancy Resource Center tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	4,245	4,363	4,628	4,400	4,400
Amount Authorized	\$2,326,435	\$2,499,442	\$2,443,386	\$2,450,000	\$2,450,000
Amount Issued	\$2,326,435	\$2,499,442	\$2,443,386	\$2,450,000	\$2,450,000
Amount Redeemed	\$1,581,045	\$1,845,875	\$2,183,505	\$1,900,000	\$1,900,000

Amount Outstanding - \$2,369,413 Amount Authorized but Unissued - \$0

Oversight notes the Pregnancy Resource Center tax credit has a \$2,500,000 annual cap. Currently, this tax credit is to sunset on December 31, 2019 (FY 2020). This proposal extends the sunset date until December 31, 2024. Oversight notes the bill would extend the Pregnancy Resource Center tax credit from FY 2020 to FY 2025. Additionally, this proposal raises the cap to \$3,500,000. Oversight will show the additional cap of \$1,000,000 in FY 2020 and the full amount of \$3,500,000 beginning in FY 2021.

Oversight notes this proposal permits the carry forward of the cap that was not claimed. If the amount of credits redeemed is less than the cumulative amount allowed by law, then the difference can be carried forward to be redeemed the following year. Oversight shows the full
 JH:LR:OD

ASSUMPTION (continued)

amount of the cap in each fiscal year, so for fiscal note purposes will not show an impact from this portion of the proposal.

This tax credit allows a taxpayer a credit up to 50% of their donation to a pregnancy resource center.

§135.647 Food Pantry Tax Credit

Officials at the **B&P** assume this proposal amends the Food Pantry tax credit and extends the sunset date from 12/31/2019 to 12/31/2026. This provision would also add food donations to homeless shelters and soup kitchens. B&P estimates that this provision will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Officials at the **DOR** assume there is no fiscal impact from this portion of the proposal.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Revenue regarding this program, the Food Pantry tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Amount Redeemed	\$1,118,866	\$1,155,480	\$1,584,566	\$1,585,000	\$1,585,000

Oversight notes this tax credit has a \$1,750,000 annual cap. A portion of this proposal changes the sunset date of this tax credit from December 31, 2019 (FY 2020) to December 31, 2026. The credit is given to a taxpayer up to 50% of the donation they made to a qualified food pantry.

Oversight notes a portion of this proposal expands the tax credit from donations to food pantries to include soup kitchens and homeless shelters as well. Oversight notes the FY 2017 redemptions (and projections for FY 2018 and FY 2019) were approximately \$1.6 million; about \$150,000 less than its current cap. This proposal would expand the taxpayers that may be eligible to claim the credit starting in FY 2019 and could increase participation in the program. Oversight will show the possibility of increased redemptions in FY 2019 and 2020 of Up to \$150,000.

Bill as a Whole

Officials at the **Department of Social Services** assume there is no fiscal impact from this proposal.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown reduction to premium tax revenues may occur as a result of continuing Maternity Homes Contribution and the Pregnancy Resource Center tax
JH:LR:OD

ASSUMPTION (continued)

credits. Premium tax 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 through out 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.

Oversight notes that several of the tax credits have language added that no longer allow the credits to be assigned, transferred or sold. Oversight will show an unknown savings from these provisions.

Per **Oversight** fiscal note policy, the fiscal note will reflect the extension of these tax credits starting in FY 2021.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Savings</u> - change in the ability to assign, transfer or sell some tax credits	Unknown	Unknown	Unknown
<u>Revenue Reduction</u> - extension of the Peace Officer Surviving Spouse tax credit sunset from 12/31/19 to 12/31/26 §135.090	\$0	\$0	(Up to \$100,000)
<u>Revenue Reduction</u> - expanding cap from \$1M to \$1.5 M and extension of the Champion for Children tax credit sunset date §135.341	\$0	\$0	(Up to \$1,500,000)
<u>Revenue Reduction</u> - extension of the Residential Dwelling tax credit program from 12/31/19 to 12/31/26 §135.562	\$0	\$0	(Up to \$200,000)
<u>Revenue Reduction</u> - extension of the Maternity Home tax credit tax credit sunset date from 12/31/19 to 12/31/24 and increase in cap from \$2.5M to \$3.5M §135.600	\$0	(Up to \$1,000,000)	(Up to \$3,500,000)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE (continued)			
<u>Revenue Reduction</u> - extension of the Pregnancy Resource Center tax credit sunset date from 12/31/19 to 12/31/24 and increase in cap from \$2.5M to \$3.5M §135.630	\$0	(Up to \$1,000,000)	(Up to \$3,500,000)
<u>Revenue Reduction</u> - extension of the sunset date on the Food Pantry Tax Credit from 12/31/2019 to 12/31/2026 - and expansion of the program §135.647	(Up to <u>\$150,000</u>)	(Up to <u>\$150,000</u>)	(Up to <u>\$1,750,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	(Up to <u>\$150,000</u>)	(Up to <u>\$2,150,000</u>)	(Up to <u>\$10,550,000</u>)

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.

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that make a donation and receive the tax credits may be positively impacted.

FISCAL DESCRIPTION

This proposal extends the Peace Officer Surviving Spouse tax credit sunset from December 31, 2019 to December 31, 2026. (§135.090)

The Champion for Children Tax Credit is currently scheduled to expire on December 31, 2019. This bill re-authorizes the credit until December 31, 2025. The cumulative amount of tax credits redeemed cannot exceed \$1.5 million (changed from \$1.0 million effective July 1, 2020) in any tax year. (§135.241)

FISCAL DESCRIPTION (continued)

This proposal increases the cap on the Residential Dwelling tax credit from \$100,000 to \$200,000 effective July 1, 2020. Additionally, it changes the expiration date of the credit from December 31, 2016 to December 31, 2026. (§135.562)

This proposal removes the expiration date of June 30, 2020 on the maternity home tax credit and replaces it with sunset language. The new sunset date is December 31, 2024. Additionally, this proposal increases the annual cap from \$2.5 million to \$3.5 million. (§135.600)

This proposal changes the sunset date on the pregnancy resource center tax credit to December 31, 2024. Additionally, this proposal increases the annual cap from \$2.5 million to \$3.5 million. (§135.630)

This proposal expands the Food Pantry tax credit to allow donations to local homeless shelters and local soup kitchens. Additionally this credit was to sunset on December 31, 2019 and this proposal extends it until December 31, 2026. (§135.647)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

L.R. No. 4663-03

Bill No. Perfected with an Effective Date HCS for HB Nos. 1288, 1377 & 2050

Page 12 of 12

February 27, 2018

SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration

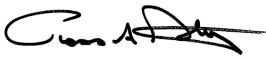
Department of Revenue

Department of Social Services

Office of Administration

Division of Budget and Planning

Ross Strobe

A handwritten signature in black ink, appearing to read "Ross Strobe".

Acting Director

February 27, 2018