

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4663-03
Bill No.: HCS for HB Nos. 1288, 1377 & 2050
Subject: Tax Credits, Tax Incentives, Department of Revenue, Taxation and Revenue -
 Income, Charities
Type: Original
Date: January 31, 2018

Bill Summary: This proposal extends sunset for the Champion for Children Tax Credit and modifies provisions of a tax credit for donations to maternity homes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	(Up to \$500,000)	(Up to \$500,000)	(Up to \$6,500,000)
Total Estimated Net Effect on General Revenue	(Up to \$500,000)	(Up to \$500,000)	(Up to \$6,500,000)

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 9 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

§135.341 Champion for Children tax credit

In response to the similar legislation filed this year, HB 1377, officials at the **Office of Administration Division of Budget and Planning (B&P)** assumed this legislation extends the final date to issue tax credits for contributions to qualified crisis child agencies to December 31, 2025. Because this proposal extends an existing credit, this will not directly impact Total State Revenue.

B&P notes that redeemed tax credits under the Champion for Children Tax Credit have averaged \$1 million over the last three years. This proposal will not directly impact General and Total State Revenues or the calculation of Article X, Section 18(e).

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.

ASSUMPTION (continued)

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

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. Oversight will reflect the increase in the cap starting in FY 2019.

§135.600 Maternity Home tax credit

In response to the previous version, officials at the **Office of Administration Division of Budget and Planning (B&P)** assumed 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.

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 provides 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 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.

ASSUMPTION (continued)

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.

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

In response to the previous version, 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.

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.

ASSUMPTION (continued)

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.

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 pregnancy resource center.

Bill as a Whole

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

ASSUMPTION (continued)

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 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.

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

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<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	(Up to \$500,000)	(Up to \$500,000)	(Up to \$1,500,000)
<u>Revenue Reduction</u> - extension of the Maternity Home tax credit with a sunset date §135.600	\$0	\$0	(Up to \$2,500,000)
<u>Revenue Reduction</u> - extension of the Pregnancy Resource Center tax credit sunset date §135.630	<u>\$0</u>	<u>\$0</u>	(Up to <u>\$2,500,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	(Up to <u>\$500,000</u>)	(Up to <u>\$500,000</u>)	(Up to <u>\$6,500,000</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

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) in any tax year.

This bill removes the expiration of June 30, 2020 from the tax credit for donations to maternity homes and the expiration date of December 31, 2019 from the tax credit for donations to pregnancy resource centers.

The provisions of the bill will sunset on December 31, six years after the effective date unless re-authorized.

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

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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 Strope

A handwritten signature in black ink, appearing to read "Ross Strope", with a stylized flourish at the end.

Acting Director
January 31, 2018