



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 434** HLS 17RS 691
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 1, 2017 6:46 PM	Author: SMITH, P.
Dept./Agy.: Revenue	Analyst: Jodi Mauroner
Subject: Rebates to School Tuition Donation Organizations	

TAX/TAX REBATES OR INCREASE GF RV See Note Page 1 of 1

Reduces the amount of the rebate for taxpayer donations to school tuition organizations which provide scholarships for certain students to attend qualified schools

Current law authorizes a rebate for donations made to a school tuition donation organization (STO) which must be used to provide scholarships to qualified students at participating schools. The amount of the rebate is equal to the amount of the donation used to fund a scholarship, excluding administrative costs, which shall not exceed 5% of the donation amount. Rebates are claimed the year following the actual scholarship award.

Proposed law reduces the rebate to 70% of the donation amount (not to include administrative expense). Effective for donations made on or after July 1, 2017.

EXPENDITURES	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	INCREASE	INCREASE	INCREASE	INCREASE	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0					\$0

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

There will be a reduction in the rebate amount a taxpayer may claim from the Department of Revenue (DOR) before deposit of tax collections into the state treasury and charged against gross state tax collections (most likely personal and corporate income tax). Net collections for deposit into the state treasury will increase. However, growth in the program will likely continue at a significant rate and charges against gross state tax collections could still be substantial.

The tuition donation rebate program was authorized by ACT 25 of 2012 with donations and scholarship awards beginning with the 2013-2014 school year. Participating organizations are required to submit annual reports on January 1 of each year. Based on information submitted by the three participating STOs, rebate eligible donation amounts for the past three years totaled \$6.6 M and scholarships awarded for school years totaled \$3.4 M. Donation data for the 2016-2017 school year will not be available until the January 2018 report. However, based on initial enrollment as reported by the Department of Education, \$7 M in scholarships have been awarded for the current school year. Total exposure to the state for the four year period is \$10.5 M.

Scholarships awarded through the STO program are expected to grow, although the early age of the program makes projections of its cost infeasible. While limiting the award to only 70% of the donation will result in lower program costs than would otherwise be the case, rebate amounts will continue to increase by indeterminable amounts. For illustrative purposes, applying the reduced rate to donations received to date would have resulted in less rebate payments of approximately \$3.1 M for this four year period (\$10.5 *70% = \$7.4).

Of note, in addition to the state rebate, a 2011 memo issued by the Office of the Chief Counsel of the Internal Revenue Service determined that notwithstanding the state rebate amount, individuals and businesses may claim the donation as a charitable contribution on their federal income tax. This added tax benefit could encourage individuals and businesses to continue making donations to this program despite the reduced state benefit.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht
Chief Economist