

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 38** HLS 161ES 139
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: February 16, 2016 5:21 PM	Author: FOIL
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Tax Credit for Donations to Educational Institutions	

TAX CREDITS OR -\$275,000 GF RV See Note Page 1 of 1
 Increases the amount of the tax credit for contributions to educational institutions (Item #10)

Current law allows a non-refundable tax credit against individual and corporate income tax liabilities for donations, contributions, and sales below cost to educational institutions in the state. The credit is equal to 29% of the donation value. This credit is in lieu of deductions from gross income that are allowed for such donations. This credit was reduced from 40% by Act 125 of 2015, for returns filed after July 1, 2015 but before June 30, 2018.

Proposed law increases the credit rate back to 40%.

Applicable to all such claims on any return filed for any taxable year beginning on or after January 1, 2015.

Effective upon governor's signature.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
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>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	(\$275,000)	(\$275,000)	\$0	\$0	\$0	(\$550,000)
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>	\$0
Annual Total	(\$275,000)	(\$275,000)	\$0	\$0	\$0	(\$550,000)

EXPENDITURE EXPLANATION

The department of Revenue will incur some additional minor costs to adjust the tax processing system with regard to this credit.

REVENUE EXPLANATION

Over the last few years, roughly \$1 million per year of credit, at the 40% rate, has been claimed on individual income tax returns. Little or no credit is typically claimed on corporate returns. Enactment of Act 125 of 2015, which reduced the credit rate to 29%, would be expected to generate approximately \$275,000 per year of additional income tax net receipts during FY16, FY17, and FY18, assuming donation behavior is not significantly affected by the reduction in the credit rate.

This bill restores the credit rate back to 40% immediately, and based on the simple assumption of unchanged donation behavior, results in state revenue loss exposure of approximately \$275,000 per year in FY16, FY17, and FY18.

Donation behavior varies from year to year without regard to the tax credit rate, and the reduced credit in current law is still substantial at 29%. It seems unlikely that the reduced credit rate, by itself, will materially change donation behavior. However, the timing applicability (affecting returns filed after July 1, 2015) and the temporary nature (affecting returns filed before June 30, 2018) of the Act 125 credit reduction may distort the typical annual amount of donation credit claims.

Senate Dual Referral Rules House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer