

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0418-04
Bill No.: SB 1
Subject: Campaign Finance; Tax Credits
Type: Original
Date: January 23, 2017

Bill Summary: This proposal creates new provisions permitting taxpayers to claim a tax credit for making certain campaign contributions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(\$130,853)	(Could exceed \$4,914,282)	(Could exceed \$4,914,629)
Total Estimated Net Effect on General Revenue	(\$130,853)	(Could exceed \$4,914,282)	(Could exceed \$4,914,629)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	0 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 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this proposal creates a tax credit for making certain campaign contributions. This proposal could lower General and Total State Revenues by an unknown amount and impact the calculation of Article X, Section 18(e).

This proposal allows a tax credit for all tax years beginning on or after January 1, 2018, in an amount equal to the lesser of one hundred dollars or the sum of no more than five qualifying contributions made by the person during the taxable year to:

- any county political party committee,
- any candidate committee of a candidate for the office of state representative,
- any candidate committee of a candidate for the office of state senator,
- any candidate committee of a candidate for the office of governor, lieutenant governor, attorney general, state treasurer, state auditor, or secretary of state.

There are roughly 4,690,511 individuals of voting age in Missouri which could be eligible for the tax credit. Data provided by the Missouri Ethics Commission for 2016 show a total of 37,202 contributions made to eligible committees. If all 37,202 were eligible for the maximum tax credit this could have an annual negative impact on Total State and General Revenue in the amount of \$3,720,200 (37,202 x \$100). Since itemized reporting is not required for contributions under \$100, the number of individual contributors could be significantly larger.

A total of 90,465 contributions were recorded in Missouri in 2016 by Follow the Money. Also, the number of contributions by individuals and the amount of individual contributions are unknown. If all 90,465 contributions were eligible for the maximum tax credit this could have an annual negative impact on General Revenue up to \$9,046,500 (90,465 x \$100).

On January first of each year, the eligible amount shall be adjusted by multiplying it by the cumulative consumer price index, for all years since January 1, 2017, then by rounding the product to the nearest ten-dollar interval. The consumer price index rose by 1.7 percent from November of 2015 to November 2016.

It is unknown if the tax credit would increase the number of qualifying contributions.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume that during the 2016 election cycle, 90,465 contributions (according to Follow the Money website) were made to qualifying Missouri candidates. If each of these contributions were allowed a credit of \$100, the Department estimates a reduction to Total State Revenue of \$9.5 million. The impact of this legislation may fluctuate year to year as the number of contributions are dependent on what elections are on the ballot in a particular year.

DOR will require forms and programming changes to implement the provisions of this legislation. The Integrated Revenue System will require change to the current design resulting in a cost of \$130,853.

Personal Tax Division will require one (1) Revenue Processing Technician I (\$27,185) per 4,000 tax credits redeemed. Corporate Tax Division will require one (1) Revenue Processing Technician I (\$27,185) per 6,000 tax credits redeemed. The Collections & Tax Assistance Division expects to see additional customer contact for information about the credit and from notice of adjustments that could create billings. The section requires two (2) Tax Collection Technicians I (\$27,185); one for every additional 15,000 contacts annually on the non-delinquent tax line and one for every additional 15,000 contacts annually on the delinquent tax line. Each technician requires CARES equipment and license.

Oversight will show the Personal Tax Division needing one FTE. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Oversight has, for fiscal note purposes only, changed the starting salary for the Revenue Processing Technician I (from \$27,185 to \$24,360) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes that Corporate Tax Division would not need any FTE as corporations are not eligible for this representative credit. This representative credit is only allowed for a taxpayer defined as a "natural person subject to income taxes under Chapter 143 who is registered to vote in Missouri..."

Oversight notes the changes in this proposal would be effective beginning January 1, 2018, and the first income tax returns would be filed reflecting these changes in January, 2019 (FY 2019). Oversight will not show the need for the FTE until FY 2019.

ASSUMPTION (continued)

Officials at the **Missouri Ethics Commission (MEC)** assume they would be required to enforce this proposal. The Commission assumes this proposal would generate a minimal number of complaints. If this assumption is incorrect, then the Commission would require additional staff resources.

Oversight notes this proposal creates the "Taxation with Representation Act." Beginning January 1, 2018 taxpayers may claim a representation credit. The representation credit is a credit allowed against tax due under chapter 143 for the lesser of \$100 or the sum of five contributions made by the person during the tax year to a political party or candidate committee of an elected official. This proposal allows a contributor to support a candidate and be reimbursed for their contribution by the State. Oversight notes this proposal does not establish a cap on the number of representation credits that can be issued.

Oversight notes this proposal does not prohibit the representation credit from being sold, transferred, assigned, or carried forward. It also does not prohibit the representative credit from being refundable.

Oversight notes that §130.041.1(3)(a) and (e) require that campaign contributions be itemized and reported on required campaign finance reports. The exception is for contributions of less than \$100. Oversight notes that the 37,202 number of 2016 contributors provided by MEC does include duplicate contributors (those that gave to more than one candidate). It also does not include those contributors that are not required to be itemized on the campaign forms, which includes those who gave less than \$100.

Oversight requested the Missouri Ethics Commission to provide information on the total amount of contributions received in each election year for the committees outlined in this proposal. The chart shows the amount received.

ASSUMPTION (continued)

Committees	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
County Political Party	\$981,330	\$543,759	\$729,685	\$365,259	\$852,246
State Representative	\$9,299,428	\$3,926,408	\$8,708,127	\$2,792,474	\$9,534,365
State Senator	\$7,839,978	\$2,774,918	\$7,629,827	\$1,695,163	\$6,922,330
Statewide Official	\$70,486,254	\$11,329,317	\$6,913,350	\$4,696,508	\$18,353,996
TOTAL	\$88,606,990	\$18,574,402	\$23,980,989	\$9,549,404	\$35,662,937

Source: Missouri Ethics Commission

Oversight notes that the amount of representative credits claimed each year will vary based on which candidates have an election. The largest election years (2012, 2016, 2020) are when most of the statewide candidates, all members of the house of representatives and half the senators run. The state Auditor and all members of the house of representatives and half the senators run in the second largest elections (2014, 2018). Most contributions are received in the year in which the election occurs, after the candidate files for office at the Office of the Secretary of State. Oversight is unable to determine how many contributors may spread their contributions out over multiple years to claim more representative credits.

Oversight asked the Missouri Ethics Commission to calculate the number of contributors in the 2016 election that gave a single contribution to an allowed committee. The results are listed:

ASSUMPTION (continued)

Committees	FY 2016 Total Contributions	# of Contributions
County Political Party	\$981,330	3,956
State Representative	\$9,299,428	19,958
State Senator	\$7,839,978	5,427
Statewide Official	\$70,486,254	19,368
TOTAL	\$88,606,990	48,709

Source: Missouri Ethics Commission

Oversight assumes that if the 48,709 contributors would qualify for the \$100 representative credit, it would cost the state \$4,870,900. Oversight will show the impact in the fiscal note as could exceed \$4,870,900 as there is no cap on this representative credit.

Oversight notes that in the elections listed above, there were no limits on the amount of money a candidate could receive from an individual. Beginning December 8, 2016, campaign contributions limits were reinstated. Oversight is unable to calculate how the campaign contribution limits may impact the number of people who contribute to the allowed committees and who can receive the representative credit.

Oversight notes that this representative credit would be adjusted annually based on the cumulative consumer price index. Oversight is unable to predict how much the credit will change over the fiscal years. For simplicity of the fiscal note, Oversight is assuming the \$100 credit remains the same each year.

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

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

ASSUMPTION (continued)

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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
<u>Revenue Reduction</u> - campaign contribution representative credit	\$0	(Could exceed \$4,870,900)	(Could exceed \$4,870,900)
<u>Cost</u> - DOR one-time Integrated Tax System upgrades	(\$130,853)	\$0	\$0
<u>Cost</u> - DOR			
Personal Service	\$0	(\$24,604)	(\$24,850)
Fringe Benefits	\$0	(\$17,635)	(\$17,708)
Equipment & Expenses	\$0	(\$1,143)	(\$1,171)
<u>Total Cost</u> - DOR	<u>\$0</u>	<u>(\$43,382)</u>	<u>(\$43,729)</u>
FTE Change - DOR	0 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$130,853)</u>	(Could exceed <u>\$4,914,282</u>)	(Could exceed <u>\$4,914,629</u>)
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act establishes the Taxation with Representation Act. Under the provisions of this act, beginning in 2018 any taxpayer eligible to vote in Missouri may claim a tax credit up to \$100 per year for making any contribution to any of the following committees:

- A county political party committee;
- The candidate committee of a candidate for state representative;
- The candidate committee of a candidate for state senator; or
- The candidate committee of a candidate for any statewide office.

The maximum tax credit amount shall increase yearly based upon the Consumer Price Index.

Persons claiming a tax credit shall not seek a refund of any contribution for which that person has claimed a tax credit, nor shall a tax credit be claimed for any contribution that has been refunded. Violation of this provision is subject to a Class A misdemeanor.

It shall be a Class A misdemeanor to use any offer of compensation, consideration, or reward to a taxpayer in an attempt to motivate such taxpayer to make a contribution to any committee if the taxpayer would be eligible to subsequently claim a representation credit for the contribution.

The Department of Revenue is required to administer the granting of the tax credits and is required to promulgate forms and rules permitting as much.

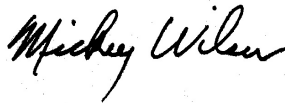
The Missouri Ethics Commission is required to enforce the provisions of this act and may request the assistance of the Department of Revenue in doing so. The Commission is further required to publish an annual report on the usage of the tax credits created by this act. The identity of persons using the tax credit shall remain confidential and shall not be considered a public record.

FISCAL DESCRIPTION (continued)

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 Revenue
Joint Committee on Administrative Rules
Missouri Ethics Commission
Office of Administration
 Division of Budget and Planning
Office of the Secretary of State



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January 23, 2017

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January 23, 2017