COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2016 REGULAR SESSION

MEASURE

2016 BR NUMBER **0482** **SENATE** BILL NUMBER **44**

RESOLUTION NUMBER_____ AMENDMENT NUMBER _____

SUBJECT/TITLE An ACT relating to opportunities in education.

SPONSOR Senator Alvarado

NOTE SUMMARY

FISCAL ANALYSIS: ☒ IMPACT ☐ NO IMPACT ☐ INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: ☒ STATE ☐ LOCAL ☐ FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: ☒ GENERAL ☐ ROAD ☐ FEDERAL ☐ RESTRICTED AGENCY _____ ☐ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES	($12,000,000)	($41,000,000)	($63,000,000)	See explanation below
EXPENDITURES				
NET EFFECT	($12,000,000)	($41,000,000)	($63,000,000)	See explanation below

( ) indicates a decrease/negative

MEASURE'S PURPOSE: If enacted, the bill would create two new income tax credits based on contributions to nonprofit entities that either support public education through additional funding to improve student scores and graduation rates or provide scholarships for private school attendance by certain students.

PROVISIONS/MECHANICS: For taxable years beginning on or after January 1, 2016, but before January 1, 2020, a taxpayer making contributions to a qualified organization may claim a school improvement income tax credit equal to the lesser of: (1) 90% of the contributions made during the taxable year; or (2) $750,000. The qualified organization must be an entity exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code that supports public education in the Commonwealth and that distributes at least 90% of the annual receipts from those contributions to one or more focus schools.

For taxable years beginning on or after January 1, 2016, but before January 1, 2020, a taxpayer making contributions to a qualified scholarship-granting organization may claim a scholarship income tax credit equal to the lesser of: (1) 90% of the contributions made during the taxable year; or (2) $750,000. The qualified scholarship-granting organization must be a nonprofit organization that is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code and that distributes at least 90% of the annual receipts from those contributions to a scholarship program. The scholarship program must provide scholarships to attend a nonpublic kindergarten, elementary, or secondary school located in the Commonwealth.

FISCAL EXPLANATION: The new tax credits will be nonrefundable and allowed against the tax imposed on individual income or corporation income and against the limited liability entity tax. The aggregate value of each of the new tax credits in fiscal year 2016-2017 shall not exceed $25 million for a total negative impact of $50 million to the General Fund. However, based on the requirement of estimated payments, the impact for any single year is spread across three of the Commonwealth's fiscal years.

A credit cap trigger is provided for subsequent fiscal years for each of the credits. If the aggregate value of credit awarded equals at least 90% of the credit cap, the credit cap for the next fiscal year shall be increased by 25% over the credit cap amount established for the prior year. If the 90% threshold is not achieved, the credit cap shall remain at the same level as the credit cap for the prior fiscal year.

It is estimated that a negative impact of $12 million will occur in the current fiscal year related to the reduction of June 2016 estimated payments made by individuals and corporations in anticipation of making the applicable contributions during the taxable year. As additional estimated payments are made and returns are filed during fiscal year 2016-2017, it is estimated that the maximum negative impact will be $41 million. Assuming that the credit cap trigger is utilized in each subsequent fiscal year and that no action is taken by the General Assembly to extend these tax credits in the future, the estimated negative impact will be as follows:

FY 2017-2018 – ($63 million)
FY 2018-2019 – ($79 million)
FY 2019-2020 – ($99 million)
FY 2020-2021 – ($85 million)
FY 2021-2022 – ($31 million)

The negative impacts above are the maximum reductions to the General Fund. There may be other impacts which would produce a savings, thereby reducing this maximum amount. Those savings are indeterminable.

DATA SOURCE(S): **LRC staff**
PREPARER: **Jennifer Hays** **NOTE NUMBER**: **10** **REVIEW**: **JAB** **DATE**: **1/11/2016**