

# 2020 Income Tax Credit Review

## Joint Legislative Income Tax Credit Review Committee

---

<u>Credit:</u>	<u>Page #</u>
<input type="checkbox"/> Credit for Employing National Guard Members	7
<input type="checkbox"/> Credit from Employment of TANF Recipients Credit	12
<input type="checkbox"/> Credit for Contributions to Charitable Organizations	18
<input type="checkbox"/> Credit for Contributions to Foster Care Charitable Organizations	24
<input type="checkbox"/> Pro Rata Credit for Contributions by S Corporations to School Tuition Organizations	30

# 2020 Credit Reviews

---

- ❑ Annually reviews credits as determined in statute
- ❑ This year's review includes:
  - 1) Credit for Employing National Guard Members
  - 2) Credit for Employment of TANF Recipients
  - 3) Credit for Contributions to Qualifying Charitable Organizations
  - 4) Credit for Contributions to Foster Care Charitable Organizations
  - 5) Credit for Contributions by S Corporations to School Tuition Organizations for low-income and displaced/disabled students

# Role of the Committee

---

- Determine original purpose of credit
- Establish standards for evaluating and measuring success or failure of credit
- After review process, recommend whether credit should be amended, repealed or retained

# Standards for Evaluating Credit

---

- ❑ History, rationale and revenue impact of credit
- ❑ Benefits of credit in terms of measurable economic development, investments and jobs
- ❑ Complexity of credit in terms of application, administration and approval process

# Confidential Taxpayer Information

---

- ❑ Statute requires DOR to disclose confidential “statistical information” to Committee and Staff
- ❑ DOR considers credit information confidential if:
  - credits were claimed by 3 or fewer taxpayers, or
  - a single taxpayer used more than 90% of total credits
- ❑ National guard and TANF credits include confidential information

# Issues Affecting Evaluation

---

- Lack of readily-available performance measures
- Certain costs and benefits can be difficult to quantify

---

# **Employment of National Guard Members Credit**

# Employment of National Guard Members Credit

## - Summary

---

- Cost - \$0 in FY 2020 for the individual income credit. Due to confidentiality, corporate credit cost not public
- Purpose - mitigate costs incurred by employers who employ active duty National Guard members.
- Complexity - simple to use and administer.
- Performance Measures - none in statute.



# Employment of National Guard Members Credit

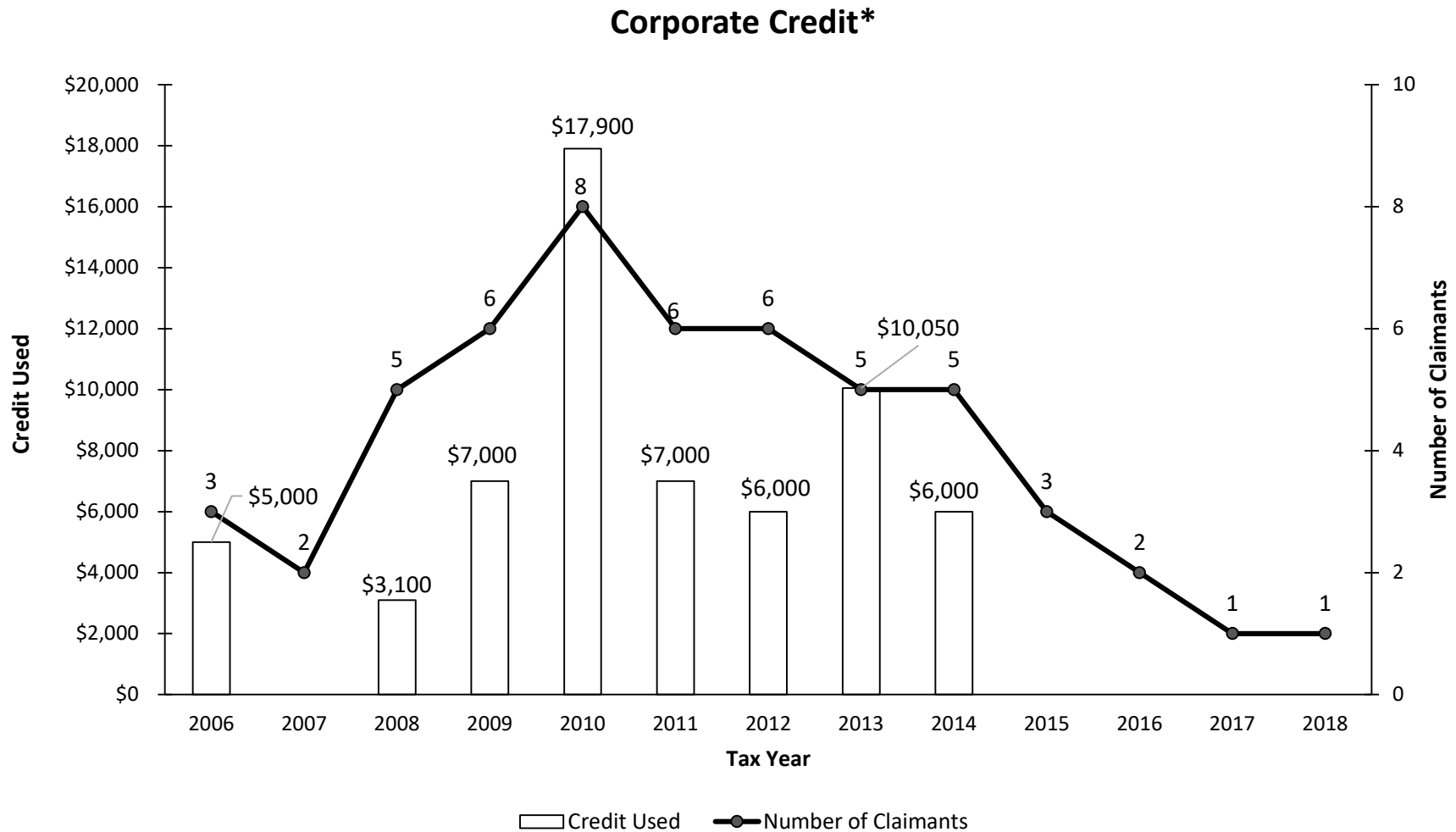
## – Description of the credit

---

- The credit provides \$1,000 per National Guard member that is deployed on active duty, per year.
- Credit is non-refundable.
- Carry forward is 5 years.

# Employment of National Guard Members Credit

## – Amount of Credits Taken & Number of Claimants



\*No data publicly released by DOR with respect to credit used for tax years 2007 and 2015-2018.

# Employment of National Guard Members Credit

## - Other Credit Information

---

- ❑ Economic benefit: hiring of Guard members
- ❑ Possible Performance Measure: number of Guard members claimed under this credit
- ❑ Last reviewed in 2015.
  - Committee recommended continuation of the credit.

---

# **Employment of Temporary Assistance for Needy Families (TANF) Recipients Credit**

# Employment of TANF Recipients Credit

## - Summary

---

- ❑ Cost - \$0 in FY 2020 for the individual income credit. Due to confidentiality, corporate credit cost is not public
- ❑ Purpose - to encourage employers to hire TANF recipients and to reduce their reliance on public assistance.
- ❑ Complexity - simple to use and administer with some reporting and record-keeping requirements.
- ❑ Performance Measures - none in statute.

# Employment of TANF Recipients Credit

## - Description of the Credit

---

- Corporate and individual income tax credit for employing TANF recipients.
- TANF is DES' cash assistance program for low-income households.
- Credit is non-refundable; carry forward is 5 years.
- TANF participation has dropped significantly over the last decade in part due to 2-year time limit
  - Participation fell from 51,000 in August 2010 to 17,000 in August 2020.

# Employment of TANF Recipients Credit

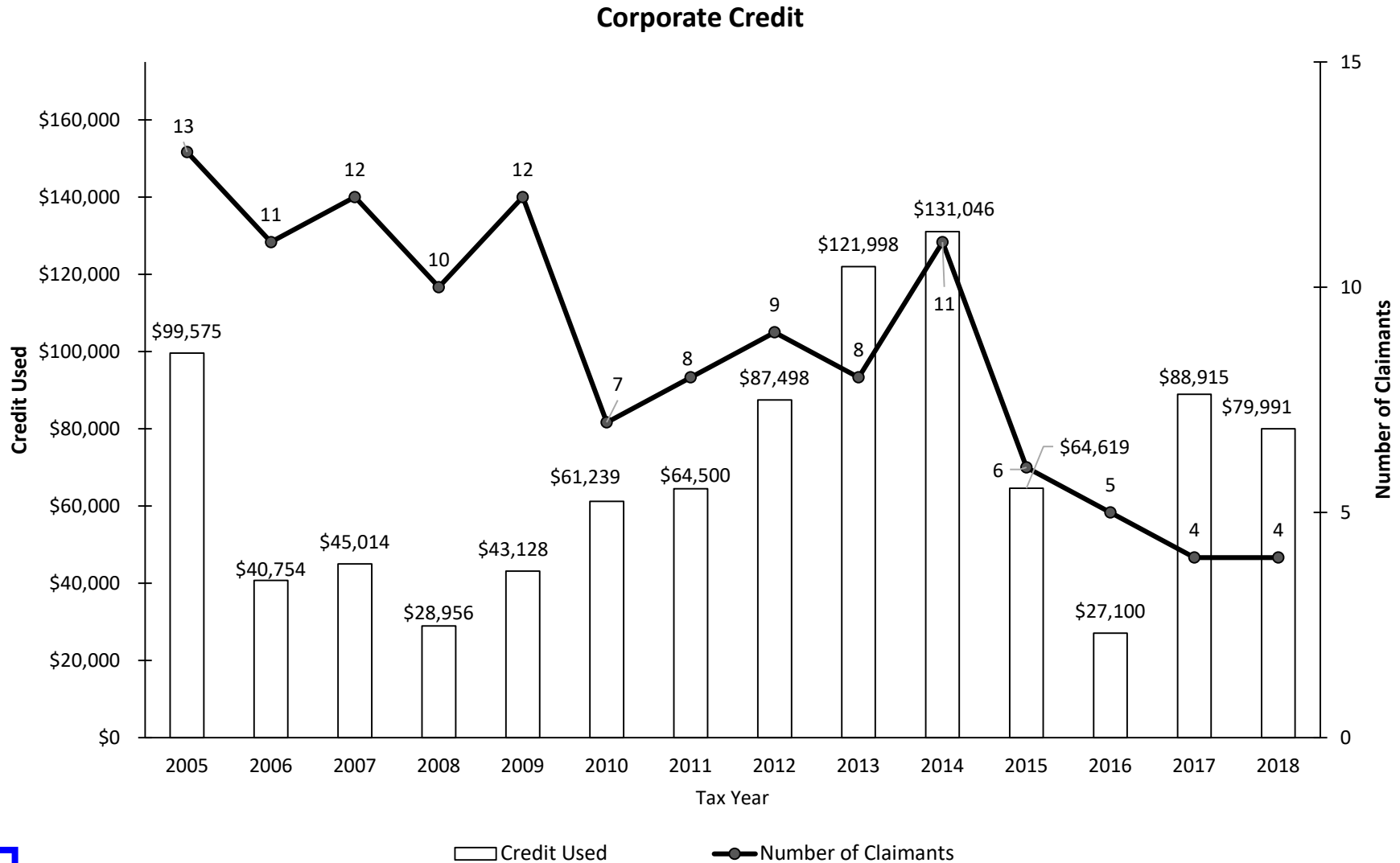
## - Description of Credit

---

- Credit of up to \$500 in 1<sup>st</sup> year of employment, \$1,000 in 2<sup>nd</sup> year and \$1,500 in 3<sup>rd</sup> year
- Jobs must be full-time and offer wages and benefits comparable to other employees
- 5-year carry-forward.
- The credit is relatively modest compared to similar federal income tax credits.

# Employment of TANF Recipients Credit

## - Amount of Corporate Credits Taken & Number of Claimants





# Employment of TANF Recipients Credit

## - Other Credit Information

---

- ❑ Economic benefit: credit could increase employment of TANF recipients
- ❑ Possible Performance Measure: 2- and 3-year retention rates for TANF employees
- ❑ Last reviewed in 2015.
  - Committee recommended that both the individual and corporate tax credits be repealed.

---

# **Contributions to Qualified Charitable Organizations (QCO) Credit**

# Qualifying Charitable Organizations Credit

## - Summary

---

- ❑ Cost - \$65.0 million in fiscal year 2020  
- 154,648 claims
- ❑ Purpose - encourage increased cash contributions to charities that help low-income or chronically ill/disabled persons
- ❑ Complexity - simple to use and administer
- ❑ Performance Measures - none in statute

# Qualifying Charitable Organizations Credit

## - Description of General QCO Credit Component

---

- Credit is available to individuals who make cash contributions to qualifying charities
- Taxpayer does not need to itemize deductions to claim
- A QCO is required to:
  - be a 501(c)(3) or a community action agency
  - spend  $\geq$  50% of its budget on services to low-income or chronically ill/disabled

# Qualifying Charitable Organizations Credit

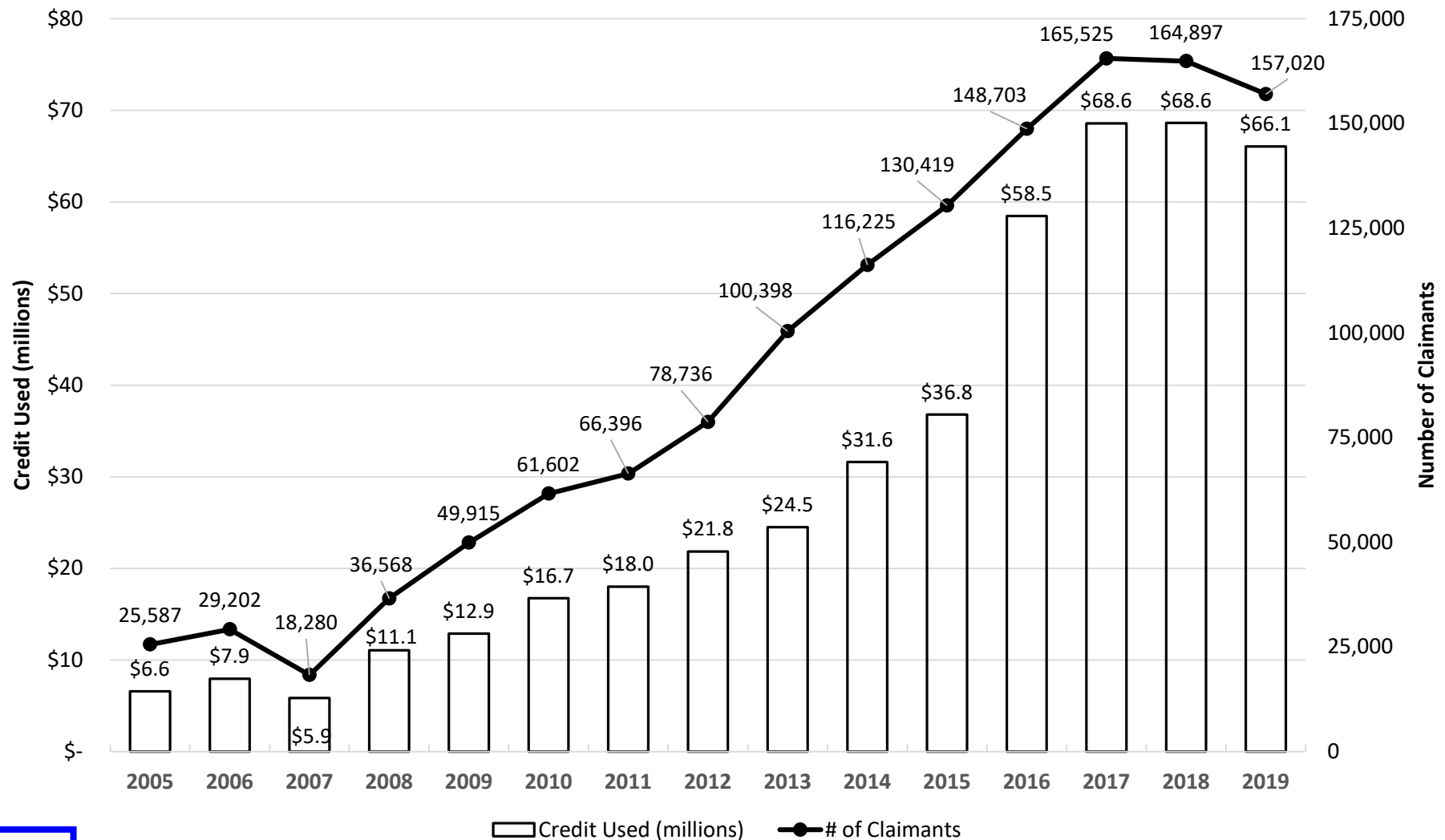
## - Description of Credit (Cont'd)

---

- 1,000+ charitable organizations listed on DOR's web site.  
Credit is available to all individual filers
- Maximum QCO credit is \$400 for singles and heads of household and \$800 for married couples
- Credit is nonrefundable
- Credit carry-forward is 5 years

# Qualifying Charitable Organizations Credit

## – Amount of Credits Taken & Number of Claimants



# Qualifying Charitable Organizations Credit

## - Other Credit Information

---

- Economic benefit: difficult to gauge net new charitable giving
- May encourage donors to reallocate their contributions for tax purposes
- Possible Performance Measures
  - Number of individuals benefitting from services
  - Dollar value of such services
- Last reviewed in 2015
  - Committee recommended continuation of the credit

---

# **Contributions to Qualified Foster Care Charitable Organizations (QFCO) Credit**



# Foster Care Charitable Organizations Credit

## - Summary

---

Cost - \$20.8 million in FY 2020

- 33,236 claims made in FY 2020

Purpose - to encourage cash contributions to 49 foster care organizations.

Complexity - simple to use and administer.

Performance Measures - none in statute.

# Foster Care Charitable Organizations Credit

## - Description of the credit

---

- Individuals donating to QFCO's may claim a credit of up to \$500.
- Married persons filing jointly may claim a credit of up to \$1,000.
- To qualify as a QFCO, an organization must provide services to at least 200 children in a foster home or child welfare agency.
- Credit is non-refundable.
- Carry forward is 5 years.

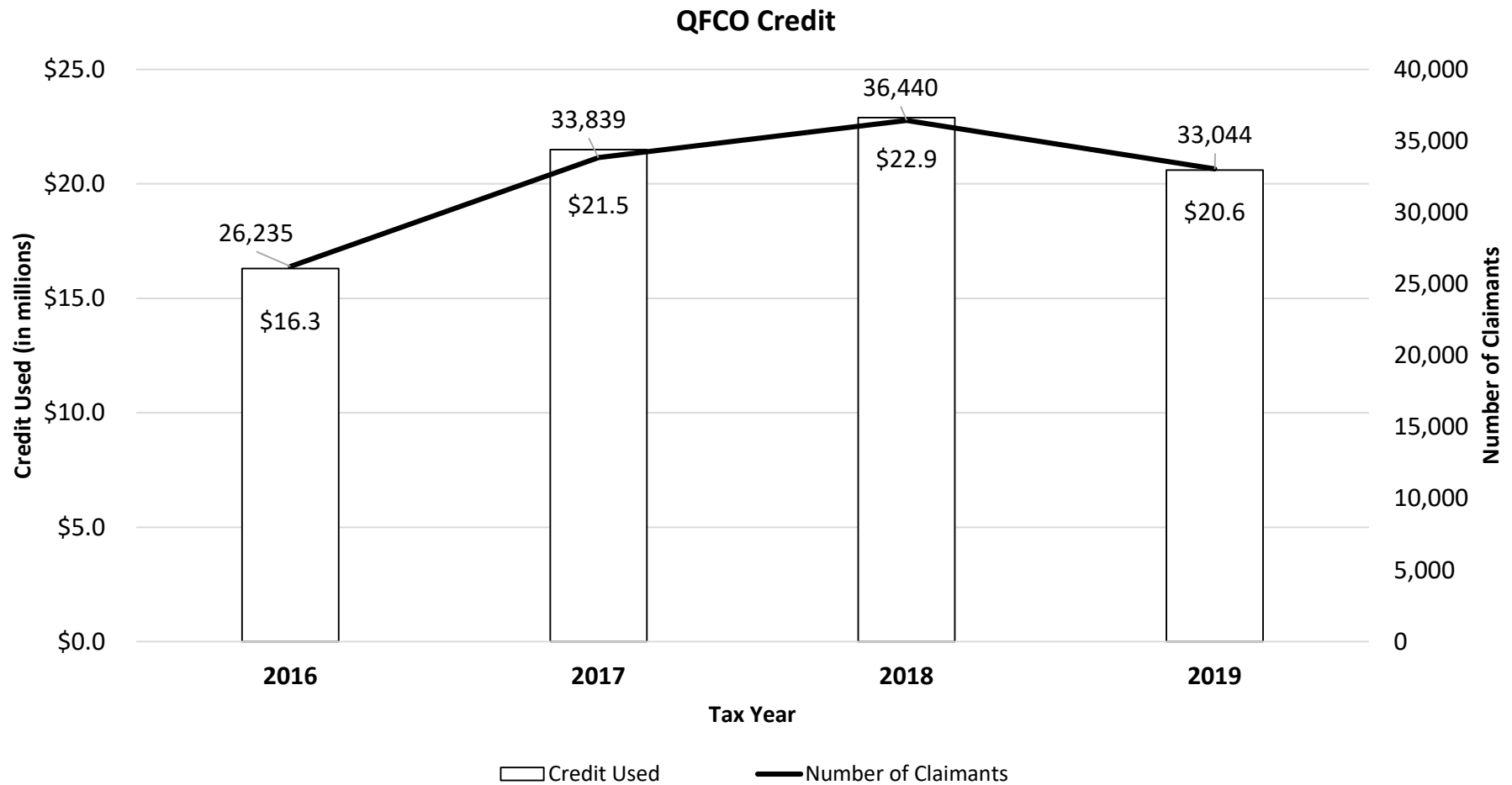
# Certification Requirements for QFCO's

---

- QFCO must spend at least 50.0% of its budget on services.
- Services is broadly defined in statute.
- As a result, legal services, rent, and utilities have been claimed as “basic services” for children.

# Foster Care Charitable Organizations Credit

## - Amount of Credits Claimed & Number of Claimants



# Foster Care Charitable Organizations Credit

## - Other Credit Information

---

- Economic benefit: difficult to gauge net new charitable giving
- May encourage donors to reallocate their contributions for tax purposes
- Possible Performance Measures
  - Number of individuals benefitting from services
  - Dollar value of such services
- The credit has not been reviewed previously.

---

**Pro Rata Credits for Contributions by  
S Corporations  
to School Tuition Organizations (STO)**

- **Low-Income Credit**
- **Displaced/Disabled Credit**

# S Corp STO Low-Income Credit

## - Summary

---

- ❑ Cost - \$29 M in FY 2020 from S Corporations
  - Compared to \$32 M from C Corporations
  - also reduces state's K-12 costs
- ❑ Purpose - fund “low-income scholarships” for pupils attending private schools
- ❑ Complexity - DOR pre-approve contributions; each School Tuition Organization (STO) must report annually
- ❑ Performance Measures - none in statute

# S Corp STO Displaced/Disabled Credit

## - Summary

---

- ❑ Cost - \$1 M in donations in FY 2020 from S Corporations
  - Compared to \$395,000 from C Corporations
  - Total Credit Cap of \$5 M
- ❑ Purpose - assist parents with the cost of private school tuition for displaced or disabled pupils
- ❑ Complexity - simple to use for donors. Administration and reporting time-consuming for STOs/DOR
- ❑ Performance Measures - none in statute



# Corporate STO Credit History

---

- ❑ Prior to 2015, only C Corporations could take either of the Corporate STO Credits
- ❑ Laws 2015, Chapter 301 expanded the Credits to include S Corporations
- ❑ Ch. 301 gave S Corps a unique review date, starting in 2020
- ❑ The Committee last reviewed the Low-Income Credit in 2016 and the Displaced/Disabled Student Credit in 2019
- ❑ Prior C Corp reviews included S Corp data

# JLBC Staff Recommendation

---

- ❑ To make the review process more efficient, we recommend aligning the S and C Corp statutory review dates
- ❑ The S Corp Low-Income Credit review would be moved to 2021 when the C Corp is scheduled for review
- ❑ The S Corp Displaced/Disabled Credit review would be moved to 2024 when C Corporate is scheduled for review