F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	02/06/14		
SPONSOR	Irwin	**LAST UPDATED**	02/18/14	**HB**	252/aHTRC
SHORT TITLE	Pre-K Provider Gross Receipts			**SB**	
				ANALYST	van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					**Recurring or Nonrecurring**	**Fund Affected**
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
	($460.0)	($520.0)	($560.0)	($620.0)	Recurring	General Fund
	($320.0)	($340.0)	($380.0)	($420.0)	Recurring	Local Governments
	($780.0)	**($860.0)**	**($940.0)**	**($1,040.0)**	**Recurring**	**Total**
See "Technical Issues," below.						

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB 222a – Pre-K Provider Gross Receipts, Relates to HB 302 - Pre-K Provider Gross Receipts

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Children, Youth and Families Department (CYFD)
Public Education Department (PED)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to House Bill 252 changes the exemption to a deduction and includes a reporting requirement.

Taxpayers allowed the deduction must report the amount of the deduction separately. TRD is required to compile an annual report on the deduction, and in 2019 and every five years thereafter, the department must report on the effectiveness of the deduction to the Revenue Stabilization and Tax Policy Committee and the LFC.

The amendment does not address the technical issue addressed below; and as currently written, House Bill 252 as amended appears to create a much larger exemption than intended. TRD suggests clarifying that the deduction applies only to "gross receipts of for-profit pre-kindergarten providers from pre-kindergarten services pursuant to the Pre-Kindergarten Act."

The Fiscal Impact reported in the bill is increased due to the potentially large deduction created by this technical issue.

Synopsis of Original Bill

House Bill 252 adds a new section to the Gross Receipts and Compensating Tax Act to provide an exemption from gross receipts tax of for-profit kindergarten providers who provide pre-kindergarten services pursuant to the Pre-Kindergarten Act.

The effective date of this bill is July 1, 2014. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

The Children, Youth and Families Department (CYFD) estimates FY2014 expenditures to fund for-profit Pre-K providers at $5.1 million. The funding is provided on a flat $3,000 per child basis. At a statewide average tax rate of 6.8 percent, this amounts to about $350 thousand in gross receipts tax revenue between the general fund and local governments.

The total appropriation for the Pre-K program has increased significantly from $4.9 million for the 2005 – 2006 school year to $19.2 million in the 2012-2013 school year, according to the PED/CYFD December 2013 Pre-K annual report. In particular, from school year 2011-2012, the appropriation increased from $14.3 million to $19.2 million in school year 2012-2013, a 34 percent increase.

Because the funding is provided on a per child basis, the growth rate in the number of total children budgeted, also from the annual report, is used to estimate the future growth of the exemption. The average rate of growth for the past two years is about 10 percent. In school year 2012-2013, the full program budgeted for 5,331 children compared to 1,540 in school year 2005-2006.

TRD notes that, although gross receipts exemptions are generally not reported, in this particular case, because the amount of expenditure is based on an appropriation, the cost of the exemption can be estimated using CYFD data without any taxpayer reporting.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

TECHNICAL ISSUES

TRD identifies a technical issue with the bill which, as currently written, appears to create a much larger exemption than intended. The Taxation and Revenue Department suggests changing page one, line 17 through line 21 to read:

"[NEW MATERIAL] EXEMPTION--GROSS RECEIPTS TAX--FOR-PROFIT PRE-KINDERGARTEN PROVIDERS.--Exempted from the gross receipts tax are the receipts of for-profit pre-kindergarten providers ~~who provide~~ from pre-kindergarten services pursuant to the Pre- Kindergarten Act."

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

PvM/ds: jl