Legislative Fiscal Bureau

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Convert Two Continuing Appropriations to Sum Sufficient Appropriations (General Fund Taxes -- Income and Franchise Taxes)

CURRENT LAW

During the previous legislative session, the Legislature sunset a number of business tax credits, including the dairy manufacturing facility investment credit for: (a) members of a dairy cooperative; and (b) business claimants. Both credits were refundable and were equal to 10% of the amount paid for modernizing or expanding dairy manufacturing operations. The total amount of credits that could be claimed was limited to $700,000, annually, for cooperative members and $700,000, annually, for other entities. Both credits were sunset after tax year 2013.

Eligible expenditures for the two credits were paid through two continuing GPR appropriations, one for cooperatives and one for other entities. Base funding of $0 was provided for these two appropriations; however, amounts were carried forward in those appropriations from prior years, providing total expenditure authority for payments to be made related to eligible claims in 2014-15 of $1,449,975 for cooperative members and $107,341 for other entities.

GOVERNOR

Provide expenditure authority of $0, annually, for each of these appropriations.

DISCUSSION POINTS

1. Under the state's accounting system, the balance carried forward from one fiscal year to the following fiscal year in a continuing GPR appropriation is included as part of the beginning unreserved designated balance in the state's general fund. Monies in the unreserved designated

balance are not available for other use. If the Committee chose to convert a continuing GPR appropriation to a sum sufficient appropriation, the balance in that appropriation would lapse to the general fund. However, a sum sufficient appropriation permits expenditures to vary from the amounts in the schedule in accordance with the amounts necessary to accomplish the purpose specified in that appropriation. As a result, if tax credit claims under a continuing appropriation were in excess of the amounts provided to that appropriation, expenditures could not exceed that amount and payments could not be made to otherwise eligible claimants. Upon conversion to a sum sufficient appropriation, expenditures could be paid from those appropriations to the extent that claimants were eligible for the credit.

2. The table below shows the opening balance as of July 1, 2014 (rounded to the nearest $10,000), the estimated amount of 2014-15 eligible credit claims, the estimated opening balance on July 1, 2015, the estimated amount of 2015-16 eligible credit claims, and the estimated opening balance on July 1, 2015 for each of the two credit appropriations. Because the credits are refundable and because all timely taxpayers filing returns related to tax year 2013 must be filed with the Department of Revenue (DOR) by September 15, 2015, no expenditures related to the two dairy manufacturing tax credits are expected in 2016-17.

Dairy Manufacturing Investment Credit	Opening Balance as of July 1, 2014	Estimated 2014-15 Credit Claims	Opening Balance as of July 1, 2015	Estimated 2015-16 Credit Claims	Opening Balance as of July 1, 2016
For Cooperative Members	$1,450,000	Minimal	$1,450,000	Minimal	$1,450,000
For Other Eligible Entities	110,000	350,000	-240,000	100,000	-340,000

3. As shown in the table, the opening balance for eligible expenses that can be paid from the dairy manufacturing investment credit appropriation for cooperative members is estimated to be approximately $1.45 million on July 1, 2015. If the Committee chose to convert this appropriation to a sum sufficient appropriation, the balance in that appropriation would lapse to the general fund and become available for other purposes. As shown above, a minimal amount of credits is expected to be claimed from this appropriation in 2014-15 and in future years. As a result, converting this appropriation to a sum sufficient appropriation would increase available general fund revenues by an estimated $1.45 million in 2015-16.

4. The dairy manufacturing investment credit appropriation for other entities has, to date exceeded the amount of credit claims that can be paid from its current expenditure authority. Credit claims filed through 2014-15 are estimated to exceed available funding by $240,000. Because expenditures from a continuing GPR appropriation cannot exceed the amounts in that appropriation, otherwise eligible taxpayers will not receive credits for which those taxpayers had been certified as eligible to receive credits from the state. Additionally, DOR would not be able to pay the estimated $100,000 of credit claims in 2015-16 to otherwise eligible claimants under current law.

5. It could be argued that it is unfair for a taxpayer to apply for, and be certified to receive, tax credits for which the state subsequently does not provide funding for those credits to be claimed. If the Committee chose to convert this appropriation to a sum sufficient appropriation, it is

estimated that expenditures from this appropriation would be $340,000 in 2015-16 and $0 in 2016-17.

ALTERNATIVES

1. Covert both of the dairy manufacturing facility investment credit appropriations for dairy cooperatives and for other entities from continuing appropriations to sum sufficient appropriations. Increase estimated general fund lapses by $1,450,000 in 2015-16 and increase estimated GPR expenditures from the dairy manufacturing facility investment credit appropriation for other entities by $340,000 in 2015-16.

ALT 1	**Change to Bill**
GPR-Lapse	$1,450,000
GPR	$340,000

2. Convert the dairy manufacturing facility investment credit appropriation for dairy cooperatives from a continuing appropriation to a sum sufficient appropriation. Increase estimated general fund lapses by $1,450,000 in 2015-16.

ALT2	**Change to Bill**
GPR-Lapse	$1,450,000

3. Maintain current law.

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