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

SPONSOR: Hobbs | DATE TYPED: 03/01/01 | HB 307/aHTRC

SHORT TITLE: Contributions of Inventory Tax Deduction | SB

ANALYST: Eaton

REVIEW

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
	$ 0.0		Recurring	General Fund
	$ 0.0		Recurring	Local Govt.

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment ties the compensating tax deduction to the Internal Revenue Service (IRS) definition and rules regarding deduction.

Synopsis of Original Bill

This bill proposes a straight-forward deduction from compensating tax for donations from inventory of tangible personal property to a 501(c)(3). Qualifications and limitations on the reach of this deduction include: (1) donated property must be employed within the exempt purpose of the organization, not in any activity considered unrelated business income; (2) donated metalliferous mineral ore may not be deducted; (3) property that will be incorporated into a metropolitan redevelopment project may not be deducted; (4) property that will become an ingredient or component part of a construction project may not be deducted (5) property utilized or produced in the performance of a service may not be deducted.

FISCAL IMPLICATIONS

To date, this is an issue that has surfaced only at audit, involving an insignificant amount of revenue. In general, when revenue is only collected through the audit process, a prospective change can be considered as "no financial impact".

ADMINISTRATIVE IMPLICATIONS

Minimal. This is an audit issue. The usual forms and instructions, taxpayer seminar materials and technical advice memoranda to auditors will have to be updated.

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department (TRD) indicate that if the business donates property directly to a 501(c)(3) organization there may be no compensating tax liability since receipts from a sale of most tangible personal property to a 501(c)(3) is deductible.

TRD notes that this bill does not extend the donation deduction to construction materials. This will prevent compensating tax deductions for contributions to entities such as Habitat for Humanity, which accepts donations of construction material, solicits and organizes volunteer labor, and constructs housing for low-income individuals and families. Similarly, Habitat for Humanity, performing arts organizations and similar organizations will protest that the deduction is not available for contributions of tangible personal property used or produced in the performance of a service. If a business wants to donate tangible personal property and donate its services also in connection with the tangible personal property, the deduction will not be allowed.

JBE/njw:ar