COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2107S.02C
Bill No.: SCS for HB 948
Subject: Tax Credits; Taxation and Revenue - Income; Agriculture
Type: Original
Date: April 26, 2021

Bill Summary: This proposal would modify provisions relating to agricultural tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund*	($885,318) to ($4,590,318) depending on appropriation	Up to ($4,728,388) to ($12,611,075) depending on appropriation	Up to ($4,729,892) to ($37,612,579) depending on appropriation
Total Estimated Net Effect on General Revenue	**($885,318) to ($4,590,318) depending on appropriation**	**Up to ($4,728,388) to ($12,611,075) depending on appropriation**	**Up to ($4,729,892) to ($37,612,579) depending on appropriation**

*Oversight notes the range in the reported impacts include the continuation of expired (Wood Energy Tax Credits) & existing (Meat Processing Facility Tax Credit, Agricultural Product Utilization Tax Credit, & New Generation Cooperative Incentive Tax Credit) tax credit programs (currently set to expire on 06/30/2020 & 12/31/2021 and this proposal extends that date to 06/30/2027 & 12/31/2027, respectively) at its current activity level (3&5 year averages) and the annual program cap(s). The proposal also creates a new Missouri Rural Workforce Development Act tax credit.

The Wood Energy Tax Credit (Section 135.305) is subject to appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation could impact the calculation under Article X, Section 18(e).

Section 135.305 – Wood Energy Tax Credit

Officials from the **Missouri Department of Revenue (DOR)** state the Wood Energy Tax Credit has a $6 million annual cap that is subject to appropriations. The legislature appropriated $1 million in Fiscal Year 2018 and Fiscal Year 2019. For Fiscal Year 2020, the legislature appropriated $1.5 million. The legislature appropriated $740,000 for Fiscal Year 2021.

DOR notes this tax credit does not currently allow authorization of additional credits after June 30, 2020 (Fiscal Year 2021). This proposed legislation would extend the sunset on the tax credit until June 30, 2027.

DOR does not anticipate this section will cause any further fiscal impact on DOR.

Oversight's policy is to show the extension of the tax credit in the fiscal note. Oversight will show the revenue reduction to General Revenue (GR) beginning in Fiscal Year 2022.

Oversight notes this section extends the end date for the Wood Energy Tax Credit authorized under Section(s) 135.300 to 135.311 from June 30, 2020 to June 30, 2027. The issuance of the Wood Energy Tax Credit is subject to appropriation by the General Assembly and has a cap of $6 million for each fiscal year. Oversight provides the following appropriations previously made by the General Assembly for the Wood Energy Tax Credit:

Fiscal Year	Appropriation
2021	$740,000 (HB 2006 6.350)
2020	$1.5 million (HB 6)
2019	$1.0 million (HB 2007)
2018	$1.0 million (HB 7)

Oversight notes, per the Tax Credit Analysis submitted to Oversight by the Department of Natural Resources, the Wood Energy Tax Credit had the following activity:

Wood Energy Tax Credit	FY 2018 ACTUAL	FY 2019 ACTUAL	FY 2020 ACTUAL	FY 2021 (year to date)	FY 2021 (Full Year - est.)	FY 2022 (Budget Year - est.)
Certificates Issued (#)	7	9	8	*0*	6	0
Projects/Participants (#)	7	9	8	*0*	6	0
Amount Authorized	$970,000	$678,887	$1,455,000	*$0*	$740,000	$0
Amount Issued	$970,000	$678,887	$1,455,000	*$0*	$740,000	$0
Amount Redeemed	$891,087	$789,077	$1,105,678	*$0*	$717,800	$717,800

Since the cap for the Wood Energy Tax Credit is $6 million annually (subject to appropriation), for purposes of this fiscal note, Oversight will report a revenue <u>reduction</u> to GR for the extension of the tax credit as a continuation of the current appropriation level ($740,000 – HB 2006 - 2020) up to the $6 million cap.

Officials from the **B&P** state this section would extend the sunset for the Wood Energy Tax Credit from 2020 to 2027. This section will not impact Total State Revenues (TSR) or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Natural Resources** states this section authorizes the Wood Energy Tax Credit through June 30, 2027. While there is no direct impact on the Division of Energy, there will be a negative fiscal impact to state revenue as a result of tax credit redemptions. The exact impact is unknown, however since inception of the tax credit in Fiscal Year 2016, the annual appropriation has ranged from $740,000 to $2.5 million.

<u>Section 135.686 – Meat Processing Facility Tax Credit (& Qualified Beef Tax Credit)</u>

Officials from the **DOR** state this section would extend the ability of a taxpayer to claim a tax credit for meat processing modernization or expansion related to the taxpayer's meat processing facility from December 31, 2021 to December 21, 2027. The Meat Processing Facility Tax Credit **<u>shares</u>** a $2 million annual cap with the Qualified Beef Tax Credit.

For informational purposes, DOR provides the following information on the amount of credits issued and redeemed since this credit began in 2018.

Fiscal Year	Authorized	Issued	Total Redeemed
FY 2020	$1,171,805.57	$1,162,452.67	$380,371.14
FY 2019	$627,807.59	$552,807.59	$214,777.94
FY 2018	$286,781.89	$286,781.89	$5,561.00
TOTALS	$2,086,395.05	$2,002,042.15	$600,710.08

DOR does not anticipate this section will cause any further fiscal impact on DOR or General Revenue (GR) as a result of the extended expiration date.

Oversight notes, currently, for all tax years beginning on or after January 1, 2017, but ending on or before December 31, 2021, a taxpayer shall be allowed a tax credit for meat processing modernization or expansion as it relates to the taxpayer's meat processing facility.

This section modifies the "end date" of this tax credit program by extending it to all tax years beginning on or after January 1, 2017, and ending on or before December 31, 2027.

Oversight notes the Meat Processing Facility Investment Tax Credit and the Qualified Beef Tax Credit have a shared cap of two million dollars ($2,000,000). The Meat Processing Facility Investment Tax Credits and the Qualified Beef Tax Credits are issued on an as-received application basis until the calendar year limit ($2,000,000) is reached.

Oversight's policy is to show the extension of the tax credit program in the fiscal note. Oversight notes the current end date for the Meat Processing Facility Investment Tax Credit is December 31, 2021. Oversight notes this section extends the end date to December 31, 2027. Oversight notes that taxpayers who are awarded the Meat Processing Facility Investment Tax Credit in Tax Year 2022 will not file their tax returns claiming the tax credit until after January 1, 2023 (Fiscal Year 2023). Therefore, Oversight will report the impact as a result of extending the end date of this tax credit program beginning in Fiscal Year 2023.

Oversight notes, per the most recent Tax Credit Analysis received from the Missouri Department of Agriculture, the Meat Processing Facility Investment Tax Credit recognized the following activity:

Meat Processing Facility Investment Tax Credit					
Fiscal Year	**2018**	**2019**	**2020**	**2021 (Year To Date)**	**2022 (Budget Year)**
Certificates Issued (#)	6	14	21	0	0
Projects/Participants (#)	6	14	22	0	0
Amount Authorized	$286,782	$627,808	$1,171,806	$0	$0
Amount Issued	$286,782	$552,808	$1,162,453	$0	$0
Amount Redeemed	$5,561	$214,778	$380,371	$31,602	$0

Oversight notes the three (3) year average (Fiscal Year(s) 2018 – 2020) amount of Meat Processing Facility Investment Tax Credits issued equals $667,348.

For purposes of this fiscal note, since the Meat Processing Facility Investment Tax Credit shares a cumulative tax credit cap with the Qualified Beef Tax Credit, Oversight will provide the program activity for the Qualified Beef Tax Credit.

Oversight notes, per the most recent Tax Credit Analysis received from the Missouri Department of Agriculture, the Qualified Beef Tax Credit recognized the following activity:

Qualified Beef Tax Credit					
Fiscal Year	**2018**	**2019**	**2020**	**2021 (Year To Date)**	**2022 (Budget Year)**
Certificates Issued (#)	6	7	0	0	0
Projects/Participants (#)	6	7	0	0	0
Amount Authorized	$35,627	$64,535	$0	$0	$0
Amount Issued	$35,627	$64,535	$0	$0	$0
Amount Redeemed	$67,304	$59,694	$50,927	$2,120	$0

Oversight notes the three (3) year average (Fiscal Year(s) 2018 – 2020) amount of Qualified Beef Tax Credits issued equals $33,387.

Oversight notes, the **combined** three (3) year average amount of tax credits issued (Meat Processing Facility Investment Tax Credit and Qualified Beef Tax Credit) equals $700,735.

Oversight notes the shared cumulative cap for these tax credit programs is two million dollars ($2,000,000). Oversight assumes, when taking into consideration the three (3) year average amount of Qualified Beef Tax Credits issued ($33,387), that $1,966,613 would be available to be issued to the Meat Processing Facility Investment Tax Credit program.

However, Oversight notes, the Qualified Beef Tax Credit program is currently scheduled to end December 31, 2021. Therefore, should this proposed legislation be signed into law and the Qualified Beef Tax Credit end, the total amount of tax credits available to be issued under the Meat Processing Facility Investment Tax Credit program would be the full cap of $2,000,000.

Therefore, for purposes of this fiscal note, **Oversight** will report the extension of this tax credit as a revenue reduction to GR equal to an amount "up to" $667,348 (the three (3) year average amount of Meat Processing Facility Investment Tax Credits issued) to $2,000,000 (the total amount available for Meat Processing Facility Tax Credit program if Qualified Beef Tax Credit program ends), beginning in Fiscal Year 2023.

Officials from **B&P** state this section would extend the sunset on the Meat Processing Facility Investment Tax Credit from 2021 to 2027. It also includes language that increases the maximum amount of tax credits that may be authorized for meat processing modernization or expansion located in a county of the second, third, or forth class by 10%. This section will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Agriculture** do not anticipate this section will result in a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for this organization.

Section 348.436 – Agricultural Product Utilization Contributor Tax Credit Program and New Generation Cooperative Incentive Tax Credit Program

Officials from the **DOR** state this section extends the Agricultural Product Utilization Contributor Tax Credit program and the New Generation Cooperative Incentive Tax Credit program from December 31, 2021 to December 31, 2027. These credits **share** a $6 million annual cap.

For information purposes, DOR shows the issuance and redemption of these credits over the last nine (9) years. These credits began in 1999.

Agricultural Product Utilization Credit

Fiscal Year	Authorized	Issued	Total Redeemed
FY 2020	$5,705,000.00	$182,377.36	
FY 2019	$195,000.00	$168,988.98	$2,278,431.86
FY 2018	$4,068,190.27	$4,048,690.27	$2,785,905.52
FY 2017	$3,247,845.84	$2,908,334.26	$2,638,868.14
FY 2016	$2,513,350.09	$2,513,350.09	$1,553,332.97
FY 2015	$2,376,167.67	$2,376,167.67	$1,051,661.96
FY 2014	$1,573,719.77	$1,573,719.77	$2,022,953.37
FY 2013	$1,062,510.26	$1,062,510.26	$1,267,239.12
FY 2012	$2,479,356.45	$2,479,356.45	$1,468,155.74
TOTALS	**$23,221,140.35**	**$17,313,495.11**	**$15,066,548.68**

New Generation Cooperative Credit

Fiscal Year	Authorized	Issued	Total Redeemed
FY 2020	$1,500,000.00	$360,000.00	$467,167.83
FY 2019	$3,153,843.50	$0.00	$839,615.09
FY 2018	$2,011,156.50	$1,931,717.01	$1,431,010.11
FY 2017	$1,873,475.00	$2,383,129.06	$2,093,123.93
FY 2016	$1,481,529.00	$1,278,144.64	$1,730,341.67
FY 2015	$7,938,220.00	$2,112,545.32	$2,842,869.70
FY 2014	$4,267,500.00	$4,426,280.23	$4,747,229.63
FY 2013	$5,612,982.00	$4,937,489.74	$2,100,091.11
FY 2012	-$652,500.00	$2,023,500.00	$826,952.82
TOTALS	$27,186,206.00	$19,452,806.00	$17,078,401.89

DOR does not anticipate this section will cause any further fiscal impact on DOR or General Revenue (GR) as a result of the extended expiration date.

Oversight notes this section extends the expiration date for the Agricultural Product Utilization Contributor Tax Credit, as authorized under Section 348.430 and the New Generation Cooperative Incentive Tax Credit, as authorized under Section 348.432.

Oversight further notes, the aggregate amount of tax credits issued per fiscal year under Section(s) 348.430 and 348.432 shall not exceed six million dollars ($6,000,000). In May of each year, the Missouri Agricultural and Small Business Development Authority determines whether six million dollars ($6,000,000) will be utilized as New Generation Cooperative Incentive Tax Credits or not. The amount of New Generation Cooperative Incentive Tax Credit(s) that are determined to be unused may be sold as Agricultural Product Utilization Contributor Tax Credits.

Oversight's policy is to show the extension of the tax credit program(s) in the fiscal note. Oversight notes the current expiration date for the Agricultural Utilization Product Contributor Tax Credit and the New Generation Cooperative Incentive Tax Credit is December 31, 2021. Oversight notes this section extends the expiration date to December 31, 2027. Oversight notes that taxpayers who are awarded the Agricultural Product Utilization Contributor Tax Credit or the New Generation Cooperative Incentive Tax Credit in Tax Year 2022 will not file their tax returns claiming the tax credit until after January 1, 2023 (Fiscal Year 2023). Therefore, Oversight will report the impact as a result of extending the end date of this tax credit program beginning in Fiscal Year 2023.

Oversight notes, per the Tax Credit Analyses received from the Missouri Department of Agriculture for Fiscal Year(s) 2016 - 2020, the Agricultural Product Utilization Contributor Tax Credit recognized the following activity:

Agricultural Product Utilization Contributor Tax Credit							
Fiscal Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 (Year To Date)**	**2022 (Budget Year)**
Certificates Issued (#)	115	156	91	11	6	0	0
Projects/Participants (#)	12	13	14	23	9	0	0
Amount Authorized	$2,513,350	$3,247,846	$4,068,190	$195,000	$190,000	$0	$0
Amount Issued	$2,513,350	$2,908,334	$4,048,690	$168,989	$182,377	$0	$0
Amount Redeemed	$1,553,333	$2,638,686	$2,785,906	$2,278,432	$2,713,523	$0	$0

Oversight notes the five (5) year average (Fiscal Year(s) 2016 – 2020) amount of Agricultural Product Utilization Contributor Tax Credit(s) issued equals $1,964,348.

Oversight notes, per the Tax Credit Analyses received from the Missouri Department of Agriculture for Fiscal Year(s) 2016 - 2020, the New Generation Cooperative Incentive Tax Credit recognized the following activity:

New Generation Cooperative Incentive Tax Credit							
Fiscal Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 (Year To Date)**	**2022 (Budget Year)**
Certificates Issued (#)	571	483	1076	0	24	0	0
Projects/Participants (#)	5	5	3	3	1	0	0
Amount Authorized	$2,156,529	$1,873,475	$2,011,157	$3,153,844	$1,500,000	$3,000,000	$0
Amount Issued	$1,278,145	$2,383,129	$1,931,810	$0	$360,000	$0	$0
Amount Redeemed	$1,730,342	$2,093,124	$1,431,010	$840,615	$467,168	$14,508	$0

Oversight notes the five (5) year average (Fiscal Year(s) 2016 – 2020) amount of New Generation Cooperative Incentive Tax Credit(s) issued equals $1,190,617.

Therefore, for purposes of this fiscal note, **Oversight** will report the extension of these tax credits as a revenue reduction to GR equal to an amount "up to" $3,154,965 (the combined five (5) year average amount of tax credits issued ($1,964,348 + $1,190,617)) to the shared cap of $6,000,000, beginning in Fiscal Year 2023.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** anticipate a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the extension of the Agricultural Production tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the tax credit.

Officials from the **B&P** state this section extends the Agricultural Business Development Loan Program from 2021 to 2027. This section will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Agriculture** do not anticipate this section will cause a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for this organization.

Section(s) 620.3500, 620.3505, 620.3510, 620.3515, 620.3520, 620.3525, & 620.3530 – Missouri Rural Workforce Development Act

Officials from **B&P** state these sections create a tax credit for taxpayers making a capital investment in a rural fund against such investor's state tax liability. The tax credit shall be equal to a proportion of their investment into the rural fund. There is a cap of $25 million that can be redeemed each calendar year; therefore, TSR could be reduced by up to $25 million.

The tax credit has a five year carry forward, so in a particular calendar year, more than $25 million may be redeemed.

In addition, a rural fund that seeks to have an equity investment certified as a capital investment eligible for credits shall pay a nonrefundable application fee of five thousand dollars ($5,000) to the Missouri Department of Economic Development. B&P assumes this money would go into GR. Therefore, GR could be increased by an unknown amount. There is not enough available data for B&P to estimate the potential revenues.

Officials from **DOR** state these sections set forth procedures by which a rural fund may become certified by the Department of Economic Development such that investments made in the fund may be eligible for tax credits.

DOR states theses sections authorizes the tax credit, not exceeding the amount of the rural investor's income tax for the year in which the credit is claimed. Unused portions of the credit may be carried forward to the next five (5) tax years but may not be carried back. The credit is not refundable.

DOR states these sections cap the amount of tax credits authorized at $25 million, excluding amounts carried forward from prior years.

DOR assumes these sections will result in an unknown increase in tax credits redeemed and errors generated. If the increase is significant, DOR will request FTE through the appropriation process based on the following: one (1) FTE Associate Customer Service Representative for every 6,000 credits redeemed, one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated and $2,000 for forms and programming changes.

Oversight notes DOR anticipates being able to absorb the responsibilities of the tax credit program created with existing resources. However, should the responsibilities prove to be significant, DOR may seek additional FTE and equipment and expense through the appropriation process.

In response to similar legislation (SB 465 – 2021), officials from the **Missouri Department of Economic Development (DED)** stated these sections shall be known as the Missouri Rural Workforce Development Act.

These sections require DED to accept applications from "rural funds" that seek to have an equity investment certified as a "capital investment" eligible for tax credits.

DED noted that a "Rural Fund" is any entity certified by DED under this proposed legislation. A "Capital Investment" is an investment in a rural fund by a rural investor that is acquired after the effective date of this proposed legislation at its original issuance solely in exchange for cash, has one hundred percent (100%) of its cash purchase price used by the rural fund to make qualified investments in eligible businesses located in this state by the third anniversary of the initial credit allowance date, and is designated by the rural fund as a capital investment and certified by DED as a capital investment.

DED notes it would start accepting applications ninety (90) days after this proposed legislation goes into effect.

DED states these sections require an applicant to pay an application fee of five thousand dollars ($5,000) to DED. DED would then have thirty (30) days after receipt to accept or deny any application.

If requested, DED is to issue a written opinion about whether an investment would be a qualified investment for the business so it knows before making investment(s).

DED notes, upon making a capital investment, a rural investor shall have a vested right to a credit against the investor's state tax liability in an amount equal to the applicable percentage for such credit allowance date multiplied by the purchase price paid to the rural fund for the capital investment. DED states that no eligible business that receives a qualified investment, or any affiliates of such eligible business, shall directly or indirectly own or have the right to acquire an ownership interest in a rural fund.

DED states there is an annual program cap of twenty five million dollars ($25,000,000). DED anticipates the need to hire two (2) FTE Senior Economic Development Specialists to administer the program created.

Oversight will include DED's FTE costs, as reported by DED, less the costs reported for in-state and out-of-state travel, as this proposed legislation does not require DED to inspect or audit any site(s).

Officials from **DCI** anticipate a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the creation of the Missouri Rural Workforce Development Act tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the tax credit.

DCI will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DCI may need to request more expense and equipment appropriation through the budget process.

Oversight notes these sections would award tax credits to rural investors who have made an equity investment in a rural fund so long as such equity investment is later certified, by the Missouri Department of Economic Development, as a capital investment.

In order for an equity investment to be certified as a capital investment, a rural fund must apply with the Missouri Department of Economic Development to have the equity investment certified as a capital investment. The applicant must complete an application including the amount of capital investment requested, a copy of the applicant's, or the affiliate of the applicant's, license as a Rural Business Investment Company (RBIC) under 7 U.S.C. Section 2009cc (U.S.D.A Rural Business Investment Program) or as a Small Business Investment Company (SBIC) under 15 U.S.C. Section 681 (SBA Small Business Investment Program), evidence that the applicant or affiliates of the applicant have invested at least one hundred million dollars ($100,000,000) in nonpublic companies located in counties within the United States with a population of less than fifty thousand and at least fifty million dollars ($50,000,000) in nonpublic companies located in Missouri, a business plan that includes a revenue impact assessment, and a nonrefundable application fee of $5,000.

Per the Small Business Investment Company Program Overview, as of September 30, 2020, there were approximately 302 privately owned and managed SBA licensed SBICs.

Per correspondence received from the United States Department of Agriculture in February 2021, there are approximately 9 certified RBICs with 3 more RBICs in the application process and the possibility of 2 more applications being received in 2021. In addition, there have been four (4) investments made in Missouri totaling almost $12,000,000.

Oversight assumes SBICs and RBICs are nationally oriented; various companies may focus on specific regions but no one entity is specific to the State of Missouri.

Oversight notes these sections state that a capital investment is any equity investment in a rural fund by a rural investor which, is acquired **after** the effective date of this proposed legislation.

Oversight notes these sections would require applicants under this proposed legislation to submit an application to the Missouri Department of Economic Development accompanied with a nonrefundable $5,000 application fee.

Oversight notes these sections do not specifically state where the application fee(s) shall be deposited. For the purpose of this fiscal note, Oversight will assume such application fee(s) will be deposited into GR.

Oversight notes the Missouri Department of Economic Development shall begin accepting applications ninety days after the effective date of this proposed legislation. Therefore, Oversight assumes applications, accompanied with the nonrefundable fee of $5,000 could be submitted as early as Fiscal Year 2022.

Therefore, **Oversight** will report a revenue gain to GR equal to $0 (no applications/fee(s) submitted) or $5,000 (one application/fee is submitted) up to $1,555,000 ($5,000 * (302 (# of SBICs) + 9 (# of certified RBICs)) beginning in Fiscal Year 2022.

Oversight notes, once an equity investment is certified as a capital investment, the rural investor shall have a vested right to a tax credit to be issued to be used against the rural investor's state tax liability that may be utilized on each credit allowance date of such capital investment in an amount equal to the applicable percentage for such credit allowance date multiplied by the purchase price paid to the rural fund.

Oversight notes the tax credits created under these sections are limited to the taxpayer's state tax liability and shall not be refunded to the taxpayer. Any amount in excess of the taxpayer's state tax liability be carried forward for five (5) subsequent tax years.

Oversight notes the "Credit Allowance Date" is defined as "the date on which the Missouri Department of Economic Development certified a rural fund's capital investment and each of the five (5) anniversary dates of such date thereafter".

Oversight notes "Applicable Percentage" is defined as "zero percent for the first two credit allowance dates, and fifteen percent for the next four (4) credit allowance dates".

Oversight, then, assumes the following example describes a tax credit allocation under these sections:

If Company A were to have $100,000,000 certified as a capital investment on January 1, 2022, Company A's credit allowance date(s) would be: January 1, 2022, January 1, 2023, January 1, 2024, January 1, 2025, January 1, 2026, and January 1, 2027.

Oversight assumes, then, Company A would **not** receive a tax credit (a tax credit equal to zero percent (0%) multiplied by the amount certified as a capital investment) on January 1, 2022 and January 1, 2023.

Each January thereafter, with the last January being January 1, 2027, Company A would receive a tax credit equal to fifteen percent (15%) of the amount certified as a capital investment; or $15,000,000.

Oversight assumes, then, Company A would receive a **total** of $60,000,000 in tax credits over the course of six (6) years to be used throughout a total of eleven (11) years.

Oversight notes the Missouri Department of Economic Development shall begin accepting applications ninety days after the effective date of this proposed legislation. Therefore, Oversight assumes applications could be submitted as early as Fiscal Year 2022.

Oversight assumes, then, based on the tax credit allocation equation created under these sections, a rural investor could receive a tax credit in an amount greater than zero ($0) beginning two (2) years after the initial certification date; Fiscal Year 2024.

Therefore, **Oversight** estimates the tax credit provisions of these sections could result in a revenue reduction equal to $0 (no certified capital investments) up to $25,000,000 (tax credit authorization cap) beginning in Fiscal Year 2024.

Oversight notes these sections would allow for the recapture of tax credits issued to taxpayers provided rural fund(s) do not meet the requirements established in this proposed legislation.

Oversight notes these sections state that recaptured tax credits would be reverted to the Missouri Department of Economic Development and be reissued to applicants whose capital investment allocations were reduced in accordance with the application process (authorization cap).

Oversight further notes these sections do not specifically state where the payment of recaptured tax credits would be deposited. For the purpose of this fiscal note, Oversight will assume recaptured tax credit payments will be deposited into GR with the assumption that the Missouri Department of Economic Development will be distributed the funds for further tax credit authorization(s). Therefore, Oversight assumes the net fiscal impact to GR, specific to the provision of recaptured tax credits, would net zero ($0).

Oversight notes tax credits authorized may be recaptured as early as the third anniversary date. Therefore, Oversight assumes this could be as early as Fiscal Year 2024.

Oversight is unable to determine the actual fiscal impact of the tax credit recapture provision. Therefore, for the purpose of this fiscal note, Oversight will report a revenue gain equal to “$0 to Unknown” and a revenue reduction equal to “$0 or Unknown” beginning in Fiscal Year 2024.

Oversight notes the provisions of these sections state the Missouri Department of Economic Development shall not accept any new applications for tax credits after December 31, 2031.

FISCAL IMPACT – State Government	FY 2022	FY 2023	FY 2024
GENERAL REVENUE FUND			
Revenue Reduction – Section 135.305 – Extension of the Wood Energy Tax Credit from 06/30/20 to 06/30/27 – p. 3-4	($740,000) or up to ($6,000,000) depending on appropriation	($740,000) or up to ($6,000,000) depending on appropriation	($740,000) or up to ($6,000,000) depending on appropriation
Revenue Reduction – Section 135.686 - Extension of Meat Processing Facility Investment Tax Credit From 12/31/21 to 12/31/27 – p. 4-7	$0	Up to ($667,348) to ($2,000,000)	Up to ($667,348) to ($2,000,000)
Revenue Reduction – Section 348.436 – Extension of Expiration Date For Agricultural Product Utility Contributor Tax Credit & New Generation Cooperative Incentive Tax Credit from 12/31/21 to 12/31/27 – p. 7-10	$0	Up to ($3,154,965) to ($6,000,000)	Up to ($3,154,965) to ($6,000,000)
Revenue Gain- Section 620.3510 – Nonrefundable Application Fee of $5,000 – p. 14	$0 or $5,000 up to $1,555,000	$0 or $5,000 up to $1,555,000	$0 or $5,000 up to $1,555,000
Revenue Reduction – Section 620.3515 – Tax Credit For Certified Capital Investment(s) – p. 15	$0	$0	$0 up to ($25,000,000)

Revenue Gain – Transfer In – Section 620.3520 – Recapture of Tax Credits From Rural Investor – p. 15	$0	$0	Unknown
Revenue Loss – Transfer Out – Section 620.3520 – Recaptured Tax Credits (Re)Allocated to Missouri Department of Economic Development – p. 15	$0	$0	(Unknown)
Cost – Section(s) 620.3510, 620.3515 & 620.3520 – DED – p. 12			
Personnel Services	($84,435)	($102,335)	($103,359)
Fringe Benefits	($48,397)	($58,418)	($58,764)
Equipment & Expense	($12,486)	($5,322)	($5,456)
Total Cost	($145,318)	($166,075)	($167,579)
FTE Change – DED	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($885,318) to ($4,590,318) depending on appropriation**	**Up to ($4,728,388) to ($12,611,075) depending on appropriation**	**Up to ($4,729,892) to ($37,612,579) depending on appropriation**

FISCAL IMPACT – Local Government	FY 2022	FY 2023	FY 2024
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for the Meat Processing Facility Investment Tax Credit, the Wood Energy Tax Credit, the Agricultural Product Utilization Tax Credit, or the New Generation Cooperative Incentive Tax Credit as such small business could receive a tax credit that would have otherwise been unavailable after June 30, 2020 and/or December 31, 2021, which would allow such small businesses to reduce or eliminate such small business's state tax liability.

This proposed legislation could positively impact any small businesses that make investments in a rural fund as such small business could qualify for a tax credit reducing or eliminating such small business's state tax liability.

FISCAL DESCRIPTION

This bill extends the tax credit for Missouri wood energy producers from June 30, 2020 to June 30, 2027 (Section 135.305).

Currently, the Meat Processing Facility Investment Tax Credit for the expansion or modernization of meat processing facilities is set to expire on December 31, 2021.

This bill extends the tax credit until December 31, 2027 (Section 135.686).

Currently, the Agricultural Product Utilization Contributor Tax Credit under Section 348.430, RSMo, and the New Generation Cooperative Incentive Tax Credit under Section 348.432 are set to expire on December 31, 2021.

This bill moves the expiration date to December 31, 2027 (Section 348.436).

This act establishes the "Missouri Rural Workforce Development Act", which provides a tax credit for certain investments made in businesses located in rural areas in this state.

This act allows investors to make capital investments in a rural fund, as defined in the act. Such investors shall be allowed a tax credit for a period of six years beginning with the year the investor made a capital investment. The tax credit shall be equal to a percentage of the capital investment. The percentage shall be zero for the first two years, and fifteen percent for the subsequent four years. Tax credits issued under the act shall not be refundable, but may be carried forward to any of the five subsequent tax years, as described in the act. No more than $25 million dollars in tax credits shall be authorized in a given calendar year.

A rural fund wishing to accept investments as capital investments shall apply to the Department of Economic Development. The application shall include the amount of capital investment requested, a copy of the applicant's license as a rural business or small business investment company, evidence that the applicant has made at least $100 million in investments in nonpublic companies located in counties throughout the United States with a population less than fifty thousand, evidence that the applicant has made at least $50 million in investments in nonpublic companies located in Missouri, and a business plan that includes a revenue impact statement projecting state and local tax revenue to be generated by the applicant's proposed qualified investments, as described in the act. The rural fund shall also submit a nonrefundable application fee of $5,000.

The Department shall grant or deny an application within thirty days of receipt. The Department shall deny an application if such application is incomplete or insufficient, if the revenue impact assessment does not demonstrate that the business plan will result in a positive economic impact on the state over a ten year period, or if the Department has already approved the maximum amount of capital investment authority.

Rural funds shall use capital investments made by investors to make qualified investments, as defined in the act, in eligible businesses. An eligible business is a business that, at the time of the qualified investment, has fewer than two hundred fifty employees and has its principal business operations in the state.

The Department may recapture tax credits if the rural fund does not invest sixty percent of its capital investment authority in qualified investments within two years of the date of the capital investment, and one hundred percent of its capital investment authority within three years, if the rural fund fails to maintain qualified investments equal to ninety percent of its capital investment authority in years three through six, as described in the act, if prior to exiting the program or thirty days after the sixth year, the rural fund makes a distribution or payment that results in the fund having less than one hundred percent of its capital investment authority invested in qualified investments, or if the rural fund violates provisions of the act.

Rural funds shall submit annual reports to the Department, including the name and location of each eligible business receiving a qualified investment, the number of jobs created and jobs retained as a result of qualified investments, the average salary of such jobs, and any other information required by the Department, as described in the act.

At any time after the sixth anniversary of the capital investment, a rural fund may apply to the Department to exit the program. The Department shall respond to such application within fifteen days.

The Department shall not accept new applications for tax credits under the act after December 31, 2031. (Section(s) 620.3500, 620.3505, 620.3510, 620.3515, 620.3520, 620.3525, and 620.3530)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Commerce and Insurance
Missouri Department of Natural Resources
Missouri Department of Revenue
Missouri Department of Agriculture
Missouri Department of Economic Development

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April 26, 2021

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