COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2107S.06A
Bill No.: SS for SCS for HB 948, with SA1, SA2 & SA3
Subject: Tax Credits; Taxation and Revenue - Income; Agriculture
Type: Original
Date: May 11, 2021

Bill Summary: This proposal would modify provisions relating to 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 ($9,481,318)	($4,728,388) up to ($37,502,075)	($4,729,892) up to ($52,503,579)
Total Estimated Net Effect on General Revenue	**($885,318) to ($9,481,318)**	**($4,728,388) up to ($37,502,075)**	**($4,729,892) up to ($52,503,579)**

*The low end represents the extension of existing tax credit programs beyond their sunset dates at their current activity levels. The high end represents the existing programs and the new tax credit programs, both at their annual caps. Some tax credit programs are also 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
General Revenue Fund – DED	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**2 FTE**	**2 FTE**	**2 FTE**

☒ 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

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

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 section would extend the sunset on the tax credit until June 30, 2026.

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

In response to a previous version of this proposed legislation, officials from the **Office of Administration (B&P)** stated 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).

Oversight notes Senate Amendment No. 1 modified this section so that 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, **2026**, instead of June 30, 2027.

Officials from the **Missouri Department of Natural Resources** state this section authorizes the Wood Energy Tax Credit through June 30, 2026. 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.

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 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, 2026. 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 reduction to General Revenue 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.

Section 135.686 – Meat Processing Facility Tax Credit (& Qualified Beef Tax Credit)

Officials from the **Missouri Department of Revenue (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, 2026. The Meat Processing Facility Tax Credit **shares** 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 as a result of the extended expiration date.

In response to a previous version of this proposed legislation, officials from the **Office of Administration – Budget & Planning Division (B&P)** stated 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).

Oversight notes Senate Amendment No. 1 modified this section so that this section extends the end date for the Meat Processing Facility Tax Credit from December 31, 2021 to December 31, **2026**, instead of December 31, 2027.

In response to a previous version of this proposed legislation, officials from the **Missouri Department of Agriculture** did 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.

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, 2026.

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, 2026.

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 <u>shares</u> 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 General Revenue 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.

Section 135.750 – Show Missouri Film and Digital Media Act

In response to similar legislation (SB 354 – 2021), officials from the **Office of Administration – Budget & Planning Division (B&P)** stated this section reestablishes a tax credit for tax years beginning on or after January 1, 2021, equal to twenty-five percent (25%) of qualifying in-state expenses and ten percent (10%) of qualifying out-of-state expenses incurred by a production company in connection with a qualified film production project. An additional five percent (5%) may be earned for both qualifying in-state expenses and qualifying out-of-state expenses if at least fifty percent (50%) of the qualified film production project is filmed in Missouri.

The cap on the tax credits for all tax years beginning on or after January 1, 2008, is $4,500,000. This section could therefore lower General Revenue (GR) and Total State Revenue (TSR) by $4,500,000 per fiscal year, beginning in Fiscal Year 2022. To the extent this section encourages other economic activity, GR and TSR may increase, but B&P cannot estimate the induced revenues.

This section could impact the calculation pursuant to Article X, Section 18(e).

Oversight notes this section states that the total dollar amount of tax credits awarded to a qualified film production project may be increased by ten percent (10%) if such project is located in a county of the second, third, or fourth class.

Officials from the **Missouri Department of Revenue (DOR)** assume this section modifies the Film Production Tax Credit Program. This section updates the definition of "Qualified Film Production Project," and adds the definition of "Qualifying Out-of-State Expenses."
This section states that, for all tax years beginning on or after January 1, 2021, a taxpayer shall be allowed a tax credit equal to twenty-five percent (25%) of qualifying in-state expenses and ten percent (10%) of qualifying out-of-state expenses. An additional five percent (5%) may be earned for both qualifying in-state expenses and qualifying out-of-state expenses if at least fifty percent (50%) of the qualified film production project is filmed in Missouri. Another five percent (5%) may be earned for both qualifying in-state and qualifying out-of-stat expenses if the Department of Economic Development determines the film positively markets a city or region of the state.

This section allows the amount of tax credits to be increased by 10% if the project is located in a county of the second, third or fourth class.

This section states that this credit shall sunset on December 31, 2027, and further states that this section shall terminate on September first of the calendar year immediately following the calendar year in which the program is sunset.

This section could potentially decrease TSR, specific to General Revenue by an estimated $4.5 million per year. DOR notes this tax credit begins January 1, 2021, and therefore, the first tax returns will be filed starting in January 2022.

Fiscal Year	**Decrease to Total State Revenue - General Revenue**
FY 2021	**$0**
FY 2022	**($4,500,000)**
FY 2023	**($4,500,000)**
FY 2024	**($4,500,000)**

For informational purposes, DOR notes this Film Production Tax Credit program was created in 1998 and sunset in 2013. Its original cap was $1.5 million which was increased to $4.5 million in 2008. Below is information on the authorization, issuance and redemption of the credits over the last several years.

Year	Authorized	Issued	Total Redeemed
FY 2020	$0.00	$0.00	$0.00
FY 2019	$0.00	$0.00	$0.00
FY 2018	$0.00	$0.00	$672.38
FY 2017	$0.00	$0.00	$2,375,651
FY 2016	$0.00	$0.00	$6,832.00
FY 2015	$0.00	$2,387,097	$389,942
FY 2014	$2,927,000	$386,000	$119,800
FY 2013	$639,772	$0.00	$56,665
FY 2012	$139,070	$1,390,070	$4,839,217

DOR anticipates the need for one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and licenses, one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated and forms and programming changes.

Oversight notes, per the Tax Credit Analyses submitted for Fiscal Year's 2013 & 2014, the following number of certificates were issued each of the following fiscal years for the Film Tax Credit Program:

Fiscal Year	Number of Certificates Issued
2010	4
2011	5
2012	2
2013	0
2014	1

Therefore, for purposes of this fiscal note, **Oversight** assumes the Missouri Department of Revenue can absorb the responsibilities of the tax credit program with existing resource. Should a significant increase in tax credit redemptions, tax credit transfers, and/or errors/correspondence occur, the Missouri Department of Revenue may seek additional FTE through the appropriation process.

Oversight notes, per the Tax Credit Analyses from Fiscal Year(s) 2010 – 2014, the Film Tax Credit recognized the following activity as it was administered before it sunset November 28, 2013:

Film Tax Credit (Sunset November 28, 2013)					
Fiscal Year	**2010**	**2011**	**2012**	**2013**	**2014**
Certificates Issued (#)	4	5	2	0	1
Projects (#)	4	2	3	3	3
Amount Authorized	$1,768,989	$38,041	$139,070	$639,772	$2,927,000
Amount Issued	$5,181,512	$1,807,030	$139,070	$0	$386,000
Amount Redeemed	$1,925,158	$1,563,218	$4,839,217	$56,665	$119,800

Oversight notes the five (5) average amount of Film Tax Credit(s) issued is $1,502,722.

Oversight notes the tax credit program put forth under this section would begin for all tax years beginning on or after January 1, 2021. Oversight notes Tax Year 2021 tax returns claiming the credit will not be filed until after January 1, 2022 (Fiscal Year 2022).

Oversight notes this section states that the tax credits certified shall not exceed a total of four million five hundred thousand dollars ($4,500,000) per year.

Therefore, for purposes of this fiscal note, **Oversight** will report a revenue reduction to General Revenue by an amount equal to "Up to $1,502,722" (average amount of Film Tax Credit issued before sunset on November 28, 2013) to $4,500,000 (tax credit cap) beginning in Fiscal Year 2022.

Oversight notes this section would sunset December 31, 2026.

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 creation of the Show Missouri Film and Digital Media 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, the department may need to request more expense and equipment appropriation through the budget process.

Section 135.755 – Tax Credit for Sale(s) of Ethanol Fuel

In response to similar legislation (HB 601 – 2021) officials from the **Office of Administration – Budget & Planning Division (B&P)** stated, according to data from the U.S. Energy Information Administration, Missouri consumed 7.3 million barrels of fuel ethanol in 2018. (7.3 million barrels * 42 gallons per barrel) equals 306,600,000 gallons. If all of the fuel ethanol sold fit the eligibility for the tax credit, the cost to the state could be $15,330,000 (0.05*306,600,000).

This section could reduce General Revenue and Total State Revenue up to or could exceed ($15,330,000) annually beginning in Fiscal Year 2023 and could impact the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state, starting January 1, 2022, a taxpayer that is a retail dealer that sells higher ethanol blend at their service station can claim a tax credit equal to five cents per gallon on the higher ethanol blend sold. This section requires that the higher ethanol blend be more than 15% but less than 85% ethanol. This is the ratio of the ethanol sold generally as E85 fuel.

The U.S. Energy Information Administration reported that in 2018 (the most recent complete year of data), Missouri consumed 26.5 trillion Btu of ethanol. At a conversion rate of 120,286 Btu per gallon, it is estimated that Missouri used 212,826,098 gallons of fuel. This tax credit is five cents per gallon which is estimated to generate $10,641,305 in tax.

Another report by the U.S. Energy Information Administration reported that in 2018 Missouri used 306.6 million gallons of E85 gasoline. At the five cents per gallon, it would have generated $15,330,000.

This section places a $4 million cap on the tax credit program. Therefore, it is expected to reach the cap annually based on current consumption. This tax credit would be filed starting January 2023.

DOR states this is a new credit, primarily for business entities (corporations, maybe partnerships and S corporations and their members).

DOR does not currently collect information on the amount of gallons of ethanol sold at the retail level. DOR would need to create a form and make changes to the existing tax credit form for taxpayers to claim this tax credit. This would require form and computer changes of at least $2,000.

DOR anticipates the need for one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

For purposes of this fiscal note, **Oversight** assumes DOR can absorb the responsibilities of this tax credit with existing resources. Oversight provides further explanation below.

Oversight assumes B&P's and DOR's estimates include ethanol blends that would **not** qualify for the tax credit created under this section (such as E10 – assumed to be the most common of blends).

Oversight notes, for all tax years beginning on or after January 1, 2022, a retail dealer that sells higher ethanol blend at such retail dealer's service station is allowed a tax credit to be taken against the retail dealer's state income tax liability. The tax credit shall be equal to five cents ($0.05) per gallon of higher ethanol blend sold. The tax credits authorized shall not be transferred, sold, or assigned. The tax credits authorized shall not be refundable. Any amount of tax credits that exceeds a taxpayer's tax liability shall be permitted to be carried forward to any of the five (5) subsequent tax years.

Oversight notes the State of Iowa (Iowa) provides several tax credits for biofuel sales by retailers and blenders. Two (2) of Iowa's tax credits are the E15 Plus Gasoline Promotion Tax Credit and E85 Gasoline Promotion Tax Credit. Detailed information about Iowa's Biofuel Retailers Tax Credits can be found here.

Iowa's E15 Plus Gasoline Promotion Tax Credit is available to retail dealers of gasoline who sell blended gasoline that is classified as E15 Plus but not classified as E85 gasoline. Currently, Iowa's tax credit is considered seasonal; providing various amounts of credit(s) at different times of the year. From June 1 – September 15 of each year, the tax credit is awarded at $0.10 per gallon. At all other times, the tax credit is awarded at $0.03 per gallon. Iowa's E85 Gasoline Promotion Tax Credit is available to retail dealers of motor fuel that sell E85. A tax credit can be claimed for each gallon of E85 sold by the retailer during the tax year. The current tax credit is calculated at $0.06 per gallon.

Using the State Energy Consumption Estimates – 1960 through 2018, published by the U.S. Energy Information Administration, Oversight compared various energy consumption estimates for Iowa and Missouri. Oversight provides the comparison below:

2018 - State Energy Consumption Estimates - U.S. Energy Information Administration			
Iowa and Missouri	Iowa	Missouri	Iowa As a Percent of Missouri
Barrels of Fuel Ethanol	4,200,000	7,300,000	58%
Total Motor Gasoline - Including Fuel Ethanol (btu)	188,300,000,000,000	380,200,000,000,000	50%
Total Fuel Ethanol (btu)	14,800,000,000,000	25,600,000,000,000	58%
Total Energy Consumption by End - Use Sector (Transportation)	303,100,000,000,000	555,100,000,000,000	55%
Iowa As a Percent of Missouri/Topic Average			55%

Oversight notes the information/comparison above includes fuel that would not qualify under this section. However, for purposes of this fiscal note, since the State of Missouri does not track ethanol sales, Oversight assumes the comparison provides the best method to compare ethanol usage between the State of Iowa and the State of Missouri. Oversight assumes, based on the Iowa and Missouri energy consumption comparison shown above, that Iowa's fuel ethanol operations (specific to end user consumption/transportation) could be operating at 55% capacity of Missouri's fuel ethanol operations.

Using information included in Iowa's Biofuel Retailers Tax Credits Program Evaluation Study (December 2019), Oversight reviewed the amount of tax credits claimed in 2016 for Iowa's E15 Plus and E85 Promotion Tax Credit(s) to estimate the number of gallons sold by Iowa's tax credit claimants and compared such estimate to the *actual* number of gallons sold in Iowa:

<table>
<tr><th colspan="7">State of Iowa Summary</th></tr>
<tr><th colspan="6">E85 Gasoline Promotion Tax Credit</th><th rowspan="2">Actual Total Number of E15-20 & E85 Gallons Sold In Iowa</th></tr>
<tr><td>Iowa Actuals (2016)</td><td>Amount Claimed</td><td colspan="2">Iowa Tax Credit %</td><td>Oversight Estimated Number of Gallons Claimed By Tax Credit Claimants</td><td>Actual Number of Gallons Sold</td></tr>
<tr><td>E85 is a blend of gasoline that contains between 70% and 85% ethanol.</td><td>$2,143,259</td><td colspan="2">$0.16 per gallon</td><td>13,395,368.75</td><td>13,471,861</td><td rowspan="5">22,506,449</td></tr>
<tr><th colspan="6">E15 Plus Gasoline Promotion Tax Credit</th></tr>
<tr><td>Iowa Actuals (2016)</td><td>Amount Claimed</td><td>Iowa Tax Credit %</td><td>Amount Claimed Per %</td><td rowspan="3">8,915,127.11</td><td rowspan="3">9,034,588</td></tr>
<tr><td rowspan="2">E15 Plus are blends of gasoline that contain between 15% and 69% ethanol</td><td rowspan="2">$426,788</td><td>June 1 - September 15 - $0.10 per gallon</td><td>$227,620</td></tr>
<tr><td>All Other Dates - $0.03 per gallon</td><td>$199,168</td></tr>
</table>

Oversight notes the amount of estimated gallons sold by tax credit claimants and the actual amount of gallons sold are very similar. Therefore, Oversight anticipates a near one hundred percent (100%) participation rate in Missouri for each gallon of qualifying fuel sold.

Oversight notes, based on the data reported above, the total amount of E-15 & 20 & E85 gallons sold in Iowa during 2016 totals 22,506,449.

If the assumption that Iowa's fuel ethanol operations are operating at 55% capacity of Missouri's fuel ethanol operations is accepted, Oversight estimates Missouri's total E15 Plus and E85 gallons sold could total 40,920,816 gallons (22,506,449 / 55%). Oversight notes, a tax credit equal to $0.05 per gallon would generate a total amount of tax credits equal to $2,046,041 (40,920,816 * $0.05).

Oversight assumes, based on Iowa's tax credit utilization, when adjusted based on Missouri's estimated fuel ethanol operations, that the total number of taxpayer's claiming the tax credit created under this section would be less than the threshold(s) established by the Missouri Department of Revenue for additional FTE. Therefore, for purposes of this fiscal note, Oversight will assume that the Missouri Department of Revenue can absorb the responsibilities of the tax credit created with existing resources. Should the number of tax credits claimed be significant, though, the Missouri Department of Revenue may seek additional FTE through the appropriation process.

Oversight notes the tax credit created is for all tax years beginning on or after January 1, 2022. Oversight notes taxpayers will not filed their Tax Year 2022 tax returns until after January 1, 2023 (Fiscal Year 2023).

Oversight notes this section states the total amount of tax credits authorized under this section, for any given fiscal year, shall not exceed four million dollars.

Oversight notes this section would sunset on December 31, 2026.

Oversight notes the actual and overall impact of this section is unknown. Oversight assumes B&P's and DOR's estimates include ethanol blends that would **not** qualify for the tax credit created under this section (E10 – assumed to be the most common of blends).

For purposes of this fiscal note, **Oversight** will report a revenue reduction to General Revenue equal to "Less Than or Greater Than" $2,046,041, as estimated by Oversight, up to the tax credit cap ($4,000,000). Oversight assumes the estimated reduction to General Revenue equal to $2,046,041 was calculated using the most applicable information available.

Section 135.775 – Biodiesel Tax Credit

In response to similar legislation (HB 529 – 2021), officials from the **Office of Administration – Budget & Planning Division (B&P)** stated this section would create a tax credit for all tax years beginning on or after January 1, 2022 for a retail dealer that sells a biodiesel blend at a retail service station. The amount of the credit shall equal two cents ($0.02) per gallon of biodiesel blend of at least five percent (5%) but not more than ten percent (10%) or five cents ($0.05) per gallon of biodiesel blend in excess of ten percent (10%) sold. Credits shall not be transferred, sold, or assigned. The credit is refundable. The credit is capped at $20 million and has a sunset date of December 31, 2027.

This could decrease TSR and GR in an amount up to $20 million beginning in Fiscal Year 2023 and could impact the calculation under Article X, Section 18(e).

Oversight notes this proposed legislation states the total amount of tax credits authorized under this section shall not exceed **sixteen million dollars ($16,000,000)**. In addition, **Oversight** notes Senate Amendment No. 1 modified this section so that this section sunsets December 31, **2026**, instead of December 31, 2027.

Officials from the **Missouri Department of Revenue (DOR)** state this section creates a new tax credit for seller of biodiesel fuel. To qualify as biodiesel fuel it must be a blend of diesel and biodiesel between 5% and 20% for on-road and off-road diesel-fuel vehicle use. Starting January 1, 2022, this creates a tax credit equal to two cents ($0.02) per gallon on biodiesel blend of 5% but no more than 10% mix or five cents ($0.05) per gallon sold on a biodiesel blend in excess of 10%. The credit is refundable but cannot be sold, transferred or assigned.

The U.S. Energy Information Administration reported that in 2018 (the most recent complete year of data) that Missouri consumed 4.7 trillion Btu of ethanol. At a conversion rate of 120,286 Btu per gallon, it is estimated that Missouri used 39,073,541 gallons of fuel. It should be noted this information does not indicate the percent of mix of the fuel.

For fiscal note purposes they assume that all of it would qualify for the five cents ($0.05) per gallon credit. It is estimated at five cents ($0.05) per gallon it could generate $1,953,677 in tax.

This section has a $16 million annual cap on the tax credit. This tax credit would be filed on the returns starting January 2023. This section requires that the credit be apportioned equally amongst all filers should the amount of credits claimed exceed the cap. DOR estimates this will result in a loss to General Revenue of $1.9 million to $16 million annually.

DOR does not currently collect information on the amount of gallons of biodiesel sold at the retail level. DOR would need to create a form and make changes to the existing tax credit form for taxpayers to claim this tax credit. This would require form and computer changes of at least $2,000.

DOR anticipates the need for one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

Oversight assumes the Missouri Department of Revenue can absorb the responsibilities associated with this tax credit program with existing resources. Should the responsibilities of the tax credit program prove to be significant, the Missouri Department of Revenue can seek additional FTE through the appropriations process.

In response to similar legislation, (HB 529 – 2021), officials from the **Missouri Department of Agriculture** and **State Tax Commission** did not assume this section would cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations, as it relates to this section.

Oversight notes, according to the Missouri Department of Natural Resources - Division of Energy, as of April 2020 there are five commercial biodiesel production facilities in Missouri.

Company	**City**	**Feedstock**	**Nameplate Capacity (MMGY)**
Ag Processing Inc.	St. Joseph	Soy oil	30
ADM	Deerfield	Soy oil	50
Mid-America Biofuels LLC	Mexico	Soy oil	50
Paseo Cargill Energy LLC	Kansas City	Soy oil	56
Seaboard Energy	St. Joseph	Animal fats/Corn oil	30
Total			216

*Lakeview Energy in Moberly and TARA Industries in Tina are currently shuttered from production. Production could resume in the future.

Oversight notes the tax credit created is for all tax years beginning on or after January 1, 2022. Oversight notes taxpayers will not filed their Tax Year 2022 tax returns until after January 1, 2023 (Fiscal Year 2023). Oversight notes 216,000,000 gallons x $0.02 = $4,320,000 ($10.8 million for $0.05).

Oversight notes the tax credit created would automatically sunset on December 31, 2026 unless reauthorized by the General Assembly.

Oversight notes, for all tax years beginning on or after January 1, 2022, a retailer that sells a biodiesel blend at a retail service station is allowed a tax credit to be taken against the retail dealer's state income tax liability. The tax credit shall be equal to two cents ($0.02) for biodiesel blend of 5% - 10% and five cents ($0.05) per gallon of biodiesel blend in excess of 10% during the tax year in which the tax credit is claimed. The tax credits authorized shall not be transferred, sold, or assigned. The tax credits authorized shall be refundable. The total amount of tax credits authorized for any given fiscal year <u>shall not exceed $16 million</u>.

Therefore, for purposes of this fiscal note, **Oversight** will report a revenue <u>reduction</u> to General Revenue equal to an amount "up to" the tax credit cap ($16,000,000) beginning in Fiscal Year 2023.

<u>Section 135.1610 - Tax Credit for Urban Farms (SA 2)</u>

In response to similar legislation (SB 82 – 2021), officials from the **Missouri Department of Agriculture – Missouri Agricultural & Small Business Development Authority (MASBDA)** stated MASBDA does not currently receive funds from General Revenue or Federal sources to administer any programs. All revenues are from fees which pay for MASBDA's administrative costs.

MASBDA assumed that a non-refundable application fee of $100 will be charged to each applicant.

MASBDA stated Section 348.080 gives MASBDA the authority to collect fees and charges, as the authority determines to be reasonable, in connection with its loans, advances, insurance, commitments, and servicing.

This is the same application fee for four (4) other MASBDA tax credit programs (New Generation Processing Entity initial application, New Generation Producer/Investor Tax Credit application, Agricultural Product Utilization Contributor contribution application, Qualified Beef Tax Credit application).

MASBDA noted the only program that does not charge the $100 fee is the Family Farm Breeding Livestock Tax Credit program. The program has a review fee of 1% of the family farm loan amount and that fee is under Section 348.500.

MASBDA indicated that each tax credit program has a bank account set up for all administrative/program activities.

Oversight assumes, then, the $100 would not impact state revenue(s). Therefore, Oversight will not report a fiscal impact for the $100 fee that may be charged on each applicant of the tax credit program created. However, Oversight estimates the total amount that may be collected totals $10,000 ($100 * 100 applicants).

MASBDA assumed the current five (5) employees of MASBDA will be sufficient enough to run this program and no additional equipment will need to be purchased. MASBDA's cost allocation is based on percentage of time spent on each program per fiscal year by employee. MASBDA's assumption is that the Urban Farms Tax Credit program will have approximately 15% more activity than the current New Generation Cooperative Incentive Tax Credit. Fiscal Year 2021 estimated salary total for New Generation is $15,724.67 which 15% increase is $18,083.37.

Officials from the **Missouri Department of Revenue (DOR)** state this section would allow a tax credit against a taxpayer's state tax liability equal to fifty percent (50%) of the eligible expenses for establishing or improving an urban farm starting on August 28, 2021 (the effective date of the proposed legislation). Each eligible taxpayer shall be allowed up to $5,000 for each urban farm depending on their eligible expenses. The tax credit cannot be transferred, sold or assigned.
The total amount of credits that can be authorized annually is $100,000. DOR assumes the impact to General Revenue would be a loss of Up to the $100,000 that can be authorized

annually. The first tax returns claiming the credit will be filed in January 2022 (Fiscal Year 2022).

Fiscal Year	Loss to General Revenue
2022	(Up to $100,000)
2023	(Up to $100,000)
2024	(Up to $100,000)

DOR assumes one (1) FTE Associate Customer Service Representative is needed for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative is needed for every 4,000 tax credit transfers with CISCO phones and licenses, and one (1) FTE Associate Customer Service Representative is needed for every 7,600 errors/correspondence generated. DOR also anticipates the need for additional equipment and expense for form and system updates.

Oversight notes this proposed legislation states that no taxpayer shall claim a tax credit in excess of five thousand dollars ($5,000). The cumulative amount of tax credits that may be authorized in any calendar year shall not exceed one hundred thousand dollars ($100,000). Oversight assumes the minimum number of taxpayers that claim the tax credit created could be as low as 20 each year.

In addition, the tax credits created shall not be transferred, sold, or assigned. Therefore, Oversight assumes DOR can absorb the responsibilities associated with the tax credit created with existing resources. Should the number of redemptions or the number of errors generated prove to be significant, DOR may seek additional FTE through the appropriation process.

Oversight notes this section would grant a tax credit to taxpayers who establish or improve an urban farm equal to fifty percent (50%) of the eligible expenses incurred in establishing such urban farm.

This section defines "Eligible Expenses" as "expenses incurred in the construction or development of establishing or improving an urban farm in an urban area".

Per data published by the United States Census Bureau, there are approximately 119 urban areas observed in Missouri during the 2010 census of which 11 are urbanized areas and 108 are urban clusters.

The fifty percent (50%) tax credit shall not exceed a taxpayer's state tax liability. Any amount of tax credit that exceeds the taxpayer's state tax liability may be carried forward to the next three (3) succeeding tax years.

No taxpayer may claim a tax credit in excess of five thousand dollars ($5,000) for each urban farm. The aggregate amount of tax credits authorized under this proposed legislation shall not exceed $100,000 during any calendar year. Therefore, Oversight assumes the minimum number of tax credits that may be issued could be as low as 20 each year ($100,000 / $5,000).

Oversight notes there is no "begin date" for this section. Therefore, Oversight assumes this section would become effective August 28, 2021. Oversight notes taxpayers will not file their Tax Year 2021 tax return claiming the tax credit created until after January 1, 2022 (Fiscal Year 2022).

Therefore, **Oversight** will report a revenue <u>reduction</u> to General Revenue by an amount "Up to" $100,000 beginning in Fiscal Year 2022.

Oversight notes the tax credit program created would sunset December 31st six (6) years after the effective date of this section.

<u>Section 137.1018 – Rolling Stock Tax Credit (SA 3)</u>

Officials from the **Missouri Department of Revenue (DOR)** state the Rolling Stock Tax Credit sunset on August 28, 2020. This section extends the sunset date of the Rolling Stock Tax Credit to August 28, 2026.

DOR indicates that the General Assembly appropriated the following amounts for the Rolling Stock Tax Credit:

Fiscal Year	Appropriation
2010	$4,000,000 - Governor Line Item Vetoed
2015	$2,000,000 - Governor Line Item Vetoed
2016	$300,000
2017	$600,000 - Governor Restricted $300,000
2018	$0
2019	$0
2020	$200,000

DOR stated the extension of the sunset of this program is not expected to have a fiscal impact on DOR. Since this tax credit is appropriated, it would not have a fiscal impact unless the General Assembly votes to appropriate money to it.

Officials from the **Missouri State Tax Commission (STC)** assume this section will result in an unknown fiscal impact on state revenues as the proposed legislation extends a tax credit subject to the appropriation process. The Rolling Stock Tax Credit provides that, subject to appropriation, a freight line company could receive a property tax credit for expenses incurred to manufacture, maintain, or improve their qualified rolling stock in the State of Missouri, up to the amount of their property tax liability.

This tax credit is not refundable and is subject to an annual appropriation. Since authorized in 2009, the tax credit has been funded three (3) times: 2016 ($291,000), 2017 ($291,000) and 2020 ($194,000). STC notes, though, that the General Assembly has appropriated greater budget appropriations that were later reserved or restricted. STC notes, in 2016, the total eligible expenses of the nearly one hundred (100) private car companies totaled $23,372,795.

In response to similar legislation (SB 418 – 2021), officials from the **Office of Administration – Budget & Planning Division** did not anticipate this proposed legislation 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.

Oversight notes the Rolling Stock Tax Credit provides an economic incentive to have private rail cars manufactured, maintained, and improved in the State of Missouri.

Subject to appropriation, a freight line company could receive a **property tax credit** for expenses incurred to manufacture, maintain, or improve their qualified rolling stock in the State of Missouri, up to the amount of the freight line company's property tax liability.

The State of Missouri will then reimburse counties for any loss in property tax revenue resulting from utilization of the tax credit.

Oversight notes private care companies' assessed values are certified by the Missouri State Tax Commission and then reported to the Missouri Department of Revenue for billing and central collection. The property taxes collected by the Missouri Department of Revenue (less one percent (1%) for the cost of collection, which is deposited into the General Revenue Fund) are deposited into the County Private Car Tax Trust Fund. The funds within the County Private Car Fund are distributed to the counties of Missouri <u>after</u> six tenths of one percent (0.6%) is transferred to the Blind Pension Fund. The distribution is based on each county's percentage of main track line to the aggregate total of the state.

Oversight's policy is to show the extension of the tax credit program in the fiscal note. Oversight notes the Rolling Stock Tax Credit expired on August 28, 2020. Oversight notes this section extends the expiration date to August 28, 2026.

Oversight assumes this section would go into effect August 28, 2021. Oversight notes that taxpayers who are awarded the Rolling Stock Tax Credit in Tax Year 2021 will not file their tax returns claiming the tax credit until after January 1, 2022 (Fiscal Year 2022).
Therefore, **Oversight** will report the revenue <u>reduction</u> to General Revenue as a result of extending the expiration date of this tax credit program beginning in Fiscal Year 2022. Oversight

notes, per the three (3) most recent Tax Credit Analyses received from the Missouri Department of Revenue, the Rolling Stock Tax Credit recognized the following activity:

Rolling Stock Tax Credit							
Fiscal Year	2016	2017	2018	2019	2020	2021 (Year To Date)	2022 (Budget Year)
Amount Authorized	$291,000	$291,000	$0	$0	$0	$0	$0
Amount Issued	$291,000	$291,000	$0	$0	$0	$0	$0
Amount Redeemed	$291,000	$291,000	$0	$0	$0	$0	$0

Oversight notes the five (5) year average (2016 – 2020) amount of Rolling Stock Tax Credit(s) issued equals $116,400.

Oversight notes the Rolling Stock Tax Credit recognized the following appropriation history:

Fiscal Year(s)	**General Assembly Appropriated**	**Amount Vetoed/Reserved/Restricted**	**Tax Credit(s) Available**	**Tax Credit(s) Issued**
2010	$3,000,000	($3,000,000)	$0	$0
2011-2014	$0	$0	$0	$0
2015	$2,000,000	($2,000,000)	$0	$0
2016	$300,000	($9,000)	$291,000	$291,000
2017	$600,000	($309,000)	$291,000	$291,000
2018	$0	$0	$0	$0
2019	$1	$0	$1	$0
2020	$200,000	($6,000)	$194,000	$0

Oversight's policy is to show the extension of the tax credit program in the fiscal note.

For additional information regarding the Rolling Stock tax credit program, please refer to the Oversight Division's sunset review performed in 2019.

For purposes of this fiscal note, **Oversight** will report a revenue reduction to General Revenue equal to a range, beginning at $0 (no appropriation is made for the Rolling Stock Program) "up to or could exceed" $291,000 (highest final approved budget authority to date, future appropriations could be larger) beginning in Fiscal Year 2022.

Oversight assumes the collection(s) of the property tax liabilities of freight line companies by the Missouri Department of Revenue occur annually, regardless of whether or not an appropriation is made for the Rolling Stock Tax Credit.

Thus, **Oversight** assumes deposits into General Revenue as a result of the Missouri Department of Revenue's one percent (1%) cost of collection fee, deposits into the Blind Pension Fund equal to six-tenths of one percent (0.6%) of the amount(s) deposited into the County Private Car Tax Trust Fund, and distributions to the counties of Missouri will remain unchanged. Therefore, Oversight will not report a fiscal impact to General Revenue as a result of the one percent collection fee, will not report a fiscal impact to the Blind Pension Fund, and will not report a fiscal impact to Missouri's counties.

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

In response to a previous version of this proposed legislation, officials from the **Missouri Department of Revenue (DOR)** stated 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 as a result of the extended expiration date.

Oversight notes Senate Amendment No. 1 modified this section so that this sunsets December 31, **2026**, instead of December 31, 2027.

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, 2026. 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 General Revenue 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.

In response to a previous version of this proposed legislation, officials from the **Office of Administration – Budget & Planning Division** stated 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).

Oversight notes Senate Amendment No. 1 modified this section so that this sunsets December 31, **2026**, instead of December 31, 2027.

In response to a previous version of this proposed legislation, officials from the **Missouri Department of Agriculture** did 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

In response to a previous version of this proposed legislation, officials from the **Office of Administration – Budget & Planning Division (B&P)** stated 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.

Oversight notes Senate Amendment No. 1 modified this section so that the amount of tax credits authorized shall not exceed **fifteen million dollars ($15,000,000)** instead of twenty-five million dollars ($25,000,000).

Officials from the **Missouri Department of Revenue (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 $15 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 noted it would start accepting applications ninety (90) days after this proposed legislation goes into effect.
DED stated 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 noted, 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 stated 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 stated 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).

Oversight notes <u>Senate Amendment No. 1</u> modified this section so that the amount of tax credits authorized shall not exceed **fifteen million dollars ($15,000,000)** <u>instead</u> of twenty-five million dollars ($25,000,000).

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 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 General Revenue 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 to General Revenue equal to $0 (no certified capital investments) up to $15,000,000 (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 General Revenue 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 General Revenue, 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 to General Revenue equal to "$0 to Unknown" and a revenue reduction to General Revenue 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.

Legislation as a Whole

Officials from the **Missouri Department of Transportation** and the **City of Springfield** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
Revenue Reduction – Section 135.305 – Extension of the Wood Energy Tax Credit from 06/30/20 to 06/30/26 – 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 12/31/26 – p. 4-7	$0	Up to ($667,348) to ($2,000,000)	Up to ($667,348) to ($2,000,000)
Revenue Reduction – Section 135.750 – Tax Credit For Expenses For Production Of Qualified Film Projects – p. 7-11	Up to ($1,502,772) to ($4,500,000)	Up to ($1,502,772) to ($4,500,000)	Up to ($1,502,772) to ($4,500,000)
Revenue Reduction – Section 135.755 - Tax Credit For Sale(s) of Ethanol Fuel - p. 11-15	$0	Less than or greater than ($2,046,041) up to ($4,000,000)	Less than or greater than ($2,046,041) up to ($4,000,000)
Revenue Reduction – Section 135.775 – Tax Credit For Retailers of Biodiesel – p. 15-17	$0	Up to ($16,000,000)	Up to ($16,000,000)
Revenue Reduction- Section 135.1610 – Tax Credit For Establishing Urban Farm's In Food Deserts – p. 18-20 (SA 2)	Up to ($100,000)	Up to ($100,000)	Up to ($100,000)
Revenue Reduction – Section 137.1018 - Extension of Rolling Stock Tax Credit Program – p. 20-23 (SA 3)	$0 up to or could exceed ($291,000)	$0 up to or could exceed ($291,000)	$0 up to or could exceed ($291,000)

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 12/31/26 – p. 23-26	$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. 29-30	$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. 30-31	$0	$0	$0 up to ($15,000,000)
Revenue Gain – Transfer In – Section 620.3520 – Recapture of Tax Credits From Rural Investor – p. 31	$0	$0	Unknown
Revenue Loss – Transfer Out – Section 620.3520 – Recaptured Tax Credits (Re)Allocated to Missouri Department of Economic Development – p. 31	$0	$0	(Unknown)
Cost – Section(s) 620.3510, 620.3515 & 620.3520 – DED – p. 27-28			
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	**($885,318) to ($9,481,318)**	**($4,728,388) up to ($37,502,075)**	**($4,729,892) up to ($52,503,579)**

FISCAL IMPACT – Local Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for a tax credit created/modified under this proposed legislation, as such small business can utilize the tax credit received to reduce or eliminate such small business's tax liability.

FISCAL DESCRIPTION

The proposed legislation modifies provisions relating to several tax credits

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

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

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