COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2475H.01I
Bill No.: HB 1174
Subject: Taxation and Revenue - General; Tax Credits; Taxation and Revenue - Income; Tax Incentives; Health, Public; Drugs and Controlled Substances
Type: Original
Date: March 29, 2021

Bill Summary: This proposal would authorize a tax credit for donations made to certain organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund	$0	Up to ($2,611,116)	Up to ($2,591,359)
Total Estimated Net Effect on General Revenue	**$0**	**Up to ($2,611,116)**	**Up to ($2,591,359)**

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 – DOR	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	**0 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

Section 135.440 – Tax Credit For Donations Made To Certain Organizations

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation creates a new tax credit. For all tax years beginning on or after January 1, 2022, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's contribution to a qualified organization that provides recovery support services and assistance to justice-involved individuals and people in recovery from substance use disorders. No more than $2.5 million can be authorized in any calendar year and no more than 20% of the total tax credits available shall be authorized to any particular qualified organization.

These credits are **not** refundable but may be carried forward to the next four (4) succeeding tax years.

This could reduce General Revenue (GR) and Total State Revenues (TSR) by an amount up to $2.5 million beginning in Fiscal Year 2023.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation would allow an eligible taxpayer to claim a tax credit in an amount equal to 50% of a contribution to a qualified organization, starting January 1, 2022. The taxpayer cannot contribute money to an organization in which they receive a financial benefit. The credit is **not** refundable, and cannot be assigned, transferred or sold. This tax credit has a $2.5 million annual cap.

This proposed legislation will result in a loss of revenue up to the cap annually. This will have an impact starting in Fiscal Year 2023 when the first tax returns are filed beginning January 1, 2023.

Fiscal Year	Loss to GR
2022	$0
2023	($2,500,000)
2024	($2,500,000)

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 7,600 errors and correspondence generated and costs associated with forms and programming changes.

Oversight notes this proposed legislation states that no taxpayer shall be allowed to claim the tax credit created unless the total amount of the taxpayer's contribution or contributions in the tax year has a value of at least two hundred fifty dollars ($250). Therefore, in conjunction with the tax credit cap established of $2,500,000, Oversight assumes the maximum number of individuals that could claim the tax credit created, in any one given year, totals 20,000 (($2,500,000 * 2) / $250). Therefore, for purposes of this fiscal note, Oversight will include DOR's FTE and administrative cost(s), as estimated by DOR.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state "For all tax years beginning on or after January 1, 2022, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to fifty percent of the taxpayer's contribution to a … recovery support services and assistance to justice-involved individuals and people in recovery from substance use disorders." "Tax credits issued under this section shall not be refundable; however, any tax credit that cannot be claimed for the tax year in which the contribution is made may be carried forward to the next four succeeding tax years until the full credit has been claimed. No tax credits issued under the provisions of this section shall be assigned, transferred, or sold."

EPARC does not possess data indicating the current amount of contributions currently being made to qualified organizations nor can EPARC forecast future participation in this credit market. However, given some basic assumptions, EPARC can generate a maximum impact.

In any given year, $2,500,000 in credits may be authorized and may only be redeemed within the current year or within the next four (4) years. In the 2022 tax year, $2,500,000 may be authorized and claimed. Therefore, the maximum impact in Fiscal Year 2023 would be a reduction in Net General Revenue of $2,500,000.

In the 2023 tax year, $2,500,000 may be authorized and claimed. Also, there may be $2,500,000 in authorized claims from the 2022 tax year that were not able to be claimed until Fiscal Year 2024. Therefore, the maximum impact in Fiscal Year 2024 would be a reduction in Net General Revenue of $5,000,000.

In the 2024 tax year, $2,500,000 may be authorized and claimed. Also, there may be $2,500,000 in authorized claims from the 2022 tax year that were not able to be claimed until Fiscal Year 2025. Also, there may be $2,500,000 in authorized claims from the 2023 tax year that were not able to be claimed until Fiscal Year 2025. Therefore, the maximum impact in Fiscal Year 2025 would be a reduction in Net General Revenue of $7,500,000.

In the 2025 tax year, $2,500,000 may be authorized and claimed. Also, there may be $2,500,000 in authorized claims from the 2022 tax year that were not able to be claimed until Fiscal Year 2026. Also, there may be $2,500,000 in authorized claims from the 2023 tax year that were not able to be claimed until Fiscal Year 2026. Also, there may be $2,500,000 in authorized claims from the 2024 tax year that were not able to be claimed until Fiscal Year 2026. Therefore, the maximum impact in Fiscal Year 2026 would be a reduction in Net General Revenue of $10,000,000.

In the 2026 tax year, $2,500,000 may be authorized and claimed. Also, there may be $2,500,000 in authorized claims from the 2022 tax year that were not able to be claimed until Fiscal Year 2027. Also, there may be $2,500,000 in authorized claims from the 2023 tax year that were not able to be claimed until Fiscal Year 2027. Also, there may be $2,500,000 in authorized claims from the 2024 tax year that were not able to be claimed until Fiscal Year 2027. Also, there may be $2,500,000 in authorized claims from the 2025 tax year that were not able to be claimed until Fiscal Year 2027. Therefore, the maximum impact in Fiscal Year 2027 would be a reduction in Net General Revenue of $12,500,000.

In the 2027 tax year, $2,500,000 may be authorized and claimed. In Fiscal Year 2028 is when any credits authorized in 2022 can no longer be claimed. But, there may be $2,500,000 in authorized claims from the 2023 tax year that were not able to be claimed until Fiscal Year 2028. Also, there may be $2,500,000 in authorized claims from the 2024 tax year that were not able to be claimed until Fiscal Year 2028. Also, there may be $2,500,000 in authorized claims from the 2025 tax year that were not able to be claimed until Fiscal Year 2028. Also, there may be $2,500,000 in authorized claims from the 2026 tax year that were not able to be claimed until Fiscal Year 2028. Therefore, the maximum impact in Fiscal Year 2028 would be a reduction in Net General Revenue of $12,500,000. EPARC finds that this $12,500,000 maximum impact estimate will continue every year beyond Fiscal Year 2027.

For purposes of this fiscal note, **Oversight** will report the fiscal impact assuming that the total amount of tax credits available will be claimed in each given tax year. Oversight notes this does not take into consideration any amount of tax credits carried forward from one year to the next, as applicable under this proposed legislation.

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 contributions to organizations exempt from taxation under Section 501 (C)(3)of the internal revenue code. 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 DCI assumes any fiscal impact as a result of this proposed legislation can be absorbed with existing resources. However, should the fiscal impact prove to be substantial, or if multiple pieces of legislation pass that would require additional updates, DCI may seek additional expense and equipment through the appropriation process.

Oversight notes this proposed legislation creates a tax credit, for all tax years beginning on or after January 1, 2022, for taxpayers that make contribution(s) to a qualified organization.

Oversight notes "Qualified Organization" is defined as "an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, including any faith-based organization, peer- or community-based organization, or recovery community center or outreach that provides recovery support services and assistance to justice-involved individuals and people in recovery from substance use disorders. A qualified organization shall not have an annual budget in excess of five million dollars, shall not have any employees who receive more than one hundred thousand dollars in compensation annually, and shall not be licensed with this state as clinical treatment providers. A qualified organization does not need to be contracted with this state as a recovery support services provider, but shall meet the qualifications to be contracted with this state as such a provider. No housing organization shall be a qualified organization unless accredited by the National Alliance of Recovery Residences (NARR) or Adult and Teen Challenge (ATC) USA".

Oversight notes the tax credit created is equal to fifty percent (50%) of the taxpayer's contribution to a qualified organization.

Oversight notes this proposed legislation states that the tax credits shall **not** be refundable. However, any amount of tax credit that cannot be claimed for the tax year in which the contribution is made may be carried forward to the next four (4) succeeding tax years.

Oversight notes this proposed legislation states that, except for any excess credit carried forward, a taxpayer shall not be allowed to claim a tax credit unless the total amount of the taxpayer's contribution or contributions in the tax year to one or more qualified organizations has a value of at least two hundred fifty dollars ($250). Oversight notes, then, that the <u>minimum</u> amount of tax credit a taxpayer could claim equals $125 ($250 * 50%).

Oversight notes the Director of the Missouri Department of Mental Health shall determine, at least annually, which organizations in this state may be classified as qualified organizations.

Each qualified organization shall provide information to the Missouri Department of Revenue relating to the identity of each taxpayer making a contribution and the amount of such taxpayer's contribution.

Oversight notes this proposed legislation states that no more than two million five hundred dollars ($2,500,000) in tax credits shall be authorized in any calendar year. The tax credits created shall be authorized on a first-come, first-served basis. In addition, no more than twenty percent (20%) of the total tax credits available shall be authorized for contributions to any particular qualified organization.

Oversight notes the provisions of this proposed legislation would sunset December 31st six (6) years after the effective date of this section unless reauthorized by the General Assembly.

Oversight is unable to determine how many organizations would be classified as "qualified organizations" by the Missouri Department of Mental Health.

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

Therefore, for purposes of this fiscal note, **Oversight** will report a revenue reduction to GR by an amount "Up to" $2,500,000 (tax credit cap) beginning in Fiscal Year 2023.

Officials from the **Missouri Department of Mental Health** do 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.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
Revenue Reduction – Section 135.440 – Tax Credit For Contributions To Qualified Organizations	$0	Up to ($2,500,000)	Up to ($2,500,000)
Cost – DOR – Section 135.440 – Tax Credit For Contributions To Qualified Organizations			
Personnel Services	$0	($49,207)	($49,699)
Fringe Benefits	$0	($40,487)	($40,653)
Equipment & Expense	$0	($21,422)	($1,007)
Total Cost	$0	($111,116)	($91,359)
FTE Change	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**Up to ($2,611,116)**	**Up to ($2,591,359)**

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 makes a contribution to a qualified organization as such small business could qualify for a tax credit created reducing or eliminating such small business's tax liability.

FISCAL DESCRIPTION

Beginning January 1, 2022, a taxpayer will be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to 50% of the taxpayer's contribution to a 501(c)(3) tax exempt organization, including any faith-based organization, peer-or community-based organization, or recovery community center or outreach that provides recovery support services and assistance to justice-involved individuals and people in recovery from substance use disorders that does not have an annual budget in excess of $5 million, does not have any employees who receive more than $100,000 in compensation annually, and is not licensed with this state as clinical treatment providers. An organization does not need to be contracted with this state as a recovery support services provider, but must meet the qualifications to be contracted with this state as a provider. No housing organization will be eligible unless accredited by the National Alliance of Recovery Residences (NARR) or Adult and Teen Challenge (ATC) USA.

No contribution can be used to purchase goods or services from or to produce a direct financial benefit for the contributor. An organization must use the taxpayer's contribution to assist people in recovery from substance use disorders by providing such people with recovery support services including, but not limited to, supportive housing.

Tax credits under this bill are nonrefundable but may be carried forward to the next four tax years. Except for any excess credit carried forward, a taxpayer will not be allowed to claim a tax credit under this bill unless the total amount of the taxpayer's contribution or contributions in the tax year to one or more organizations has a value of at least $250.

The Director of the Department of Mental Health will determine, at least annually, which organizations in this state may be classified as organizations qualified under requirements of this bill. The Director may require an organization seeking to be classified as a qualified organization to provide any information that is reasonably necessary for the Director to make such a determination.

The Director of the Department of Mental Health will establish a procedure, in consultation with the Department of Revenue, by which a taxpayer can determine if an organization has been classified as a qualified organization.

Upon receipt and acceptance of a contribution from a taxpayer, such an organization will issue to the taxpayer a statement evidencing the receipt of such contribution, including the monetary value of such contribution. However, an organization is permitted to decline a contribution from a taxpayer.

Each qualified organization will provide information to the Director of the Department of Revenue relating to the identity of each taxpayer making a contribution to the qualified organization who is claiming a tax credit under this bill and the amount of such taxpayer's contribution.

The Director of the Department of Revenue will not authorize more than $2.5 million in tax credits in any calendar year. Tax credits will be authorized on a first-come, first-served basis. In any given tax year, no more than 20% of the total tax credits available under this bill will be authorized for contributions to any particular qualified organization.

The new program established under this bill will automatically sunset on December 31st, six years after the effective date of this bill unless reauthorized by an act of the General Assembly.

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 Mental Health
Missouri Department of Revenue
University of Missouri's Economic Policy & Analysis Research Center

Julie Morff
Director
March 29, 2021

Ross Strope
Assistant Director
March 29, 2021