

HCS SB 5 -- TAXATION

SPONSOR: Wieland (Ruth)

COMMITTEE ACTION: Voted "Do Pass with HCS" by the Standing Committee on Economic Development by a vote of 8 to 0. Voted "Do Pass" by the Standing Committee on Rules- Legislative Oversight by a vote of 9 to 0.

The following is a summary of the House Committee Substitute for SB 5.

This bill modifies numerous provisions related to taxation

COMMUNITY IMPROVEMENT DISTRICTS (Sections 67.1421-67.1545, RSMo)

Currently, a petition is required for the creation of a community improvement district (CID) to include a five year plan describing the improvements to be made in the CID. This bill requires such plan to include the anticipated sources of funds and the term of such sources used to pay the costs of such improvements. This bill also limits the duration of a CID to 27 years for CIDs formed after August 28, 2021.

Upon the creation of a CID, this bill requires the municipal clerk of the municipality to report in writing to the State Auditor in addition to the Missouri Department of Economic Development.

For CIDs established after August 28, 2021, in which there are no registered voters, this bill requires at least one director to be a person who resides within the municipality, is registered to vote, has no financial interest in any real property or business operating within the CID, and to not be a relative within the second degree of consanguinity to an owner of real property or a business operating within the CID.

This bill requires all construction contracts entered into after August 28, 2021, and that are in excess of \$5,000 must be competitively bid and will be awarded to the lowest and best bidder.

Currently, CIDs are required, within 120 days after the end of the fiscal year, to submit a report to the municipal clerk and the Department of Economic Development stating the services provided, revenues collected, and expenditures made by the CID during the fiscal year. The bill requires that the report include the dates the CID adopted its annual budget, submitted its proposed annual budget to the municipality, and submitted its annual report to the municipal clerk.

Under this bill, for the termination of a CID, each ordinance establishing a CID will set forth the term for the existence of such CID which term may be defined as a minimum, maximum, or definite number of years, but in the case of CIDs established after August 28, 2021, the term will not exceed seven years except as provided under this bill.

This exception is that prior to the expiration of the term of a CID, a municipality may adopt an ordinance to extend the term of the existence of a CID after holding a public hearing on the proposed extension. The extended term may be defined as a minimum, maximum, or definite number of years, but the extended term will not exceed 27 years. Notice of the hearing will be given in the same manner as required under current law, except the notice will include the time, date, and place of the public hearing; the name of the CID; a map showing the boundaries of the existing CID; and a statement that all interested persons will be given an opportunity to be heard at the public hearing.

These provisions are similar to HB 213 (2021) and similar to provisions in HS HCS HB 441.

ADVANCED INDUSTRIAL MANUFACTURING (AIM) ZONES (Section 68.075)

Currently, no AIM Zone may be established after August 28, 2023. This bill extends the date to August 28, 2030.

This provision is similar to HB 249 (2021).

TAX INCREMENT FINANCE (Sections 99.805-99.848)

This bill modifies the definitions of "blighted area" and "conservation area", and creates new definitions for "port infrastructure projects", "retail area", and "retail infrastructure projects". (Section 99.805)

This bill modifies local tax increment financing projects by providing that a study must be conducted by a land use planner, urban planner, licensed architect, licensed commercial real estate appraiser, or licensed attorney, which details how the area meets the definition of an area eligible to receive tax increment financing.

This bill also provides that retail areas, as defined in the bill, will not receive tax increment financing unless such financing is exclusively utilized to fund retail infrastructure projects, as defined in the bill, or unless such area is a blighted or conservation area (Section 99.810).

Current law requires cities, towns, and villages located in St. Louis County, St. Charles County, or Jefferson County to establish a 12 member commission that will include six members appointed by the county executive or presiding commissioner prior to the adoption of any resolution or ordinance approving tax increment financing projects. This bill adds Cass County to such list of counties (Section 99.820).

This bill prohibits new projects from being authorized in any Greenfield area. (Section 99.843)

This bill also prohibits new projects from being authorized in an area designated as a flood plain by the Federal Emergency Management Agency unless such projects are located in:

- 1) Jackson, Platte, Clay, or Cole counties;
- 2) The cities of Springfield, St. Joseph, or Hannibal,
- 3) In a port district, provided such financing is utilized for port infrastructure projects; or
- 4) In a levee or drainage district created prior to August 28, 2021. Projects in flood plains will not be authorized in St. Charles County unless the redevelopment area actually abuts a river or major waterway, as described in the bill (Section 99.847).

Current law allows districts and counties imposing a property tax for the purposes of providing emergency services to be entitled to reimbursement from the special allocation fund of a portion of the district's or county's tax increment. For projects approved after August 28, 2021, this bill modifies such provision to allow reimbursement to ambulance districts, fire protection districts, and governing bodies operating a 911 center providing dispatch services and which impose economic activity taxes for such purposes (Section 99.848).

These provisions are the same as the perfected version of SB 22 (2021).

INCOME TAX (Sections 143.088, 143.121, and 143.171)

For all tax years beginning on or after January 1, 2022, this bill provides that no income tax will be imposed on the first \$50,000 of income of any person who is under 23 years of age on the first day of the tax year.

This provision is similar to HB 1292 (2021) and the same as a

provision in HCS SB 365.

Currently, a taxpayer is allowed to deduct from his or her Missouri adjusted gross income a portion of his or her federal income taxes paid. This bill provides that federal income tax credits received under Public Law 116-260 (Consolidated Appropriations Act, 2021) or any amount of federal income tax refund attributable to a tax credit reducing a taxpayer's federal tax liability under any other federal law that provides direct economic impact payments to taxpayers to mitigate financial challenges related to the COVID-19 pandemic will not be considered when determining the amount of federal income tax liability allowable as a deduction.

Currently, taxpayers who itemize deductions are required to include any federal income tax refund amounts in his or her Missouri adjusted gross income if such taxpayer previously claimed a deduction for federal income tax liability on his or her Missouri income tax return. This bill provides that any amount of a federal income tax refund attributable to a tax credit received under Public Law 116-260 (Consolidated Appropriations Act, 2021) or any amount of federal income tax refund attributable to a tax credit reducing a taxpayer's federal tax liability under any other federal law that provides direct economic impact payments to taxpayers to mitigate financial challenges related to the COVID-19 pandemic will not be included in the taxpayer's Missouri adjusted gross income.

These provisions contain an emergency clause.

This provision is the same as HB 991 (2021) and provisions in HCS SB 365.

QUALIFIED RESEARCH TAX INCENTIVES (Section 620.1039)

Currently, no tax credits for qualified research expenses, as defined in the bill, can be approved, awarded, or issued.

Beginning January 1, 2022, the Director of the Department of Economic Development may authorize a taxpayer a tax credit of up to 15% of a taxpayer's additional qualified research expenses, as defined in the bill, or 20% if the additional research expenses relate to research that is conducted in conjunction with a public or private college or university located in this state. However, no tax credit will be allowed for any portion of qualified research expenses that exceed 200% of the taxpayer's average qualified research expenses incurred during the three immediately preceding tax years.

For tax credits that exceed the taxpayer's tax liability, the difference between the credit and the tax liability may be carried

forward for 12 years.

Tax credits provided under this program may be transferred, sold, or assigned by filing a notarized endorsement with the Department of Economic Development (DED) that names the transferee, the amount of tax credit transferred, and the value received for the credit, as well as any other information reasonably requested by the DED. For a taxpayer with flow through tax treatment to its members, partners, or shareholders, the tax credit will be allowed to members, partners, or shareholders in proportion to their share of ownership on the last day of the taxpayer's tax period.

The annual aggregate cap on the amount of these tax credits that can be authorized by the DED is \$10 million with no single taxpayer being issued or awarded more than \$300,000. Five million dollars worth of the \$10 million cap in tax credits will be reserved for minority business enterprises, women's business enterprises, and small businesses. Any reserved amount not issued or awarded to a minority business enterprise, women's business enterprise, or small business by November 1st of the tax year may be issued to any taxpayer otherwise eligible for a tax credit under this bill. In the event that total eligible claims for credits received in a calendar year exceed the annual cap, each eligible claimant will be issued credits based upon a pro-rata basis, given that all new businesses, defined as a business less than five years old, are issued full tax credits first.

Additionally, purchases of Missouri qualified research and development equipment, as defined in the bill, are specifically exempt from all state and local sales and use tax.

The provisions of the bill concerning tax incentives qualified research expenses sunsets on December 31st, six years after the effective date of this bill unless reauthorized by the General Assembly.

This provision is similar to a provisions in HCS HB 690 (2021) and similar to HB 2651 (2020).

MISSOURI WORKS PROGRAM (Section 620.2020)

Currently, the Missouri Department of Economic Development is required to recapture Missouri Works Program Benefits from a company if it fails to timely file the annual audit report.

This bill specifies that, if a qualified company fails to timely file the annual report, the Department of Economic Development will communicate with an employee, as described in the bill, to inform the qualified company of the failure to timely file the annual

report. If the qualified company requests an extension in writing to the Department within 30 days following the deadline to file the annual report, the Department will grant one 30-day extension beginning on the date that the request was received by the Department to file the report without penalty. A failure to submit the report by the end of any extension granted will result in the forfeiture of tax credits and a recapture of withholding tax as provided in current law. Additionally, a qualified company that had an annual report due between January 1, 2020, and September 1, 2021, will not be subject to the forfeiture of tax credits attributable to the year for which the reporting was required or to the recapture of withholding taxes retained by the qualified company or qualified military project during such year so long as the annual report is filed with the Department by November 1, 2021.

This provision contains an emergency clause.

This provision is the same as HCS HBs 1339 & 379 (2021), is the same as a provision in HCS SB 365 (2021), and similar to SB 227 (2021).

TARGETED INDUSTRIAL MANUFACTURING ENTERPRISE (TIME) ZONES (Section 620.2250)

This bill establishes the "Targeted Industrial Manufacturing Enhancement Zones Act".

The bill allows any two or more contiguous or overlapping political subdivisions, as defined in the bill, to create TIME zones for the purpose of completing infrastructure projects to promote economic development. Prior to the creation of a TIME zone, each political subdivision must propose an ordinance or resolution that sets forth the names of the political subdivisions which will form the zone, the general nature of the proposed improvements, the estimated cost of such improvements, the boundaries of the proposed TIME zone, and the estimated number of new jobs to be created in the TIME zone. The political subdivisions must hold a public hearing prior to approving the ordinance or resolution creating the TIME zone.

This bill allows the Zone Board governing the TIME zone to retain 25% of withholding taxes on new jobs created within the TIME zone to fund improvements made in the TIME zone. Prior to retaining such withholding taxes, the Zone Board must enter into an agreement with the Department of Economic Development. The agreement must include the estimated number of new jobs to be created, the estimated average wage of new jobs to be created, the estimated net fiscal impact of the new jobs, the estimated costs of improvements, and the estimated amount of withholding tax to be retained over the period of the agreement. The Department will not approve an

agreement unless the Zone Board commits to the creation of a certain number of new jobs, as described in the bill.

The term of such agreement will not exceed 10 years. A Zone Board may apply to the Department of Economic Development for approval to renew any agreement. In determining whether to approve the renewal of an agreement, the Department will consider the number of new jobs created and the average wage and net fiscal impact of such new jobs, and the outstanding improvements to be made within the TIME zone, the funding necessary to complete such improvements, and any other factor the Department requires. The Department may approve the renewal of an agreement for a period not to exceed 10 years. If a Zone Board has not met the new job creation requirements by the end of the agreement, the Department will recapture the withholding taxes retained by the Zone Board.

The Zone Board must submit an annual report to the Department and to the General Assembly, as described in the bill.

No political subdivision will establish a TIME zone with boundaries that overlap the boundaries of an advanced industrial manufacturing (AIM) zone.

The total amount of withholding taxes retained by TIME zones under this bill must not exceed \$5 million per year.

No new TIME zone will be created after August 28, 2024.

This provision is the same as HCS HB 379 (2021) and is similar to similar to SB 174 (2021) and HB 1695 (2020).

This bill has an emergency clause for certain sections of the bill.

The following is a summary of the public testimony from the committee hearing. The testimony was based on the introduced version of the bill.

PROPONENTS: Supporters say that AIM Zones have been able to recruit jobs to the state and numerous ports across the state want to utilize AIM Zones. The state should extend the deadline for the creation of new AIM Zones.

Testifying for the bill were Senator Wieland; Port KC; Greater Kansas City Chamber of Commerce; Missouri Port Authority; and South Kansas City Chamber of Commerce.

OPPONENTS: Those who oppose the bill submitted written online testimony.

Testifying against the bill was Arnie Dienoff.

Written testimony has been submitted for this bill. The full written testimony can be found under Testimony on the bill page on the House website.