

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1685H.02C  
 Bill No.: HCS for HB 714  
 Subject: Tax Credits; Taxation and Revenue - General; Adoption; Department of Revenue  
 Type: Original  
 Date: March 27, 2023

Bill Summary: This proposal modifies provisions related to benevolent tax credits.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	Up to (\$5,038,921)	Could exceed (\$5,038,921)	Could exceed (\$5,038,921)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to (\$5,038,921)</b>	<b>Could exceed (\$5,038,921)</b>	<b>Could exceed (\$5,038,921)</b>

\*Oversight notes the fiscal impact changes from HB 429 (2021) are not yet fully known. Oversight will range the fiscal impact for these additional changes from \$0 (participation in the tax credit program does not change as a result of the bill) to an unknown amount – possibly exceeding the \$250,000 threshold - beginning in Fiscal Year 2025. Additionally, Oversight reflects the change in expenditures to GR due to the Section(s) 32.115 Neighborhood Assistance Program & 135.460 – Youth Opportunities Tax Credit where both tax credits allow 70% contribution (up from previous 50%).

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

**Section 32.115 Neighborhood Assistance Program**

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would increase the value of the neighborhood assistance tax credits to 70% of each contribution. B&P notes that the three-year average redemption amount for neighborhood assistance was \$8,720,836 from FY20 - FY22. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been \$12,209,170 for neighborhood assistance. Therefore, this provision could reduce GR by \$3,488,334 annually beginning in FY24.

Officials from the **Department of Revenue (DOR)** assume this proposal also changes the Neighborhood Assistance Tax Credit program. The Neighborhood Assistance Tax Credit program has a \$16 million cap with the credit based on 50% of the contribution made. For informational purposes, DOR provided the amount authorized, issued and redeemed for this credit.

<b>Year</b>	<b>Authorized</b>	<b>Issued</b>	<b>Total Redeemed</b>
FY 2022	\$12,673,134.00	\$11,113,005.75	\$8,067,535.14
FY 2021	\$11,924,548.00	\$9,048,913.00	\$8,623,742.15
FY 2020	\$13,890,324.00	\$8,703,761.00	\$9,471,230.74
FY 2019	\$15,035,823.00	\$10,377,614.00	\$8,947,215.78
FY 2018	\$14,981,906.00	\$12,367,630.00	\$10,922,806.90
FY 2017	\$14,041,962.00	\$14,490,650.00	\$14,831,654.53
FY 2016	\$13,553,852.00	\$13,761,480.00	\$10,318,970.97
FY 2015	\$15,974,536.00	\$11,435,785.00	\$8,230,285.75
FY 2014	\$11,513,379.00	\$9,640,126.00	\$10,848,983.24
FY 2013	\$14,996,900.00	\$10,144,225.00	\$7,392,112.96
FY 2012	\$11,577,412.00	\$8,493,103.00	\$9,757,094.83
<b>TOTALS</b>	<b>\$150,163,776.00</b>	<b>\$119,576,292.75</b>	<b>\$107,411,632.99</b>

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This change is expected to encourage more taxpayers to contribute and claim the tax credit. The three year average of the redemptions of the program has been \$8,720,836.

Increasing the tax credit percent to seventy percent would have resulted in \$12,209,170 in tax credits being issued. An increase of \$3,488,334. The increased percent of the credit could result in additional contributions being made to the affordable housing program, but the Department does not have any information as to how many more contributions would be made. Since the increased amount is lower than the current cap of \$16 million, this is not expected to have any additional impact to the state.

**Oversight** notes Section 32.115 Neighborhood Assistance Program provides maximum of \$32 million annually and shares the total amount with other tax credits as follow:

- a) Section(s) 32.111 – Affordable Housing Assistance Tax Credit Program (AHAP up to the same \$10 million cap. (If other tax credits are not fully utilized this section can draw additional \$1 million allowing the cap reach \$11 million annually – as per Section 32.115 4.).
- b) Section 135.460 Opportunity Youth program with maximum cap of \$6 million.

**Oversight** notes, currently, the actual Neighborhood Assistance Program can obtain maximum of \$16 million annually.

	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 ACTUAL
Certificates Issued (#)	1,432	1,240	1,371
Projects/Participants (#)	67	67	65
Amount Authorized	\$13,890,324	\$11,924,548	\$12,673,134
Amount Issued	\$8,703,761	\$9,048,913	\$11,113,006
Amount Redeemed	\$9,471,231	\$8,623,742	\$8,067,535

(DED Form 14 – see attachment in MOLIS)

**Oversight** notes the current average redemption total in last three years was \$8,720,836 at 50% contribution percentage.

**Oversight** notes the 70% contribution would total to \$12,209,170 of total average redemption in the same period.

**Oversight** note that the difference between 50% and 70% contribution redemption would total to \$3,488,334 (\$12,209,170-\$8,720,836).

**Oversight** notes this proposal does not change the \$16 million maximum cap, instead increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This will allow for those who claim the tax credit receive greater amount of funds, but will not affect the overall maximum cap available under the proposal. (Allowing potentially for fewer participants who are receiving greater amount of tax credit)

Therefore, for the purpose of this fiscal note, **Oversight** will reflect the contribution difference of \$3,488,334 to the general revenue in the fiscal note.

### **Section 135.327, 135.331 & 135.333 Adoption Tax Credit**

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would make multiple changes to the adoption tax credit. This proposal would remove the annual \$6 million redemption cap and change the tax credit to refundable beginning with fiscal year 2025.

B&P notes that the average 3-year redemption amount from FY20 – FY22 was \$17,568. In addition, credit redemptions have been \$1 million or less since 2012. Therefore, B&P estimates that this proposal may have an unknown negative impact on TSR and GR beginning FY25.

Officials from the **Department of Revenue (DOR)** note the Adoption tax credit program allows taxpayers who adopt a child to get a tax credit for non-recurring expenses that result from the adoption. Additionally, businesses that help cover the cost of their employee's adoptions can receive the credit also. This program has a \$6 million annual cap with a limit of \$10,000 per child.

This proposal starting July 1, 2024, removes the \$6 million annual cap and makes it unlimited and it will allow the \$10,000 child cap to be inflated in the future by the CPI. Additionally, this proposal allows the credit to be refunded to taxpayers starting January 1, 2024. While this may encourage more people to apply for this credit, it has not been near its \$6 million cap. Therefore they assume this will not have any additional impact on DOR.

For informational purposes, DOR notes that the Adoption tax credit started in 1987. It has gone through numerous changes through the years. Most recently in 2021 when the cap on the program was raised from \$2 million to \$6 million annually. They are providing the amount of credits, issued and redeemed over the last few years.

Table 1.

Year	Issued	Total Redeemed
FY 2022	\$19,690.00	\$19,690.00
FY 2021	\$3,611.00	\$3,611.00
FY 2020	\$29,404.00	\$29,404.00
FY 2019	\$19,185.00	\$19,185.00
FY 2018	\$88,706.00	\$88,706.00
FY 2017	\$127,211.00	\$127,211.00
FY 2016	\$225,358.00	\$231,367.00
FY 2015	\$380,715.00	\$380,715.00
FY 2014	\$714,857.00	\$718,495.00
FY 2013	\$744,155.00	\$744,155.00
FY 2012	\$1,036,226.00	\$1,036,226.00
<b>TOTALS</b>	<b>\$3,389,118.00</b>	<b>\$3,398,765.00</b>

This proposal will require DOR to update the information on forms, website and computer. These changes are estimated at \$7,193.

**Oversight** assumes DOR will be able to absorb the cost of the internal updates; therefore, Oversight will reflect a zero impact for DOR in the fiscal note.

**Oversight** notes Section 135.331 states that no credit shall be allowable for the adoption of any child who has attained the age of eighteen, unless it has been determined that the child has a medical condition or disability (changed from “handicap”).

**Oversight** notes Section 135.333 allows after January 1, 2024, any amount of tax credit that is issued and which exceeds the tax due shall be refunded to the taxpayer. However, for tax years ending on or before December 31, 2023, any amount of tax credit which exceeds the tax due shall not be refunded, but instead carry over up to maximum of 5 years.

**Oversight** notes the most recent data (regarding the adoptions of children with or without special needs) for state of Missouri from FY 2012 to FY 2019 as follows:

Table 2.

Missouri State	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Adopted	1,170	1,212	1,228	1,233	1,291	1,357	1,591	1,541	1,798	1,820
Waiting for Adoption	1,992	2,056	2,067	2,162	2,325	2,513	2,584	2,825	2,783	2,745

Source: <https://www.acf.hhs.gov/acf-data-research?keyword=special+needs>

**Oversight** notes that there was an average of 1,424 children adopted each year from 2010 to 2019.

**Oversight** notes the “adopted” children (shown above) represent estimated count of all children adopted, with public child welfare agency involvement, during the FFY. An individual child is counted only once for each year, even if (in rare cases) the child was adopted multiple times during the year. In cases when an individual child is adopted in one year and then adopted again in a subsequent year, he or she is included in the count of adoptions for both years.

**Oversight** notes that under current law, a tax credit is available for taxpayers who:

- Adopt a special needs child in an amount up to \$10,000 for nonrecurring adoption expenses.
- A business entity that provides funds to an employee to enable the employee to adopt a special needs child can also receive a tax credit up to \$10,000 for nonrecurring expenses paid.
- As of January 1, 2022, restriction that this tax credit be only for the adoption of special needs was removed, and the law allows for the adoption of any child. (HB 429 merged with HB 430 – 2021)

**Oversight** notes the proposal, Section 135.327, states that for tax years ending on or before December 31, 2023, priority shall be given to applications to claim the tax credit for special needs children who are residents or wards of residents of this state at the time the adoption is initiated.

Furthermore, for tax years beginning on or after January 1, 2024, there shall be no limit imposed on the cumulative amount of tax credits that may be claimed by taxpayers claiming the credit for nonrecurring adoption expenses. (Currently the cap is set at \$6 million per year)

**Oversight** notes there were 20 taxpayers claiming the tax credit, from FY 2019 to FY 2022. Additionally, the taxpayers redeemed total amount of \$71,890 in tax credit within the same period. Therefore, the average redemption amount was \$3,595 (\$71,890/20) in tax credits on average. (See DOR table below – [Special Needs Children Adaption - Tax Credit Form Analysis](#))

Table 3.

	FY 2019 ACTUAL	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 ACTUAL
Certificates Issued (#)	0	0	0	0
Projects (#)	7	8	2	3
Amount Authorized	\$0	\$0	\$0	\$0
Amount Issued	\$0	\$0	\$0	\$0
Amount Redeemed	\$19,185	\$29,404	\$3,611	\$19,690
<b>Total Redeemed FY 19, 20, 21, 22</b>				<b>\$71,890</b>
<b>Total Projects FY 19, 20, 21, 22</b>				<b>20</b>

**Oversight** notes the changes made in HB 429 from 2021 were only implemented starting January 1, 2022, therefore, Oversight does not have enough information to determine the actual increase in tax credits from the changes in that bill (increasing the cap from \$2 million to \$6 million and opening the credit up to children who are not considered special needs) has been. Oversight assumes the changes in this proposal may cause an additional upward trend in tax credit redemptions. However, the average adoption tax credit redemptions per year (before the changes from HB 429 – 2021 have been implemented) were only \$17,973 per year. Therefore, Oversight assumes the various changes in the bill are unknown and could increase redemptions by the \$250,000 threshold in a given year.

**Oversight** notes the modifications to the Special Needs Adoption Tax Credit proposed in this legislation would begin January 1, 2024. Tax returns for Tax Year 2024 would not be filed until after January 1, 2025 (Fiscal Year 2025). Therefore, for purposes of this fiscal note, Oversight will show a reduction to GR equal to a range, beginning at \$0 (participation in the tax credit program does not change) to an unknown amount in Fiscal Year 2025.



Officials from the **Department of Commerce and Insurance (DCI)** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2025 and FY2026 as a result of the modification of Adoption 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 new tax credit.

**Section 135.460 Youth Opportunities Tax Credit**

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would increase the value of the youth opportunities tax credit to 70% of each contribution. B&P notes that the three-year average redemption amount was \$3,875,468 from FY20 – FY22. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been \$5,425,655. Therefore, B&P estimates that this provision could reduce GR by \$1,550,187 annually beginning in FY24.

Officials from the **Department of Revenue (DOR)** notes this proposal changes the Youth Opportunities Tax Credit program. The Youth Opportunities tax credit program has a \$6 million cap with the credit based on 50% of a monetary contribution made. For informational purposes DOR provided the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2022	\$5,706,067.00	\$3,039,904.00	\$2,324,687.48
FY 2021	\$5,288,870.00	\$1,983,794.00	\$4,084,410.34
FY 2020	\$1,212,623.00	\$4,086,770.50	\$5,217,305.70
FY 2019	\$5,169,666.00	\$5,822,539.00	\$4,040,657.57
FY 2018	\$6,826,426.00	\$5,726,775.00	\$4,818,711.26
FY 2017	\$5,642,936.00	\$6,349,945.00	\$5,451,115.04
FY 2016	\$6,375,728.00	\$5,411,972.00	\$4,706,636.11
FY 2015	\$7,041,012.00	\$5,325,506.00	\$4,247,824.65
FY 2014	\$5,941,601.50	\$5,080,128.00	\$5,239,666.42
FY 2013	\$5,609,784.00	\$5,571,555.00	\$3,906,262.62
FY 2012	\$5,843,692.62	\$4,152,310.83	\$4,979,894.20
<b>TOTALS</b>	<b>\$60,658,406.12</b>	<b>\$52,551,199.33</b>	<b>\$49,017,171.39</b>

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This change is expected to encourage more taxpayers to contribute and claim the tax credit. The three year average of the redemptions of the program has been \$3,875,468.

Increasing the tax credit percent to seventy percent would have resulted in \$5,425,655 in tax credits being issued. An increase of \$1,550,187. The increased percent of the credit could result in additional contributions being made to the affordable housing program, but the Department does not have any information as to how many more contributions would be made. Since the increased amount is lower than the current cap of \$6 million, this is not expected to have any additional impact to the state.

This proposal as a whole, will increase the amount of the credits issued. DOR will show the loss to general revenue of the increased amounts. While this proposal would begin August 28, 2023, this will impact the state starting FY 2024 when the returns are filed claiming the higher credit amount. This entire proposal will require updating the information on forms, the website and the computer for these credits. These changes are estimated at \$7,193.

**Oversight** notes the DOR & B&P both assume that since the increased amount is lower than the current cap of \$6 million, where increasing the tax credit percentage from fifty to seventy percent would have resulted in \$5,425,655 in tax credits being issued, this is not expected to have any additional impact to the state.

**Oversight** notes that DED provided actual redemption history, within the program, and shows the average annual redemption amount of \$3,875,468.

	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 ACTUAL
Certificates Issued (#)	1,511	760	974
Projects/Participants (#)	7	33	36
Amount Authorized	\$1,212,623	5,288,870	\$5,706,067
Amount Issued	\$4,086,771	1,983,794	\$3,039,904
Amount Redeemed	\$5,217,306	4,084,410	\$2,324,687

(DED Form 14 – see MOLIS attachment)

**Oversight** notes the above table reflect the 50% redemption amounts under the current law and notes the 70% contribution would total \$5,425,655 annually.

**Oversight** note that the difference between 50% and 70% contribution redemption would total to \$1,550,187 (\$5,425,655-\$3,875,468).

**Oversight** notes this proposal does not change the \$16 million maximum cap, instead increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This will allow for those who claim the tax credit receive greater amount of funds, but will not affect the overall maximum cap available under the proposal. (Allowing potentially for fewer participants who are receiving greater amount of tax credit)

Therefore, for the purpose of this fiscal note, **Oversight** will reflect the contribution difference of \$1,550,187 to the general revenue in the fiscal note.

Overall Bill:

Officials from the **Department of Commerce and Insurance (DCI)** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2025 and FY2026 as a result of the modification of Adoption 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 new tax credit. **Oversight** will, for purposes of simplifying this fiscal note, will assume credits will be taken against income taxes.

Officials from the **Department of Health and Senior Services**, the **Department of Economic Development**, and the **Department of Social Services** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE FUND</b>			
<u>Revenue Reduction</u> – Section 135.327 – Increase in Adoption Tax Credit Participation	<u>\$0</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
<u>Revenue Reduction</u> – Section 32.115 – Neighborhood Assistance Program (change in credit from 50% to 70%)	<u>Up to (\$3,488,334)</u>	<u>Up to (\$3,488,334)</u>	<u>Up to (\$3,488,334)</u>
<u>Revenue Reduction</u> – Section 135.460 – Youth Opportunities Tax Credit (change in credit from 50% to 70%)	<u>Up to (\$1,550,587)</u>	<u>Up to (\$1,550,587)</u>	<u>Up to (\$1,550,587)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>Up to (\$5,038,921)</u></b>	<b><u>Could exceed (\$5,038,921)</u></b>	<b><u>Could exceed (\$5,038,921)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

Small businesses that qualify for the credit may be positively impacted as a result of this proposal.

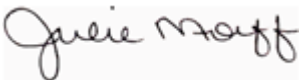
FISCAL DESCRIPTION

This legislation modifies various benevolent 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

Office of Administration – Budget & Planning  
Department of Revenue  
Department of Economic Development  
Department of Health and Senior Services  
Department of Social Services  
Office of the Secretary of State  
Joint Committee on Administrative Rules  
Department of Commerce and Insurance



Julie Morff  
Director  
March 27, 2023



Ross Strope  
Assistant Director  
March 27, 2023