

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2177H.011
 Bill No.: HB 1028
 Subject: Taxation and Revenue - General; Tax Credits; Taxation and Revenue - Income;
 Tax Incentives; Health, Public; Drugs and Controlled Substances
 Type: Original
 Date: February 27, 2023

Bill Summary: The proposal authorizes a tax credit for donations made to certain organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	\$0	\$0 or Up to (\$2,500,000)	\$0 or Up to (\$2,500,000)
Total Estimated Net Effect on General Revenue	\$0	\$0 Up or to (\$2,500,000)	\$0 or Up to (\$2,500,000)

*Oversight notes the total represents a range of \$0 (the General Assembly did not appropriate funds) to maximum allowable cap under the proposal \$2.5 million.

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

Numbers within parentheses: () indicate costs or losses.

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

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

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

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

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposed legislation creates a new tax credit. For all tax years beginning on or after January 1, 2024, 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 \$2.5M 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 succeeding tax years.

This credit is subject to appropriation. To the extent the general assembly makes appropriations for this credit, TSR may be reduced up to \$2.5M.

Officials from **Department of Revenue (DOR)** assume this proposal starting January 1, 2024, would allow an eligible taxpayer to claim a tax credit in an amount equal to 50% of a contribution to a qualified organization. A qualified organization is one that provides recovery support services and assistance to people recovering from substance use disorders. This tax credit is subject to appropriations so the General Assembly may choose whether or not to fund it and how much to fund it up to its cap of \$2.5 million.

In order to qualify for the credit contributions total more than \$250 must be made by the taxpayer. 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 but can be carried forward four years.

The credits are to be issued on a first-come, first-served basis. Additionally, no one organization can issue more than 20% of the available credits. This credit does have a sunset clause.

This proposal will result in a loss of revenue up to the cap annually if appropriated. The Department will assume the impact is \$0 (if not appropriated) or up to the \$2.5 million cap. This will have an impact starting in FY 2025 when the first tax returns are filed beginning January 1, 2025.

Fiscal Year	Loss to GR
2024	\$0
2025	\$0 or (up to \$2,500,000)
2026	\$0 or (up to \$2,500,000)

This would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to DOR’s website and changes would be needed in the individual income tax computer system. DOR notes the costs to update these items is \$7,193. At this time DOR believes it can absorb these extra redemptions. Should the number of redemptions reach the estimates below from this proposal or multiple bills passing then DOR would seek the needed FTE through the appropriation process.

- 1 FTE Revenue Processing Technician (\$31,200) for every 6,000 credits redeemed
- 1 FTE Revenue Processing Technician for every 7,600 errors/correspondence generated

Oversight notes the DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process. Therefore, **Oversight** for purpose of this fiscal note will note zero impact for DOR in the fiscal impact.

Oversight notes that according to the latest [IRS.GOV](https://www.irs.gov) data for Missouri, there were 154,040 individual contribution made (total of \$2,834,215,000) to various charitable causes in 2019.

Oversight notes the recent article, published by [National Center for Charitable Statistics - Urban Institute](https://www.urbaninstitute.org/), shows the percentages of donation for various causes are as follow:

Charity type	% of all contributions, 2013	% of all contributions, 2018	% point change, 2013–18
Religion	32.2	29.6	-2.6
Education	13	13.9	0.9
Human services	12	12.2	0.2
Gifts to foundations	11.9	11.9	0
Health	9.4	9.7	0.3
International affairs	5.7	5.4	-0.3
Public-society benefit	7.1	7.4	0.3
Arts, culture, and humanities	4.3	4.6	0.3
Environment and animals	2.5	3	0.5
Gifts to individuals	2.1	2.2	0.1

Oversight notes that this specific tax credit is designated for companies that deals with substance abuse and from above chart deals with public-society benefit or health benefit purpose.

Oversight notes that from above statistics it can be infer that there could be potentially anywhere from 11,399 (154,040 x 7.4%) to 14,480 (154,040 x 9.4%) people making such a charitable

donation.

Oversight notes the proposal states the individual must make a minimum donation \$250 to qualify for the tax credit. The donation must be made to the qualified organization that shall 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.

Oversight notes that individual is defined as a person, firm, partner in a firm, corporation, or shareholder in an S corporation doing business in the state of Missouri and subject to the state income tax.

Oversight notes 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 qualified organization.

Oversight notes the tax credit issued under this section shall not be refundable, assigned, transferred, or sold; 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.

Oversight notes this taxpayer is allowed to begin to claim the tax credit for tax years beginning on or after January 1, 2024, depending on General Assembly appropriation.

Oversight notes the first tax returns will be filed beginning January 1, 2025 (FY 2025). Therefore, Oversight will range the impact from zero (General Assembly choose not to appropriate) to maximum allotted cap under the proposal (\$2.5 million) in the fiscal note.

Officials from the **Department of Commerce and Insurance (DCI)** assume the 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 creation of a tax credit for contributions to defined 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 new tax credit.

The department 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.

Oversight assumes DCI is provided with core funding to handle a certain amount of activity each year. Oversight assumes DCI could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DCI could request funding through the appropriation process.

Officials from the **Department of Mental Health** assume the proposal would not fiscally impact their department.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
<u>Reduction in Revenue – Section 135.440 Tax Credit for Certain Benevolent Organizations</u>	\$0	\$0 or Up to (\$2,500,000)	\$0 or Up to (\$2,500,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0	\$0 or Up to (\$2,500,000)	\$0 or Up to (\$2,500,000)

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

FISCAL IMPACT – Small Business

Some small businesses would be expected to realize positive fiscal impact as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2024, this bill authorizes a tax credit in an amount equal to 50% of a taxpayer's contribution to a qualified organization. A qualified organization is defined as a non-profit organization that provides recovery support services and assistance to justice-involved individuals, as such terms are defined in the bill, and people in recovery from substance use disorders.

Contributions to qualified organizations shall not be used to purchase goods or services from, or to produce a direct financial benefit for, the contributor. Contributions shall be used 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 shall not be refundable, but may be carried forward to four subsequent tax years.

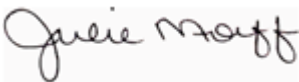
Tax credits shall not be transferred, sold, or assigned. The Director of the Department of Mental Health shall determine which organizations in the state are qualified organizations on an annual basis. Qualified organizations shall issue to a taxpayer a statement evidencing the receipt of a contribution, and shall be permitted to decline a contribution.

The total amount of tax credits that may be authorized in a calendar year shall not exceed \$2.5 million, and no more than 20% of the total tax credits authorized shall be authorized for contributions to any given qualified organization.

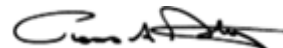
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Department of Commerce and Insurance
Department of Mental Health



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February 27, 2023



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February 27, 2023