COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4157H.03C
Bill No.: HCS for HB 1935
Subject: Economic Development; Department of Economic Development
Type: Original
Date: May 6, 2024

Bill Summary: This proposal establishes various tax credits to promote economic development.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund	($524,041,623)	($1,295,580,700 to $1,955,930,259)	($1,310,809,165 to $1,971,242,725)
Total Estimated Net Effect on General Revenue	**($524,041,623)**	**($1,295,580,700 to $1,955,930,259)**	**($1,310,809,165 to $1,971,242,725)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Grants for Independence from Foreign Influence Fund*	$0	$0	$0
Zero Cost Adoption Fund**	$0	$0	$0
Economic Development Advancement Fund (0783) – DNR	Up to $49,322	Up to $1,271,181	Up to $1,296,605
Historic Preservation Revolving Fund (0430) – DNR	($68,033)	($78,776)	($80,352)
Total Estimated Net Effect on Other State Funds	**($18,711)**	**$1,192,405**	**$1,216,253**

*/**Oversight assume the Fund(s) will net to zero.
Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Natural Resource Fund (0142)**	($136,066)	($157,553)	($160,704)
Total Estimated Net Effect on All Federal Funds	**($136,066)**	**($157,553)**	**($160,704)**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue – DOR	8 FTE	9 FTE	9 FTE
General Revenue – DED	7 FTE	44 FTE	44 FTE
Economic Development Advancement Fund (0783) - DNR	Less than .3 FTE	Less than .3 FTE	Less than .3 FTE
Historic Preservation Revolving Fund (0430) - DNR	.9 FTE	.9 FTE	.9 FTE
Federal Fund – Natural Resources (0142) - DNR	1.8 FTE	1.8 FTE	1.8 FTE
Total Estimated Net Effect on FTE	**18 FTE**	**56 FTE**	**56 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 2025	FY 2026	FY 2027
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 32.115 – Affordable Housing and Neighborhood Assistance

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 $8,599,528 from FY21 - FY23. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been $12,039,339 for neighborhood assistance. Therefore, this provision could reduce GR by $3,439,811 annually beginning in FY25.

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 is providing the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2023	$15,028,834.00	$12,330,085.00	$9,107,306.80
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
TOTALS	$165,192,610.00	$131,906,377.75	$116,518,849.79

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit a person receives. An increase of $3,439,811. It is unclear if this would encourage more taxpayers to contribute and claim the tax credit. The three-year average of the redemptions of the program has been $8,599,528. However, since this program has an annual cap, it is not expected to result in any additional impact to the state.

Officials from the **Department of Economic Development (DED)** assume the proposal will have no fiscal impact on their organization.

Oversight shows the utilization of the tax credit under Section 32.115 as follow:

	FY 2021 ACTUAL	FY 2022 ACTUAL	FY 2023 ACTUAL
Certificates Issued (#)	1,240	1,371	1,387
Projects/Participants (#)	67	65	71
Amount Authorized	$11,924,548	$12,673,134	$15,028,834
Amount Issued	$9,048,913	$11,113,006	$12,330,085
Amount Redeemed	$8,623,742	$8,067,535	$9,107,307

DED Form 14

Oversight notes the current average redemption total in last three years was $8,599,528 at 50% contribution percentage.

Oversight notes the 70% contribution would total to $12,039,339 of total average redemption in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to $3,439,811 ($12,039,339 - $8,599,528).

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 to receive a greater amount of funds, but will not affect the overall maximum cap available under the proposal.

Therefore, **Oversight** will reflect the credit difference of $3,439,811 to the general revenue in the fiscal note.

67.3000- Tax Credit for Sporting Events - Tickets

Officials from the **Department of Revenue (DOR)** note:

This section is modifying the Sporting Events tax credit program that awards tax credits based on tickets sold to an event. The current program awards a credit of $5 per ticket sold or $10 per registered participant. The credit is refundable and administered by the Department of Economic Development (DED). No more than $2.7 million of the current $3 million cap is available for events held in St. Louis or Kansas City.

For informational purposes, DOR is providing the authorizations, issuances and redemptions since it was created in 2013.

Year	Authorized	Issued	Total Redeemed
FY 2023	$446,618.79	$369,986.65	$1,011,839.85
FY 2022	$886,980.00	$1,599,747.12	$886,432.00
FY 2021	$7,799,425.00	$404,970.00	$128,770.00
FY 2020	$1,185,000.00	$1,132,640.00	$1,391,995.00
FY 2019	$1,265,000.00	$293,810.00	$1,420,500.00
FY 2018	$1,335,000.00	$1,584,090.00	$1,276,180.00
FY 2017	$5,296,200.00	$2,175,700.00	$1,316,815.00
FY 2016	$942,800.00	$7,800.00	$564,723.30
FY 2015	$728,708.00	$585,735.00	$38,610.00
FY 2014	$0.00	$0.00	$0.00
FY 2013	$0.00	$0.00	$0.00
FY 2012	$0.00	$0.00	$0.00
TOTALS	$19,885,731.79	$8,154,478.77	$8,035,865.15

This proposal is increasing the amount of the credit from $5 per ticket sold to $6 per ticket sold. It is also increasing the credit from $10 for every person registered to $12 per person. This proposal is also increasing the cap on the program from $3 million to $6 million and increasing the amount that Kansas City and St. Louis can receive from $2.7 million of the cap to $5.5 million of the cap. The increase in the cap to $6 million will result in an additional loss to the general revenue of $3 million annually.

Currently, this tax credit is a refundable credit. Applicants for the credit must submit an application with DED to be approved for the credits. This proposal adds language requiring DOR to issue those refunds within 90 days of the applicant's submission of a valid tax credit certificate. This proposal implies that an applicant for the tax credit will not have to file a tax return but just submit their tax certificate and DOR should refund the credit.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume that Section 67.3000 - This is a current program that is due to sunset on August 28, 2025. It has a cap of $3,000,000. This proposal will increase the cap to $6,000,000, so the TSR impact is a negative $3M. This proposal states that a refundable tax credit is issued to the applicant for either $6 for every admission ticket sold to such event or $12 for every registered participant if such event was participated-based. The current program is the least of: One hundred percent of eligible costs incurred by the applicant; an amount equal to $5 for every admission ticket sold to such event; or an amount equal to $10 for every paid participant registration if such event was participant-based and did not sell admission tickets. Removing the cost reimbursement for the ticket sales credit may change the current utilization rates of the program.

Officials from the **Department of Economic Development (DED) note:**

This is a current program that is due to sunset on August 28, 2025 has a cap of $3,000,000. This fiscal note will increase the cap to $6,000,000, which means the overall TSR impact is a negative $3M. This fiscal note states that the issued a refundable tax credit to the applicant for either $6 for every admission ticket sold to such event or $12 for every registered participant if such event was participated-based. The current program is the least of: One hundred percent of eligible costs incurred by the applicant; an amount equal to $5 for every admission ticket sold to such event; or an amount equal to $10 for every paid participant registration if such event was participant-based and did not sell admission tickets.

Oversight notes due to the high authorization in the tax credits, under this Section in FY 2017 and 2021, and anticipation of various Missouri sporting events in the future (i.e. Kansas City hosting the Soccer World Cup in 2026, etc.) it is reasonable to expect tax credit issuances up to the maximum cap of $6 million annually.

Oversight notes the proposal, subsection 5 of section 67.3000 allows for increase to the current cap of $3 million to up to $6 million annually beginning effective August 28, 2024 (FY 2025). Therefore, Oversight will note an impact of up to $3 million dollars in additional tax credits, beginning FY 2025, in the fiscal note.

Oversight notes that the average redemption costs from 2019 to 2023 was $967,907.

Oversight notes that this section sunsets in FY 2026; however, subsection 67.3005.5 allows the program to continue for another 6 years after August 28, 2025. Therefore, for purpose of this fiscal note, **Oversight** will show the average redemption totals from 2019 to 2023 as a continuing cost of this program, in addition to the $3 million maximum cap, as an ongoing cost in FY 2027 and thereafter.

Oversight notes, for informational purpose, there is a potential the various events across Missouri will be able to receive up to the maximum of $6 million annually.

Section 67.3005 - Sporting Event Prepay Tax Credit Program

Officials from **Office of Administration - Budget and Planning** state this proposal reduces the current cap on the contribution tax credit from $10,000,000 to $5,000,000. (Thus, there is an overall savings to TSR of $2,000,000.)

Officials from **Department of Economic Development** state the contribution tax credit will be decreasing the current cap from $10,000,000 down to $5,000,000 (making the overall savings to TSR of $2,000,000.)

DOR notes this section modifies the provision of the Amateur Sporting Events Prepay tax credit program. The Prepay tax credit program gives a tax credit to donors who help sponsor these types of events. The current credit is equal to 50% of the donation collected. The current program does not allow this credit to be refunded and it has a $10 million annual cap.

For informational purposes, DOR is providing the issuances and redemptions since the program was created in 2013.

Year	Authorized	Issued	Total Redeemed
FY 2023	$31,060.00	$0.00	$15,000
FY 2022	$21,700.00	$0.00	$22,500
FY 2021	$25,000.00	$50,000.00	$27,500
FY 2020	$25,000.00	$0.00	$22,500
FY 2019	$28,549.22	$28,549.22	$18,549
FY 2018	$22,500.00	$22,500.00	$20,000
FY 2017	$18,750.00	$39,250.00	$12,500
FY 2016	$23,000.00	$39,250.00	$0
FY 2015	$14,000.00	$14,000.00	$0
FY 2014	$0.00	$0.00	$0
FY 2013	$0.00	$0.00	$0
FY 2012	$0.00	$0.00	$0
TOTALS	$209,559.22	$193,549.22	$138,549

This proposal lowers the cap on the program from $10 million to $5 million annually. It also extends the sunset date on the program from 2019 to six years after 2025. This credit is expected to result in a savings to the state and general revenue of $5 million annually.

This proposal will result in DOR needing to modify the MO-TC form, computer programs and website. These changes are estimated to cost $8,923. DOR can handle the modifications of this program with existing staff.

Oversight assume that DOR can handle the modifications of this program with existing staff and resources. Therefore, Oversight will reflect a zero impact in the fiscal note for DOR.

Oversight notes the proposal, subsection 3 of section 67.3005, allows for a decrease in the current cap of $10 million to up to no more than $5 million annually beginning August 28, 2024 (FY 2025).

Oversight notes in recent years the data shows that on average there was $26,262 in Authorizations, $15,710 in Issuances, and $21,210 in Redemptions respectively. As the actual activity is already below the proposed $5 million cap, Oversight will not reflect any potential savings, as the current data trends show it will not reach the estimated $5 million amount.

Oversight notes that under this Section the certified sponsor or local organizing committee applying for the tax credit will be able to receive up to the maximum amount of tax credits of $5 million in FY 2027 and annually thereafter.

Oversight notes that this section sunsets in FY 2026; however, this proposal allows the program to continue for 6 years after August 28, 2025. Therefore, Oversight will reflect the average redemption totals from 2019 to 2023 in the amount of $21,210, as a continuance cost of this program in FY 2027 and annually thereafter.

Section 99.720 "Revitalizing Missouri Downtowns and Main Streets Act"

Officials from the **Department of Economic Development (DED)** note:

Section 99.720. Establishes a new tax credit program "Revitalizing Missouri Downtowns and Main Streets Act".

Beginning January 1, 2025, an applicant may receive a tax credit of 25% to 30% in an amount of a) $15,000 if building is in a Main Street District b) $500,000 if not located in a Main Street location. 25% of each cap amount (see below) will be reserved for qualified Main Street district projects but can be released for other locations if the full 25% is not used at the end of the fiscal year.

Qualified converted building is any building and its structural components if: a) prior to conversion, the building was nonresidential real property, which was leased, or available for lease, to office tenants. b) has been substantially converted from an office use to a residential, retail, or other commercial use; and c) such building was initially placed at least 25 years before the beginning of the conversion.

This legislation could result in a reduction of $100 million per year in state revenue as 99.720.4(1) establishes a tax credit cap of $50 million for buildings under 750,000 square feet and 99.720.4(2) a $50 million cap for buildings over 750,000 square feet. DED will need to hire 3 FTE to administer this program.

Oversight notes the officials from the DED assume the proposal will have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect an impact for 3 FTE (Senior Economic Development Specialist $74,664) for DED in the fiscal note, effective FY 2025.

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

For all tax years beginning on or after January 1, 2025, this act authorizes a taxpayer to claim a tax credit equal to 25% of qualified conversion expenditures or 30% of qualified conversion expenditures with respect to upper floor housing incurred for converting nonresidential real property from office use to residential, retail, or other commercial use. Tax credits authorized by the act shall not be refundable, but may be carried back three years or carried forward ten years and can be transferred, sold, or assigned. However, this bill doesn't exclude projects participating in the Missouri Downtown and Rural Economic Stimulus Act (MODESA). Therefore, MODESA participants receiving local TIF funding may also receive tax credits from this program.

Tax credits related to this act shall not exceed $50 million for buildings under 750K square feet, and shall not exceed $50M for buildings over 750K square feet in any fiscal year. Twenty-five percent of the tax credit cap shall be used solely for projects located in a qualified Missouri main street district. If this has been authorized, projects located in a qualified Missouri main street district may receive tax credits from the remaining unreserved amount. If the tax credits cap has been reached in any given fiscal year, the cap shall be increased by the equivalent percentage increase in inflation. Tax credits authorized for qualified converted buildings of more than 750,000 square feet shall not count toward the annual tax credit cap, provided that no more than $50 million in tax credits shall be authorized for such buildings in a given fiscal year.

Taxpayers shall apply to the Department of Economic Development (DED) to receive the tax credits. Applications shall include proof of ownership or site control, floor plans of the existing structure, architectural plans, and, where applicable, plans of the proposed conversion of the structure, as well as proposed additions, estimated cost of conversion, the anticipated total costs of the project, the actual basis of the property, as shown by proof of actual acquisition costs, the anticipated total labor costs, the estimated project start date, and the estimated project completion date, proof that the property is an eligible property, a copy of all land use and building approvals reasonably necessary for the commencement of the project, and any other information which the Department may reasonably require to review the project for approval.

All approved applications receiving approval shall submit within 60 days following the award evidence of the capacity of the applicant to finance the costs and expenses for the conversion of the eligible property. Approved applications, excluding projects of more than 750,000 square feet, shall commence conversion within 9 months of the date of issuance of the tax credit approval letter from the DED.

To claim a tax credit, a taxpayer shall apply for final approval and issuance of tax credits from the DED, which shall determine the final amount of qualified conversion expenditures and whether the completed rehabilitation meets eligibility requirements. The final application shall demonstrate that the taxpayer has substantially converted a qualified building with satisfactory evidence of any conversion expenditures for the structure and any other requested information, as determined by the DED.

The DED shall annually determine the overall economic impact to the state from the rehabilitation of eligible property. No taxpayer shall be issued tax credits for conversion expenditures on a converted building within 27 years of a previous issuance of tax credits. Therefore, with the two provisions in subsection 4, the total fiscal impact is $100M to TSR.

Officials from the **Department of Revenue (DOR)** assume, starting January 1, 2025, this proposal would create a tax credit for converting former office buildings to residential, retail, or other commercial use buildings. The tax credit would be equal to 25% of qualified conversion expenditures with respect to a qualified converted building, or 30% of qualified conversion expenditures with respect to upper floor housing located in a qualified Missouri main street district. Department of Economic Development (DED) is given primary authority over this program.

The credits under this program are not refundable; but can be carried back to the three proceeding years or carried forward up to ten years. These credits can be transferred, sold, or assigned. Any credits authorized for a partnership, limited liability company taxed as a partnership, or multiple owners of property shall be passed through to the partners, members, or owners pro rata. The approved tax credits shall be prioritized in the order of submission. There is no sunset date for this program.

Section 99.720.4(1) sets a cap of $50 million annually for these projects. Section 99.720.4(2) goes on to allow buildings of more than 750,000 square feet to also qualify for credits of up to $50 million. Therefore, this proposal can be expected to lower general revenue by up to $100 million annually.

Section 99.720.6 states that in any fiscal year in which the maximum number of credits is issued, then the maximum number of credits allowed is to be increased by the Consumer Price Index. For fiscal note purposes, DOR uses a 2% inflation rate when calculating CPI increases. This proposal is not clear in what it means by the maximum number of credits issued as it appears to have 2 separate caps. For fiscal note purposes, DOR assumes it only increases if both caps are met.

These tax credits are to start on January 1,2025, and will result in a loss of general revenue annually starting FY 2026, the first year the credits can be claimed on the tax return.

Fiscal Year	Loss to General Revenue
FY 2025	$0
FY 2026	($100,000,000)
FY 2027	($102,000,000)

This proposal creates two new tax credits that would require two new line being added to the Form MO-TC ($7,138), updates to their website and changes to the individual income tax computer system ($1,785). These changes are estimated to cost $8,923. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns. <u>This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of $35,880.</u>

Oversight notes the officials from the DOR assume the proposal will have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect the impact for 1 FTE (Associate Customer Service Rep at $35,880 annually) for DOR in the fiscal note effective FY 2026.

Oversight notes the officials from DOR assume the need for updates to the forms and individual income tax system totaling **$8,923**. Therefore, Oversight will reflect the costs of the update in the fiscal note effective FY 2025 (respective onset of the proposal).

Oversight notes the Section 99.720.4(1) sets a cap of $50 million annually for these projects. Section 99.720.4(2) goes on to allow buildings of more than 750,000 square feet to also qualify for credits of up to $50 million. Lastly, Section 99.720.6 states that in any fiscal year in which the maximum number of credits is issued, then the maximum number of credits allowed is to be increased by the Consumer Price Index. Therefore, Oversight will reflect the maximum allotted tax credit cap each year, effective FY 2026, and for purpose of this fiscal note, adjusted maximum cap of $100 million in combine tax credits with CPI in FY 2027.

Officials from the **Department of Commerce and Insurance (DCI)** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the DCI organization.

In response to the similar proposal, SB 792 (2024), officials from the **City of Kansas City** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the local political subdivisions.

Section 135.315 & 453.650 – Zero-Cost Adoption Fund Act

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this section would grant taxpayers a tax credit for donations made to the newly created (Section 453.650) “Zero Cost Adoption Fund”. B&P notes that while the tax credit will begin tax year 2025, it will not be taken until taxpayers file their annual income tax returns in FY26.

The tax credit is non-refundable, cannot be sold, transferred, or otherwise conveyed, and cannot exceed 50% of a taxpayer’s tax liability in a given tax year. The tax credit may be carried forward for up to four years.

For tax year 2025, the cumulative amount of tax credit that may be authorized is $25 million. Beginning in 2026, the tax credit shall be annually adjusted by inflation (CPI-U Midwest). B&P notes that this proposal says “adjusted” and not “increased”; therefore, if the inflation rate decreases (deflation), the cap on this program will also decrease. The cap shall no longer be adjusted for inflation once it has reached $75 million per year.

Assuming a 2% annual inflation, B&P estimates the following authorization limits:

Table 1: Estimated Cap by Year

Tax Year	Fiscal Year	Est. Cap
TY 2025	FY 2026	$25,000,000
TY 2026	FY 2027	$25,500,000
TY 2027	FY 2028	$26,010,000
TY 2028	FY 2029	$26,530,200
TY 20xx	FY 20xx	$75,000,000

**Assumes 2% annual inflation.*

Therefore, B&P estimates that this proposal could reduce TSR and GR by up to $25 million in FY25. By FY29, this proposal could reduce TSR and GR by $26.5 million. Once fully implemented, this proposal could reduce TSR and GR by $75 million annually.

Officials from the **Department of Revenue (DOR)** assume, starting January 1, 2025, this proposal creates a new tax credit program and a new state fund. This proposal will allow a qualified taxpayer to claim a tax credit equal to 100% of a contribution made to the fund. This proposal does not clearly identify which fund these contributions are to be made to in order to get the credit.

The tax credit is to be certified by the State Treasurer and is not to exceed 50% of a taxpayer's state liability in the year the credit is claimed. The credit is not transferrable, sellable or refundable. The credit can be carried forward four years. DOR assumes that the State Treasurer is to certify the contribution amount made and the issuance of a tax credit certificate.

This proposal says that the cumulative amount of credits shall not exceed $25 million in the first year. The cap shall be annually adjusted by the CPI until reaching $75 million, where the cap will remain. Additionally, this proposal states that the credits are to be issued on a first-come, first-serve basis according to rules established by the Department. However, this proposal does not identify which Department is to handle the credits. DOR assumes that since the State Treasurer is to certify the credits, they will keep track of the cap and not distribute more credits than allowed under the cap.

DOR notes that this become effective on January 1, 2025, and the first time the credit can be claimed on the tax return would be January 2026 (FY 2026). DOR uses a 2% inflation rate when calculating the fiscal notes. This will result in the following impact.

Fiscal Year	Loss to General Revenue
2025	$0
2026	($25,000,000)
2027	($25,500,000)
2028	($26,010,000)

*increasing to $75 million in future years

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($7,138), updates to their website and changes to their individual income tax computer system ($1,785). These changes are estimated to cost $8,923. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns. <u>This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of $35,880</u>.

Oversight notes that officials from the **DOR** and **B&P** both assume costs to the program will exceed $25,000,000 due to the CPI annual adjustment until it reaches $75 million. Therefore, **Oversight** will note the costs as estimated by the DOR and B&P beginning FY 2026.

Additionally, officials from the **DOR** assuming the need for (1) FTE at $35,880 annually and one time update to the form, website, and database at **$8,923**. Therefore, **Oversight** will reflect updates to the form, website, and database in FY 2025, and the (1) FTE costs effective FY 2026.

Officials from the **Office of the State Treasurer (STO)** assume the proposal will have a potential fiscal impact on their organization.

In response to the previous version of the bill, the **STO** assumed the amount of the tax credit claimed shall not exceed fifty percent of the qualified taxpayer's state tax liability for the tax year for which the credit is claimed. The state treasurer shall certify the tax credit amount to the qualified taxpayer. A qualified taxpayer may carry the credit forward to any of such taxpayer's four subsequent tax years. All tax credits authorized under this section shall not be transferred, sold, assigned, or otherwise conveyed, and are not refundable.

The state treasurer shall provide a standardized format for a receipt to be issued to a qualified taxpayer to indicate the value of a qualifying contribution received. The department of revenue shall require a qualified taxpayer to provide a copy of this receipt if claiming the tax credit authorized by this section.

The state treasurer and the department of revenue shall promulgate all necessary rules and regulations for the administration of this section including, but not limited to, rules relating to the verification of a taxpayer's qualifying contribution.

In addition, STO states they do not have access to tax credit information. If the wording does not get changed, then there would be financial impact, as it would require additional processes be put in place. The financial impact is unknown. The STO <u>may</u> require an FTE.

Oversight assumes the proposal, as written, would require the STO to implement additional processes (and perhaps additional costs) and may require additional FTE based on the above response. Oversight has no way to determine what type or how many FTE would be needed, or what processes the STO would implement, in order to meet the requirements of the proposal. Therefore, Oversight will reflect a zero to Unknown costs in the fiscal note for the STO.

Oversight assumes this proposal creates the Zero-Cost Adoption Fund. For simplicity, Oversight assumes all funds will be utilized in the year in which they were received.

<u>Section 453.650 – Establishment of Zero-Cost Adoption Fund</u>

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this section would create a new fund within the state treasury. The fund shall be administered by DSS. Monies in the fund shall come from appropriations and/or donations. Upon appropriation monies in the fund shall be used for various adoption costs and programs.

This section will not impact TSR.

Officials from the **Department of Revenue (DOR)** assume this proposal creates a new state fund called the Zero-Cost Adoption Fund that is to receive money appropriated by the general assembly and any gifts, bequests and donations. This proposal delineates the uses for the money in this fund. This proposal allows DSS to create rules on the uses of the funding. DOR assumes no impact from the creation of the fund.

Oversight will reflect the gifts, bequests, and donations to the Zero-Cost Adoption Fund as zero to Unknown amounts, beginning FY 2025, in the fiscal note.

Officials from the **Department of Social Services** assume the proposal will have no fiscal impact on their organization.

Oversight notes the proposal, §453.650. 5 denotes the Department of Social Services may promulgate all necessary rules and regulations for the administration of this section.

Oversight notes the DSS, via additional conversations through e-mail, state it can absorb the impact with existing staff.

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

<u>Section 135.341 Champion for Children Tax Credit Program</u>

Officials from the **Department of Revenue (DOR)** note:

The Champion of Children Tax Credit program began in 2013 and granted a tax credit equal to 50% of a donation made to a qualified agency. It originally had a $1 million cap and is an apportioned credit. It is administered by DOR.

Tax credit is able to be carried over to any subsequent 5 tax year. The credit is not assignable, refundable, transferrable, or can be sold. None of these things change with this proposal. The original credit contained a sunset clause which is extended per this proposal.

In 2018, the cap on the credit was increased starting July 1, 2019, to $1.5 million annually. For informational purposes they are showing the amount of credits redeemed annually over the last several years.

Fiscal Year	Apportioned Cap	Total Credit Redeemed
FY 2023	$1,500,000	$1,225,848.00
FY 2022	$1,500,000	$884,965.00
FY 2021	$1,500,000	$1,339,280.00
FY 2020	$1,500,000	$827,942.00
FY 2019	$1,000,000	$999,995.00
FY 2018	$1,000,000	$999,986.00
FY 2017	$1,000,000	$999,873.00
FY 2016	$1,000,000	$999,987.00

This proposal starting January 1, 2025, would increase the amount of the credit to 70% of the donated amount. This change in the percentage of the cap will be taken on the tax returns starting January 1, 2026 (FY 2026).

This proposal will also raise the cap from $1.5 million to $25 million annually the program starting July 1, 2025. This will result in an additional loss to general revenue starting FY 2026.

Fiscal Year	Loss to General Revenue
FY 2025	$0
FY 2026	($23,500,000)
FY 2027	($23,500,000)

The proposal will require DOR to make changes to the MO-TC form ($7,138), and to update their website and make changes to the individual income tax computer system ($1,785). These changes are estimated to cost **$8,923**.

Oversight will reflect the DOR cost of the form and computer upgrades in the fiscal note beginning FY 2025.

Officials from the **Office of Administration – Budget & Planning (B&P)** assumes this proposal would extend the sunset for the Champion for Children tax credit from 2025 to 2030. In addition, this proposal would increase the tax credit from 50% of a qualifying donation to 70% and removed the limit on the number of credits that can be redeemed each fiscal year.

Beginning with tax year 2025, the tax credit shall be equal to 70% of a qualifying donation. B&P notes that the three-year (FY21-FY23) average redemptions were $1,150,031. In addition, this credit is currently equal to 50% of donations. Therefore, B&P estimates that increasing the tax credit percentage may reduce TSR and GR by $460,012 annually beginning in FY26 (when tax year 2025 returns are filed).

In addition, this proposal would increase the limit on the number of credits that may be redeemed each fiscal year, beginning in FY26 to $25,000,000. B&P notes that redemptions for this credit are currently under the existing $1.5 million redemption limit. Therefore, this provision may decrease TSR and GR by up to $23,500,000 annually beginning with FY26.

B&P estimates that this proposal may decrease TSR and GR by $460,012 to $23,500,000 annually beginning FY26.

Oversight notes the DOR assume the proposal will have a direct impact on their organization due to DOR requirement to update the tax credit forms and update to the website. Oversight will reflect one-time costs for the DOR ITSD updates in amount of $8,923 in the fiscal note in FY 2025.

Oversight notes the last three-year (2021-2023) average redemption totaling $1,150,031 in tax credits at 50% contribution amounts.

Oversight assumes at the 70% contribution, and three-year average redemption amounts shown above, the taxpayers will be able to receive $1,610,043 [($1,150,031/.5) x.70].

Oversight will reflect redemption could exceed $460,012 ($1,610,043 - $1,150,031), representing the difference between current and future claims of 70% contributions, effective FY 2026.

Oversight notes that the increase in the $25 million cap shell start January 1, 2025. Therefore, Oversight will reflect $23,389,957 ($25,000,000 - $1,610,043) in FY 2026.

Additionally, Oversight will show the full impact as of FY 2027 ($25,000,000) due to the renewing of program as of January 1, 2026. (Previously was going to sunset December 31, 2025)

Section 135.453 Community College Instructor Tax Credit

Officials from the **Office of Administration – Budget & Planning (B&P)** assume that beginning tax year 2025, this proposal would grant a tax credit for compensation paid to a worker during hours of instruction by that worker at a community college. The tax credit shall be the lesser of $5,000 or the amount of compensation paid. An employer may claim up to five

($25,000 total) tax credits per year. The tax credits are non-refundable, cannot be carried forward, and cannot be transferred, sold, or otherwise conveyed.

No more than $500,000 in tax credits may be claimed per calendar year. Therefore, B&P estimates that this proposal could reduce TSR and GR by up to $75,000 per year beginning FY26 (for tax year 2025 returns).

Officials from the **Department of Revenue (DOR)** assume this proposal starting January 1, 2025, would allow a tax credit in the amount of $5,000 or equal to compensation paid whichever is less to a qualified taxpayer that hires a qualified career technical instructor and allows them to provide instruction during regular business hours.

A qualified taxpayer is a person who hires a career and technical instructor in a fulltime position but still allows the instructor to teach at a qualified institution during regular business hours. The employer can receive up to 5 tax credits annually.

This credit is not refundable and cannot be carried forward or back. Additionally, it can not be sold or transferred. The annual cap on the number of credits issued annually is $500,000. This credit does contain sunset language.

Since this credit begins January 1, 2025, it is assumed it will not impact state revenue until January 1, 2026 (FY 2026) the first time the returns are filed claiming the credit.

This proposal requires that a verification of the qualifications of the employer and employee be done by DOR. In this case, the Department of Higher Education and Workforce Development would have the necessary information on the instructors and qualified institutions. Verification and certification processes are handled by other agencies. Once another agency verifies a person's qualifications, they are given a receipt that is attached to the tax return for DOR to process. Requiring DOR to do the verification and certification is outside their normal administrative scope and poses a conflict of interest. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns.

<u>If DOR is required to do the verification, DOR will need 1 Auditor FTE and 2 Associate Customer Service Representatives FTE to do the necessary verifications and processing of the returns</u>. This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($7,138), updates to their website and changes to the individual income tax computer system ($1,785). These changes are estimated to cost **$8,923**.

Officials from the **Department of Elementary** and the **Secondary Education and Department of Higher Education and Workforce Development** both assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Oversight notes the DOR assumes the need for (3) additional FTE, 1 Auditor ($50,462) and 2 Associate Customer Service Representatives ($35,880) annually. Additionally, one-time costs for form and computer changes totaling $8,923. Therefore, Oversight will reflect the overall costs in the fiscal note for this section.

Section 135.460 – Youth Opportunities Tax Credit

Officials from the **Office of Administration- Budget & Planning (B&P)** note:

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 $3,132,348 from FY21 – FY23. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been $4,385,288. Therefore, B&P estimates that this provision could reduce GR by $1,252,939 annually beginning in FY25.

Officials from the **Department of Revenue (DOR)** note:

This proposal also 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 the contribution made. For informational purposes DOR is providing the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2023	$2,247,858.00	$4,139,385.00	$2,987,947.79
FY 2022	$5,706,067.00	$3,039,904.00	$2,283,352.48
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
TOTALS	$62,906,264.12	$56,690,584.33	$51,963,784.18

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit a person receives. An increase of $1,247,428. It is unclear if this would encourage more taxpayers to contribute and claim the tax credit. The three-year average of the redemptions of the program has been $3,118,570. However, since this program has an annual cap, it is not expected to result in any additional impact to the state.

The Department will need to update their computer programs and forms for these changes. DOR estimates the total cost of the changes at $8,923.

Oversight assume that DOR can handle the modifications of this program with existing staff and resources. Therefore, Oversight will reflect a zero impact in the fiscal note for DOR.

Officials from the **Department of Economic Development** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DED.

Oversight shows the utilization of tax credit under Section 135.460 as follow:

	FY 2021 ACTUAL	FY 2022 ACTUAL	FY 2023 ACTUAL
Certificates Issued (#)	760	974	1,504
Projects/Participants (#)	33	36	13
Amount Authorized	5,288,870	$5,706,067	$2,247,858
Amount Issued	1,983,794	$3,039,904	$4,139,385
Amount Redeemed	4,084,410	$2,324,687	$2,987,948

DED Form 14

Oversight notes the current average redemption total in last three years was $3,132,348 at 50% contribution percentage.

Oversight notes the 70% contribution would total to $4,385,288 of total average redemption in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to <u>$1,252,939</u> ($4,385,288 - $3,132,348).

Oversight will show the difference of $1,252,939 as reflection of the 70% contribution redemption in the fiscal note beginning FY 2025.

Oversight notes this proposal does not change the $6 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.

<u>Section 135.621 Diaper Bank Tax Credit</u>

Officials from the **Department of Revenue (DOR)** assume this proposal extends the sunset on the diaper bank tax credit program from six years after August 28, 2018, to August 28, 2024. This will not have any additional fiscal impact.

DOR notes this program was adopted in 2018 and has a cap of $500,000 annually. No changes have been made to the program since it started. For informational purposes, DOR is showing the issuances and redemptions over the course of the tax credit.

Year	Issued	Total Redeemed
FY 2023	$136,018.86	$150,009.87
FY 2022	$182,018.00	$122,610.97
FY 2021	$189,453.90	$137,330.65
FY 2020	$189,628.19	$40,082.23
FY 2019	$0.00	$0.00
FY 2018	$0.00	$0.00
TOTALS	$697,118.95	$450,033.72

Oversight notes this proposal extends the sunset date for this program. The average three years tax credit issuance was **$169,164** (round to nearest dollar) for FY 2021 to FY 2023. Therefore, Oversight will reflect an amount that could exceed $169,164 annually effective FY 2026 and thereafter.

Officials from **Office of Administration - Budget and Planning** state this proposal makes various definition changes, but does not change the total amount of tax credits that may be redeemed. This proposal also extends the sunset to December 31, 2030. B&P notes that this provision will not impact TSR.

Officials from the **Department of Social Services** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

Section 135.640 Hospital Foundation Tax Credit

Officials from the **Office of Administration – Budget & Planning (B&P)** assumed this proposal would create a tax credit for qualified donations to a hospital foundation beginning with tax year 2024. The hospital foundation must be a non-profit and provide financial relief for unpaid hospital bills.

An individual may receive a tax credit for 50% of their donation, up to $2,500. B&P notes that this tax credit is only available for individuals. The tax credit is non-refundable and may not be transferred, sold, or otherwise conveyed. The tax credit may be carried forward for up to three years. In addition, a taxpayer may only claim this tax credit if they are not also claiming the donation as a charitable deduction on their state income taxes.

No more than $2 million in credits may be claimed per year. If the amount of tax credits claimed exceeds the $2 million limit, tax credits will be granted on a first-come, first-served basis. This program shall sunset August 28, 2029.

Therefore, B&P estimates that this proposal may reduce TSR and GR by up to $2 million annually beginning in FY 25, for tax year 2024 donations.

Officials from the **Department of Revenue (DOR)** note:

Starting January 1, 2024, a tax credit shall be allowed to a taxpayer who makes a contribution to a hospital foundation. The credit shall be 50% of the donation. In order to qualify for the credit, the donated amount must have been subtracted from a taxpayer's federal adjusted gross income and added back when calculating Missouri adjusted gross income.

The credit is not refundable, not sellable or transferable but can be carried forward three years. Additionally, this credit has an annual cap of $2 million but no taxpayer can receive more than $2,500. It should be noted that this bill will not become effective until August 28, 2024, and yet it wants the credit to start on January 1, 2024. It should be noted that this will not fiscally impact the state until January 2025, when the first returns are filed claiming the credit.

Fiscal Year	Loss to General Revenue
2024	$0
2025	($2,000,000)
2026+	($2,000,000)

This proposal requires that the taxpayer claiming the credit file an affidavit with their tax return verifying the donation amount. Therefore, the Department would need to verify that the taxpayer met the requirements of this proposal. Additionally, it requires DOR to hand-out the credits on a first-come, first-serve basis. Verification and certification processes are usually handled by other agencies and would be best done by the Department of Social Services who works with the hospitals daily. Once another agency verifies a person's qualifications, they are given a receipt that is attached to the tax return for DOR to process. Requiring DOR to do the verification and certification is outside their normal administrative scope. DOR assumes in order to do this verification DOR will need 1 Auditor ($50,462) and 2 Associate Customer Service Representatives ($35,880) to do the necessary verifications.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($7,138), updates to their website and changes to the individual income tax computer system ($1,785). These changes are estimated to cost **$8,923**. DOR's existing tax credit redemption staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns. <u>This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of $35,880 to handle the redemptions</u>.

Oversight notes the for all tax years beginning on or after January 1, 2024, a qualified taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability in an amount equal to the taxpayer's qualified amount, but not exceeding $2,500 donation annually.

Oversight notes the proposal allows up to $2 million dollar cap annually effective FY 2025. Therefore, Oversight will reflect cost Up to $2 million dollar annually effective FY 2025 in the fiscal note.

Oversight notes this would allow approximately 800 ($2M/$2,500) taxpayers to take advantage of the tax credit annually if each taxpayer claimed the maximum tax credit allowed.

Oversight notes DOR assumes the need for one (1) Auditor ($50,462) and two (3) Associate Customer Service Representatives ($35,880) to do the verification of the tax credit because it is outside of the DOR usual scope. Additionally, the DOR requests one-time cost of $8,923 for website income tax changes updates to comply with the proposed language. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect the DOR estimated expense for FTE but notes that DOR is appropriate monies for routine website updates and will not show those costs in the fiscal note.

<u>Section 135.721 – Education Expense Tax Credit</u>

Officials from the **Office of Administration – Budget & Planning (B&P)** assume Beginning with tax year 2025, this proposal would grant a tax credit for qualifying private school and homeschooling expenses. The tax credit shall be equal to 100% of the incurred expenses, up to the state adequacy target amount. The credit shall be refundable, but may not be transferred, sold, or otherwise assigned. Unless reauthorized, this tax credit will sunset August 28, 2030.

B&P notes that the state adequacy target is set on a school year basis (July 1 – June 30), while the tax year is generally set on a calendar year (January 1 – December 31) basis. It is unclear which adequacy amount should be used for a tax year if the amount is changed mid-year for the new school year.

B&P does not know what the adequacy target will be in future years; for the purpose of this fiscal note, B&P will use the current amount. B&P notes that the current state adequacy target will $6,760 for FY25 and $7,145 beginning FY26. B&P further notes that the tax credit limit is per taxpayer, regardless of number of qualified students that taxpayer may claim as a dependent.

Private School
Based on information published by DESE, there are 862,185 students enrolled in public K-12 schools. Based on data published by the Private School Review there are 116,347 students enrolled in private K-12 schools within Missouri. Of the 116,347 private school students, B&P

estimates that 82,826 are enrolled in elementary school and 33,521 are enrolled in secondary school.

The Private School Review shows the average private school tuition in Missouri is $10,067 for elementary and $12,384 for secondary. Assuming 20% is reduced for scholarships or other financial assistance, the total average cost of elementary is $8,054 and $9,907 for secondary. B&P notes that both elementary and private school tuition exceed the state adequacy target / tax credit limit. Therefore, B&P will reflect the loss from this provision as at the maximum credit limit.

Therefore, B&P estimates that this provision could reduce GR by $786,505,720 (116,347 private school students x $6,760 FY25 credit limit) in FY26. This provision could reduce GR by $831,299,315 (116,347 private school students x $7,145 FY26 credit limit) annually beginning FY27.

B&P does not have data on the number of public-school students that might switch to private schools because of this proposal. Depending on the number of students that switch, the cost of this program could increase significantly.

Home School
Using the information above, B&P estimates that there are approximately 11,695 children (990,227 children – 862,185 public school – 116,347 private school) homeschooled in Missouri.

Based on numerous websites, the average cost to homeschool a child is between $400 (cheapest online option) and $7,000 (homeschooling with additional tutoring). For the purpose of this fiscal note, B&P will reflect the potential cost of $400 (lowest cost) to $6,760 (state adequacy target) for 2025. Beginning with 2026, B&P will reflect the potential cost of $400 (lowest cost) to $7,000 (upper average range < $7,145 state adequacy target).

Therefore, B&P estimates that this provision could reduce GR by $4,678,000 (11,695 students x $400 cost) to $79,058,200 (11,695 students x $6,760 credit limit) annually beginning in FY26. Starting in FY27, this provision could reduce GR by $4,678,000 (11,695 students x $400 cost) to $81,865,000 (11,695 students x $7,000 cost) annually.

<u>Summary</u>
B&P estimates that this proposal could reduce TSR and GR by $791,183,720 ($786,505,720 private school + $4,678,000 homeschool) up to $865,563,920 ($786,505,720 private school + $79,058,200 homeschool) in FY26.

B&P estimates that this proposal could reduce TSR and GR by $835,977,315 ($831,299,315 private school + $4,678,000 homeschool) up to $913,164,315 ($831,299,315 private school + $81,865,000 homeschool) annually beginning in FY27.

Officials from the **Department of Revenue (DOR)** note: for all tax years starting on or after January 1, 2025, this program would allow an individual taxpayer to claim a refundable credit against income tax in an amount equal to 100% of qualified expenses for educating each child at a private school or home school. Qualified expenses include tuition and fees, textbooks, educational therapies, tutoring services and more.

DOR checked the tuition price of some of the private schools across the state:

2023-2024 tuition prices	
Rockhurst High School – Kansas City -	15,300
Barstow K-12- Kansas City - $18,980 K-5, $22,940 5th – 9th and $27,930 10th- 12th	22,940
Helias High School – Jefferson City –	3,000
Sacred Heart Elementary – Sedalia -	8,775
Springfield Catholic – Springfield – $7,102 K-8th, and $9,931 9th- 12th	9,931
Vianney High School – St. Louis -	18,150
St. Louis University High School –St. Louis -	19,750

DOR notes the prices for items used by home school students:

Curriculums	$500
Curriculum with tutor enhancements	$7,000
Materials	$300

This program does not have a cap but does limit each taxpayer's credit to no more than the current state adequacy target amount. It should be noted that the state adequacy target is set by the General Assembly and for several years was frozen at $6,375. Additionally, the state adequacy target is set on a school year basis (July 1 – June 30), while the tax year is set on a calendar year (January 1 – December 31) basis. It is unclear which adequacy amount DOR would use for a tax year if the amount were changed mid-year for the new school year. For the fiscal note purposes only, they will use the $6,760 current amount for all fiscal years.

The State Adequacy Target History

School Year	State Adequacy Target Amount
2025-2026	$7,145 (projected)
2024-2025	$6,760
2023-2024	$6,375
2022-2023	$6,375
2021-2022	$6,735
2020-2021	$6,735
2019-2020	$6,313

From the information gathered by DOR, tuition costs at most private schools in Missouri exceed the state adequacy target amount and so for fiscal note purposes they assumed that all the taxpayers with students in private school will qualify for the current $6,760 as their tax credit amount. Students that are homeschooled could potentially reach the state adequacy target amount depending on the program and services they use. They will show the impact as if all have a minimum of $800 (curriculum & supplies) up to all qualifying for the state adequacy target amount.

The Department of Elementary and Secondary Education said there were 861,494 of the 1,088,652 kids reported by the U.S. Census Bureau between the ages of 5 and 18 enrolled in public schools. Which leaves about 227,158 either in public school or being home schooled. The Private School Review, an organization aimed at helping parents find private schools right for their children noted there are 116,347 kids enrolled in MO private schools. Therefore, they will assume the remaining 110,811 may be homeschooled.

Assuming that all of the 116,347 private school kids will have parents that apply for the credit and can claim the full credit amount for each child, this will result in $786,505,720 in credits being claimed. Assuming that all of the 110,811 homeschool kids apply for the credit, this could result in another $88,648,800 (based on $800 in expenses) to $749,082,360 (based on expenses equaling the state adequacy target) being claimed.

This credit is a refundable credit and therefore the state could see a reduction in general revenue of <u>$875,154,520 to $1,535,588,080 annually</u> if every non-public school child claims the credit. DOR notes this program could encourage more students to switch from public school to private school. Depending on the number of additional students that may switch, the cost of this program could significantly increase over the estimated amount.

DOR notes that these credits cannot be transferred, sold, or assigned and they do contain a sunset.

This tax credit is to begin on January 1, 2025, and requires the credit be claimed on their tax return. The 2025 tax year individual income tax returns are not filed until January 2026 (FY 2026) and so should not impact general revenue until FY 2026. However, since this is a refundable credit, taxpayers may file their return early in FY 2025 and then file an amended return in FY 2026. DOR is unable to determine if any taxpayers would do this, and for fiscal note purposes only DOR will show the entire impact in FY 2026.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($7,138), updates to their website and changes to the individual income tax computer system ($1,785). These changes are estimated to cost **$8,923**. In order to process the individual qualified expenses, DOR assumes the need for a new form. This is estimated to cost $10,000.

Verifying expenses and whether a student is enrolled in a certain school is outside the normal course of business for DOR. It would more appropriately be done by DESE who has access to the records needed to handle this quicker for the taxpayer. Since this bill is requiring DOR to administer this program, they will need additional FTE to verify the qualification of the credits.

DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns. DOR will need one Associate Customer Service Representative for every 7,000 returns applying for the credit. Given the number of participants expected in this program of 116,347 private school kids, DOR will need 16 FTE to handle the administration of this credit for private school kids and depending on the number of homeschooled students (estimated at 110,811 currently) DOR would expect the need of an additional 15 FTE for those returns.

This proposal would require at least 31 additional FTE Associate Customer Service Rep at a salary of $35,880 and 1 Lead Customer Service Rep at a salary of $40,704 to supervise.

Oversight notes the officials from Department of Elementary and Secondary Education (DESE), through additional conversation via e-mail, provided statistics as follow:

DESE does not collect private school enrollment unless they are registered with their nonpublic data system, so their number would not be an accurate reflection. However, https://www.privateschoolreview.com/ shows for the 23-24 school year there are 116,367 students being served in private schools.

Another available website, https://missouri.educationbug.org/private-schools/ shows there are 118,667 students in private schools.

Oversight notes that according to the educationdata.org., the average tuition in Missouri private school cost $10,472 per pupil.

Oversight notes that according to responsible homeschooling there were 34,802 home schooled pupils in MO in 2023.

Oversight notes that the average cost of homeschooling ranges from $700 to $1,800 per child per school year, according to Time4Learning.com.

Oversight, for purposes of this fiscal note, will accept the DOR's finding as to how many children there are in homeschool or private school settings.

Cost up to State Adeq. Target	Children in homeschool	Total tax credit potential
$800- $6,760	110,811	$88,648,800 - $749,082,360
State Adeq. Target	Children in private schools	Total tax credit potential
$6,760	116,347	$786,505,720

Therefore, **Oversight** will reflect a reduction in general revenue of $875,154,520 to $1,535,588,080 annually, effective FY 2026.

Oversight notes DOR assumes the need for at least 31 additional FTE Associate Customer Service Rep at a salary of $35,880, and 1 Lead Customer Service Rep at a salary of $40,704, to supervise and assure compliance with this proposal. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR's FTEs costs in the fiscal note beginning FY 2026.

Section 135.800 Tax Credit Accountability Act (TCAA)

Officials from the **Department of Revenue** state this proposal updates the tax credit accountability act with the new credits created in this proposal. This is not expected to have a fiscal impact.

Officials from the **Department of Economic Development** assume the provision will have no fiscal impact on their organization.

Section 135.1210 Tax Credit for certain Railroad Expenses

Officials from the **Office of Administration – Budget & Planning (B&P)** state the proposed legislation would authorize tax credits beginning on January 1, 2025 to any railroads for qualified railroad expenditures or qualified new rail infrastructure expenditures completed. Subsection 135.1210.5(1) states the cumulative amount of tax credits for qualified railroad track expenditures shall not exceed four million five hundred thousand dollars per tax year. Subsection 135.1210.5(2) states the cumulative amount of tax credits for qualified rail infrastructure expenditures shall not exceed ten million dollars per tax year. If tax credits claimed exceed these amounts, tax credits will be allowed in the order in which they're claimed. The tax credit will sunset on December 31 six years after the effective date unless reauthorized. If the credit is reauthorized, it will sunset on December 31 twelve years after the effective date. The tax credit will terminate on September 1 of the calendar year immediately following the calendar year it sunsets.

Therefore, this proposal may reduce general and total state revenues up to $14,500,000 per fiscal year.

Officials from the **Department of Revenue (DOR)** assume starting January 1, 2025, this proposal creates two tax credits regarding railroads.

Railroad Track Expenditures
One shall be allowed to a taxpayer for qualified railroad track expenditures. The taxpayer's tax credit shall not exceed an amount equal to the product of five thousand dollars multiplied by the number of miles of railroad track owned or leased in the state by any railroad as of the close of the calendar year. For all qualified taxpayers they will share a cap of $4,500,000 per calendar year.

New Railroad Infrastructure Expenditures

The second credit is for qualified new rail infrastructure expenditures. This credit will be capped at $1,000,000 for each rail-served customer project. For all qualified taxpayers claiming the new rail infrastructure expenditure credit, the total amount of all tax credit shall not exceed the cap of $10,000,000 per calendar year.

If each cap is met, the credits will be issued based on the order they are received. The credits are not refundable but can be carried forward up to 5 subsequent calendar years. These credits are also transferrable. These credits will automatically sunset December 31, 2030.

These credits are allowed to be transferred. In the event that after the transfer, the department of revenue determines that the amount of credit properly available under this section is less than the amount claimed by the transferor of the credit or that the credit is subject to recapture, the department shall assess the amount of overstated or recaptured credit as taxes due from the transferor and not the transferee.

This proposal would become effective on January 1, 2025, and the first time the returns claiming the credits can be filed are January 1, 2026 (FY 2026). These credits will result in a loss to general revenue of $14,500,000 annually.

Fiscal Year	Loss to General Revenue
2025	$0
2026	($14,500,000)
2027	($14,500,000)
2028+	($14,500,000)

This proposal creates two new tax credit programs that will require two new lines being added to the Form MO-TC ($7,138), updates to DOR's website and changes to the individual income tax computer system ($1,785). These changes are estimated to cost **$8,923**. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed DOR is not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of $35,880.

DOR assumes the need for 1 FTE (Associate Customer Service Representative at $35,880 annually) beginning FY 2026.

Officials from the **Department of Economic Development (DED)** assume**:**

Section 135.1210 creates a "Tax Credit for Railroad Infrastructure Investments".

The Tax Credit will likely reduce annual TSR by $4.5M for qualified railroad track expenditures and $10M for new rail infrastructure expenditures. Total cap: $14,500,000 per year.

Tax credit authorized shall be equal to fifty percent of an eligible taxpayer's qualified railroad track expenditures or qualified new rail infrastructure expenditures, provided that, for qualified railroad track expenditures, the amount of tax credit shall not exceed an amount equal to the product of $5,000 multiplied by the number of miles of railroad track owned or leased in the state by a Class II or Class III railroad as of the close of the tax year; and for qualified new rail infrastructure expenditures, the amount of tax credit shall not exceed $1M for each new rail-served customer project of an eligible taxpayer.

Applies to tax years beginning on or after January 1, 2025. The program will automatically sunset December 31, six years after the effective date unless reauthorized by an act of the general assembly.

DED will need to hire 2.0 FTE to administer the act.

Oversight notes the proposal, specifically Section 135.1210 1. (5) (a), allows for an amount equal to fifty percent of an eligible taxpayer's qualified railroad track expenditures or qualified new rail infrastructure expenditures up to $5,000 dollars per mile or (b) $1,000,000 per each new project.

Oversight notes according to the DED research on this subject Missouri is home to 19 railroads operating on nearly 4,400 miles of track, 2,500 miles of yard track, and about 7,000 public and private crossings.

Oversight notes DED requested two additional FTE (Senior Economic Development Specialists) in order to assure compliance and administration of the act. However, Oversight notes the amount of projects or taxpayers applying for this specific tax credit could be potentially lower than shown above. Therefore, **Oversight** will reflect a range of Up to 2 FTE in the fiscal note.

Oversight notes this proposal is to sunset December 31, six years after the effective date unless reauthorized by the general assembly (2029).

Lastly, **Oversight** will note the maximum utilization of the tax credit up to $14.5 million begining in FY 2026 in the fiscal note.

Section 135.1800 One Time Tax Credit

Officials from the **Office of Administration – Budget & Planning** assume this proposal would create a non-refundable tax credit for tax year 2023. A qualified taxpayer must be an individual who filed an individual income tax return for tax year 2021 by October 17, 2024. Such individual must have a Missouri income tax liability, cannot be claimed as a dependent, may not be an estate or trust, is not delinquent on child support, and is a Missouri resident.

For tax year 2023, qualifying individuals may receive a tax credit of $162 for an individual or $324 for a married filing combined couple. The tax credit is non-refundable, cannot be transferred or sold, and cannot be carried forward. B&P notes that because the tax credit is non-refundable and cannot be carried forward, the amount of an individual's tax credit will be limited to their state income tax liability.

Using 2021 tax year data, the most current complete year available, there were 1,983,951 individuals who filed as single, head of household, or qualifying widow(er), and 1,233,858 married filing combined returns. Based on actual tax liability data (for 2021), <u>B&P estimates that this proposal could reduce GR by $499,585,249 in FY25</u>, through a combination of lower remittances and refund payments. This provision is not expected to impact TSR beyond FY25.

B&P notes that the number of filers for tax year 2023 and an individual's tax liability may be significantly different from the number and liability for tax year 2021. Therefore, the actual revenue impact may be different than the amount estimated here.

Officials from the **Department of Revenue (DOR)** assume **t**his proposal would allow qualified taxpayer a nonrefundable tax credit in the amount of $162 for those filing as an individual and $324 for those filing combined. A qualified taxpayer must be a resident of Missouri, not a dependent on another's return, not owe child support and have filed their 2023 tax year return by October 17, 2024.

The Department is to automatically adjust all qualified taxpayer's accounts. This provision allows all 2023 tax returns postmarked by October 17, 2024, to potentially be eligible for the tax credit. It should be noted that the filing deadline for the 2023 tax year is October 15, 2024. This proposal will require DOR wait until after the 17th to start the implementation of this provision.

This provision requires the Department to add the tax credit to taxpayer's accounts without the taxpayer being required to submit additional paperwork. This would be a one-time adjustment to taxpayer's accounts. It should be noted that since this is a nonrefundable tax credit, the Department would not mail a check to those qualified taxpayers that currently have an outstanding tax liability balance with the Department. Those taxpayers would receive their credit as a downward adjustment of their outstanding balance.

The Department assumes that starting November 1, 2024, the distribution would begin. The Department notes it will cost at least **$35,000** to program the individual income tax computers to do this adjustment to the accounts automatically.

Tax year 2022 returns filed during 2023 calendar year indicate the Department processed 3,061,867 individual income tax returns. Of those 1,827,520 were entitled to a refund with 1,234,347 owing the Department. Of the refunds issued 1,338,154 were direct deposited with 489,366 getting printed checks.

DOR assume that they will direct deposit into the accounts of those they already direct deposit information. For those that currently receive a paper check (489,366) or those who owe us money (1,234,347) and they don't have direct deposit information on them, they would be required under this proposal to mail them a refund check. DOR assume they would be mailing to 1,723,713.

In order to mail the checks to those without direct deposit information, the Department notes that they will need to have the checks printed by the state data center, and they would also need envelopes and postage. Postage rates are set to increase July 1, 2024, and again on January 1, 2025. Currently the total piece cost is $0.58298. That includes the increased postage rate in January 2024 to $0.547, the envelope cost of $0.02018 plus the check cost of $0.0158.

The state data center expects the check printing costs are $0.0158 per piece for an estimate of **$27,235** for the 1,723,713 checks. DOR notes their costs for envelopes and postage for these same number of checks would be **$977,656**.

The Department notes that would it take 2 team members running the mail machine 460 hours (60 days) to get out the 1.7 million checks, without overtime being paid and all their other work stopping. Given the Department only has one machine and other statutorily required mailings go out each month, they assume the other work would need to be done and then the machine could be used to process these checks. If DOR needed to pay overtime to get this done it would cost $57.68 per hour of overtime.

DOR notes that using their confidential individual income tax computer program they are able to estimate this will cost approximately **$500 million** for the refund checks. It should be noted that the Department's existing FY 2024 appropriation authority and the estimated appropriation authority for FY 2025 does not currently include enough appropriation authority to cover the Department's administrative costs of this proposal or the $500 million in refund amounts. Without additional appropriation authority the Department would not be able to issue the tax credits under this proposal and the refunds issued during the course of a typical fiscal year. Therefore, DOR will need additional appropriation authority.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the overtime 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.

Oversight notes the DOR and B&P both assume the one-time cost for the tax credits totaling $499,585,249 in FY25. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect the estimated impact in the fiscal note.

Oversight notes the DOR assume the costs for printing of the checks $27,235, $35,000 in overall computer updates, and $977,656 for envelopes and postage. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect the DOR's estimated impact in the fiscal note.

<u>Section 253.544 – 253.559 & 620.1900 Missouri Historic, Rural Revitalization and Regulatory Streamlining Act</u>

Officials from the **Department of Revenue (DOR)** assume this renames the Historic Preservation Tax Credit Program to the Missouri Historic, Rural Revitalization and Regulatory Streamlining Act. Renaming the tax credit program will not have a fiscal impact on the Department.

For informational purposes, the Department is providing information on the Historic Preservation tax credit. It was created in 1997 and currently has an annual cap of $120 million with $30 million of the that cap reserved for specific types of projects and no limit on homeowner claims. Homeowners can receive up to $275,000 per project.

Year	Authorized	Issued	Total Redeemed
FY 2023	$149,870,361.07	$68,752,030.02	$97,637,448.50
FY 2022	$127,701,891.25	$119,310,869.31	$106,311,497.14
FY 2021	$108,876,422.99	$113,974,281.81	$118,211,637.42
FY 2020	$134,740,008.39	$108,648,413.83	$88,487,136.31
FY 2019	$149,232,242.59	$95,790,454.95	$54,566,148.49
FY 2018	$151,542,287.87	$37,275,810.30	$56,483,070.60
FY 2017	$154,152,769.59	$85,136,858.50	$49,742,926.72
FY 2016	$90,749,410.21	$59,590,350.87	$57,496,338.08
FY 2015	$97,136,286.75	$53,206,337.42	$47,638,885.69
FY 2014	$146,635,428.72	$41,791,636.18	$59,829,670.95
FY 2013	$93,923,651.90	$71,495,993.81	$78,483,650.67
FY 2012	$98,591,345.91	$105,272,650.95	$133,937,746.83
TOTALS	$1,503,152,107.24	$960,245,687.95	$948,826,157.40

This proposal leaves the $90M portion of the cap in place but adds a Consumer Price Index adjustment for inflation to the $30M reserved cap. Therefore, these credits will result in an additional loss to general revenue in future years. For fiscal note purposes when doing inflation adjustments, DOR uses a 2% inflation factor for each year. Therefore, they would expect the cap on this portion of the program to increase as follows:

Fiscal year	Cap	Difference (additional loss to GR)
2024	$30,000,000	$0
2025	$30,600,000	($600,000)
2026	$31,212,000	($612,000)
2027	$31,836,240	($624,240)
2028	$32,472,965	($636,725)
2029	$33,122,424	($649,459)
2030	$33,784,872	($662,448)

This proposal also increases the amount a homeowner is eligible for on projects not subject to the cap. Their amount will increase from $275,000 to $300,000 and this proposal will allow the $300,000 to be inflated each year based on the consumer price index. DOR defers to the Department of Economic Development for an estimate of the fiscal impact from this provision.

This proposal allows a single project of more than 1 million square feet to participate in the program and to not be subject to the $120 million cap. DOR defers to the Department of Economic Development for determining if any such building exists that would qualify and what their estimated credit amount could be.

DOR assumes these changes would become effective on August 28, 2024. Therefore, the first tax returns reporting the changes in the tax credit will be filed starting January 1, 2025.

This proposal makes additional changes to how the credit works. This credit is administered by the Department of Economic Development. DOR defers to them for impact from these changes.

These changes will require DOR to update the MO-TC tax credit form, website and computer programming. This is estimated to cost **$8,923**.

Oversight notes the CPI annual adjustments will be in addition to the current $30 million (reserved for special projects) tax credit maximum cap. Therefore, Oversight will note the CPI adjusted amount in the fiscal note.

Oversight notes that DOR assumes the proposal will have no administrative impact on their organization besides one time MO-TC tax credit form, website and computer programing update. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a cost to DOR in the fiscal note, effective FY 2025.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume that Sections 253.544, 253.545, 253.550, 253.557, 253.559, & 620.1900 modifies the Historic Preservation Tax Credit Act. Section 253.550.2(2) allows for an annual CPI adjustment of the $30M cap on projects in qualified census tracts. Assuming a 2% rate of inflation, this cap will be increased by $0.6M in FY 25, $1.21M in FY 26, and $1.84M in FY 27.

Additionally, section 253.550.5 provides an exception for qualifying projects started before January 1, 2024. However, such projects will not count against the caps created in this bill.

Conversely, to the extent this proposal encourages other economic activity, General and Total State Revenues may increase, but B&P cannot estimate the induced revenues.

B&P notes that the three-year average of authorizations is $130,949,558.

Oversight notes the OA-B&P and DOR both noted the current law permits that any amount of Historic Preservation Tax Credit that exceeds a taxpayer=s state tax liability may be carried back to any three preceding tax years and carried forward for ten years.

Oversight notes that OA-B&P & DOR both assume the proposal will have a direct fiscal impact on the general revenues as a result of change in Section 253.550 2. (2) allowing for the $30 million dollar cap to be adjusted annually; however, no such adjustments shall be made after June 30, 2030 . Therefore, Oversight will reflect the adjusted difference (using approximate 2% adjustment annually) in the fiscal note, effective FY 2025.

Oversight notes the $30 million adjustment is cumulative, therefore, Oversight will note the B&P adjusted amount in the fiscal note.

Year	**$30 Million Base**	**Adjusted *cumulative* amount**
Base year	30,000,000	$ 0
2025	30.600,000	$ 600,000
2026	31,212,000	$ 1,212,000
2027	31,836,240	$ 1,836,240

Officials from the **Department of Economic Development (DED)** note:

253.544. Creates the Missouri Historic, Rural Revitalization and Regulatory Streamlining Act.

This legislation revises the Historic Preservation Tax Credit. Increases tax credit to 35% for applicants not participating in the Missouri Low Income Housing Tax Credit Program and eligible single family housing located in a qualifying area, and adds non-profit entities to the definition of eligible recipients. Allows for 10% of the total costs of rehabilitation to be incurred prior to application.

Total program cap will not be increased but the legislation increases the threshold for projects not subject to the cap, from $275,000 to $300,000, and allows for this threshold to increase each year based on consumer price index. DED estimates this revision will have an impact on TSR of ($1,250,000) estimating approximately 50 projects at an increase of $25,000 per project. The current language in this fiscal note to exclude buildings approved before January 1, 2024 that are more than 1 million gross square feet will not impact the TSR since DED currently does not have an application approval for any project that meets these criteria.

Allows for projects located within a qualified census tract to be authorized out of $90M cap after the $30M QCT-only cap has been met in a given fiscal year. Allows for the $30M QCT-only cap to increase annually based on the increase in the Consumer Price Index.

Instructs the Department to allow application submission year-round. Allows for properties with a federal Part 1 application or draft national register of historic places nomination submission to the state historic preservation office to be eligible for application to the program. Adjusts evaluation criteria for projects equal to or more than $300,000, and adds vacant schools or theaters to the projects that are not subject to evaluation criteria.

Allows for third party review to determine whether proposed rehabilitation satisfies the qualified rehabilitation standard. Creates standards processing time requirements for processing projects, including determination of project's alignment with rehabilitations standards within 90 days of filing of application the legislation includes a provision that would require DED to issue 75% of the credit within 75 days. Includes requirements for the approval and issuance of tax credits for phased projects. Modifies the commencement of rehabilitation limitations to 10% within 18 months of the date of approval.

DED needs 1.0 FTE to oversee all the additional requirements this legislation would add to the Historic Preservation Tax Credit.

Oversight notes the proposal, Section 253.545 (15), allows for vacant school and theater to be added to the tax credits that are significant in the history, architecture, archaeology, or culture of this state or its communities, as designated by the governing body of a county.

Oversight notes Section 253.550.2 (1) allows for:

a) An adjustment of $275,000 cap to $300,000 ($25,000 increase per approval) and
b) An annual adjustment of the $300,000 cap by Consumer Price Index for All Urban Consumers thereafter.

Therefore, Oversight will reflect costs of an additional adjustment by CPI in the fiscal note effective FY 2025.

Oversight provides overview of the approved expenditures (submitted by DED) in last three years below:

	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 ACTUAL	3 year Average
Certificates Issued (#)	191	123	99	**138**
Projects/Participants (#)	145	131	68	**115**
Amount Authorized	$108,876,423	$127,744,892	$149,870,361	**$ 128,830,559**
Amount Issued	$113,974,282	$119,310,869	$68,752,030	**$ 100,679,060**
Amount Redeemed	$118,211,637	$106,311,497	$97,637,449	**$ 107,386,861**

Additionally, Oversight notes officials from the DED assume one (1) FTE Senior Economic Development Specialist is needed as a result of the administrative changes made to the Historic Preservation Tax Credit. For purposes of this fiscal note, **Oversight** will reflect DED=s 1 FTE (Economic Development Specialist at $74,664 annually) to the General Revenue Fund effective FY 2025.

Oversight notes the proposal allows for smaller projects, as per Section 253.559 and subsection 6, to be adjusted by the percentage increase in the CPI.

Oversight notes the DED assumes this section of the proposal will have an additional impact to the general revenue totaling $1,250,000 (about 50 projects, receiving $25,000 more per project) begging in FY 2024.

Oversight notes the proposal requires that the DED establish an application cycle that allows for year-around submission and year around receipt and review of such an application.

DED notes Section 253.550.5 contains the language that states the potential future fiscal impact of 2 buildings that are over 1 million square feet that will not be part of the cap. There will be a significant fiscal impact on this, but it is past the three years allowed in the system.

Oversight notes the §§253.550. 5 a single-resource certified historic structure of more than one million gross square feet with a part I approval before January 1, 2024, **shall not be subject** to the dollar caps under subsection 2 of this section.

In response to a similar proposal, HCS #2 for HB 1936 (2024), **DED** noted there are currently two buildings that meet this criterion; Railway Exchange Building at 1.2M square feet and ATT Building at 1.4M square feet. Based on information DED has; Railway Exchange could be $70-$90 million in Missouri Historic Tax Credits. DED's best guess estimate for ATT is that it would be at least $70-$90 million since the projects will be similar, however, ATT is more square feet. The total amount of HTC issued could potentially be $140-$180 million spread over six fiscal years, per statute. (Estimated $23-$30 million per fiscal year for six fiscal years total.) DED does not know when the Department will receive application for either project. Based on other large projects, it could take 5-8 years from time of application to time of tax credit issuance and therefore redemption of the tax credits. If DED received an application in FY25, it may be FY30 before DED issues tax credits.

Oversight notes that §§253.550. 5 (3) requires that the taxpayer claim the tax credit over 3 fiscal years with the initial year being the calendar year when the tax credit was issued. Therefore, for purposes of this fiscal note, Oversight will assume the first tax credit will be issued FY 2026 and note $30 million dollars annually until the full amount of the tax credits is utilized for these projects.

Oversight notes that DED assume the total amount of HTC issued could potentially be $140-$180 million spread over six fiscal years. Therefore, Oversight will reflect $30 million annually beginning FY 2026.

Officials from the **Department of Natural Resources (DNR)** state §259.559. 4.(1) The department shall promptly notify the state historic preservation office of each preliminary application for tax credits. After receipt of such notice, the state historic preservation office shall determine whether a rehabilitation satisfies the qualified rehabilitation standards within sixty days of a taxpayer filing an initial application for tax credits. The determination shall be based upon evidence that the rehabilitation will meet qualified rehabilitation standards, and that evidence shall consist of one of the following:

Additional 2-3 FTE SHPO staff will be necessary to maintain a mandated review period of 60 days. The SHPO currently is unable to review the current workload of tax credit applications within a 60 day period. As the historic tax credit program continues to see an increase in applications and more rehabilitation projects must be evaluated for their compliance with the SOI Standards, the program will see an increase in rehabilitation reviews. Presently, the Architectural Preservation Services (APS) Unit is comprised of four FTEs and is utilizing the services of one TSL, and several contracted reviewers. The unit remains focused on tax credit applications from rehabilitation projects although there are other expectations of this unit and the staff struggle to fulfill those other duties (i.e., monitoring preservation easements, developing scope of work for historic properties, providing technical advice for non-HTC projects, etc.) due to the tax credit workload.

"Assuming transfer of SHPO to Office of Lt. Governor, neutral fiscal impact to DNR for staff cost to perform NHPA functions due to transfer of both staff funding source (federal HPF) grant) and matching share funding source (253.400 RSMo et seq. - SHPRF). This assumes annual appropriation of the full amount described in 143.183 RSMo to replenish SHPRF, but note the full amount has not been appropriated to DNR for multiple years."

In section 253.550.1(1) previous language has been deleted which indicated that the "…state historic preservation office of the Missouri department of natural resources…" was the office responsible for determining if rehabilitation standards are consistent with Secretary of Interior (SOI) standards for rehabilitation. The deleted language has been replaced with language that indicates the responsibility for determining this will now be the responsibility of the Office of Lieutenant Governor. The language in this section of the proposed bill does not clearly state that the SHPO will be transferred to the Lt. Governor's Office. Assuming that is what the language in the proposed bill is intending, the greatest fiscal impact would likely be to the Lt. Governor's Office. If the SHPO were to be transferred to the Lt. Governor's Office, coordination between the SHPO and the department's NAGPRA coordinator will need to continue to ensure their combined state and federal responsibilities for unmarked human burials are fulfilled.

Oversight, for purpose of the fiscal note, will assume the DNR will act as the primary agency, in cooperation with DED, to determine and provide administrative services for this tax credit.

In section 253.550.1(3) proposed language has been included, which states, "State historic rehabilitation standards shall not be more restrictive than the Secretary of the Interior's Standards for Rehabilitation set forth under 36 CFR 67." The SHPO applies SOI rehabilitation standards equally to both state and federal historic tax credit applications.

In section 253.559.4 the proposed bill states that, "The state historic preservation office shall allow for a third-party review as evidence that the proposed rehabilitation satisfies the qualified rehabilitation standard." The SHPO already currently contracts SOI-qualified third-party reviewers to supplement in-house reviews when required to address any backlog of applications. Language in the proposed bill does not reflect that third-party reviewers must meet SOI Professional Qualifications Standards. Section 112 of the National Historic Preservation Act and the Section 106 regulations, at §800.2(a)(1), require agencies responsible for protecting historic properties to ensure that all actions taken by their employees or contractors meet professional standards as determined by the Secretary of the Interior.

In section 253.559.5(2) the proposed bill states that, "If the state historic preservation office approves the application for tax credits within the ninety-day determination period established in subdivision (1) of this subsection, such office shall forward the application with any review comments to the National Park Service and shall forward any such review comments to the applicant." A point of clarification – the SHPO does not approve tax credit applications. Instead, the SHPO verifies that proposed rehabilitation meets the SOI standards for rehabilitation. A further point of clarification – the SHPO does not forward state tax credit applications to the National Park Service, only federal tax credit applications. The proposed language in this section does not delineate between the Federal Historic Preservation Tax Incentives Program and the Missouri Historic Preservation Tax Credit Program.

In section 253.559.11 (1)(d) the proposed language states that, The state historic preservation office shall allow for a third-party review as evidence that the completed rehabilitation satisfies the qualified rehabilitation standards." Language in the proposed bill does not reflect that third-party reviewers must meet SOI Professional Qualifications Standards. Section 112 of the National Historic Preservation Act and the Section 106 regulations, at §800.2(a)(1), require agencies responsible for protecting historic properties to ensure that all actions taken by their employees or contractors meet professional standards as determined by the Secretary of the Interior.

DNR further state the State Historic Preservation Office (SHPO) is currently using IT services to upgrade an antiquated Access tax credit database that is being taxed to produce reports for queries it was not designed to answer. With more data to collect and manage in the future and with greater intent to coordinate interagency IT needs (including data entry and data sharing) between Department of Economic Development (DED) and the SHPO, there could be IT costs to develop an integrated system and/or enhancements for overhauling agency's system.

Oversight note DNR assume there could be a potential for ITSD cost in the future.

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

Oversight notes currently Section 620.1900.2 (2) allows the DED to collect 4% in fees from the tax credits and deposit them into the Economic Development Advancement Fund. This proposal allows for adjustments by CPI, thus increases the amount in potential fee collections into the Economic Development Advanced Fund. Therefore, Oversight will reflect gain in revenue to the Economic Development Advance Fund in the fiscal note.

For informational purposes, Oversight shows the potential impact as follow:

Increase / FY	**2025**	**2026**	**2027**
Increase in $30 million	$600,000	$1,212,000	$1,836,240
Increase in $300,000	$1,200,000	$1,224,000	$1,248,480
Projects over 1M sq/foot	$0	$30,000,000	$30,000,000
Total	$1,800,000	$32,436,000	$33,084,720
4% fee	**$72,000**	**$1,192,405**	**$1,323,389***

*rounded to near dollar

Oversight notes the officials from DNR assume the proposal will have a fiscal impact due to the less than the 90 days requirement in application process, as required in the Section 253.559. 9. The DNR anticipates the need for three additional FTE (Architectural Historian at $44,005 annually).

Oversight notes the DNR pays the SHPO FTE's from three different funds by certain percentage from each fund. The Economic Development Advancement Fund – state money at 10%, Historic

Preservation Revolving Fund – state money at 30%, and Natural Resources Fund – federal money at 60%.

For information purposes**, Oversight** provide the following activity in the Economic Development Advancement Fund (0783) over the past three fiscal years:

Fiscal Year	**Fee's Paid (rounded to nearest dollar)**
FY 2023	$5,922,240
FY 2022	$5,457,013
FY 2021	$5,801,164

(Oversight notes the above fees include the 2.5% and 4% fee collected throughout the given period, and officials from the DED note the balances (fee collected from tax credits) are not broken out by individual programs)

Section 620.1641 Missouri Defense and Energy Independence Act

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposed section 620.1641 creates the "Missouri Defense and Energy Independence Act" which provides a tax credit of up to 15% of the cumulative amount allowed to any company that incurs costs associated with converting that company to produce chemicals, metals, gasses, or rare earth minerals that will be used for projects designed to decrease or eliminate reliance on related foreign-produced products. This tax credit begins on January 1, 2025, with the cumulative amount of tax credits allowed shall not exceed $40 M per tax year. The tax credits are non-refundable, cannot be carried forward, and cannot be sold, transferred, or otherwise conveyed.

The proposed subsection 620.1641.6 creates the "Grants for Independence from Foreign Influence Fund" consisting of at least $10M appropriated by the general assembly from general revenue and from any gifts, contributions, grants, or bequests from federal, private, or other sources and maintained by the state treasurer. To the extent such appropriations are made, this could cost up to $10M annually. The Department of Economic Development (DED) will be responsible for dispersing grants from this fund to qualified companies under the above program. This section will not directly impact TSR.

The DED shall administer the program and promulgate rules, regulations, procedures, and applications for the grant. Therefore, the total fiscal impact to GR up to $10M in FY 2024 and TSR up to $40 M each year.

Officials from the **Department of Revenue (DOR**) state:

Tax credit
This provision creates a tax credit program starting January 1, 2025, for qualified companies. The qualified taxpayer is a company that converts their facility to produce chemicals. They are allowed to claim a credit equal to a portion of their costs incurred from converting their company

from its current products to produce chemicals, metals, gases, or rare earth minerals to be used for projects designed to eliminate reliance on foreign produced chemicals.

This credit has an annual cap of $40 million per tax year and the credits are not refundable, cannot be carried forward, sold, or transferred. If the amount of tax credits claimed in a tax year under this section exceeds forty million dollars, tax credits shall be allowed based on the order in which they are claimed. No single company can receive more than 15% ($6,000,000) of the total cap.

This will first impact the state in FY 2026, when the first tax returns are submitted claiming the credit and thereafter. This proposal states that the credits issued to a company will be in equal increments over four years. Therefore, only $10 million can be claimed in year 1 and $20 million in year 2. The loss to general revenue annually will be:

Fiscal Year	Loss to General Revenue
2025	$0
2026 (year 1)	(Up to $10,000,000)
2027 (year 1 & 2)	(Up to $20,000,000)
2028 (year 1, 2 & 3)	(Up to $30,000,000)
2029+ (year 1, 2, 3 & 4)	(Up to $40,000,000)

This credit is to sunset six years after the effective date.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($7,138), updates to their website and changes to their individual income tax computer system ($1,785). These changes are estimated to cost **$8,923**. DOR's existing tax credit staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed DOR is not able to use temporary staff to help with processing these returns. This proposal would require at least <u>1 FTE Associate Customer Service Representative</u> at a salary of $35,880.

<u>Grants</u>
This provision creates a new state fund that shall consist of at least $10 million to be used to provide grants for companies that qualify to convert their facility to being independent from foreign influence. The $10 million is to be appropriated by the General Assembly. For purposes of the fiscal note, they show the one-time $10 million appropriation in FY 2025.

Officials from the DOR assume the proposal will have a direct fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a DOR's (1) FTE and updates to the website and tax credit form impact in the fiscal note effective FY 2026.

Officials from the **Department of Economic Development (DED)** assume 620.1641. Establishes the "Missouri Defense and Energy Independence Act".

620.1641.2-5. For all tax years beginning on or after January 1, 2025, nontraditional defense contractors in Missouri, as such term is defined in 10 U.S.C. Section 3014 that incur costs to producing chemicals, metals, gases, or rare earth minerals that will be used for projects designed to decrease or eliminate reliance on foreign-produced chemicals, metals, gases, or rare earth minerals used in the production of energy projects or Department of Defense projects will be eligible for a tax credit for the costs of conversion on a first-come, first-served basis. The qualified company shall be allowed to claim a tax credit not to exceed 15% of the cumulative amount of tax credits., and one-fourth of total qualified amount shall be issued in each of the four tax years immediately following the tax year for which the qualified company claimed the tax credit.

For all calendar years beginning on or after 1/01/25, the total amount of tax credits authorized shall not exceed $40M. The tax credit is not refundable, non-transferable, and not to be carried forward.

620.1641.6 creates the "Grants for Independence from Foreign Influence Fund", which shall consist of at least ten million dollars appropriated by the general assembly and any gifts, contributions, grants, or bequests received from federal, private, or other sources. The state treasurer shall be custodian of the fund. Since this requires an appropriation it is not included in the TSR impact.

DED shall establish procedures for the solicitation, evaluation, and approval of grant applications received from a qualified company. A qualified company may submit a grant application for the award of moneys for qualified conversion costs incurred by the qualified company as provided in this subsection. The department shall evaluate each application and approve or reject such application. Subject to appropriations, upon approval of an application, the department shall administer a grant award of moneys from the grants for independence from foreign influence fund in an amount not to exceed five hundred thousand dollars per grant application. Moneys granted to a qualified company under this section shall be used solely for qualified conversion costs incurred before the completion of the conversion of the qualified company.

This program will sunset 6 years after the effective date unless reauthorized by an act of the general assembly.

Creating a new tax credit and grant program will likely reduce annual TSR by up to the cap of $40M. The grant program has a cap of $10M and requires an appropriation. <u>DED will need to hire 2.0 FTE</u> to solicit and review applications, determine qualifications, calculate eligible expenses, complete compliance and to administer the programs.

Oversight notes the proposal, 620.1641. 3. (1) states that total qualified amount a qualified company shall be allowed to claim under this section shall not exceed fifteen percent of the cumulative amount of tax credits allowed. Therefore, Oversight assume it would be equivalent to approximately $6 million ($40,000,000 x .15) per each company.

Additionally, Oversight notes the proposal, 620.1641. 3. (2), states that each company can only receive ¼ of such a total ($6 million) for each year. Therefore, this would allow the company receive $1.5 million per year for next four year.

Oversight notes that this proposal does not limit how many companies are allowed to apply for this tax credit.

Oversight notes the tax credits shall not be refundable, carried forward, assigned, transferred, sold, or conveyed.

Oversight assume the tax program would grow incrementally over 4 years (increments of $10 million per year) until it reaches the maximum cap of $40 million per year. Therefore, Oversight will reflect the cumulative effect $10 million per year beginning FY 2026, and the maximum cap $40 million, beginning FY 2029.

Oversight notes the DED assumes the need for 2.0 FTE (Senior Economic Development Specialist $74,664 plus E&E annually per each) to solicit and review applications, determine qualifications, calculate eligible expenses, complete compliance and to administer the programs.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the DED's FTE cost in the fiscal note effective FY 2025.

Oversight notes the proposal, Section 620.1641.6, creates "Grants for Independence from Foreign Influence Fund".

Oversight notes this Fund "shall consist of at least $10 million dollar appropriated by the general assembly and any gifts, contributions, grants or bequests received from federal, private, or other sources." The Fund will be under care of State Treasurer.

Therefore, **Oversight** will note both revenue transfer out from the general revenue $10 million in FY 2025 and transfer in to the "Grants for Independence from Foreign Influence Fund" in FY 2025.

Oversight will also reflect additional funds transfer in from various grants, donation, and private money etc.

Oversight notes the moneys granted to a qualified company, under the proposal, shall be used solely for qualified conversion costs incurred before the completion of the conversion of the qualified company.

Oversight notes that each individual company can receive up to maximum of $500,000 per grant application. Therefore, Oversight notes there could be as few as 20 companies ($10 million / $500,000) receiving grants from this fund.

Lastly, **Oversight** will note the disbursement from the "Grants for Independence from Foreign Influence Fund", up to the $10 million and the fund will subsequently net to zero annually, as the monies being paid to various qualified companies.

Officials from the **Office of the State Treasurer (STO)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the STO.

Section 620.1920 Missouri Advanced Manufacturing Recruitment Act

Officials from the **Department of Economic Development (DED)** assume the Missouri Advanced Manufacturing Recruitment Act (§620.1920) begins January 1, 2025. The cap is $200,000,000 per tax year. A manufacturing company must invest at least $1,000,000,000 and create 500 or more new jobs. This program will require one (1) DED FTE to administer the program.

Oversight notes officials from the DED assume the need for (1) FTE to administer the program. Oversight does not have any information to the contrary. Therefore, Oversight will reflect the cost for (1) FTE (Senior Economic Develop. Specialist at $74,664 annually) in the fiscal note, effective FY 2025.

Oversight notes the DED is required to promulgate rules, to provide a report quarterly, after January 1, 2026 and thereafter.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the Section 620.1920 creates the "Missouri Advanced Manufacturing Act" and the Missouri advanced manufacturing program. This program has an annual cap of $200M. Beginning on or after January 1, 2025, the Department of Economic Development (DED) can award to qualified manufacturing company a tax credit that equals up to twenty percent of manufacturing capital investment in four equal installments for up to five years. Eligible companies must submit an application outlining a capital investment of at least $1B. In order to receive benefits, the company must enter into an agreement with DED detailed performance requirements, repayment penalties for non-performance, and claw back provisions. Before January 1, 2026, DED must submit a quarterly report detailing benefits issued to the general assembly.

B&P notes that this proposal places the $200M cap on tax credits issued per year, not tax credits authorized per year. B&P further notes that while DED can only issue 25% of credits to a specific company, they could issue a total of $200M per year over all participating businesses. Therefore, the $200M issuance cap would be equivalent to an $800M authorization cap. In addition, if DED issues the full $200M of credits in the first year, no new businesses would be able to participate in this program until all existing business finish at year five.

B&P also notes that this tax credit allows for withholding retention, which does not require the business wait until their tax year 2025 return is filed in 2026. Therefore, this proposal could reduce TSR and GR by up to $200M beginning in FY25.

Officials from the **Department of Revenue (DOR)** assume this proposal attempts to create a new tax credit program for qualified manufacturing companies. To be eligible the manufacturing company must make a $1 billion manufacturing capital investment and create at least 500 new jobs. The Department of Economic Development (DED) would be required to verify the $1 billion expenditure and verify the jobs.

For all tax years beginning on or after January 1, 2025, this proposal says that a qualified manufacturing company can receive a tax credit for up to $20% of their qualified investment. Therefore, a qualified company could receive at least $200M in credits for every $1 billion spent. This proposal states the credits are to be awarded in four equal allotments as they reach the designated percentage of investment made goals. They get the credits after 25% of the investment is made, 50% of the investment is made, 75% of the investment is made and when 100% of the investment is made. While they believe that most companies will make this investment over a period of four years, this proposal does not prohibit a company from making 50% of the investment in year 1. Even if a company did that, they could only receive one credit amount annually.

For fiscal note purposes, DOR will assume that each company will make the full investment of capital over four years and will receive the maximum allowed $50 million in credits each year. Therefore, should there be more than 4 companies qualifying for this credit, one company could not participate until year 5.

This proposal states that DED is allowed to issue no more than $200M in credits per fiscal year. While individuals have a tax year of January 1st through December 31st, many companies do not. Their tax year is based on when they became a company. With the credit using a fiscal year and the companies reporting on a tax year basis, this could be problematic for DED.

Fiscal Year	Credits Issued
Year 1	(Up to $200,000,000)
Year 2	(Up to $200,000,000)
Year 3	(Up to $200,000,000)
Year 4	(Up to $200,000,000)
Year 5	(Up to $200,000,000)

Section 620.1920.12 states that before a company receives the tax credit it must have no tax due statements from DOR and the Department of Commerce & Insurance. Providing this information, would not have a fiscal impact on DOR.

This proposal creates a new tax credit that would require a new line being added to the Form MO-TC ($7,138), updates to their website and changes to the DOR individual income tax computer system ($1,785) and FIT database ($1,785). These changes are estimated to cost $10,708.

DOR's existing tax credit redemption staff is no longer able to take on any additional tax credits without additional resources. Due to the intensive knowledge of credits that is needed they are not able to use temporary staff to help with processing these returns. This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of $35,880 to handle the redemptions.

Oversight notes §620.1920.12 requires DOR to verify delinquency (with additional stage agencies) of taxes paid by the prospective taxpayer and if any such a delinquency exist use the tax credit to reconcile the money owed. After the applicable delinquency is paid, the DOR should pay the remaining of the tax credit to taxpayer.

Oversight notes officials from the DOR assume the proposal will have direct administrative impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a cost for (3) FTE (Associate Customer Service Representative at $35,888) to process the returns.

Oversight notes that the proposal, Section 620.1920.3 denotes that a company is allowed a tax credit of up to 20% of a qualified manufacturing capital investment if the qualified manufacturing company:

a) Makes at least 1 billion of a qualified manufacturing capital investment
b) Creates at least 500 jobs

Oversight notes the qualified company has three years after the tax credit approval to meet the 25% threshold. After the 25% threshold is met, the company has 5 years to receive the full tax credit maximum. If the company makes the qualified investment the first year the company is automatically allowed to start receiving the tax credits, but the maximum amount of tax credit that taxpayer can receive is still the 20% of the total investment. (Investor with $1 billion is allowed to receive $200 million in tax credits in 25% increments over 5 year period)

Oversight notes recent article from Business Expansion Journal notes: Three global manufacturing companies are currently investing more than $1 billion in new facilities or expansions in different parts of the St. Louis region, and another $1.2 billion investment is planned on the downtown St. Louis Riverfront.

Oversight is not sure how many companies will be eligible in FY 2025 and thereafter, but for purpose of this fiscal note, **Oversight** will assume the maximum amount of tax credit ($200 million) may be awarded in FY 2025.

Based on DED's, response, **Oversight** assumes the benefits is limited to tax credits and does not include the option for retained withholdings. Therefore, Oversight will limit the cost to the maximum $200 million cap in program benefits.

Additionally, if the manufacturer violates written agreement, DED may retrieve the money awarded in tax credits. Therefore, Oversight will note an unknown positive amount in revenue effective FY 2025.

<u>Sections 620.2010 & 620.2020 MO Works Program</u>

Officials from the **Office of Administration – Budget and Planning (B&P)** assume:

Section 620.7010.7 is modified to combine the Deal Closing Fund (DCF) sunset date with the overall Missouri Works (MO Works) program sunset date which simplifies the overall program since they work in conjunction.

Section 620.2020.2(1) modifies language to reflect that companies remit, not retain, tax withholdings.

Section 620.2020.2(2) adds language that allows companies located in Advanced Industrial Manufacturing (AIM) or Targeted Industrial Manufacturing (TIME) zone to convert MO Works retained tax withholdings to tax credits instead. Changes to the language in this section do not increase the overall cost of the program. Therefore, there is no fiscal impact due to these changes.

Sections 620.2020.7 & 620.2020.8 are modified to align the sunset date of the entire MO Works program.

Section 620.2020.9 is modified to combine the MO Works retained withholdings & tax credit caps into one cap effective on July 1, 2025. Changes to the language in this section do not increase the overall cost of the program.

Section 620.2020.10 modifies language to ensures that the DCF maximum remains at 21.5% under the combined cap. However, this change does not increase the cost of the MO Works program and has no fiscal impact. Therefore, changes to the MO Works program do not have an overall fiscal impact on GR or TSR.

Therefore, changes to the MO Works program do not have an overall fiscal impact on GR or TSR.

Officials from the **Department of Economic Development (DED)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DED.

Officials from the **Department of Revenue (DOR)** assume the MO Works program began in 2013 with a cap of $106 million to encourage companies not to relocate their factories to another state. The original program provided companies moving to Missouri benefits in relations to their new employees. Existing companies that were looking into relocating benefits to retain their workers and stay in Missouri. The original cap on the tax credits was $106 million with it increasing to $116 million by FY 2026. The credits did not have a sunset date.

In addition to issuing tax credits to companies, MO Works also provided that companies could retain the withholding of their employees to use to invest in their factories. In 2021, the program was expanded to add another $10 million in tax credits for companies investing in infrastructure jobs and another $10 million in tax credits for qualified manufacturing companies that invest over $500 million into their factories. Additionally, $10 million of the $116 million cap was reserved for projects on military bases.

For informational purposes DOR is providing the amount of authorizations, issuances, redemptions and withholding that are occurring under this program.

Year	Authorized	Issued	Withholdings Retained	Total Redeemed
FY 2023	$58,234,898.00	$139,364,971.66	$59,039,193.29	$100,419,077.97
FY 2022	$80,498,453.00	$131,465,595.90	$81,460,659.34	$134,716,930.11
FY 2021	$230,661,649.74	$112,293,173.91	$51,694,704.48	$100,393,654.20
FY 2020	$153,823,786.33	$134,393,278.36	$81,074,270.49	$113,472,125.29
FY 2019	$100,482,945.49	$82,326,471.67	$39,414,426.91	$64,786,980.04
FY 2018	$185,732,973.08	$45,830,250.31	$36,394,962.32	$56,398,908.94
FY 2017	$155,506,188.16	$35,547,214.37	$20,546,348.51	$35,065,682.60
FY 2016	$114,719,436.24	$23,741,677.22	$12,010,486.07	$12,075,788.82
FY 2015	$289,578,581.00	$3,588,784.56	$3,588,784.56	$3,588,784.56
FY 2014	$116,445,144.00	$146,923.00	$146,923.00	$146,923.00
FY 2013	$0.00	$0.00		$0.00
FY 2012	$0.00	$0.00		$0.00
TOTALS	$1,485,684,055.04	$708,698,340.96	$385,370,758.97	$621,064,855.53

Officials from the **Department of Revenue** defer to the DED for the potential fiscal impact of this proposal.

Oversight notes that this proposal allows the employers, located in Advanced Industrial Manufacturing (AIM) or Targeted Industrial Manufacturing (TIME) zones, to choose receive tax credits, instead of retain withholding.

Oversight notes the proposal, §620.2020. 9, combines the overall cap for MO Works program of $181 million beginning FY 2025. Currently, the caps are:

MO Works Tax Credits - $106 million
MO Works Withholding - $75 million

Oversight notes revenues (in the form of retained withholdings) and expenditures from the Missouri One Start Community College Training Fund could be impacted to the extent future projects are awarded incentives, such as tax credits through Missouri Works, instead of retained withholdings through current programs.

Oversight notes that the overall cap of the program will not be effected by this proposal. Therefore, Oversight will reflect zero impact stemming from the proposal in the fiscal note.

<u>Overall bill</u>:

Officials from the **Department of Social Services (DSS**), the **Department of Mental Health, Department of Elementary and Secondary Education**, the **Missouri Department of Transportation**, the **Missouri Department of Agriculture**, and the **Department of Health and Senior Services** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for all above-mentioned agencies.

Officials from the **Department of Commerce and Insurance (DCI)** assume that Section(s) 67.300 & 67.3005 have a potential for unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2025, FY2026, and FY2027 as a result of the modification of provisions relating to benevolent tax credits. 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 modified tax credit.

Oversight notes, for purposes of this fiscal note, the fiscal note does not reflect the possibility that some of the tax credits could be utilized against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Officials from the **Oversight Division** state they are responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, **Oversight** is able to absorb the cost with the current budget authority.

Officials from the **City of Kansas City** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

<u>Rule Promulgation</u>

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.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
Revenue Reduction – Section 32.115 – Neighborhood Assistance Program (increase 50% to 70%) p. 3-4	Up to ($3,439,811)	Up to ($3,439,811)	Up to ($3,439,811)
Revenue Reduction – Section 135.460 –Youth Opportunities Tax Credit (increase 50% to 70%) p. 18-19	Up to ($1,252,940)	Up to ($1,252,940)	Up to ($1,252,940)
Costs – Section §§67.3000.5 p.5-8 Tax Credit for Sport Tickets Sold increase	Up to ($3,000,000)	Up to ($3,000,000)	Up to ($3,000,000)
Costs – §67.3005.5 - Continuation of the program with new sunset (currently set to sunset 12/31/2025 – changed to 12/31/2031) p.5-8	$0	$0	Could Exceed ($967,907)
Costs - §§67.3005.5 - Continuation of the program with new sunset (currently set to sunset 12/31/2025 – changed to 12/31/2031) p.5-8	$0	$0	($21,210)

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Costs – DOR FTE Section(s) Section 99.720.4(1) & 99.720 4(2) p. 10			
Personnel Service	$0	($36,598)	($37,330)
Fringe Benefits	$0	($28,937)	($29,204)
Expense & Equipment	$0	($13,415)	($582)
Total Costs – DOR p.9-12	$0	($78,950)	($67,116)
FTE Change	0 FTE	1 FTE	1 FTE
Costs – DOR – Section(s) Section 99.720.4(1) & 99.720 4(2)form updates & computer programming p. 11	($8,923)	$0	$0
Costs – DED Section(s) Section 99.720.4(1) & 99.720 4(2) p.8			
Personnel Service	($186,660)	($228,472)	($233,041)
Fringe Benefits	($109,897)	($133,613)	($135,384)
Expense & Equipment	($57,363)	($18,066)	($18,428)
Total Costs – DED	($353,920)	($380,151)	($386,853)
FTE Change	3 FTE	3 FTE	3 FTE
Costs – Section 99.720.4(1) Tax Credit p.8-12	$0	Up to ($50,000,000)	Up to ($51,000,000)
Costs – Section 99.720 4 (2) Tax Credit p.8-12	$0	Up to ($50,000,000)	Up to ($51,000,000)
Costs – §135.315 "Zero-Cost Adoption Fund Act"			
Personnel Service	$0	($36,598)	($37,330)
Fringe Benefits	$0	($28,937)	($29,204)
Expense & Equipment	$0	($13,311)	($582)
Total Costs – DOR p.13	$0	($78,846)	($67,116)
FTE Change	0 FTE	1 FTE	1 FTE
Costs – Section §135.315 – DOR updates to form, website, and database p.13	($8,923)	$0	$0

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Transfer Out - §135.315.5 (1) - "Zero-Cost Adoption Fund Act" tax credits appropriation p.11	$0	Up to ($25,000,000)	Up to ($25,500,000)
Transfer - Out – 453.650.1 "Zero-Cost Adoption Fund" p.12-15 gifts, bequests	$0	$0 to (Unknown)	$0 to (Unknown)
Costs - §135.315. 4 to 7 – STO – Implementation of various provisions of the - "Zero-Cost Adoption Fund Act" p.12-15	$0	$0 to (Unknown)	$0 to (Unknown)
Costs – §135.341 – CASA Tax Credits - the difference between 50% to 70% contributions (based on a 3 year historical average of redemptions) with cap increase to $25 million in FY 2026 and extension of the credit sunset in FY 2027(was to expire in 2025, now 2030) p.15	$0	Up to ($23,960,012)	Up to ($25,000,000)
Costs – §135.341 – CASA Tax Credits p.15 DOR computer and form updates	($8,923)	$0	$0
Costs - Section 135.453 Community College Technical Educators Tax Credit p.16-18	$0	($500,000)	($500,000)
Costs – Section 135.453 Community College Technical Educators Tax Credit Administration of the tax credit p.17			
Personnel Service	($101,852)	($124,666)	($127,160)
Fringe Benefits	($76,121)	($92,236)	($93,146)
Expense & Equipment	($39,933)	($1,711)	($1,745)
Total Costs – DOR	($217,906)	($218,613)	($222,051)
FTE Change	3 FTE	3 FTE	3 FTE

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Cost – Section 135.453 Community College Technical Educators Tax Credit DOR form and computer changes p.17	($8,923)	$0	$0
Costs - §§135.621 – Diaper Bank Tax Credit p.19-20	$0	Could Exceed ($169,164)	Could Exceed ($169,164)
Cost – Section 135.640 tax credit for certain charitable donations to local hospital foundations p.20-22	Up to ($2,000,000)	Up to ($2,000,000)	Up to ($2,000,000)
Costs – Section 135.640 tax credit for certain charitable donations to local hospital foundations FTE's p.21-22		Up to…	Up to…
Personnel Service	($131,752)	($161,264)	($164,489)
Fringe Benefits	($100,016)	($121,173)	($122,350)
Expense & Equipment	($53,243)	($2,281)	($2,326)
Total Costs - DOR	($285,011)	($284,718)	($289,165)
FTE Change	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE
Costs – Section 135.640 – DOR computer and form updates p. 21	($8,923)	$0	$0
Revenue Loss – §135.721 Educational Tax Credit p.22-27	$0	Less than ($875,154,520) or Could Exceed ($1,535,588,080)	Less than ($875,154,520) or Could Exceed ($1,535,588,080)
Costs – Sections 135.721 p.25-26			
Personnel Service	$0	($1,176,044)	($1,199,565)
Fringe Benefits	$0	($927,773)	($936,353)
Expense & Equipment	$0	($421,040)	($0)
Total Costs - DOR	$0	($2,524,857)	($2,135,918)
FTE Change	$0	32 FTE	32 FTE
Costs – Sections 135.721 p.25 (computer and form updates)	$0	($8,923)	$0

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Cost – Section 135.1210.5(1) – Railroad Track Expenditures Tax Credit p.27	$0	Up to ($4,500,000)	Up to ($4,500,000)
Cost – Section 135.1210.5(2) – New Railroad Infrastructure Tax Credit p.27	$0	Up to ($10,000,000)	Up to ($10,000,000)
Cost – DED – Section(s) 135.1210 1. (5) (1) & (2) p.28-29		Up to…	Up to…
Personnel Service	$0	($152,315)	($155,361)
Fringe Benefits	$0	($88,153)	($89,292)
Expense & Equipment	$0	($40,446)	($12,285)
Total Costs – DED	$0	($280,914)	($256,938)
FTE Change	0 FTE	2 FTE	2 FTE
Cost – DOR – Section(s) 135.1210 1. (5) (1) & (2) p.28			
Personnel Service	$0	($36,598)	($37,330)
Fringe Benefits	$0	($28,937)	($29,204)
Expense & Equipment	$0	($13,415)	($582)
Total Costs – DOR	$0	($78,950)	($67,116)
FTE Change	0 FTE	1 FTE	1 FTE
Cost – DOR – Section(s) 135.1210 1. (5) (1) & (2) p.28	$0	($8,923)	$0
Cost – Section 135.1800 One Time Tax credit p.29-31	($500,000,000)	$0	$0
Costs – Section 135.1800 DOR printing of the checks p.31	($27,235)	$0	$0
Costs – Section 135.1800 DOR Computer Updates p.30	($35,000)	$0	$0
Costs – Section 135.1800 DOR envelopes and postage p.31	($977,656)	$0	$0
Reduction in Revenue – Section 253.550 2 (2) CPI adjustment of $30			

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
M in tax credit award for approved projects p.32	Up to ($600,000)	Up to ($1,212,000)	Up to ($1,836,240)
Reduction in Revenue – Section 253.559 6. CPI adjustment for projects below $300,000 p. 34	($1,250,000)	($1,275,000)	($1,326,510)
Reduction in Revenue – Section 253.559 5. (3) DED project over million sq/foot	$0	($30,000,000)	($30,000,000)
Costs – DOR Section 253.559 33	($8,923)	$0	$0
Costs – DED Section 253.559.7			
Personnel Service	($62,220)	($76,157)	($77,680)
Fringe Benefits	($36,265)	($44,076)	($44,646)
Expense & Equipment	($19,121)	($6,022)	($6,143)
Total Costs – DED	($117,606)	($126,256)	($128,469)
FTE Change p.35	1 FTE	1 FTE	1 FTE
Costs – Section 620.1641 Missouri Defense and Energy Independence Act Tax Credit p.43-48			
Personnel Service	($124,440)	($152,315)	($155,361)
Fringe Benefits	($72,530)	($88,153)	($89,292)
Expense & Equipment	($38,242)	($12,044)	($12,285)
Total Costs – DED p.42	($235,212)	($252,512)	($256,938)
FTE Change- DED	2 FTE	2 FTE	2 FTE
Costs – Section 620.1641 Missouri Defense and Energy Independence Act Tax Credit			
Personnel Service	$0	($36,598)	($37,330)
Fringe Benefits	$0	($28,937)	($29,204)
Expense & Equipment	$0	($13,415)	($582)
Total Costs – DOR p.41	$0	($78,950)	($67,116)
FTE Change	0 FTE	1 FTE	1 FTE
Costs - §§ 620.1641 DOR Website and form updates p.41	$0	($8,923)	$0

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Costs - §§ 620.1641 Missouri Defense and Energy Independence Act Tax Credit p.43-48	$0	Up to ($10,000,000)	Up to ($20,000,000)
Transfer Out - §§ 620.1641. 7. Grants for Independence from Foreign Influence Fund p.43-48	Up to ($10,000,000)	(Unknown)	(Unknown)
Cost – Section 620.1920 Missouri Advanced Manufacturing Act - annual cap of $200 million p.48-51	$0	Up to ($200,000,000)	Up to ($200,000,000)
Revenue Gain – Section 620.1920 7. (2) Claw back provision p.48-51	Unknown	Unknown	Unknown
Costs – Section 620.1920 DED FTE			
Personnel Service	($62,220)	($76,157)	($77,680)
Fringe Benefits	($36,632)	($44,538)	($45,128)
Expense & Equipment	($19,121)	($6,022)	($6,143)
Total Costs – DED p.44	($117,973)	($126,717)	($128,951)
Total FTE	1 FTE	1 FTE	1 FTE
Costs – Section 620.1920 DOR FTE			
Personnel Service	($29,900)	($36,598)	($37,330)
Fringe Benefits	($23,896)	($28,937)	($29,204)
Expense & Equipment	($13,311)	($570)	($582)
Total Costs – DOR p.45	($67,107)	($66,105)	($67,116)
Total FTE	1 FTE	1 FTE	1 FTE
Costs – Section 620.1920 DOR TC form, database and website changes p.48	($10,708)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($524,041,623)**	**($1,295,580,700 to $1,955,930,259)**	**($1,310,809,165 to $1,971,242,725)**
Estimated Net FTE General Revenue	15 FTE	53 FTE	53 FTE

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
GRANTS FOR INDEPENDENCE FROM FOREIGN INFLUENCE FUND			
Transfer in – 620.1641. 7. Monies transferred form GR p.47	Up to $10,000,000	$0	$0
Costs – grants to various companies ($500,000 max per company) p.46-47	(Unknown)	(Unknown)	(Unknown)
Transfer in – §§ 620.1641. 1. donations, grants, interests, etc. p.46-47	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON GRANTS FOR INDPENDENCE FROM FOREIGN INFLUENCE FUND	**$0**	**$0**	**$0**
ZERO COST ADOPTION FUND			
Transfer-In – §453.650.1 - "Zero-Cost Adoption Fund" – General Assembly p.12-15	$0	$0 to $25,000,000	$0 to $25,000,000
Revenue Gain - §453.650.1 - "Zero-Cost Adoption Fund" – gifts, grants, donation, & bequests p.12-15	$0	$0 to Unknown	$0 to Unknown
Costs - §453.650.4 – various adoption related services p.12-15	$0	$0 to Could Exceed (25,000,000)	$0 to Could Exceed (25,000,000)
ESTIMATED NET EFFECT ON ZERO COST ADAPTION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
ECONOMIC DEVELOPMENT ADVANCEMENT FUND (0783)			
Costs – DNR - Section 253.559			
Personnel Service	($13,000)	($15,912)	($16,230)
Fringe Benefits	($7,829)	($9,582)	($9,774)
Expense & Equipment	($1,849)	($765)	($780)
Total Costs – DNR	($22,678)	($26,259)	($26,784)
FTE Change p.40-43	Less than .3 FTE	Less than .3 FTE	Less than .3 FTE
Revenue Gain 4% fees collected by DED p.40-43	Up to $72,000	Up to $1,297,440	Up to $1,323,389
ESTIMATED NET EFFECT ON ECONOMIC DEVELOPMENT ADVANCEMENT FUND	**Up to $49,322**	**Up to $1,271,181**	**Up to $1,296,605**
HISTORIC PRESERVATION REVOLVING FUND (0430)			
Costs – DNR - Section 253.559			
Personnel Service	($39,000)	($47,736)	($48,691)
Fringe Benefits	($23,486)	($28,747)	($29,322)
Expense & Equipment	($5,547)	($2,294)	($2,340)
Total Costs – DNR p.35-43	($68,033)	($78,776)	($80,352)
FTE Change	.9 FTE	.9 FTE	.9 FTE
ESTIMATED NET EFFECT ON HISTORIC PRESERVATION REVOLVING FUND	**($68,033)**	**($78,776)**	**($80,352)**
NATURAL RESOURCES FEDERAL FUND (0140)			
Costs – DNR - Section 253.559			
Personnel Service	($78,000)	($95,472)	($97,381)
Fringe Benefits	($46,972)	($57,493)	($58,643)

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Expense & Equipment	($11,094)	(4,588)	($4,679)
Total Costs – DNR	($136,066)	($157,553)	($160,704)
FTE Change p.35-43	1.8 FTE	1.8 FTE	1.8 FTE
ESTIMATED NET EFFECT ON NATURAL RESOURCES FEDERAL FUND	**($136,066)**	**($157,553)**	**($160,704)**
Estimated Net FTE Other State Funds	1.2 FTE	1.2 FTE	1.2 FTE
Estimated Net FTE Federal Funds	1.8 FTE	1.8 FTE	1.8 FTE

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposal establishes various tax credits to promote economic development.

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 Social Services
Department of Mental Health
Department of Elementary and Secondary Education
Missouri Department of Transportation
Missouri Department of Agriculture
Department of Health and Senior Services
Department of Economic Development
Department of Revenue
Office of Administration – Budget & Planning
Joint Committee on Administrative Rules

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Office of the Secretary of State
Department of Commerce and Insurance
Missouri Department of Agriculture
Missouri Department of Transportation
Department of Natural Resources
Oversight Division
City of Kansas City

Julie Morff
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May 6, 2024

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May 6, 2024

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