COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4381H.01I
Bill No.: HB 1973
Subject: Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - General; Charities; Children and Minors; Department of Revenue
Type: Original
Date: February 6, 2024

Bill Summary: This proposal modifies provisions relating to the Champion for Children Tax Credit for contributions to certain child advocacy organizations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	Up to ($1,008,923)	Up to ($1,000,000)	Up to ($2,500,000)
Total Estimated Net Effect on General Revenue	**Up to ($1,008,923)**	**Up to ($1,000,000)**	**Up to ($2,500,000)**

*Oversight reflects increase in in the cap for the program in FY 2025 and FY 2026 from $1.5 million to $2.5 million. Additionally, Oversight reflects the full cap of $2.5 million in FY 2027 based on the extension of the sunset date from December 31, 2025 (FY 2026) to December 31, 2030.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	**0**	**0**	**0**

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

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

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

Section 135.341.2 would increase the value of the Champion for Children tax credit to 70% of each contribution beginning with tax year 2024. B&P notes that the three-year average redemption amount was $1,150,031 from FY21-FY23. Had the tax credits been set at 70% of donations, redemptions would have been $1,610,043; for an increase of $460,012 in redemptions. This provision will begin impacting GR in FY25 when annual income tax returns are filed.

B&P notes that this proposal would increase the credit value for tax years beginning 2024. However, this proposal would not be effective until August 28, 2024 – after many individuals have already made their donation and received a certificate with a credit value set at 50%. It is unclear if each impacted individual would need to request a new certificate from the agency where the donation was made.

Section 135.341.3 would increase the annual redemption limit from $1.5 million to $2.5 million annually beginning with FY25.

B&P notes that this proposal increases the annual redemption limit by more than the estimated impact of increasing the credit value to 70%. Therefore, B&P estimates that in total, this proposal may reduce TSR and GR by $1 million annually beginning in FY25.

Section 135.341.9 extends the program sunset to 2030.

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.

The tax credit is able to be carried over to any subsequent 5 tax years. 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 DOR is 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
FY 2022	$1,500,000	$884,965
FY 2021	$1,500,000	$1,339,280
FY 2020	$1,500,000	$827,942
FY 2019	$1,000,000	$999,995
FY 2018	$1,000,000	$999,986
FY 2017	$1,000,000	$999,873
FY 2016	$1,000,000	$999,987

This proposal starting January 1, 2024, would increase the amount of the credit to 70% of the donated amount. It should be noted that these changes will not be effective until after August 28, 2024. This change in the percentage of the cap will be taken on the tax returns starting January 1, 2025 (FY 2025).

This proposal will also increase the cap on the program starting July 1, 2024. It will increase to $2,500,000 an increase of $1,000,000 annually. This will result in an additional loss to general revenue of $1 million annually starting FY 2025.

Fiscal Year	Loss to General Revenue
FY 2025	($1,000,000)
FY 2026	($1,000,000)
FY 2027	($1,000,000)

It should be noted that due to the backdating of this proposal to January 1, 2024, many of the taxpayers will already have made their donation and received their tax credit certificate at the 50% rate. It is unclear if there will be any cap space left by the time this bill goes into effect to reissue their credit at the 70% rate.

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

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 notes the proposal allows for increase in the maximum cap as of January 1, 2025 to up to $2.5 million, therefore, the amount reflected above could exceed the tax credit cap effective in FY 2025.

Oversight notes that the new cap would allow the taxpayer receive potentially up to $1,000,000 more in tax credit if all of the taxpayers were able to redeem the contributions at 70% combined with the additional monies now available thru expended maximum tax credit cap in FY 2025 & FY 2026.

Lastly, Oversight notes the program would sunset as of December 31, 2025 (with redemption occurring in FY 2026) without this proposal. Therefore, **Oversight** will show an impact up to the cap of $2.5 million in FY 2027 as a continuance of the program beyond the current sunset date.

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

<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			
Costs – 135.341 – increase to $2.5 million of the maximum cap	Up to ($1,000,000)	Up to ($1,000,000)	$0
Costs – 135.341 – extension of the sunset provision with the increased cap to $2.5 million	$0	$0	Up to ($2,500,000)
Costs – 135.341 – DOR form and website updates p.4	($8,923)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Up to ($1,008,923)**	**Up to ($1,000,000)**	**Up to ($2,500,000)**

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

Currently, a tax credit may be claimed in an amount equal to 50% of a contribution made to Court Appointed Special Advocates (CASAs), child advocacy centers, or crisis care centers. Beginning January 1, 2024, this bill increases the tax credit to 70% of such contributions.

Currently, the maximum amount of tax credits that may be claimed for all such contributions made to such qualified agencies shall not exceed $1.5 million. Beginning July 1, 2024, this bill provides that the amount of tax credits that may be claimed in a fiscal year shall increase to $2.5 million. This bill extends the sunset for these provisions to December 31, 2030.

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

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Joint Committee on Administrative Rules
Office of the Secretary of State
Oversight Division

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