

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5251H.011
 Bill No.: HB 2529
 Subject: Children and Minors; Tax Credits; Department of Elementary and Secondary Education; Tobacco Products; Crimes and Punishment
 Type: Original
 Date: February 12, 2024

Bill Summary: This proposal modifies and establishes provisions relating to child care.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Fund*	Could exceed (\$8,923)	Less than or Could Exceed (\$97,894,139)	Less than or Could Exceed (\$97,704,784)
Total Estimated Net Effect on General Revenue	Could exceed (\$8,923)	Less than or Could Exceed (\$97,894,139)	Less than or Could Exceed (\$97,704,784)

*Oversight notes total expenditure for the Success Tax Credit could potentially reach \$96,630,945. Additionally DOR will need 16 additional FTE to process the tax credits. Oversight notes this tax credit is nonrefundable, nontransferable and may not be carried back or forward to other tax years. Also, the credit shall be used against the taxpayers tax liability after all other credits have been utilized. Therefore, Oversight assumes the amount of tax credit redemptions could perhaps be smaller than the amounts listed above.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund	0 FTE	16 FTE	16 FTE
Total Estimated Net Effect on FTE	0 FTE	16 FTE	16 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 71.796 Improvement of business districts by local governments

Officials from the **Office of Administration – Budget & Planning**, the **Department of Economic Development**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, and the **Office of the State Public Defender** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Officials from the **City of Kansas City** and the **City of O’Fallon** 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.

Section 135.2560 SUCCESS Tax Credit

Officials from the **Office of Administration - Budget and Planning (B&P)** state beginning tax year 2025, this proposal would grant a tax credit for qualifying dependent care expenses. A tax credit of \$1,800 shall be granted for expenses incurred for children ages 1-0 and a tax credit of \$1,200 shall be granted for expenses incurred for children ages 2-5. B&P notes that this tax credit is non-refundable, cannot be carried forward or back, and is not transferrable.

In order to qualify for this deduction, a taxpayer must qualify for the federal dependent care deduction. In addition, taxpayers must have a Missouri adjusted gross income (MAGI) of \$75,000 (\$150,000 married filing combined) or less. Furthermore, an eligible taxpayer may only claim expenses for up to two children per year.

Based on IRS data there were 112,971 Missouri resident income tax returns that claimed the child and dependent credit in tax year 2021 (the most recent year available). Based on tax return data, B&P notes that on average, single and married filing combined returns claim one child dependent, while head of household returns claim an average of two dependents. Therefore, B&P estimates that 96,244 children could qualify under this proposal.

Using the 2022 U.S. Census population counts, B&P estimates that of the 96,244 children 30,994 are ages 0-1 and 65,250 are ages 2-5. Table 1 shows the estimated number of children by filing status and age.

Table 1: Estimated Qualifying Children by Filing Status

Filing Status	Children 0-1	Children 2-5	Total
Single Head of Household	1,064	2,244	3,308
Married Filing Joint	11,724	24,670	36,394
Total	30,994	65,250	96,244

Using actual income tax liability data, B&P estimates that this proposal could reduce TSR and GR by \$96,630,945 annually, beginning FY26. Table 2 shows the estimated impact by filing status.

Table 2: Estimated Tax Credits by Filing Status

Filing Status	Est. Credits
Single	\$1,915,690
Head of Household	\$20,719,445
Married Filing Joint	\$73,995,811
Total Credits	\$96,630,945

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

This proposal allows a taxpayer that qualifies for the federal child and dependent care tax credit to apply to receive a tax credit on their Missouri return for the same qualifying child. The credit is for expenses paid out for childcare. Starting January 1, 2025, a qualified taxpayer can receive a tax credit of \$1,800 for each child under the age of 2 and \$1,200 for each child ages 2 to 5 for which they received the federal credit. The tax credit is not refundable and must be reported as the last credit on their return. The credit is nontransferable and shall not be carried forward or back and cannot be claimed for more than two kids.

This proposal has a provision that restricts the credit to those with a Missouri adjusted gross income of less than \$75,000 for those filing single, head of household and qualified widow(er) and \$150,000 for those filing married filed combined. Since the taxpayer must still qualify for the federal tax credit to be eligible for the Missouri credit, the Department used the IRS published data for tax year 2020 (most recent released) on those that claimed the federal tax credit on their income tax return. Based on tax return data, those that file a single return and those that file a married filing combined return, on average report one dependent child while those filing as head of household report two children. Therefore, DOR estimated that 96,244 children could qualify under this proposal.

Using the 2022 U.S. Census population counts by age, DOR was able to determine that the 96,244 qualifying kids would result in 30,944 kids are ages 0-1 and 65,250 kids are ages 2-5.

Using their actual tax liability data, DOR were able to estimate the impact to general revenue of **\$96,630,945** starting in FY 2026 when the first returns are filed claiming the tax credit.

This proposal will require changes to the MO-1040 and MO-TC tax forms, website and individual income tax computer system. These costs are estimated at \$8,923.

DOR notes this proposal requires this credit to be nonrefundable and to be applied as the last credit. Additionally, while the taxpayer must qualify under the federal program to be eligible for this credit, the credit is calculated on the taxpayer's eligible employment related expenses and not the amount of federal credit they received. This will result in the staff needing to manually review each return to see if they qualify and to adjust the return, so this credit is applied last. The Department's temporary staff is not authorized to manually adjust returns only full-time employees. Based on the estimate of over 96,244 returns, DOR would need one FTE for every 6,000 tax returns. This will result in DOR needing at least 16 FTE Associate Customer Service Representatives (\$35,880).

Oversight will assume the DOR and B&P estimate are probable and will note the costs could be less than or exceed the \$96,630,945 of the estimated amount.

Oversight notes the DOR assumes the proposal will have a direct impact on the Department. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a DOR need for 16 FTE (\$35,880 annual - per each) impact in the fiscal note, effective FY 2026 (filing for TY 2025).

Additionally, **Oversight** will note the DOR costs for the changes to MO-1040 and MO-TC tax forms and website, as one time expenditure, in amount of \$8,923 in FY 2025.

The **Oversight Division** is responsible for providing a Sunset Report pursuant to Section 23.253 RSMo; however, Oversight assume it is able to absorb the cost with the current budget authority.

Officials from the **Department of Economic Development**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Labor and Industrial Relations**, the **Department of Public Safety**, and the **Office of the State Public Defender** each assume the proposal will have no fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note.

Officials from the **City of Kansas City** and the **City of O'Fallon** 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.

Section 191.776 Child Day Care facilities – Tobacco Use

Oversight notes this section notes that anyone violating the tobacco use restrictions shall be guilty of class B misdemeanor.

Officials from the **Office of Administration – Budget & Planning**, the **Department of Economic Development**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, and the **Office of the State Public Defender** each assume the proposal will have no fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note.

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Section 210.223 Child Protection and Reformation - Safe sleep policy to be maintained

Officials from the **Office of Administration – Budget & Planning**, the **Department of Economic Development**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, and the **Office of the State Public Defender** each assume the proposal will have no fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note.

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Oversight notes subsection 6 of the section allows for the state, subject to appropriation to pay for completing the required training.

Oversight will reflect a range in costs as \$0 (money is not appropriated by general assembly) to Unknown (the general assembly will appropriate the money) for necessary training in the fiscal note effective FY 2025.

Section 210.906 – Family Care – Safety Registry

Officials from the **Office of Administration – Budget & Planning**, the **Department of Economic Development**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, and the **Office of the State Public Defender** each assume the proposal will have no fiscal impact on their respective organizations. Oversight does

not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note.

Officials from the **City of Kansas City** and the **City of O’Fallon** 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 subsection 3 of the section allows for the state, subject to appropriation to pay for completing the required criminal background check.

Oversight will reflect a range in costs as \$0 (money is not appropriated by general assembly) to Unknown (the general assembly will appropriate the money) for necessary background checks, in the fiscal note effective FY 2025.

Section 210.1080 Background Checks, Child care staff members

Officials from the **Office of Administration – Budget & Planning**, the **Department of Economic Development**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, and the **Office of the State Public Defender** each assume the proposal will have no fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note.

Officials from the **City of Kansas City** and the **City of O’Fallon** 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 subsection 3 of the section allows for the state, subject to appropriation to pay for completing the required criminal background check.

Oversight will reflect a range in costs as \$0 (money is not appropriated by general assembly) to Unknown (the general assembly will appropriate the money) for necessary background check, in the fiscal note effective FY 2025.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Costs – Section 135.2560 "SUCCESS Tax Credit" (pages 3 & 4)</u>	\$0	Less or Could Exceed (\$96,630,945)	Less or Could Exceed (\$96,630,945)
<u>Costs – Section 135.2560 "SUCCESS Tax Credit" DOR updates to tax form and website</u>	(\$8,923)		
<u>Costs -</u>		Up to...	Up to...
Personnel Service	\$0	(\$585,562)	(\$597,273)
Fringe Benefits	\$0	(\$462,989)	(\$467,261)
Expense & Equipment	\$0	(\$214,643)	(\$9,305)
<u>Total Costs -</u>	<u>\$0</u>	<u>(\$1,263,194)</u>	<u>(\$1,073,839)</u>
FTE Change	0 FTE	16 FTE	16 FTE
<u>Costs – Section 210.223 Safe Sleeping Policy training</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Costs – Section 210.906 Family Care – Safety Registry</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Costs – Section 210.1080 potential appropriation for background checks</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Could exceed (\$8,923)</u>	<u>Less than or Could Exceed (\$97,894,139)</u>	<u>Less than or Could Exceed (\$97,704,784)</u>
Estimated Net FTE Change on General Revenue	0 FTE	16 FTE	16 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small childcare businesses could be impacted by this proposal.

FISCAL DESCRIPTION

SUCCESS TAX CREDIT

This bill establishes the "Supporting Use of Child Care for Economic Stability and Security Tax Credit".

Beginning January 1, 2025, an eligible taxpayer shall be allowed a nonrefundable tax credit equal to the employment-related expenses for up to two qualifying children, not to exceed:

- (1) Expenses of \$1,800 for each child who was under two years of age at any time during the tax year for which the tax credit is being sought; and
- (2) Expenses of \$1,200 for each child who was two years of age or older during all of the tax year and under six years of age at any time during the tax year for which the tax credit is being sought.

A tax credit under this proposal shall not be claimed by more than one taxpayer for the same child. This tax credit shall be nontransferable and nonrefundable, and shall not be carried back or forward to any other tax year.

The program sunsets on December 31, 2030. SMOKING IN CHILD CARE FACILITIES

The bill prohibits smoking or any other use of tobacco or marijuana products in any area of a child care facility that is licensed by the Department of Elementary and Secondary Education. A person in violation of this provision relating to tobacco shall be guilty of an infraction, and a person in violation of this provision relating to marijuana shall be guilty of a class B misdemeanor.

SAFE SLEEP POLICY

This bill adds a new provision providing that, for licensed child care facilities that provide care to children under one year of age, any costs incurred in the completion of required training on

safe sleep policies may be paid by the employees or volunteers of the child care facility; the facility itself; a public or private third party; or the State, subject to appropriation.

REGISTRATION FORMS FOR CERTAIN CARE WORKERS

Currently, the Department of Health and Senior Services requires child-care workers, elder-care workers, personal-care workers, and mental health workers to register, as well as complete a criminal background check. The bill adds public or private third parties, as well as the State (subject to appropriation) to the list of eligible entities that may pay the costs of the background check.

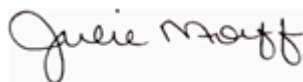
BACKGROUND CHECKS FOR CHILD CARE STAFF MEMBERS

This bill adds public or private third parties, as well as the State (subject to appropriation), to the list of eligible entities that may pay the cost of a criminal background check for a child care staff member prior to his or her employment or presence in a child care facility.


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

SOURCES OF INFORMATION

Office of Administration – Budget & Planning
Department of Economic Development
Department of Health and Senior Services
Department of Mental Health
Department of Labor and Industrial Relations
Department of Revenue
Department of Public Safety – Alcohol and Tobacco Control
Office of the State Public Defender
Oversight Division
City of Kansas City
City of O’Fallon



Julie Morff
Director
February 12, 2024



Ross Strobe
Assistant Director
February 12, 2024