

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1412H.02P
 Bill No.: Perfected HCS for HB 798
 Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Department of Revenue; Tax Incentives
 Type: Original
 Date: March 5, 2025

Bill Summary: This proposal modifies provisions relating to income tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2036)
General Revenue	(\$469,576,585)	(\$360,016,331)	(\$442,083,670)	(\$1,260,074,499)
Total Estimated Net Effect on General Revenue	(\$469,576,585)	(\$360,016,331)	(\$442,083,670)	(\$1,260,074,499)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2036)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2036)
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2036)
General Revenue - DOR	1 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE	1 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 2026	FY 2027	FY 2028	Fully Implemented (FY 2036)
Local Government	\$0	(\$1,917,358)	(\$1,917,358)	Could exceed (\$1,917,358)

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Section 135.600 - Maternity Home Tax Credit HA 3

Officials from the **Department of Revenue (DOR)** note this proposal modifies the Maternity Home tax credit program. The Maternity Home Tax Credit program gives a taxpayer who contributes to a maternity home a tax credit equal to 70% of the contribution amount.

This tax credit was created in 1997 and given a \$2 million cap. The cap was raised to \$2.5 million in 2014 and was raised again to \$3.5 million in 2021. The cap was removed starting July 1, 2022.

For informational purposes DOR is providing the amount issued and redeemed for this credit.

Year	Issued	Total Redeemed
FY 2024	\$5,224,936.69	\$3,656,629.17
FY 2023	\$5,224,936.69	\$2,987,535.91
FY 2022	\$2,443,743.68	\$2,234,748.48
FY 2021	\$2,625,830.84	\$2,658,767.57
FY 2020	\$2,678,033.86	\$2,263,523.03
FY 2019	\$2,390,514.11	\$1,538,938.55
FY 2018	\$2,499,951.44	\$2,098,721.06
FY 2017	\$2,482,713.51	\$2,422,510.02
FY 2016	\$2,499,405.47	\$1,657,322.88
FY 2015	\$2,104,022.19	\$1,511,157.00
FY 2014	\$1,810,789.52	\$2,051,027.90
FY 2013	\$1,999,957.83	\$1,138,969.33

This proposal increases the percentage of the contribution from 70% to 100% for the amount of the tax credit a person receives. An increase of \$1,268,416. 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 \$2,959,638. Since this program does not have an annual cap, it is expected to result in additional impact to the state.

In response to a similar proposal (HCS for HB 1176), officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would increase the contribution percentage granted for the maternity home tax credit starting with fiscal year 2026. Currently a tax credit is granted for 70% of a donation, with no limit on the amount authorized, issued, or redeemed. Under this proposal a tax credit would be granted for 100% of a donation.

In FY24, \$3,656,629 was redeemed for this tax credit program. Based on this, B&P estimates that there were \$5,223,756 in qualifying donations. Therefore, B&P estimates that provision would have resulted in additional credits of \$1,567,127 (\$5,223,756 new credits - \$3,656,629 existing credits) starting with fiscal year 2026.

Oversight notes the proposal allows for 100% contribution tax credit amount against the taxpayer’s tax liability.

Oversight notes the average 3-year redemption below:

Year	Redemption (rounded to near \$)
2024	\$3,656,629
2023	\$2,987,536
2022	\$2,234,748
Average	\$2,959,638

Oversight notes, per Section 135.600. 6., the tax credit maximum cap was removed for any claims on or after July 1, 2022.

Oversight notes the \$2,959,638 redemption total at 70% would equal \$4,228,054 at 100% (\$2,959,638 / .70). The increase is estimated at \$1,268,416 (\$4,228,054 - \$2,959,638). Therefore, Oversight will note the estimated average difference of \$1,268,416 beginning FY 2027 and thereafter in the fiscal note.

Section 135.621 - Diaper Bank Tax Credit HA 3

Officials from the **Department of Revenue (DOR)** note this proposal modifies the diaper bank tax credit program. The credit sunsets on December 31, 2024.

DOR notes this program was adopted in 2018 and had 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	Authorized	Issued
FY 2024	\$173,152.90	\$173,152.90
FY 2023	\$136,018.86	\$136,018.86
FY 2022	\$182,018.00	\$182,018.00
FY 2021	\$189,453.90	\$189,453.90
FY 2020	\$189,628.19	\$189,628.19
FY 2019	\$0.00	\$0.00
FY 2018	\$0.00	\$0.00

This proposal would be restarting the program which would result in a cost of \$500,000 annually. Additionally, it would require us to update the department's computer program at a cost of \$1,832.

This proposal also increases the percent of the contribution from 70% to 100% for the amount of the tax credit a person receives. An increase of \$64,021. 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 \$149,382. Since this program has an annual cap, it is not expected to result in any additional impact to the state.

In response to a similar proposal (HCS for HB 1176), officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would restart the diaper bank credit and increase the percentage granted for the tax credit beginning with fiscal year 2026. Currently (pre-sunset) the tax credit was granted for 50% of a donation, with up to \$500,000 in credits claimed per fiscal year.

In FY24, \$175,525 was redeemed for this tax credit program. Based on this, B&P estimates that there were \$351,050 in qualifying donations. Therefore, B&P estimates that this provision could result in total tax credits of \$351,050 starting with fiscal year 2026.

Oversight notes the proposal allows for 100% contribution tax credit amount against the taxpayer's tax liability.

Oversight, for the purpose of the fiscal note, provides redemption amounts for FY 22-24 below:

Year	Redemption (rounded to near \$)
2024	\$175,252
2023	\$150,010
2022	\$137,331
Average	\$154,198

Oversight notes per Section 135.621. 8 the maximum cap of \$500,000. With the claims at 100% in combine redemptions the cumulative total will still fall below the maximum cap.

Oversight notes the \$154,198 redemption total at 70% would equal \$220,282 at 100% ($\$154,198 / .70$). The increase is estimated at \$66,085 ($\$233,900 - \$163,700$). Therefore, Oversight will reflect the estimated average difference of \$66,085 beginning FY 2027 and thereafter in the fiscal note.

Section 135.630 - The Pregnancy Resource Center Tax Credit HA 3

Officials from **Department of Revenue (DOR)** assume this proposal changes the Pregnancy Resource Center Tax Credit program. The Pregnancy Resource Center Tax Credit program gives a taxpayer who makes a contribution to a pregnancy resource center a tax credit equal to 70% of the contribution amount.

This tax credit was created in 2006 and given a \$2 million cap. The cap was raised to \$2.5 million in 2014 with it raised to \$3.5 M in 2018. The cap was removed starting July 1, 2021.

For informational purposes DOR is providing the amount issued and redeemed for this credit.

Year	Issued	Total Redeemed
FY 2024	\$11,245,025.24	\$7,533,879.98
FY 2023	\$10,098,879.47	\$8,131,329.41
FY 2022	\$10,910,488.95	\$5,757,203.91
FY 2021	\$3,358,998.95	\$2,900,451.16
FY 2020	\$3,274,044.98	\$2,381,620.61
FY 2019	\$2,498,735.54	\$1,259,766.60
FY 2018	\$2,499,393.98	\$2,094,375.23
FY 2017	\$2,443,386.34	\$2,183,504.71
FY 2016	\$2,499,441.93	\$1,845,874.70
FY 2015	\$2,326,435.41	\$1,581,045.10

This proposal increases the percent of the contribution from 70% to 100% for the amount of the tax credit a person receives. An increase of \$3,060,345. 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 \$7,140,804. Since this program does not have an annual cap, it is expected to result in additional impact to the state.

In response to a similar proposal (HCS for HB 1176), officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would increase the contribution percentage granted for the pregnancy resource tax credit starting with tax year 2026.

Currently a tax credit is granted for 70% of a donation, with no limit on the amount authorized, issued, or redeemed. Under this proposal a tax credit would be granted for 100% of a donation.

In FY24, \$7,533,880 was redeemed for this tax credit program. Based on this, B&P estimates that there were \$10,762,686 in qualifying donations. Therefore, B&P estimates that provision would have resulted in additional credits of \$3,228,806 (\$10,762,686 new credits - \$7,533,880 existing credits) starting with tax year 2026.

B&P notes that while this proposal would begin for tax year 2026, the increased donations would not be taken until taxpayers file their annual return during FY27. Therefore, this proposal could reduce TSR and GR by \$3,228,806 annually beginning in FY27.

Oversight notes the proposal allows for 100% contribution tax credit amount against the taxpayer’s tax liability.

Oversight notes the average 3-year redemption below:

Year	Redemption
2024	\$7,533,880
2023	\$8,131,329
2022	\$5,757,204
Average	\$7,140,804

Oversight notes per Section 135.630 6., as of July 1, 2021, the maximum cap is unlimited.

Oversight notes the \$7,140,804 redemption total at 70% would equal \$10,201,149 at 100% (\$7,140,804 / .70). The increase is estimated at \$3,060,345 (\$10,201,149 - \$7,140,804). Therefore, Oversight will note the estimated average difference of \$3,060,345 beginning FY 2027 and thereafter in the fiscal note.

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

Section 143.071 - Corporate Income Tax Rate Reduction

Officials from the **Department of Revenue (DOR)** note starting January 1, 2026, this proposal will reduce the corporate tax rate to 3.75%. The current corporate tax rate is 4%. FY 2024 net collections were \$893,012,937. Since this proposal is effective January 1st, it is assumed only 6 months of collections will be impacted in the first fiscal year.

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. This proposal will lower the corporate tax rate so the financial institutions tax rate would also decrease. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2024, DOR collected \$31,303,812 in net tax. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The tax rates are expected to be:

Tax Year	Corporate Rate	Franchise Tax Rate
Current	4.00%	4.48%
2026+	3.75%	4.20%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2022 tax year (the most recent complete tax year data) to calculate the fiscal impact. Based on actual collections, DOR notes that corporate tax collections are received 45% in FY1 and 55% in FY2.

State and Local Impact from Corporate Rate Reduction			
	FY26	FY27	FY28
State Impact			
Corporate Tax Rate Reduction	(\$25,115,989)	(\$55,813,309)	(\$55,813,309)
Financial Institutions Tax Rate Reduction	\$0	(\$39,130)	(\$39,130)
Total GR Loss	(\$25,115,989)	(\$55,852,439)	(\$55,852,439)
Local Impact			
Financial Institutions Tax Rate Reduction	\$0	(\$1,917,358)	(\$1,917,358)

This proposal will require the Department to change the department’s forms (\$2,200), computer programs, corporate (\$7,327) and website. These changes are estimated at \$9,527.

According to DOR [reports](#), **Oversight** notes the following collections in corporate income tax and financial institutions tax:

Fiscal Year	Corporate Income Tax	Financial Institutions Tax
FY 2024 (per DOR)	\$893,012,937	\$31,303,812
FY 2023	\$1,061,787,981	\$15,825,000
FY 2022	\$894,175,267	\$53,870,066
FY 2021	\$798,110,636	\$38,617,438

Oversight will note DOR’s estimated impact for this provision.

Section 143.011, 143.121, 143.131 & repealed 143.177 - Individual Income Tax Rate Reductions HA 2

Officials from the **Department of Revenue (DOR)** note this proposal implements immediate changes to the individual income tax rate in tax year 2025, some in tax year 2026 and will change how calculations will operate on the individual income tax returns.

Tax Year 2025

This proposal repeals the MO Working Family Tax Credit in Section 143.177 effective August 28, 2025 (tax year 2025). DOR notes that the credit is claimed on the return starting January 1st after the tax year is completed. Given the timing of this proposal, DOR assumes that taxpayers

will not have enough time to adjust their withholdings in FY 2025 to prepare for these changes and therefore DOR will show the full impact will occur in FY 2026.

The amendment starting January 1, 2025, this proposal would allow a taxpayer, both individuals and corporations, to subtract from their Federal adjusted gross income (FAGI) any amount reported as capital gains for determining their Missouri adjusted gross income (MAGI). DOR notes this proposal would become effective on August 28, 2025, in the middle of the 2025 tax year. DOR notes that these changes will begin January 1, 2025, however, they will not impact state revenue until the first tax returns are filed in January 2026 (FY 2026). DOR also notes this would limit the amount of time taxpayers have to adjust their withholdings for the tax year.

All sources of income are reported on the federal return and only the total income amount (FAGI number) is reported on the Missouri return. DOR used its internal Income Tax Model that contains confidential taxpayer data for tax year 2022 (the most complete data available) to calculate the fiscal impact of the EITC and individual capital gains for tax year 2025.

DOR notes the impact of the tax year 2025 changes would be a loss of revenue of \$61,587,897 for tax year 2025. Given the timing of these changes, DOR will show the impact as occurring in tax year 2026.

Additionally, this proposal allows corporations to subtract their capital gains for determining MAGI. The current corporate income tax rate is 4%. DOR used its internal Income Tax Model that contains confidential taxpayer data from both the federal and state tax returns to calculate the fiscal impact of this proposal to corporations. DOR notes the data was only able to pull information from the electronically filed returns and not those filed on paper. Therefore, DOR notes the actual impact will be larger than estimated.

This proposal will not become effective until August 2025 and taxpayers pay declaration payments on capital gains four times a year in anticipation of their final tax liability. Corporate declarations are due in April, June, September, and December. Therefore, corporations will have a limited time to adjust their declarations to account for this new subtraction. Based on this, DOR will reflect the full impact of tax year 2025 in FY26.

Based on actual collections data, DOR notes that 45% of corporate income taxes are paid during fiscal year 1 and 55% are paid during fiscal year 2. This will result in a loss to general revenue of greater than \$183,626,879 in FY 2026 and of greater than \$126,639,225 in FY 27 and beyond.

The elimination of capital gains will reduce the amount of revenue received from fiduciary taxes in tax year 2025 of \$61,084,845.

Tax Year 2026 & Beyond

Starting January 1, 2026, (tax year 2026) this proposal would eliminate the current individual income tax brackets with its graduated tax rates and replace it with a new flat 4.7% tax on all

income over \$1,000 per Section 143.021. This new flat tax is being added as a new Section 143.011.3.

It should be noted that SB 3 adopted in 2022, set the current individual income tax rate top bracket at 4.95% in TY 2023 (per 143.011.2) and set it at 4.8% in TY 2024 (per 143.011.3) and based on certain revenue triggers allows the tax rate to continue to fall 0.1% until it hits 4.5%. The tax rate for tax year 2025 is 4.7% based on SB 3's language. Based on the current revenue forecasts and for fiscal note purposes only, DOR shows the final two SB 3 rate reductions occurring in tax year 2028 (4.6%) and 2029 (4.5%).

It should be noted, this proposal is leaving the current SB 3 reductions (found in SB 3's 143.011.4). Additionally, this proposal is renumbering SB 3's section 143.011.3 to 143.011.4 which allowed an additional 0.15% reduction of the individual income tax rate starting with tax year 2024. This amendment is changing the reduction to 0.10% in the future. It would also allow for up to 10 such reductions. DOR notes the first reduction under this amendment will be shown occurring in tax year 2026 as well. Therefore, the tax year 2026 individual income tax rate would be 4.6%.

This proposal then allows the language in 143.011.5 to impact the rates established in 143.011.3 and .4. This would allow nine additional rate reductions to occur based on revenue triggers established in the bill. DOR will show the impact occurring in consecutive years. Therefore, by tax year 2035 at the fastest, the individual income tax rate could be 3.7%.

The newly proposed tax rates would be:

Tax Year	Current	Proposed Rate
2025	4.7%	Current rate
2026	4.7%	4.6%
2027	4.7%	4.5%
2028	4.6%	4.4%
2029	4.5%	4.3%
2030	4.5%	4.2%
2031	4.5%	4.1%
2032	4.5%	4.0%
2033	4.5%	3.9%
2034	4.5%	3.8%
2035+	4.5%	3.7%

The new language would begin until 1/1/2026.

This proposal starting in tax year 2026 will also increase the MO standard deduction. The new standard deduction will be the allowable federal deduction plus \$4,000 for filers. The fiduciary tax calculation uses the individual income tax rate so will continue to decrease as the rate decreases.

Using the department’s internal Income Tax Model that contains confidential taxpayer data for tax year 2022 (the most complete data available) to calculate the fiscal impact of the all the tax year 2025 changes and adding the tax year 2025 changes will result in the following loss to general revenue through the implementation of this proposal.

Tax Year	Amount
2026	(\$180,107,019)
2027	(\$313,163,938)
2028	(\$321,718,902)
2029	(\$325,509,222)
2030	(\$456,339,902)
2031	(\$592,086,015)
2032	(\$724,829,083)
2033	(\$859,580,486)
2034	(\$991,444,083)
2035	(\$1,125,650,109)

Based on DOR collection data, DOR knows that 42% of all individual income tax is received in the first fiscal year and 58% is received in the second year. Merging in the changes from tax year 2025 with the fiduciary changes, DOR would expect to see a loss to general revenue per fiscal year as follows:

Fiscal Year	Loss to GR
2026	(\$444,329,088)
2027	(\$299,675,125)
2028	(\$381,740,900)
2029	(\$389,594,391)
2030	(\$393,092,454)
2031	(\$582,236,180)
2032	(\$718,020,691)
2033	(\$852,906,938)
2034	(\$987,745,140)
2035	(\$1,121,892,234)
2036+	(\$1,199,731,729)

DOR notes that these changes will require us to update the department’s MO-1040 (\$2,200), website and Individual Income tax computer program (\$21,981).

Section 143.031 Married Filing Combined Individual Income Tax Return

Officials from the **Department of Revenue (DOR)** note Section 143.031 requires that if a couple file a combined return at the federal level they must file a combined return at the state level. Currently, both spouses report their income on the same line but use different boxes to separate which belongs to which. This proposal would require DOR to have separate lines on the return for each spouse. This will not impact general revenue as the same calculations would occur. However, this could make the form more confusing to taxpayers and potentially cause more individual income tax return errors. DOR assume the need for 1 additional Associate Customer Service Representative (\$37,020) for every 5,700 returns generating correspondence. DOR will seek the additional FTE through the appropriation process based on the number of additional correspondence generated.

The changing of the form to accommodate single entry of data down the page may result in changes to the computer program of up to \$20,000.

Section 143.121 - Income Tax Deduction for Capital Gains

In response to a similar proposal (HB 508), officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with tax year 2025, this proposal would allow taxpayers to subtract capital gains income from their federal adjusted gross income (FAGI) to determine their Missouri adjusted gross income (MAGI).

B&P notes that this subtraction would apply to both individuals and corporations.

Individual Income Tax

B&P notes that under Section 143.011, the top individual income tax rate will be 4.7% for tax year 2025. In addition, based on current revenue forecasts and average revenue growth, B&P estimates that net general revenue growth will not be high enough to trigger another reduction until at least tax year 2028 (FY27 revenue). For the purpose of this fiscal note, B&P will assume that the remaining two 0.1% reductions will occur for tax year 2028 (4.6%) and tax year 2029 (4.5%).

Using tax year 2022 data, the most recent complete tax year available, B&P estimates that this proposal could reduce GR by \$106,464,031. Once SB 3 (2022) has fully implemented, this proposal could reduce GR by \$101,915,438 annually. Table 1 shows the estimated impact by tax year.

Table 1: Estimated
 Impact by Tax Year

Tax Year	GR Impact
2025	(\$106,464,031)
2026	(\$106,446,013)
2027	(\$106,438,634)
2028	(\$104,193,953)
2029	(\$101,915,438)

B&P notes that this proposal will not become effective until August 2025. B&P further notes that taxpayers pay declarations payments on capital gains four times a year in anticipation of their final tax liability. Individual declarations are due in January, April, June, and September. Therefore, individuals would only have September 2025 and January 2026 to adjust their declarations to account for this new subtraction. Based on this, B&P will reflect the full impact from the tax year 2025 subtraction as occurring during FY26.

Beginning with tax year 2026, individuals will adjust their declarations payments. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this proposal could reduce GR by \$151,171,356 in FY26. Once SB 3 (2022) has fully implemented, this proposal could reduce GR by \$101,915,438 annually. Table 2 shows the estimated impact by fiscal year.

Table 2: Estimated
 Impact by Fiscal Year

Fiscal Year	GR Impact
FY26*	(\$151,171,356)
FY27	(\$106,442,914)
FY28	(\$105,495,868)
FY29	(\$103,249,392)
FY30	(\$101,915,438)

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

Corporate Income Tax

Using tax year 2022 data, the most recent complete tax year available, B&P estimates that this proposal could exempt at least \$3,165,980,618 in capital gains from Missouri income tax. B&P notes that this number only includes electronically filed corporate tax returns; therefore, the actual amount of capital gains exempted could exceed \$3,165,980,618. Using the corporate tax rate of 4.0%, B&P estimates that this proposal could reduce GR by at least \$126,639,225 per year.

B&P notes that this proposal will not become effective until August 2025. B&P further notes that taxpayers pay declarations payments on capital gains four times a year in anticipation of their final tax liability. Corporate declarations are due in April, June, September, and December. Therefore, corporations would only have September and December 2025 to adjust their declarations to account for this new subtraction. Based on this, B&P will reflect the full impact from the tax year 2025 subtraction as occurring during FY26.

Beginning with tax year 2026, corporations will adjust their declarations payments. Based on actual collections data, B&P estimates that 45% of corporate income taxes are paid during fiscal year 1 and 55% are paid during fiscal year 2. Therefore, B&P estimates that this proposal could reduce GR by at least \$183,626,879 (\$56,987,651 Tax Year 2026 declarations adjustments + \$126,639,225 tax year 2025 settle-up) in FY26. Beginning in FY27, this proposal could reduce GR by at least \$126,639,225 annually.

Summary

B&P estimates that this proposal could reduce TSR and GR by an amount that could exceed \$334,798,232 in FY26. Once fully implemented, this proposal could reduce TSR and GR by an amount that could exceed \$228,554,663. Table 3 shows a summary of the estimated impacts by fiscal year.

Table 3: Impact Summary

Fiscal Year	Individual Income	Corporate Income	Total
FY26*	(\$151,171,356)	could exceed (\$183,626,876)	could exceed (\$334,798,232)
FY27	(\$106,442,914)	could exceed (\$126,639,225)	could exceed (\$233,082,139)
FY28	(\$105,495,868)	could exceed (\$126,639,225)	could exceed (\$232,135,093)
FY29	(\$103,236,977)	could exceed (\$126,639,225)	could exceed (\$229,876,202)
FY30	(\$101,915,438)	could exceed (\$126,639,225)	could exceed (\$228,554,663)

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

Section 143.512 - Certain Penalties or Interest

In response to a similar proposal (HCS for HB 828), officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would waive any addition to tax, interest, and penalties on taxes due because of tax credits being apportioned, if the resulting tax due is paid within 60 days. B&P notes that this would only apply to tax credits that are apportioned among taxpayers, in the event that redemptions are greater than the amount allowed per statute or appropriation.

B&P notes that currently taxpayers are encouraged remit their full tax liability, calculated before a tax credit, in the event that their tax credit claim is denied. However, for those taxpayers that do not remit the full amount and end up with a tax due notice, interest and penalties are currently levied on the overdue amount.

Based on information provided by DOR, this provision could reduce TSR by an unknown, likely minimal, amount.

Officials from the **Department of Revenue (DOR)** assume this proposal would allow a taxpayer who attempts to claim a tax credit, that is denied from a lack of available funds, and that denial causes a balance due notice to be generated by DOR, to pay their balance due without paying a penalty or interest for sixty days. If the balance due is not paid within sixty days the penalty and interest would still be owed.

DOR notes that tax credits can be denied for various reasons. Many of the state tax credit programs have caps that are first come first serve and taxpayers can be denied if their claim is filed later than others.

DOR has two tax credits that have caps and are apportioned credits. These credits allow people to apply and then the amount of the credit is adjusted downward should the number of credits claimed exceed the cap. Those two credits are the Champion for Children and Food Pantry tax credit programs.

DOR notes the Champion for Children tax credit program already grants DOR the authority to notify taxpayers of the apportionment of their credit and to adjust the credit downward. Additionally, the program also allows DOR to give those taxpayers a sixty-day grace period to make an additional payment should their account require it. This proposal would not impact the Champion for Children program.

DOR notes that the Food Pantry program does not allow for such a grace period. At this time, DOR would notify the taxpayer of the adjustment and then is required to assess penalties and interest. It appears this proposal attempts to allow DOR to give them a grace period. DOR assumes this would have minimal impact of less than \$10,000 annually.

Oversight notes that officials from the DOR and B&P both assume this Section would have a minimal impact on the general revenue, if any.

Oversight is unsure of how many taxpayers previously receive notice of apportionment thus additional tax due. However, based on responses from DOR and B&P, Oversight will assume that the total amount of interest and penalties owed, less than \$10,000, is not material. Therefore, Oversight will not show an impact in the fiscal note.

Responses regarding the proposed legislation as a whole

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 **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.

Officials from the **Department of Commerce and Insurance** note a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2027 and FY2028 as a result of the modification of the Contribution to Maternity Homes tax credit, the Contribution to Diaper Banks tax credit, and the Contribution to Pregnancy Resource Centers tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the tax credit.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2036)
GENERAL REVENUE				
<u>Costs – §135.600</u> Maternity Home Tax Credit - p. (4)	\$0	(\$1,268,416)	(\$1,268,416)	Could exceed (\$1,268,416)
<u>Costs – §135.621</u> Diaper Bank Tax Credit - p. (6)	\$0	(\$66,085)	(\$66,085)	Could exceed (\$66,085)

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2036)
<u>Costs – §135.630 - Pregnancy Resource Center Tax Credit - p. (7)</u>	\$0	(\$3,060,345)	(\$3,060,345)	Could exceed (\$3,060,345)
<u>Costs - §143.031 - DOR</u>				Could exceed...
Personnel Service	(\$30,850)	(\$37,760)	(\$38,516)	(\$38,516)
Fringe Benefits	(\$25,525)	(\$30,926)	(\$31,229)	(\$31,229)
Expense & Equipment	(\$75,133)	(\$25,235)	(\$25,740)	(\$25,740)
Total Costs	<u>(\$131,508)</u>	<u>(\$93,921)</u>	<u>(\$95,485)</u>	<u>(\$95,485)</u>
FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
<u>Revenue Reduction - §143.071 - Corporate Income Tax Rate Reduction - p. (8)</u>	(\$25,115,989)	(\$55,813,309)	(\$55,813,309)	Could exceed (\$55,813,309)
<u>Revenue Reduction - §143.071 - Financial Institutions Tax Rate Reduction - p. (8)</u>	\$0	(\$39,130)	(\$39,130)	Could exceed (\$39,130)
<u>Revenue Reduction - §143.121, 143.131 & 143.177 - Individual Income Tax Changes</u>	(\$444,329,088)	(\$299,675,125)	(\$381,740,900)	(\$1,199,731,729)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$469,576,585)</u>	<u>(\$360,016,331)</u>	<u>(\$442,083,670)</u>	<u>(\$1,260,074,499)</u>

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2036)
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE	1 FTE

*FY26 will be impacted by 100% of the subtraction for tax year 2025 and a portion of the subtraction for tax year 2026.

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2036)
LOCAL POLITICAL SUBDIVISIONS				
<u>Revenue Reduction - §143.071 - Financial Institutions Tax Rate Reduction - p. (8)</u>	\$0	(\$1,917,358)	(\$1,917,358)	Could exceed (\$1,917,358)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(\$1,917,358)</u>	<u>(\$1,917,358)</u>	<u>Could exceed (\$1,917,358)</u>

FISCAL IMPACT – Small Business

A direct fiscal impact to certain small businesses would be expected upon qualified donation(s) made.

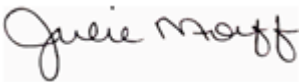
FISCAL DESCRIPTION

The proposed legislation modifies provisions relating to taxation.

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 and Planning
Oversight Division
Joint Committee on Administrative Rules
Department of Commerce and Insurance
Department of Social Services



Julie Morff
Director
March 5, 2025



Jessica Harris
Assistant Director
March 5, 2025