

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6321H.02I  
 Bill No.: HB 3231  
 Subject: Business and Commerce  
 Type: Original  
 Date: February 17, 2026

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Bill Summary: This proposal establishes the "Missouri Innovation, Public Safety, and Accountability Act".

**FISCAL SUMMARY**

**ESTIMATED NET EFFECT ON GENERAL REVENUE FUND**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	Could exceed (\$3,088,385)	Could exceed (\$53,210,052)	Could Exceed (\$54,226,738)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Could exceed (\$3,088,385)</b>	<b>Could exceed (\$53,210,052)</b>	<b>Could Exceed (\$54,226,738)</b>

\*Oversight reflects revenue cost(s) under various provisions of this legislation, including CPI adjustment as per §620.6021, and DOR and DED FTE cost.

**ESTIMATED NET EFFECT ON OTHER STATE FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Park, Soil, & Water Sales Tax Fund (1613 & 1614)	(Unknown)	(Unknown)	(Unknown)
Conservation Commission Fund (1609)	(Unknown)	(Unknown)	(Unknown)
School District Trust Fund (1688)	(Unknown)	(Unknown)	(Unknown)
Rural Missouri Development Fund*	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\*Oversight assume the fund will net to zero. Numbers within parentheses: () indicate costs or losses.

**ESTIMATED NET EFFECT ON FEDERAL FUNDS**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)**

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue	23 FTE	23 FTE	23 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>23 FTE</b>	<b>23 FTE</b>	<b>23 FTE</b>

- 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 2027	FY 2028	FY 2029
<b>Local Government*</b>	<b>(Unknown) to Unknown</b>	<b>(Unknown) to Unknown</b>	<b>(Unknown) to Unknown</b>

\*Oversight notes the local political subdivisions could potentially experience fiscal impact reaching millions stemming from the legislation.

## FISCAL ANALYSIS

### ASSUMPTION

**Oversight** was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that the Division have or on prior year information regarding a similar bill. 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.

Officials from the **Office of Administration - Budget and Planning** did not respond to **Oversight's** request for fiscal impact for this proposal.

§§620.6000, 620.6003, 620.6006, 620.6009, 620.6012, 620.6015, 620.6018, 620.6021- Missouri Innovation, Public Safety, and Accountability Act

#### 620.6000 & 6003 Innovation District Program (Framework)

Officials from the **Department of Revenue (DOR)** assume this proposal would allow cities to create an innovation district. Once they create an innovation district, they would become eligible for state-administered incentives including income tax exemptions, the ability to retain state sales and use tax and they become eligible for numerous existing and newly created tax credit programs (§620.6000.10). DOR notes this innovation district program does have a 10-year sunset clause.

This proposal allows the Department of Economic Development (DED) to be appropriated a portion of the net-new state revenue generated in these innovation districts for administration of this program (§620.6003.9). DOR is unsure how the calculation of the “net new” revenue would be calculated. The net-new revenue generated from these districts would be in the form of income tax, sales tax or property tax (which is not handled by the state). DOR notes that due to the confidentiality laws DED would be unable to share the information on the amount of revenue generated in these districts. Additionally, when taxpayers file their state income tax return, they report their federal adjusted gross income (total of all income sources), but they do not report their individual sources with Missouri. Therefore, DOR would be unable to calculate the amount of “net-new” income tax from any project.

Should DOR be required to create a new form, for businesses to report their “net-new” revenue, the cost to create the form would be \$10,000. In order to capture the information from the form, DOR would be required to update the Departments’ computer programs at a cost of at least \$30,000.

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 DOR’s impact in the fiscal note for this agency.

Oversight notes once a district is designated, projects qualify for statutory incentives, the State cannot later limit participation through discretionary denial.

Oversight notes this act provides for various incentives as follows:

- Sales tax recapture
- Withholding Diversion
- Income Tax Exclusion
- Tax Credits

Oversight notes that the local governments must provide a structure that allows for fast-track approval process (within 45 days), and adopt policies to waive, reduce or defer discretionary, duplicative, or extraordinary permit development fees for projects where applicable.

Oversight is unsure how many such a district will apply or try to create such a “innovation district” therefore, the participation and the amount of fees is unknown.

§620.6003.5(2) specify that properties within an innovation district that are not subject to Tax Incremental Financing (TIF) or abatement, a 50% of incremental revenue is redirect to the Innovation District Public Safety Fund.

Oversight notes that regular property tax growth earnings would usually flow to local school districts, counties, libraries, and ambulance/fire districts. However, Oversight is unsure how many such special designated districts will participate; therefore, for purpose of this fiscal note,

**Oversight** will reflect unknown amount of revenue gain flowing into the District Public Safety Fund and conversely decline in various other districts funds in same amount.

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

§620.6000 – Missouri Innovation, Public Safety, and Accountability Act

§620.6000.2(1-10) – Application is made by a project sponsor to the Department of Economic Development. Within this application, the Department will review a description of the proposed project, documentation demonstrating eligibility for incentives sought, and any information necessary to evaluate under a Master Scorecard.

§620.6000.6 the Department must establish and administer a process for cities to submit their application for designation of an innovation district by submitting an innovation district master plan.

§620.6000.6(b) the Department must coordinate with the local reviewing authority and city regarding district level implementation.

Application can be made by any city.

§620.6000.8 The Department's approval authority is limited to determining whether a proposed innovation district boundaries are reasonable in geography and are generally consistent with this section. Otherwise, information provided in the master plan is informational and is not subject to discretionary approval, modification, or denial by the Department.

The Department has 45 days to review and approve otherwise the application will be automatically approved.

§620.6000.12 determines the criteria/categories in which the master scorecard shall evaluate projects. The Department will determine, through rule, the point values assigned to each category.

The Department must issue written certification of approval within 45 calendar days.

§620.6003.1 states that in order to maintain designation as an innovation district, a participating city shall adopt, establish, or designate the policies, processes, and authorities set forth in this section within 6 months of becoming a designated innovated district.

§620.6003.5 states any property subject to an existing TIF plan or tax abatement agreement at the time of innovation district designation will continue under terms of the established agreement and nothing in 620.6000-6024 will impair, modify, or terminate such agreement.

§620.6003.5(2) properties within an innovation district that are not subject to an existing project-specific TIF or property tax abatement agreement will have 50% of incremental increase in real property tax revenues generated after designation deposited into the applicable innovation district public safety fund, established under 620.6009.

§620.6003.5(3) new development or redevelopment projects within an innovation district may elect, at the time of project approval, whether to commence a project-specific TIF plan for the max term authorized by law or a property-specific property tax abatement for the max term authorized by law. They could also elect to proceed without either incentive.

§620.6003.7(1-5) authorizes the department to track compliance of the innovation districts to ensure they adopt or maintain on or more requirements of this section, and if not, notify the city of such non-compliance. The city will have 90 days to cure, otherwise, the Department will suspend or revoke the designation. Any incentives, agreements, approvals, or benefits previously awarded would not be impaired, modified, terminated or affect validity, or give rise to any claim for damages against an applicant. All projects that received approval or entered into binding agreements in reliance on innovation district designation prior to noncompliance shall be permitted to proceed.

§620.6003.8 required the Department to prepare and submit a biennial written report to the general assembly summarizing the status, performance, and outcomes of the innovation district

program.

§20.6003.9 Department may retain, subject to appropriation, a limited portion of net-new state revenues generated under 620.6000-6024 solely for the administration of the innovation district program.

The Department would be responsible for:

Promulgating rules for this program:

- Developing the Master Scorecard to evaluate incentives for projects located within an innovation district.
- Once scored, the Department will need to assign project applications to incentive tiers based on their normalized score and a project that scores 100 points shall be entitled to the most favorable incentive package available under state law, subject to statutes that apply.
- Evaluating each application
- Tracking the progress of the district master plan
- Track whether the city has adopted, established, or designated the policies, processes, and authorities within 6 months of being designated an innovation district.
- Tracking must continue to ensure the city maintains such things.
- Notify city of noncompliance and then track that the city responds and cures within 90 calendar days from receipt of notice.

Department will either remove suspension or revoke designation as follows:

- Collect, analyze, prepare and submit a biennial report to the general assembly summarizing:
  - The number of innovation districts designated and communities participating during the reporting period
  - Number and types of projects approved within innovation districts and the distribution of incentive tiers authorized under the Master Scorecard
  - Aggregate counts of housing, commercial, or mixed-use activation  
Other redevelopment occurring within innovation districts

- Aggregate counts of employment impacts, including net new or retained employment where such data is available
- Summary of public safety, infrastructure, or other public investment activities undertaken within innovation districts
- Any observations or recommendations that may assist the general assembly in evaluating the effectiveness of the program.

The fiscal impact:

- 50% of incremental increase in real property tax revenues generated after designation will be deposited into the innovation district public safety fund. Local level, not state level.
- Department retain a limited portion of net new state revenues generated under 620.6000-6024 solely for administration of the innovation district program, subject to appropriation. Unknown amount.

#### §620.6006 – Rural Missouri Development Fund

Officials from the **Department of Revenue (DOR)** assume this provision requires communities in the state to contribute funding to a Rural Missouri Development Fund. They would be required to submit 10% of all net-new property tax revenues received by the community that are generated within an innovation district. DOR does not handle property tax; it is done by the State Tax Commission and County Assessors. DOR defer to them for fiscal impact. Additionally, 1% of the funds collected in this Fund can be retained by DED to administer the Fund (§620.6006.7).

This Fund will not fiscally impact DOR.

Oversight notes that this fund will collect 10% of net new revenue from municipalities, ranked as 5% of highest property tax valuation within the State, to the Rural Missouri Development Fund, that is maintained by the DED.

Oversight notes that DED will maintain the Rural Missouri Development Fund and will receive only monies as a result of the incremental growth of the Special Innovation Districts. Therefore, Oversight will reflect zero (the municipality did not experience growth) to unknown amount of money being transferred out of the local political subdivisions to the Fund.

Oversight notes that DED than awards the funds as for following purposes:

- Rural education;
- Public infrastructure improvements or public safety;
- Housing development, rehabilitation, or stabilization;

- Workforce development or training;
- Health care or community service facilities; and
- Other economic purposes consistent with the intent of sections 620.6000 to 620.6024

Therefore, Oversight will reflect cost to the Fund due to the aforementioned activity above, netting the Fund to zero.

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

§620.6006 establishes the Rural Missouri Development Fund that is administered by the Department.

§620.6006.2 defines a contributing communication as a municipality that has designated one or more innovation districts and has a total certified assessed valuation that ranks within the highest 5% of all MO municipalities statewide, as more recently determined by the Missouri State Tax Commission or the DOR. If a municipality meets the criteria, they are required to contribute to the Missouri rural development fund.

§620.6006.3 Each contributing community shall annually contribute 10% of net new property tax revenues actually received from such communities that are generated within its innovation district above baseline.

§620.6006.4 Award monies to rural municipalities, smaller municipalities that do not meet the definition of contributing community, or local or regional development organizations, community development corporations, or similar entities applying on behalf of or in coordination with such communities.

Receipt of funds under this section shall not require a community to establish an innovation district.

The Department will be responsible for:

- Promulgating rules and regulations
- Determine the application and award process for monies deposited into the Missouri Rural Development Fund.
- Award monies to rural municipalities, smaller municipalities that do not meet the definition of contributing community, or local or regional development organizations, community development corporations, or similar entities applying on behalf of or in coordination with such communities.

Award will be determined based on:

- Project readiness
- Demonstrated community need

- Alignment with the purpose of 620.6006

The fiscal impact:

Contributing communities will be required to contribute an amount equal to 10% of the net new property tax revenues actually collected to the Missouri Rural Development Fund.

o 1% of revenue collected from the net new property tax generated by a contributing community shall be deposited into the fund for the department to be used toward administrative fees to administer 620.6006. Unknown amount.

#### §620.6009 Innovation District Public Safety Fund

Officials from the **Department of Revenue (DOR)** assume this provision would require the creation of the Innovation District Public Safety Fund. It appears this would be a local fund, administered by the innovation district but receive state revenue. The proposal says this Fund will receive “incremental state tax receipts”.

The Fund is to retain, state sales tax revenue and state income tax withholdings that is in excess of an applicable base amount from transactions in the district. This proposal says that 50% of the state sales tax revenue generated above a calculated base would be required to be deposited into this Fund. DOR notes that the “state sales tax” is 4.225% on all things other than motor vehicles and is currently deposited.

General Revenue is 3%

School District Trust Fund is 1% (Section 144.701)

Conservation Commission Fund is .125% (Article IV, Section 43(a))

Parks, Soil & Water Funds .1% (Article IV, Section 47(a))

Language in this proposal says that the sales tax which would otherwise have been deposited into general revenue would go to this Fund. Therefore, DOR assumes that only 50% of the 3% deposited to general revenue would be eligible for this transfer.

This proposal would also require the Fund to retain the state income tax withholdings, in excess of an applicable base, that are attributable to wages occurring in the innovation district.

This proposal further says that in order to determine the amount of the state sales tax and income tax withholding revenue the “administrator” will apply a formula which is delineated in this provision. DOR notes that the term “administrator” is not defined, so it is unclear how this calculation would occur. DOR notes that due to Departments confidentially laws, DOR cannot share information received from a tax return with any taxpayer, local political subdivision or

state agency. Therefore, DOR is unsure how these calculations would occur. Should it be determined that DOR is to do the calculations, DOR will need an Auditor (\$83,530 salary plus years of service pay) to handle this work.

DOR will need to modify the sales tax forms (Form 53-1) and income tax return forms (MO-1040, MO-1120, MO- 1120S, MO 1041 & MO- 1065) to capture the data DOR would need to know that a business is in an “innovation district”. Modification of each tax form needed is \$2,200 per form. Additionally, DOR will need to update the computer programs to allow for this type of tracking, and DOR will need to update the distribution systems. This is estimated to cost \$40,000.

DOR notes there is no cap on the amount of revenue subject to these provisions. This will result in a loss of revenue expected to exceed \$250,000 annually to general revenue starting in FY 2027.

#### Advance Withholding

This proposal also creates an incentive to allow a project sponsor to apply for a “construction-phase withholding” (section 620.6009.7). DED shall approve of this incentive. This incentive is to be equal to 25% of the projected state income tax withholding attributable to the construction phase of the projects. DED is to disburse this incentive amount in a lump sum to the project (Section 620.6009.8). This proposal further states that all state tax receipts attributable to construction-phase employment shall be allocated for the benefit of the innovation district and controlled by the innovation board (Section 620.6009.12)

This proposal attempts to want to modify state income tax withholding. DOR notes that income tax withholding is money earned by a worker that is paid in advance of their final calculation of state income tax liability (prepayment of tax they will owe). It is not an employer expense. Employees make these payments out of their paychecks. This money is sent to DOR to be applied to their tax account.

This proposal appears to want to allow DED to provide a payment to their employer for the amount the employee would pay DOR. This proposal requires DED to make a payment to the construction company employers an amount equal to the 25% of the employees’ withholding. It says that DED is to make this as a lump sum payment (Section 620.6009.8) DOR will defer to DED for an estimate of the amount of appropriation necessary to make this lump sum disbursement.

This proposal requires DED to verify the actual amount of state income tax withholding attributable to the project. DOR notes that due to the confidentiality laws the Department can not share any information on the amount of withholding generated from any projects.

Additionally, DOR's computer systems do not track employee withholding by project but rather than by employer. Modifying the system to track all employee withholding by project as well as by employer would require updates to the system of \$40,000.

DOR notes this proposal adds language that says that all state tax receipts attributable to construction-phase employment should be allocated for the benefit of innovation districts. This language would seem to confirm that the construction companies are required to still make all the withholding payments to DOR. DOR notes that all withholding revenue is deposited into general revenue. DOR notes that the General Assembly would be required to make the appropriation to the innovation districts to comply with this language (§620.6009.12).

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 DOR (1) FTE and necessary form and website changes in the fiscal note for this agency.

Oversight notes that §620.2006.2(1) creates the Fund with applicable rules specified under §620.6003, involving Special Innovation Districts. However, this fund should also receive 50% of the sales tax receipts and income tax withholding generated within the Special Innovation District, in excess of the applicable baseline.

Oversight notes the baseline is determined by all sales tax receipts within the 12-month period preceding the approval, in which time the baseline is fixed for remainder of the Special Innovation District existence.

Oversight notes the money captured under this provision must be used within the innovation district as follows:

- Police services and law enforcement staffing;
- Lighting, cameras, and surveillance systems;
- Wayfinding and signage;
- Sidewalks, streets, crosswalks, and traffic-calming improvements;
- Landscaping, trees, and plazas;
- Stabilization, remediation, demolition, or redevelopment preparation of real property;
- Maintenance or operations directly related to public safety or district infrastructure.
- Other public safety or public infrastructure improvements consistent with the purposes of this section.

**Oversight** will reflect revenue gain to the Innovation District Public Safety Fund stemming from §620.2009.2(1) and cost associated with services specified under 620.2009.6(1).

Conversely, **Oversight** will reflect a cost to the general revenue ranging from zero (the Innovation District does not experience growth beyond the baseline) to unknown amount (the innovation District does experience growth beyond the baseline).

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

§620.6009 establishes the Innovation District Public Safety Fund for the purpose of reinvesting a portion of net new state economic activity generated within an innovation district into public safety, public infrastructure, and related improvements that support sustained district vitality.

§620.6009.3 establishes process for determining baseline within the designated area.

§620.6009.4 states this section does not apply to any geographic area located within a state TIF or MODESA whether established before or after the innovation district designation. The state TIF and MODESA areas shall not receive, directly or indirectly, or benefit from monies remitted to or expended from the innovation district Public Safety Fund, including funding for public safety, infrastructure, or public realm improvements.

§620.6009.6 monies remitted from the innovation district public safety fund may be used for capital or operating expenditures related to public safety and public realm improvements within the designated area.

§620.6009.7 states a project sponsor may apply to the Department for a construction-phase withholding advance for a project located within an innovation district as long as the project received all required local approvals and has total hard costs of not less than \$5M.

Unsure where monies would be disbursed from. No cap.

The Department will be responsible for:

Promulgate Rules and Regulations.

- Establishing baseline state sales tax and state withholdings tax within the innovation district during the 12 months immediately preceding designation.
- Establishing the application and approval process for construction-phase withholding advance requests from the project sponsor.
- Department will determine that the project is located within a designated innovation district, will generate construction-phase employment occurring within the district, and the project is reasonably projected to generate state income tax withholdings attributable to construction-phase employment above the applicable baseline.
- The construction must have commenced and not less than 10% of total hard construction costs have been incurred.

- The department shall disburse the approved advance within 45 calendar days, as a lump sum. If DED does not approve within 45 days, it is automatically approved.
  - Determine the actual amount of state income tax withholdings attributed to construction-phase employment after completion of the project.
- If 25% of the actual construction-phase withholdings equals or exceeds the amount of construction-phase withholdings advance disbursed to the project, no further action shall be required.
  - If 25% of the actual is less than advance disbursed, the excess shall be repaid by the project sponsor or offset against future allocations, as determined by rule.

The fiscal impact:

- 50% of incremental state sales tax or state withholdings tax generated within a designated innovation district that would otherwise be deposited into the state GR fund.
- The amount of construction-phase withholding advance authorized shall not exceed 25% of the projected state income tax withholdings attributable to construction-phase employment generated by the project above the applicable baseline.
- There is no appropriation or spending authority for this payment.

#### Section 620.6012 Income Tax Abatement Incentive (Qualified New Resident Income Tax Exclusion)

Officials from the **Department of Revenue (DOR)** assume Starting January 1, 2027, this proposal would grant an income tax exclusion to a qualified new resident. A qualified new resident is defined as a person who was not a resident of Missouri during the tax year preceding the tax year for which the exclusion is claimed and has established a primary residence in MO in an innovation district.

DOR notes that this proposal uses the terms “income tax abatement” and “income tax exclusion” interchangeable but does not provide a definition of either. Additionally, this proposal does not specify the type of “income tax” that is allowed the abatement/exclusion. Is it only individual income tax, or does it include corporate tax, pass-through entity, financial institutions, and fiduciary tax. DOR notes therefore it is not clear how the abatement/exclusion is to be handled. This proposal notes that this abatement/exclusion will last as long as the person is a resident of MO and resides in the innovation district.

This proposal notes that there are no residency (length of stay) requirements for the person residing in Missouri for the purpose of claiming this abatement/exclusion. Just that they say this

is their primary residence. Therefore, a person can buy a house in an innovation district in Missouri, declare it their primary residence and never live in it but still receive the abatement/exclusion. Given the 100% deduction for capital gains, it is unknown how many taxpayers will do this.

DOR notes there is no cap on the amount of income that can qualify for this incentive. DOR is unable to estimate the amount of income tax revenue that would be lost under this proposal but note that it would be general revenue. DOR notes that tax returns are filed the year after the tax year and therefore this proposal would result in a loss of revenue starting in FY 2028. It is estimated that it would be more than \$250,000 annually.

DOR notes that this proposal does not negate the requirement to file a Missouri tax return. DOR will still require the return, and DOR will have a form the person will complete, indicating they qualify for this incentive, which will be remitted with their return. The creation of the form will cost \$10,000.

This proposal will require DOR to maintain a list of residential locations and a registry of tenants who will reside at qualified locations (including lease begin and end dates). Therefore, this proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$42,953 (salary plus years of service pay) to track the qualifying residents accounts and to handle any clawbacks that may be necessary.

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 (1) FTE Associate Customer Service Rep at a salary of \$42,953 and form change impact in the fiscal note for this agency.

Oversight notes that this exclusion is for a qualified resident who did not have a primary residence within the State and the innovation district prior to the selection and now resides in the Special Innovation District.

Oversight notes that 620.2012.3 allows for total income tax exclusion for such a resident beginning in January 1, 2027. Therefore, Oversight will reflect a revenue reduction to the general revenue beginning FY 2028 (for the TY 2027).

Lastly, Oversight notes that there is no maximum cap on this exclusion.

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

§620.6012 establishes an income tax abatement incentive for qualifying individuals establishing residency within an innovation district.

This section is administered by the Department of Revenue; however, the Department of Economic Development is responsible for promulgating rules for the section, consulting with DOR.

The Department will be responsible for:

- Promulgate Rules and Regulations

#### 620.2015 - An Employer Retention and Reinvestment Withholding Incentive

Officials from the **Department of Revenue (DOR)** assume Starting January 1, 2027, an eligible employer may enter into a contract with DED to retain their employees' tax withholding or receive a tax credit equal to their employees' tax withholding. This proposal requires the eligible employer to be in good standing with DED and in compliance with all tax laws.

This proposal attempts to want to modify state income tax withholding. DOR notes that income tax withholding is money earned by a worker that is paid in advance of their final calculation of state income tax liability (prepayment of tax they will owe). It is not an employer expense. Employees make these payments out of their paychecks. This money is sent to DOR to be applied to their tax account.

This proposal appears to want to allow DED to provide a credit to the employer or allow the employer to keep, the amount the employee would pay DOR. This proposal requires the employer to submit an application and DED to determine the method of the retained withholding. This proposal requires DED to verify the actual amount of state income tax withholding attributable to the project. DOR notes that due to the confidentiality laws DOR cannot share any information on the amount of withholding generated from any projects. Additionally, DOR's computer systems do not track employee withholding by project but rather than by employer. Modifying the system to track all employee withholding by project as well as by employer would require updates to the Department system of \$40,000.

This will require the creation of a form the employer will complete, indicating who are the qualifying employees. The creation of the form will cost \$10,000.

This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$42,953 (salary plus years of service pay) to track the qualifying employee accounts and to handle any clawbacks that may be necessary.

This proposal does not allow the credits to be refundable, assignable, sellable or transferable. However, it does allow employers to simultaneously participate in other tax incentive and withholding programs offered by the state.

If employers no longer have to submit employee withholdings this will result in a loss to general revenue. This proposal does not have a cap and therefore the total loss cannot be estimated. DOR assumes a loss that will exceed \$250,000 annually. This will start in FY 2027.

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 (1) FTE Associate Customer Service Rep at a salary of \$42,953 and form change impact in the fiscal note for this agency.

Lastly, **Oversight** will range a direct cost to the general revenue from zero(no employer moved to the special innovation district) to unknown (employer move to the special district) and is able to obtain credit.

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

§620.6015 establishes an employer retention and reinvestment withholding incentive for retention of jobs and reinvestment by businesses establishing a continuous presence in an innovation district. These jobs do not have to be new jobs, and the business does not have to be new to the area. The eligible employer may have qualifying reinvestment expenditures.

§620.6015.3 an eligible employer may, but is not required to, apply to enter into a withholding agreement with the Department on or after January 1, 2027.

§620.6015.7 states any withholding benefit received under this section shall be used solely for qualifying reinvestment expenditures actually incurred and paid under the withholding agreement.

§620.6015.8 to receive benefits, an eligible employer must operate within the innovation district, demonstrate a commitment to remain at the location for not less than 5 years, complete QRE under the withholding agreement, maintain not less than 95% of baseline payroll, subject to notice and cure, and submit any other information reasonably requested by DED.

§620.6015.12 employer may participate in the incentive authorized under this section concurrently with Missouri One-Start program and Missouri Quality Jobs. Missouri One-Start and Missouri Quality Jobs shall be collected and disbursed prior to the collection and disbursement of the withholding benefits under this section.

The Department will be responsible for:

- Promulgate Rules and Regulations.
- Rules may establish aggregate or annual program caps to manage fiscal exposure.

- Establish an application process.
- Establish baseline payroll for each applicant.
- Write and execute a withholding agreement.
- Applications for withholding may be submitted at any time and the Department has 45 calendar days to approve or deny applications and must approve the application unless the applicant does not meet the eligibility requirements of this section, or the applicant is not in good standing with
- DED or DOR with respect to tax compliance or reporting obligations. Auto approval if not approved or denied within 45 days.

DED would need to review and approve payroll reports quarterly unless agreed to semi-annually.

The fiscal impact:

- Withholding benefit is the state income tax withholdings attributable to eligible employees that an eligible employer is authorized to receive, either through a credit or through authorized retention of such withholdings, which may be carried forward.
- Withholding Tax Credit – nonrefundable credit equal to all or a portion of the withholding benefit authorized under a withholding agreement under this section, which may be carried forward.
- Withholding benefit shall not exceed 3% of aggregate gross wages paid to eligible employees at the innovation district location during a tax year.
- Withholding benefit may be authorized for up to 10 years. May be carried forward for up to 10 years.
- Not guaranteed to be net new to the state. It could be existing, especially since any city can establish an innovation district and companies can move around.

#### Section 620.6018 Relocation Withholding Tax Credit

Officials from the **Department of Revenue (DOR)** assume starting January 1, 2027, this would allow an eligible employer to receive a \$5,000 tax credit for each eligible employee that relocates from out of state to live in an innovation district. If that employee pays any relocation expenses (identified in this proposal) then the employer can receive a tax credit. This proposal in the definition of eligible relocation expense require that the employer pay the relocation expense.

The tax credits are refundable, but this proposal also allows the credits to be carried forward five years. This proposal does not allow the credits to be transferred, sold or assigned. DOR notes,

that when a person claims a refundable credit, DOR apply the credit to their outstanding liability and then should there be credit left over, and DOR issue a refund. DOR assumes no credits would be carried forward to other tax years.

This proposal would become effective on January 1, 2027, and the first time the returns claiming the credits can be filed are January 1, 2028 (FY 2028). There is no cap on the amount of credits that can be issued annually. Therefore, DOR assume this will be a loss of general revenue annually that could exceed \$250,000.

<b>Fiscal Year</b>	<b>Loss to General Revenue</b>
2027	\$0
2028	(Could exceed \$250,000)
2029	(Could exceed \$250,000)

This proposal creates a new tax credit programs that will require a new line being added to the Form MO-TC (\$2,200), updates to the Department website and changes to the individual income tax computer system (\$1,887). These changes are estimated to cost \$4,087. 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 \$42,953 (salary plus years of service pay).

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 (1) FTE Associate Customer Service Rep at a salary of \$42,953 and form change impact in the fiscal note for this agency.

**Oversight** will range a direct cost to the general revenue from zero (no employee moved from out of the state to the special innovation district) to unknown (employee move to the special district) and is able to obtain credit.

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

§620.6018 establishes an employer relocation withholding tax credit incentive for an individual who relocates from a location outside the state of Missouri to accept employment with an eligible employer and establishes a primary residence within an innovation district or a location within 10 miles of an innovation district, measured in a straight-line distance (as long as still in MO), and earns an annual wage of at least \$70K. The eligible employer must be a business entity that was not conducting business operations within the state of Missouri prior to establishing operations within an innovation district and establishes a business location within an innovation district.

The Department will be responsible for:

- Promulgate rules for the program.
- Develop program application, guidelines, and review process.
- Review documentation and authorize/issue tax credits.
- DED/DOR must track employee residence from time of authorization through 12 months after tax credit is claimed.
- The fiscal impact:
  - Tax credit for all tax years beginning on or after January 1, 2027 for an eligible employer in an amount up to \$5K per eligible employee for eligible relocation expenses incurred on behalf of such employees.
  - Tax credit is refundable and may be carried forward for up to 5 years.
  - The Department of Revenue may recapture tax credits claimed by an employer if the eligible employee relocates to another residence that no longer meets the requirements provided under this section within 12 consecutive months after the state tax credit is claimed.

#### Section 620.6021 Office-to-Residential Conversion Tax Credit

Officials from the **Department of Revenue (DOR)** assume this proposal attempts to create two new tax credit programs, both starting January 1, 2027. It appears the intent of the proposal is to allow credits for converting blighted or abandoned buildings into residential use. However, the wording of the proposal says the credits are awarded only for “qualified conversion expenditures” which is defined as “any amount properly chargeable to a capital account”. Therefore, any company with expenses charged to a capital account would qualify for these credits.

#### Conversion Expenditure credit

The first credit allows a taxpayer to receive a tax credit equal to 25% of qualified conversion expenditures. The tax credit is not refundable but can be carried back three years or carried forward ten years. The credits may also be transferred, sold or assigned.

#### Upper Floor credit

The second credit allows a taxpayer to receive a tax credit up to 30% of qualified conversion expenditures. The tax credit is not refundable but can be carried back three years or carried forward ten years. The credits may also be transferred, sold or assigned.

This proposal would allow a taxpayer making a \$1,000,000 million chargeable expense to receive a \$250,000 credit under the conversion expenditure credit and a \$300,000 credit under the upper floor credit as the credit is allowed based on the expense. Thereby one taxpayer could receive \$550,000 in credits for the same chargeable expense.

This proposal states that both of these credits can be applied to the taxpayer's liability under Chapter 143 (individual income tax, corporate tax, fiduciary tax) or against the taxpayer's liability for state sales and use taxes owed under Chapter 144. This proposal states that a tax credit is to offset up to 100% of a taxpayer's tax liability. DOR notes that this would not be consistent with any other tax credit programs. Currently, a tax credit is only allowed to be applied against a taxpayer's tax liability in the amount of the issued credit. This proposal would allow any credit received by the taxpayer to eliminate the taxpayer's entire tax liability even if the credit is less than the liability. DOR is unable to estimate the amount of impact from this provision but assumes it will exceed \$250,000 annually. DOR notes that the elimination of any income tax would impact general revenue but any impact to the state sales tax will impact general revenue, the school district trust fund, conservation commission fund and the park, soil & water funds.

DOR notes that per Section 620.6021.5(1) these two tax credit programs will share a \$50 million annual fiscal year cap. Per Section 620.6021.5(4) the amount of the credit cap can be increased by the CPI. This proposal limits 50% of the available cap (\$25 million) to structures of more than 750,000 square feet and 25% of the cap (\$12,500,000) to upper-floor housing projects. DED is named as the administrator of these credits.

Section 620.6021.9 says that projects must receive a certain score to obtain a 10% credit. This proposal does not explain what 10% credit is or how it is awarded, however, since it is listed in Section 620.6021 it would be subject to the same \$50 million cap.

These credits do have a sunset clause.

These tax credits would become effective on January 1, 2027, and the first time the credits can be claimed on an income tax return would be January 1, 2028 (FY 2028). However, since these credits can be claimed against a sales tax return, those can be file as early as January 31, 2027 (FY 2027). While the tax credit is limited to only \$50 million, the additional lost revenue from allowing the credit to offset all income tax will allow a great loss than just the cap amount. These credits will result in a loss to general revenue, school district trust fund, conservation commission, and the park, soil & water funds and the state sales tax funds of \$50,000,000 annually.

Fiscal Year	Loss to General Revenue & State Sales Tax Funds
2027	(Unknown greater than \$50,000,000)
2028	(Unknown greater than \$50,000,000)
2029+	(Unknown greater than \$50,000,000)

This proposal creates two new tax credit programs that will require two new lines being added to the Form MO-TC (\$2,200 \* 2), updates to the Department’s website and changes to the individual income tax computer system (\$1,887 \* 2). These changes are estimated to cost \$8,174. 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 \$42,953 (salary plus years of service pay).

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 (1) FTE Associate Customer Service Rep at a salary of \$42,953 and form change impact in the fiscal note for this agency.

Oversight notes that any project under the proposal must be pre-approved and deemed as within the innovation district. **Oversight** will assume, for purpose of this fiscal note, that the actual approval and tax credit reimbursement will not occur until FY 2028.

Additionally, §620.6021.5(4) allows for the amount of the credit cap to be increased by the CPI. Therefore, for purpose of this fiscal note, Oversight will show the potential increase in FY 2029.

**Oversight** will range a direct cost to the general revenue stemming for a Conversion Expenditure Tax Credit §620.2021.3(1)–(4) & Upper Floor Conversion Credit §620.2021.4(1)-(4) up to \$50 million annually beginning FY 2028.

Oversight notes this credit can be used for the taxpayer’s liability under Chapter 143 (individual income tax, corporate tax, fiduciary tax) or against the taxpayer’s liability for state sales and use taxes owed under Chapter 144. This proposal states that a tax credit is to offset up to 100% of a taxpayer’s tax liability.

Therefore, **Oversight** will reflect an unknown cost to the various funds such as school district trust fund, conservation commission, and the park, soil & water funds.

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

§620.6021 establishes the office-to-residential conversion tax credit incentive.

§620.6021.3(1) for all tax years beginning on or after January 1, 2027, the department shall issue a taxpayer a tax credit up to 25% of qualified conversion expenditures with respect to a qualified converted building or upper-floor housing located in a qualified innovation district. The tax credit may be carried back to any of 3 preceding tax years or carried forward for the succeeding 10 tax years.

§620.6021.3(2) Tax Credit may be transferred, sold, or assigned.

§620.6021.4(1) For all tax years on or after January 1, 2027, the department shall issue a tax credit up to 30% of qualified conversion expenditures with respect to upper-floor housing located in a qualified Missouri Main Street district.

§620.6021.5(1) the total amount of tax credits authorized per fiscal year may not exceed \$50M.

(2) 50% authorized solely for structures of more than 750K gross square feet. If the total reserved has been authorized, structures of more than 750K square feet may receive tax credits from the remaining unreserved amount of tax credits. The total amount of tax credits for a structure of more than 750K square feet may be allocated over a period of up to 10 years. Must meet 10% incurred costs test within 36 months after award is authorized.

(3) 25% of maximum amount of tax credits available to be authorized to taxpayers in a fiscal year shall be authorized solely for upper-floor housing projects located in a qualified Missouri Main Street district unless not fully authorized, in which projects may use unauthorized amount from reserve.

(4) If the maximum amount of tax credits allowed in any fiscal year is authorized, the max amount shall be adjusted by the percentage increase in the Consumer Price Index for All Urban Consumers, or its successor index.

§620.6021.6 allows for applications awaiting approval after the cap has been exhausted to be reserved for the next fiscal year in priority order of submission.

The Department will be responsible for:

- Promulgate rules for the program.
- Develop program application (preliminary and final), guidelines, and review process.
- Review documentation and authorize/issue tax credits.
- The fiscal impact:

- Qualified Conversion Expenditures with respect to a qualified converted building or upper floor housing located in a qualified innovation district.
- 25% tax credit
- Carry back 3 years, carry forward 10 years
- Transferred, assigned, sold
- Qualified Conversion Expenditures with respect to upper floor housing located in a qualified
- Missouri Main Street District.
- 30% tax credit
- Carry back 3 years, carry forward 10 years
- Transferred, assigned, sold
- Total tax credit cap: Authorizations per fiscal year may not exceed \$50M.
- 50% authorized solely for structures of more than 750K gross square feet.
- If the total reserved has been authorized, structures of more than 750K square feet may receive tax credits from the remaining unreserved amount of tax credits.

#### §620.6024 Missouri Opportunity Zone

Officials from the **Department of Revenue (DOR)** assume this proposal says that eligible taxpayer can elect to defer the paying of Missouri income tax or be excluded from paying income tax, if the company says they will use their income tax revenue to make eligible expenses under this proposal. DOR notes that the language does not mention anything further about being excluded from tax, so DOR assumes this is just a deferment of the payment. This proposal would allow DOR to prescribe the manner of applying for this election. If the election is accepted, they would defer paying their income tax for up to 10 years.

This proposal says the income tax eligible for this election is all income tax under Chapter 143. However, later in the proposal it says that the income tax should not include corporate tax. DOR notes that under the definition of Missouri income tax it would allow corporate tax, so DOR assumes all income taxes (individual, corporate, fiduciary & financial institutions) would be eligible for this election.

Since this is a deferral program, the tax would be due once the expiration period has expired. This program allows the election for up to 10 years, and therefore, this deferral would not result in any loss of revenue to the state but could result in up to a 10-year cash flow situation.

DOR notes that this proposal does not negate the requirement to file a Missouri tax return and as a matter of fact the return would still be necessary to determine the amount of tax that will be eligible to be deferred. DOR will still require the return, and DOR will have a form the person will complete, indicating the amount they wish to defer, which will be remitted with their return. The creation of the form will cost \$10,000. This will also require modification of the tax reporting system to record which taxpayers have a deferral. These changes are estimated at \$30,000.

This proposal would require at least 1 FTE Associate Customer Service Rep at a salary of \$42,953 (salary plus years of service pay) to track the qualifying taxpayer accounts and to handle any claw-backs that may be necessary.

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 (1) FTE Associate Customer Service Rep at a salary of \$42,953 and form change impact in the fiscal note for this agency.

Additionally, **Oversight** will reflect zero (no tax deferment occurring) or an unknown (taxpayer is approved for the tax deferment) decline in revenue stemming from taxpayer income tax deferral under this provision.

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

§620.6024 establishes a Missouri Opportunity Zone, an overlay of the innovation district, to encourage long-term private investment. This section is administered by the Department of Revenue, however, the Department of Economic Development is responsible for promulgating rules for the section, consulting with DOR.

The Department will be responsible for:

- Promulgate Rules and Regulations

Overall Legislation:

Officials from the **Department of Economic Development DED** assume the need for 13 Senior Economic Development Specialists, 3 Economic Development Managers, and 1 Legal Counsel.

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 a DED estimated impact in the fiscal note.

Officials from the **Office of the State Treasurer** and **Department of Elementary and Secondary Education** 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 for both respective agencies.

Officials from the **Oversight Division** assume the proposal will have no fiscal impact on their organization. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

Rule Promulgation

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.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
<b>GENERAL REVENUE FUND</b>			
<u>Cost – (§620.6000 &amp; 620.6003) DOR Form and website adjustments p.5</u>	(\$40,000)	\$0	\$0
<u>Cost – (§620.6009) DOR Form and website adjustments p.6-7</u>	(\$51,000)	\$0	\$0
<u>Cost – DOR (§620.6012) Form and website adjustments p.8-9</u>	(\$10,000)	\$0	\$0
<u>Cost – DOR (§620.6015) Form and website adjustments p.9</u>	(\$10,000)	\$0	\$0
<u>Cost – DOR (§620.6018) Form and website adjustments p.9</u>	(\$4,087)	\$0	\$0

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
<u>Cost – DOR (§620.6021) Form and website adjustments p.9</u>	(\$8,174)	\$0	\$0
<u>Cost – DOR (§620.6024) Form and website adjustments p.9</u>	(\$40,000)	\$0	\$0
<u>Cost - §620.2021.3(1)–(4) &amp; 620.2021.4(1)-(4) Conversion Expenditure and Upper Floor Conversion Tax Credit(s) p.12-13</u>	\$0	Could exceed (\$50,000,000)	Could exceed (\$51,000,000)
<u>Cost – (§620.6009.2(1)) 50% diversion of sales tax and withholding to Innovation District Public Safety Fund p.5-7</u>	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost – (§620.6012.3) Income Tax Exclusion for a Qualified Resident p.9</u>	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost – (§620.6015) Employer Retention and Reinvestment Withholding Incentive p.9-10</u>	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost – (§620.6018) Relocation Withholding Tax Credit Incentive p.9-10</u>	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost – (§620.6024) Income Tax deferment</u>	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost – DOR (§§620.6009, 6012, 6015, 6018, 6021, 6024) p.6-14</u>			
Personal Service	(\$248,579)	(\$304,261)	(\$310,346)
Fringe Benefits	(\$181,658)	(\$220,390)	(\$222,837)
Expense & Equipment	(\$80,273)	(\$3,531)	(\$3,602)
<u>Total Costs – DOR</u>	<u>(\$510,510)</u>	<u>(\$528,182)</u>	<u>(\$536,785)</u>
FTE Change – DOR	6 FTE	6 FTE	6 FTE
<u>Cost – DED (§§620.6009, 6012, 6015, 6018, 6021) p.6-14</u>			
Personal Service	(\$1,334,660)	(\$1,633,624)	(\$1,666,296)

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
Fringe Benefits	(\$768,227)	(\$934,756)	(\$947,896)
Expense & Equipment	(\$311,727)	(\$113,490)	(\$115,760)
<b>Total Costs – DED</b>	<b>(\$2,414,614)</b>	<b>(2,681,870)</b>	<b>(\$2,729,953)</b>
FTE Change – DED	17 FTE	17 FTE	17 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>Could exceed (\$3,088,385)</b>	<b>Could exceed (\$53,210,052)</b>	<b>Could Exceed (\$54,226,738)</b>
Estimated Net FTE Change on General Revenue	23 FTE	23 FTE	23 FTE
<b>SCHOOL DISTRICT FUND (1688)</b>			
<u>Cost - §620.2021.3(1)–(4) &amp; 620.2021.4(1)-(4) Conversion Expenditure and Upper Floor Conversion Tax Credit(s) p.12-13</u>	\$0	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b>\$0</b>	<b>(Unknown)</b>	<b>(Unknown)</b>
<b>CONSERVATION COMMISSION FUND (1609)</b>			
<u>Cost - §620.2021.3(1)–(4) &amp; 620.2021.4(1)-(4) Conversion Expenditure and Upper Floor Conversion Tax Credit(s) p.12-13</u>	\$0	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b>\$0</b>	<b>(Unknown)</b>	<b>(Unknown)</b>
<b>PARK, SOIL, &amp; WATER SALES TAX FUND (1613 &amp; 1614)</b>			
<u>Cost - §620.2021.3(1)–(4) &amp; 620.2021.4(1)-(4) Conversion</u>			

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
Expenditure and Upper Floor Conversion Tax Credit(s) p.12-13	\$0	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON PARK, SOIL, &amp; WATER SALES TAX FUND</b>	<b>\$0</b>	<b>(Unknown)</b>	<b>(Unknown)</b>
<b>RURAL MISSOURI DEVELOPMENT FUND</b>			
<u>Transfer-in</u> – (§620.6006 & 620.6006.7) – 10% and 1% tax diversion and fee from a new TIF revenues to DED p.4-5	\$0	Unknown	Unknown
<u>Cost</u> – (§620.6006.5) DED awarding rural projects p.4-5	\$0	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON RURAL MISSOURI DEVELOPMENT FUND</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
<b>INNOVATION DISTRICT PUBLIC SAFETY FUND</b>			
<u>Revenue Gain</u> – (§620.6003 & 620.6009.2(1)) – 50% Diversion of TIF, withholding, sales tax revenues	\$0	\$0 or Unknown	\$0 or Unknown
Cost – 620.6009.6(1) Services provided for the Special Innovation Districts	\$0	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON INNOVATION DISTRICT PUBLIC SAFETY FUND</b>	<b>\$0</b>	<b>Unknown</b>	<b>Unknown</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
<b>VARIOUS LOCAL SUBDIVISION FUNDS</b>			
Transfer-Out - (§620.6003 & 620.6009.2(1)) – 50% Diversion of TIF revenues, sales tax, and withholdings	\$0	\$0 or (Unknown)	\$0 or (Unknown)
Transfer-Out – (§620.6006) – 10% diversion of a new TIF revenues from growth to DED	\$0	\$0 or (Unknown)	\$0 or (Unknown)
Revenue Gain – ((§620.6006.5) DED awarding rural projects	\$0	Unknown	Unknown
Revenue Gain – ((§620.6006.5) DED awarding rural projects	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>
<b>ESTIMATED NET EFFECT ON VARIOUS LOCAL SUBDIVISION FUNDS</b>	<b><u>\$0</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

MISSOURI INNOVATION, PUBLIC SAFETY, AND ACCOUNTABILITY ACT

This bill establishes the "Missouri Innovation, Public Safety, and Accountability Act" by creating nine new sections in Chapter 620, RSMo, to authorize innovation districts and related state and local incentive mechanisms.

The bill establishes an "Innovation District Program" and authorizes a city to apply to the Department of Economic Development (DED) for designation of an innovation district by submitting an innovation district master plan, as specified in the bill. A local ordinance or resolution is not required as a prerequisite to designation and a city may have only one innovation district. DED must approve a complete application within 45 calendar days, and failure to act within that time is considered an automatic approval if statutory requirements are met.

Upon designation, certain state administered incentives become available within the district, including a Missouri income tax exemption or abatement, a Missouri opportunity zone investment mechanism, an office-to-residential tax credit, and state sales tax and withholding reinvestment where authorized. Local incentives, including property tax abatement and tax increment financing, may also be used. DED must submit a biennial written report to the General Assembly summarizing the program and its aggregate outcomes.

This bill establishes the "Rural Missouri Development Fund" for supporting economic development, infrastructure, housing, workforce development, and related community-building activities in rural and small communities in the State.

The bill creates the "Innovation District Public Safety Fund" which allows 50% of incremental state tax receipts generated within the district that would otherwise be deposited into General Revenue to be remitted for district benefit. Incremental receipts include state sales tax revenues above a fixed baseline and state income tax withholdings above a fixed baseline, with the baseline calculated using the 12 months immediately preceding designation of the district. Areas located within a super tax increment financing district or a district established under the Missouri Downtown Economic Stimulus Authority Act are excluded from the state-tax recapture mechanism.

This bill authorizes a withholding benefit for eligible employers operating within an innovation district, delivered as either a withholding tax credit or an authorized retention of state income tax withholdings. The benefit is limited to no more than 3% of aggregate gross wages paid to eligible employees at the innovation district location during a tax year and may be authorized for up to 10 years. An employer must commit to remain at the location for at least five years and maintain at least 95% of baseline payroll, subject to notice and cure provisions.

This bill allows a project sponsor to seek a construction phase withholding advance for a project within an innovation district if total hard construction costs equal at least \$5,000,000. Advances are limited to no more than 25% of projected construction-phase state income tax withholdings and are reconciled against actual withholdings. Construction must have commenced and at least 10% of total hard construction costs must have been incurred prior to disbursement. DED must approve or deny a request within 45 days, with failure to act resulting in deemed approval if requirements are met.

For tax years beginning on or after January 1, 2027, the bill creates an income tax exclusion or abatement for a qualified new resident who was not a Missouri resident for income tax purposes in the immediately preceding tax year and who establishes and maintains a primary residence within an innovation district. The bill provides for recapture of the tax reduction in the tax year eligibility is lost.

For tax years beginning on or after January 1, 2027, the bill authorizes an office-to-residential conversion tax credit incentive of up to 30% of qualified conversion expenditures. Unused

credits may be carried back three years or carried forward 10 years. The credit may be applied against Missouri income tax under Chapter 143, RSMo or state sales and use tax under Chapter 144, RSMo and may be transferred, sold, or assigned. An assignee may offset up to 100% of state tax liability. Total authorizations are capped at \$50 million per fiscal year. Fifty percent of the annual cap is reserved for structures over 750,000 gross square feet, subject to reallocation provisions, and 25% of the annual cap is reserved for upper-floor housing projects located within a qualified Missouri Main Street district. The annual cap is subject to adjustment based on the Consumer Price Index if the full amount is authorized in a fiscal year.

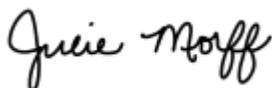
This bill establishes a "Missouri Opportunity Zone" that authorizes an investment mechanism under which a taxpayer may defer ordinary Missouri income tax liability if the amount is invested in a qualified Missouri opportunity zone investment within 180 days after the close of the tax year. Deferral ends upon certain inclusion events, including disposition of the investment, loss of qualification, 10 years from the date of investment, failure to commence substantial active business operations within 24 months, or failure to place property into active use or make qualifying improvements within 30 months, as specified. If the investment is held for at least 10 years, gain recognized upon disposition is excluded from Missouri taxable income.

These provisions sunset 10 years after the effective date.

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  
Oversight Division  
Department of Economic Development  
Joint Committee on Administrative Rules  
Office of the Secretary of State  
Office of the State Treasurer  
Department of Elementary and Secondary Education



Julie Morff  
Director  
February 17, 2026



Jessica Harris  
Assistant Director  
February 17, 2026