

HCS HBs 3231 & 2531 -- MISSOURI INNOVATION, PUBLIC SAFETY, AND ACCOUNTABILITY ACT (Christ)

COMMITTEE OF ORIGIN: Standing Committee on Commerce

This bill establishes the "Missouri Innovation, Public Safety, and Accountability Act" by creating new Sections in Chapter 620, RSMo, to authorize the designation of innovation districts and the use of certain economic development incentives administered by the Department of Economic Development (DED).

Under the bill, a city may apply to DED for designation of an innovation district by submitting a master plan describing the proposed district boundaries, redevelopment strategy, infrastructure and public safety priorities, anticipated housing and employment growth, and other required planning elements. A city may establish only one innovation district. DED must approve or deny a completed application within 45 calendar days, and failure to act within that time results in approval if the statutory requirements are met.

A city that establishes an innovation district must implement a streamlined development review and permitting process for projects within the district and designate a single point of contact authorized to coordinate and issue determinations on behalf of local departments and agencies. The city must also adopt policies that allow for the waiver, reduction, or deferral of duplicative or discretionary development fees and provide flexibility for redevelopment and adaptive reuse projects within the district.

The bill establishes the "Innovation Zone Public Safety Fund". The Fund receives 50% of net-new state revenue, as defined in the bill, generated within the innovation district that would otherwise be deposited into the state General Revenue Fund. Incremental revenues include state sales tax collections and state income tax withholdings generated within the district above a baseline calculated from the 12-month period immediately preceding the designation of the district. The baseline remains fixed for the duration of the district. Moneys deposited into the Fund must be used for public safety and infrastructure improvements within the district, including law enforcement personnel, lighting and surveillance systems, streets and sidewalks, traffic and pedestrian safety improvements, landscaping and public space improvements, property stabilization or demolition, and other improvements consistent with the district master plan.

Areas already located within a super tax increment financing district or a district designated under the Missouri Downtown Economic Stimulus Authority (MODESA) are not eligible to receive incremental state tax revenues deposited into the Innovation District Public Safety Fund.

The bill authorizes a construction-phase withholding advance for certain projects located within an innovation district. A project sponsor may apply to DED for such an advance if the project has received all necessary approvals and has total hard construction costs of at least \$5 million. Advances are limited to 25% of projected construction-phase state income tax withholdings, and at least 10% of the project's total hard construction costs must have been incurred prior to the disbursement of the advance.

This bill establishes a move-to-Missouri resident incentive. Beginning with tax years on or after January 1, 2027, the bill authorizes an income tax exclusion for certain individuals who relocate to Missouri and establish a primary residence within an innovation district. An individual who was not a Missouri resident in the immediately preceding tax year may claim the exclusion for each tax year in which the individual maintains a primary residence within the district. If eligibility requirements are not maintained, any associated tax benefit is subject to recapture.

Beginning, January 1, 2027, the bill authorizes an employer withholding retention incentive for businesses operating within an innovation district. Eligible employers may retain a portion of state income tax withholdings generated by employees working within the district, limited to no more than 3% of the aggregate gross wages paid to eligible employees in a tax year. The incentive may be authorized for up to 10 years, and an employer receiving the benefit must maintain operations within the district for at least five years.

The bill establishes a "Missouri Opportunity Zone" investment mechanism within innovation districts allowing taxpayers to defer Missouri income tax liability if the amount of the tax liability is invested in a qualifying investment within the district within 180 days after the close of the tax year. The deferral ends upon certain inclusion events, including disposition of the investment, loss of qualification, 10 years after the investment, failure of an operating business to commence substantial operations within 24 months, or failure to place investment property into active use or make qualifying improvements within

30 months. If the investment is held for at least 10 years, gain recognized upon disposition of the investment is excluded from Missouri taxable income.

Beginning with tax years on or after January 1, 2027, the bill authorizes an office-to-residential conversion tax credit equal to up to 30% of qualified conversion expenditures incurred to convert nonresidential property into residential housing. The credit may be applied against Missouri income tax or state sales and use tax liability. Unused credits may be carried back three years or carried forward 10 years, and the credits may be transferred, sold, or assigned. Total authorizations are limited to \$50 million per fiscal year, with 50% of the annual cap reserved for buildings exceeding 750,000 square feet and 25 percent reserved for upper-floor housing projects in qualified Missouri Main Street districts, subject to reallocation provisions.

Projects within an innovation district that involve the rehabilitation of certified historic structures may utilize the Missouri Historic Preservation Tax Credit program administered under Sections 253.545 to 253.559, RSMo. Under that program, tax credits equal to 25% of qualified rehabilitation expenditures may be issued for projects that generally incur at least \$275,000 in qualified rehabilitation costs, subject to the statewide authorization limit of \$140 million per fiscal year, and such credits may be transferred, sold, or assigned.

The bill establishes a "Rural Missouri Development Fund" to support economic development, infrastructure, workforce development, housing, and community development activities in rural communities. Any municipality located within the top 5% of assessed valuation in the state that establishes an innovation district must deposit 10% of net-new property tax revenue as defined in the bill, generated by the district into the Rural Missouri Development Fund for distribution to rural municipalities and regional development organizations.

The bill also establishes an angel investment incentive. This incentive will be administered by DED to encourage private investment in early-stage Missouri businesses. Under the program, qualified investors who make investments in certified Missouri businesses may receive a tax credit equal to up to 40% of the amount invested and qualified investors who make investments in certified Missouri businesses outside of the innovation zones and in rural areas may receive a tax credit equal to up to 60% of the amount invested. A qualified investor

may receive no more than \$75,000 in tax credits per tax year, and total credits authorized under the program are limited to \$6 million during either calendar year 2027 or 2028. Tax credits may be transferred, sold, or assigned, and unused credits may be carried forward for up to five years.

Beginning in calendar year 2029, the total amount of tax credits allowed will annually increase by 20% of the total amount of tax credits allowed in the immediately preceding calendar year. For each successive year thereafter, if the total amount of tax credits allowed in the immediately preceding calendar year are issued, the total amount of tax credits will increase by an additional 20% and will continue to increase at 20% intervals if all of the tax credits allowed in the previous calendar year were issued. The balance of unissued tax credits may be carried over and must be used before December 31, 2035.

DED and the "MTC", defined as the Missouri Technology Corporation established under Section 348.251, RSMo, will administer the programs created under the Act, promulgate rules necessary to implement the provisions of the Act, and submit biennial reports to the General Assembly summarizing the performance and economic impact of innovation districts and related incentive programs.

The provisions of the Act sunset 10 years after the effective date.