COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4400-07
Bill No.: SCS for SB 548
Subject: Tax Credits
Type: Original
Date: March 30, 2012

Bill Summary: This proposal modifies certain tax credit programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	Unknown greater than $51,000,000	Unknown greater than $39,639,772	Unknown greater than $70,523,412
Total Estimated Net Effect on General Revenue Fund	**Unknown greater than $51,000,000**	**Unknown greater than $39,639,772**	**Unknown greater than $70,523,412**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Sections 135.010; 135.025 and 135.030 Property Tax Credit
Officials from the **Budget and Planning** (**BAP**) assume this proposal repeals the renters' portion of the Senior Property Tax Credit. Based on data provided to BAP by DOR this proposal would increase General and Total State Revenues by $55.8 million annually.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (**EPARC**) stated that, if enacted, this proposal would repeal the renters' portion of the Missouri Property Tax Credit program, commonly referred to as the circuit breaker tax credit, which allows certain renters and property owners to receive a tax credit for property taxes paid or rent constituting taxes paid.

The EPARC baseline data for 2010 indicates that renters' currently receive $53,172,808 in property tax credits. Therefore, we would expect an increase in Net General Revenue of $53,172,808 due to the repeal of the renters' portion of the Missouri Property Tax Credit.

Officials from the **Department of Revenue** (**DOR**) assume this proposal would remove renters from receiving the Property Tax Credit. In FY 2011, approximately 106,000 renters received $55.8 million in credits.

Oversight assumes this proposal removes the provisions allowing individuals who rent to claim the tax credit. This program does not have an annual cap. In FY 2010, $53,172,808 credits were issued and redeemed by renters. **Oversight** assumes this proposal will result in a savings to the state because the number of people who are eligible for the credit is reduced. **Oversight** will show the increase to net revenues from the tax credit program as $53 million each fiscal year, FY 2013-FY 2015.

Section 135.090 Surviving Spouse Tax Credit
Officials at the **Budget and Planning** (**BAP**) assume this proposal extends the Surviving Spouse Tax Credit from 8/28/13 until 8/28/16. $16,861 in credits were redeemed in FY11. This will continue the current reduction in General and Total State Revenue by similar amounts in future years.

Oversight assumes this tax credit was to sunset on August 28, 2013 (FY 2014). This proposal extends the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued in FY 15. This tax credit does not have a statutory cap and therefore, **Oversight**

ASSUMPTION (continued)

for the fiscal note is showing the amount of loss of revenue in future years to the State as being equal to the average amount issued in the last three years.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2016. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2017.

Section 135.305 Wood Energy Tax Credit
Officials at the **Budget and Planning** (**BAP**) assume this proposal extends the sunset on the wood energy producers credit from 6/30/13 to 6/30/16. Authorizations under this program averaged $3.4 million from FY's 2009-2011. BAP does not have detail on typical redemption patterns under this program. Because of the 4-yr carry-forward under this programs, BAP estimates that this proposal will reduce General and Total State Revenues by $1 million in FY14, $1.7 million in FY15, and $2.3 million in FY16, with the remaining authorizations redeemed in subsequent years.

Officials at the **Department of Natural Resources** assume there is no fiscal impact from this proposal.

Oversight assumes this tax credit was to sunset on June 30, 2013 (FY 2013). This proposal extends the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued in FY 14. This tax credit does not have a statutory cap and therefore, **Oversight** for the fiscal note is showing the amount of loss of revenue in future years to the State as being equal to the average amount issued in the last three years.

Section 135.327 Children in Crisis Tax Credit
Officials at the **Budget and Planning** assume this proposal extends the sunset on the Children in Crisis tax credit from 8/28/12 to 8/28/15. This proposal may reduce General and Total State Revenue.

Officials at the **Department of Social Services** assume that there is no fiscal impact from this proposal.

Oversight assumes this tax credit was to sunset on August 28, 2012 (FY 2013). This proposal would extend the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued in FY 14. This tax credit shares a statutory cap of $4 million with the Adoption

ASSUMPTION (continued)

Tax Credit. The Children in Crisis Tax Credit is calculated after the Adoption credits are applied. In the last five years an average of $2,675,221 has been issued for the Children in Crisis credit. **Oversight** will range the fiscal impact of the program from $0 to the annual statutory limit of $4 million.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2015. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2016.

Sections 135.350 and 135.352 Low Income Housing Tax Credit
Officials at the **Budget and Planning (BAP)** assume this proposal phases in a lower annual cap on the LIHTC programs. LIHTC authorizations averaged about $134.4 million during FY's 2009-2011. The caps shall be the sum of $125 million for FY13; $107 million for FY14; $89 million for FY15; and $70 million thereafter. Based on prior redemption patterns, BAP estimates that this will increase General and Total State Revenues with increasing amounts in subsequent years.

Officials at the **Missouri Housing Development Commission** (**MHDC**) assume the proposal caps the 9% MOLIHTC beginning in FY 13 at $110 million, FY 14 at $97 million, FY 15 at $84 million, and FY 16 and on at $70 million. The proposal caps the 4% MOLIHTC beginning in FY 13 at $15 million, FY 14 at $10 million, FY 15 at $5 million, and prohibits the authorization of 4% MOLIHTCs in FY 16 and beyond.

MHDC assumes the federal 9% LIHTC will be $12.5 million per year and the federal 4% LIHTC will be $6 million per year. Due to the lag time between authorization, issuance and redemptions, the impact of the reduction to MOLIHTC will not begin until FY 2015.

MHDC assumes this proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits.

Oversight assumes this proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits. Therefore, Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will show a projected increase in net revenues as being Unknown.

ASSUMPTION (continued)

Oversight notes that this provision, if enacted, would substantially reduce the issuance of Missouri Low Income Housing Tax Credits. Oversight also assumes that the reduction would begin to have an impact in FY 2015 since projects approved after June 30, 2012 would not result in tax credits issued until after the end of FY 2014.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2018. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2019.

Section 135.562 Residential Dwelling Tax Credit
Officials at the **Budget and Planning** assume this proposal extends the sunset on the Residential Dwelling Accessibility Tax Credit from 12/31/13 to 12/31/16. This will reduce General and Total State Revenues by about $21,000 in FY 2015-16, based on prior years' redemptions.

Oversight assumes this tax credit was to sunset on December 31, 2013 (FY 2014). This proposal extends the tax credit and therefore Oversight will show the loss to state revenue of the tax credits issued in FY 15. This tax credit has a statutory cap of $100,000 and therefore, Oversight for the fiscal note is showing the amount of loss of revenue in future years to the State as zero to the annual cap of $100,000.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after December 31, 2016. Oversight assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2017.

Section 135.630 Pregnancy Resource Center Tax Credit
Officials at the **Budget and Planning (BAP)** assume this proposal extends the sunset on this program from 8/28/12 to 8/28/15. Redemptions for this program totaled $1,103,384 in FY11. This proposal will reduce General and Total State Revenues by similar amounts in FY13 and beyond.

Officials at the **Department of Social Services** assume there is no fiscal impact from this proposal.

Oversight assumes this tax credit was to sunset on August 28, 2012 (FY 2013). This proposal extends the tax credit until August 28, 2015, and therefore Oversight will show the loss to state

ASSUMPTION (continued)

revenue of the tax credits issued in FY 14. This tax credit has a statutory cap of $2 million. In the last five years an average of $1,301,308 credits have been issued. Oversight will range the fiscal impact of the program from $0 to the annual statutory limit of $2 million.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2015. Oversight assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2016.

Section 135.647 Food Pantry Tax Credit
Officials at the **Budget and Planning** assume the food pantry tax credit program sunset on 8/28/11. This proposal renews the program until 8/28/15. Redemptions under this program were just under $1.1 million in FY11, but had been increasing; the annual cap of $2 million remains. The increased limits above may encourage additional donations. Therefore, this proposal may reduce General and Total State Revenues $1.1 million-2.0 million annually.

Officials at the **Department of Revenue** assume the department will need to make form changes and programming changes to various tax systems. Additionally, the Personal Tax Division would need one Revenue Processing Technician ($25,380) I for every 4,000 credits claimed.

Oversight assumes that the Department of Revenue would be able to handle this credit with existing resources.

Oversight assumes this tax credit sunset on August 28, 2011. This proposal extends the tax credit and therefore **Oversight** will show the loss to state revenue of the tax credits issued in FY 13, FY 14 and FY 15. **Oversight** for the fiscal note is showing the amount of loss of revenue to the State as being zero to the annual cap.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2015. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected is outside the fiscal note period. Taxes will start being collected in FY 2016.

Sections 135.815 and 135.967 Delinquent Property Tax & Federal Tax
Officials at the **Budget and Planning** assume this proposal prohibits the authorization of tax credits until a tax clearance has been issued. This will increase General and Total State Revenue by an unknown amount.

ASSUMPTION (continued)

Officials at the **Department of Social Services** assume this proposal would require checks on property taxes as well as federal taxes. Because the department would have no way to know where the taxpayers might owe property taxes and would not be allowed by the federal government to check on federal taxes owed due to privacy issues, the default would be to ask each taxpayer applying for a tax credit to provide a statement of no taxes due on property or to the federal government. Therefore this would have no fiscal impact on the department.

Oversight assumes this proposal prohibits the issuance of tax credits until a tax clearance letter is received by the department. Until the letter is produced the tax credits will not be issued but once the letter is received the credits will be issued. Therefore, Oversight assumes this proposal will not result in a fiscal impact.

Section 135.822 Sunset all tax credits
Officials at the **Budget and Planning** assume this proposal could have an unknown, but significant impact on Total State Revenue and General Revenue, should tax credit programs not be re-authorized.

Officials at the **Department of Agriculture, Department of Health and Senior Services** and the **Department of Social Services** assume there is no fiscal impact from this proposal.

Officials at the **Department of Economic Development** (**DED**) assume this proposal sunsets all tax credit programs, not subject to the MO Sunset Act (23.250, RSMo), effective January 1, 2016, unless re-authorized by the General Assembly. Affected programs under the administration of the DED's Division of Business and Community Services include the Neighborhood Assistance Program, Youth Opportunities Tax Credit, Family Development Account, Development Tax Credit, Incubator Tax Credit, Rebuilding Communities, Wine and Grape Growers Tax Credit, Brownfield Redevelopment, Historic Preservation and the Neighborhood Preservation Act. Any anticipated positive fiscal impact based on the sunset of programs, would be offset by an unknown negative fiscal impact over $100,000 with respect to those programs that require or result in a net positive fiscal impact to the state in order for the benefit or tax credit to be issued. Such programs include Brownfield Redevelopment, Quality Jobs and Enhanced Enterprise Zone. DED estimates the savings based on the average authorizations from FY 2008 to FY 2010, as being $267,016,170 and the savings based on the current statutory cap as being $296,800,000.

ASSUMPTION (continued)

Officials at the **Missouri Housing Development Commission** (**MHDC**) assume the pertinent programs affected include the Missouri Low Income Housing Tax Credit and Affordable Housing Assistance Program, both administered by MHDC. There may be a fiscal impact if the programs are not re-authorized, but that depends on future actions of the General Assembly, which cannot be known. The savings associated with the sunset of the AHAP will be $11 million per fiscal year beginning in Fiscal Year 2017, which is outside the fiscal note period.

Officials at the **Department of Natural Resources** assume the impact is unknown due to the uncertainty of which tax credits the General Assembly would choose to re-authorize.

Oversight assumes this proposal places a sunset date of January 1, 2016 on all tax credits that do not currently have a sunset. January 1, 2016 is FY 2016 and is outside the fiscal note period. Any savings realized from tax credits stopping would be outside the fiscal note period. In FY 2011, $546,694,941 tax credits were redeemed.

Oversight is unable to predict which tax credits would be re-authorized after January 1, 2016 so Oversight is unable to predict a future savings to the State.

Section 135.1150 Residential Treatment Agency Tax Credit
Officials at the **Budget and Planning** assume this proposal extends the Residential Treatment Agency credit from 8/28/12 until 8/28/15. Because agencies are required to remit payments for the credits, this proposal has no direct impact on General and Total State Revenues.

Officials at the **Department of Social Services** assume there is no fiscal impact from this proposal.

Oversight assumes this proposal would prohibit the issuance of any further tax credits under this program after August 28, 2015. **Oversight** assumes any income to the state from tax credits not issued and the taxes being collected would be outside the fiscal note period. Taxes would start being collected in FY 2016.

Section 135.1180 Developmental Disability Care Provider Tax Credit
Officials at the **Budget and Panning** assume this proposal creates a similar tax credit program for contributions made to Developmental Disability Care Providers. These agencies are required to submit payment to the state in amount equal to 50% of the donation, the equivalent amount of the tax credit. Therefore, this proposal will not impact General and Total State Revenues.

ASSUMPTION (continued)

Officials at the **Department of Social Services** (**DOS**) assume this bill will create another tax credit for DOS to administer. The administration should be able to be accomplished with existing staff.

Officials at the **Department of Revenue** (**DOR**) assume this proposal creates the "Developmental Disability Care Provider Tax Credit Program." This tax credit is for all tax years beginning on or after January 1, 2012, taxpayers will be allowed a credit against the taxes due under Chapters 143, 147, or 148 excluding withholding tax in an amount equal to 50% of the amount of an eligible donation, subject to the restrictions in this section. The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state income tax liability. The credit is not refundable and may be carried forward four years. Tax credits issued under this section may be assigned, transferred, sold, or otherwise conveyed, and the new owner of the tax credit shall have the same rights in the credit as the taxpayer.

DOR assumes DOR and ITSD-DOR will need to make processing changes to multiple processing systems. The Department will need to make forms changes. In addition Corporate tax will need a Revenue Processing Technician (starting salary $25,380) for every 6,000 tax credit redemptions.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Oversight assumes that due to the limited number of individuals currently taking advantage of this program that DOR could absorb the duties of this bill with existing staff.

Oversight assumes that section 135.1180.4(3) requires payment from the provider equal to the amount of the value of the tax credit. **Oversight** assumes that receipt of payment and the application of the tax credits could affect various state funds, so for the purpose of this note **Oversight** is showing all the payments and costs to general revenue. However, the overall result of this proposal is no impact to Total State Revenue.

Sections 253.550, 253.557 and 253.559 Historic Preservation Tax Credit
Officials at the **Budget and Planning** assume this proposal reduces the cap on Historic Tax Credits from $140 million to $75 million, and sunsets the program on 8/28/18. This cap does not apply to projects receiving less than $275,000 in tax credits, however a separate cap of $10

ASSUMPTION (continued)

million on these projects is created. This proposal also places a per-project cap of $125,000 in credits on certain residential projects.

Authorizations under this program averaged $131.4 million over FY's 2009-2011. Based on prior redemption patterns, the aggregate cap of $85 million created in this proposal will increase General and Total State Revenues by $1.5 million in FY13, $6.5 million in FY14, and $16.3 million in FY15, with additional amounts in subsequent years.

Officials at the **Department of Economic Development** (**DED**) assume this proposal revises the Historic Preservation Tax Credit program by reducing the annual cap from $140 million to $75 million beginning July 1, 2012 (FY 2013). This program is administered by the Division of Business and Community Services. DED assumes the proposed legislation will have a positive impact on Total State Revenues from Unknown to $25 million. Historically, the estimated amount of tax credits authorized per fiscal year for the Historic Preservation tax credit program is $100 million. The proposed legislation caps the amount of authorized tax credits at $75 million which may increase the state's tax revenues by $25 million.

Officials at the **Department of Natural Resources** assume the State Historic Preservation Office (SHPO) is responsible for reviewing and approving rehabilitation work for state historic preservation tax credits. Federal and State tax credits can be used in combination for the rehabilitation of commercial or income producing properties. Any changes in the tax credit structure may have an impact on the number or rehabilitation projects the State Historic Preservation Office reviews and approves.

This proposal appears to task the State Historic Preservation Office with the responsibility to verify that the project meets the 50% basis requirement. This task is currently conducted by the Department of Economic Development. If this is the case, SHPO workload would increase. Fiscal impact is unknown due to the uncertainty of the additional workload that would be necessary to carry out this requirement.

Oversight assumes that the Department of Natural Resources can absorb these additional duties within existing resources. Should it be determined that a measurable increase in the workload has occurred they could request additional resources through the appropriation process.

Section 1
Officials at the **Budget and Planning** assume this proposal prohibits certain taxpayers from receiving benefits under programs administered by the Department of Economic Development. This could increase General and Total State Revenue by an unknown amount.

ASSUMPTION (continued)

Oversight assumes it is unclear how many taxpayers would not be issued tax credits under this proposal. Oversight will show the impact as $0 to Unknown savings.

Bill as a Whole
Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. 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 through out 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.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials at the **Joint Committee on Administrative Rules, Missouri Department of Transportation** and the **Office of State Treasurer** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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 $2,500. 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 the 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.

ASSUMPTION (continued)

FISCAL IMPACT - State Government	FY 2013	FY 2014	FY 2015
GENERAL REVENUE			
Revenue Increase - reduction of property tax credit redemptions for renters (135.010)	$53,000,000	$53,000,000	$53,000,000
Revenue Increase - decreasing the cap of the low income housing tax credit (135.350)	$0	$0	$6,000,000
Revenue Increase - prohibit the stacking of low income & historic tax credits (135.352)	Unknown	Unknown	Unknown
Revenue Increase - decreasing the cap on Historic Preservation (253.550)	$0	$0	$25,000,000
Savings- not issuing tax credits to certain taxpayers (Section 1)	$0 to Unknown	$0 to Unknown	$0 to Unknown
Revenue Reduction - extension of the sunset on tax credits			
Surviving Spouse (135.090)	$0	$0	($16,360)
Wood Energy (135.305)	$0	($5,360,228)	($5,360,228)
Children In Crisis (135.327)	$0	$0 to ($4,000,000)	$0 to ($4,000,000)
Residential Dwelling (135.562)	$0	$0	$0 to ($100,000)
Pregnancy Resource Center (135.630)	$0	$0 to ($2,000,000)	$0 to ($2,000,000)
Food Pantry (135.647)	$0 to ($2,000,000)	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Unknown greater than $51,000,000**	**Unknown greater than $39,639,772**	**Unknown greater than $70,523,412**

FISCAL IMPACT - Local Government	FY 2013	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credits that were going to expire and would be extended under this proposal could see a fiscal impact.

FISCAL DESCRIPTION

This proposal imposes a sunset upon tax credit programs not currently subject to a sunset provision, modifies the low-income housing and historic preservation tax credit programs, and extends the sunset on certain tax credits.

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

Budget and Planning
Department of Agriculture
Department of Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Department of Social Services
Joint Committee on Administrative Rules
Missouri Department of Transportation
Missouri Housing Development Commission
Office of the Secretary of State
Office of State Treasurer

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March 30, 2012

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