

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0147-03
Bill No.: SCS for SB 6
Subject: Tax Credits; Historic Preservation
Type: Original
Date: February 6, 2017

Bill Summary: This proposal changes the aggregate cap on tax credits for the rehabilitation of historic structures to \$80 million annually, and allows for tax credit donations to the Capitol Complex Fund.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|--|---------------------------------|---------------------------------|---------------------------------|-------------------------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | Fully Implemented |
| General Revenue | Up to (\$10,174,658) | Up to (\$10,000,000) | Up to (\$10,000,000) | Up to \$12,725,332 |
| Total Estimated Net Effect on General Revenue | Up to (\$10,174,658) | Up to (\$10,000,000) | Up to (\$10,000,000) | Up to \$12,725,332 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|--|------------|------------|------------|-------------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | Fully Implemented |
| Capitol Complex* | \$0 | \$0 | \$0 | \$0 |
| | | | | |
| Total Estimated Net Effect on Other State Funds | \$0 | \$0 | \$0 | \$0 |

*Revenues and costs net to zero.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 12 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|----------------|----------------|----------------|--------------------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | Fully Implemented |
| | | | | |
| | | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | | |
|---|----------------|----------------|----------------|--------------------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | Fully Implemented |
| | | | | |
| | | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 | 0 |

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | | |
|--|----------------|----------------|----------------|--------------------------|
| FUND AFFECTED | FY 2018 | FY 2019 | FY 2020 | Fully Implemented |
| Local Government | \$0 | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

§253.550 Historic Preservation Cap

Officials at the **Office of Administration’s Division of Budget and Planning (B&P)** assume this proposal would impose a \$80,000,000 cap on the Historic Preservation Tax Credit, which may be increased by any amount for tax credits that were initially approved, but then rescinded by the Department of Economic Development. The current cap is \$140,000,000; therefore, this proposal would lower the cap on the program. Lowering the cap by \$60,000,000 could result in savings to General and Total State Revenue by that amount. B&P notes the average amount of authorizations over the last three fiscal years is \$111,507,042 and the average amount of redemptions is \$54,988,298.

Officials at the **Department of Economic Development (DED)** assume the reduction of the cap to the historic program would offset the cost of the Capitol Credit. The average amount of authorizations for the last three years for the Historic program is \$100 million per year, so reducing the cap to \$80 million is only a \$20 million reduction, not a \$60 million reduction as reflected in the statute.

The \$20 million reduction in the historic program is offset by the spending of \$10 million per year on the Capitol Complex tax credit. Thus, leaving the state with a savings of \$10 million.

Oversight notes §253.550.2 states the \$140 million aggregate cap for the Historic Preservation Tax Credit will end December 31, 2017. Beginning July 1, 2017, the aggregate cap is decreased to \$80 million. Based on the Tax Credit Analysis Form submitted by DED, the table below shows the history of amounts authorized, issued, and redeemed of the tax credit.

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 (Year to Date) | FY 2018 (projected) |
|-------------------|---------------|--------------|--------------|------------------------|---------------------|
| Amount Authorized | \$146,635,429 | \$97,136,287 | \$90,749,410 | \$19,105,532 | \$160,000,000 |
| Amount Issued | \$41,791,636 | \$53,206,338 | \$59,590,351 | \$38,259,369 | \$100,000,000 |
| Amount Redeemed | \$59,829,671 | \$47,638,886 | \$57,496,338 | \$9,319,425 | \$60,000,000 |

Oversight notes that in order to be awarded a historic preservation tax credit an applicant must apply by submitting plans for their project and receive initial approval from DED. If DED approves the project then they authorize the tax credit. The project must be completed, expenses

ASSUMPTION (continued)

must be filed with DED and reviewed to determine if the credits can be issued. Once the credits are issued a person has a ten year carry forward and three year carry back on the redemption of the tax credits. Oversight assumes that this proposal changes the amount of tax credits that can be authorized and would impact future projects that have not been authorized yet. Current projects already authorized, whether issued or not, would not be impacted.

Oversight notes the current five year authorization average is \$102,725,332 and the current five year issue average is \$66,271,394. Oversight assumes that lowering the authorization annual limit from \$140 million to \$80 million will impact the state. However, due to the length of the projects Oversight is unable to determine in which fiscal year the savings may occur. Oversight will show a savings of up to \$22,725,332 (\$102,725,332 - \$80,000,000).

§620.3200 Capitol Complex Fund Fee

Officials at the **B&P** assume this proposal would also create the Capitol Complex Fund that will be used for maintenance, renovations, and rehabilitation of the Capitol Complex, administered by the Missouri Development Finance Board (MDFB). Revenues for this fund will consist of a fee collected by the Department of Economic Development (DED) on all issued Historic Preservation Tax Credits, as well as other monetary donations. Because this fund will be a Missouri Development Finance Board fund outside the State Treasury, it will have no impact on Total State Revenues. It will impact the calculation under Article X, Section 18(e). B&P defers to DED and MDFB for more specific impacts regarding the fee collection and fund administration.

Oversight notes §620.3200 allows the Department of Economic Development to charge a fee to the recipient of any tax credits issued by the Department under the provisions of chapter 253 (Historic Preservation Tax Credit) in an amount not to exceed one percent of the amount of tax credits issued. Oversight also notes this fee shall be payable to the Missouri Development Finance Board for the benefit of the Capitol Complex Fund. Using the projections provided by DED on the Tax Credit Analysis form for FY 2017, Oversight will show revenue to the Capitol Complex Fund in the amount of Up to \$800,000 (\$80,000,000 x 1%) starting in FY 2018.

§620.3210 Capitol Complex Tax Credit

Officials at the **B&P** assume this proposal would also create a tax credit for individuals or entities that make eligible monetary or artifact donations to the Capitol Complex Fund, beginning January 1, 2017. Taxpayers may claim a tax credit for an amount up to 50% of their eligible monetary donation or for an amount up to 30% of their eligible artifact donation. The credit for monetary donations is refundable and has a four-year, carry-forward provision. The credit for eligible artifact donations has a four-year, carry-forward

ASSUMPTION (continued)

provision. Issuances of these tax credits are capped at \$10,000,000 annually. These tax credits may offset tax year 2017 liabilities; therefore, reducing General and Total State Revenues by up to \$10,000,000 annually beginning in FY 2018.

B&P assumes the net of the changes to the Historic Preservation tax credit and the two new credits are estimated to save up to \$10,000,000 annually. These changes may impact other economic activity, but B&P does not have data to estimate the induced revenues. B&P notes the average amount of authorizations over the last three fiscal years is \$111,507,042 and the average amount of redemptions is \$54,988,298.

Oversight assumes the many changes to existing programs in this proposal would have a positive impact on the state. However, Oversight considers this to be an indirect impact of the proposals and will not reflect them in the fiscal note.

Officials at the **Missouri Development Finance Board (MDFB)** assume the contributions that may be received under this tax credit program will help maintain and repair various State buildings. While the tax credits issued would have a reduction on State Revenue, the ability to use those contributions for repairs will save the State 50% of the costs it would otherwise incur to pay those maintenance expenses. There is a potential for this program to require the hiring of fund raising professionals or additional MDFB staff for purposes of soliciting donations and administrating the tax credits. Since demand cannot be estimated it cannot be known at what point this may become necessary, if at all.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown impact to premium tax revenues as a result of these 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 throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

The department will require minimal contract computer programming to add these new tax credits 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.

ASSUMPTION (continued)

Oversight notes the Department of Economic Development shall not authorize more than \$10 million in tax credits under §620.3210 in any calendar year. Therefore, Oversight will show a fiscal impact of \$0 (no credits authorized) to the maximum cap of \$10 million.

Oversight notes §620.3210.4 of this proposal allows for a qualified donor to claim a credit in the amount of 50% of the eligible monetary donation (\$10 million maximum tax credit cap / 50% = \$20,000,000). §620.3210.5 of this proposal allows for a qualified donor to claim a credit in the amount of 30% of the eligible artifact donation (\$10 million maximum tax credit cap / 30% = \$33,333,333). Oversight will show donations to the Capitol Complex Fund up to \$20,000,000 to \$33,000,000.

Officials at the **Department of Revenue (DOR)** assume this will require form and programming changes to implement this legislation. The Integrated Tax System will need an additional \$174,658 to implement the provisions of this legislation.

DOR's Personal Tax Division will require one (1) Revenue Processing Technicians I (\$27,185) for every 6,000 credits redeemed. The Corporate Tax Division will require three (3) Revenue Processing Technicians I (\$27,185) to implement the provisions of this legislation. The section requires one technician for every 6,000 credits redeemed, one for every 4,000 credits transferred, and one technician for every 520 compliance mailings and correspondence.

Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

Bill as a Whole

Officials at the **Office of Administration's Division of Facilities Management, Design and Construction (FMDC)** assume the donations would be used for the restoration and maintenance of the Capitol. This could increase our project load, which may require additional FTE. Without knowing the number of donations that would be made to the fund, FMDC is unable to calculate how many additional FTE might be needed. FMDC would request FTE in future budget proposals should they be needed.

ASSUMPTION (continued)

Officials at the **Joint Committee on Administrative Rules, Office of Administration's Division of Accounting** and the **Office of the State Treasurer** each 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

| <u>FISCAL IMPACT -</u> <u>State Government</u> | FY 2018 | FY 2019 | FY 2020 | Fully Implemented |
|--|--|--|--|--------------------------------------|
| GENERAL REVENUE FUND | | | | |
| <u>Savings</u> - decrease of aggregate cap for Historic Preservation Tax Credit §253.550.2 | \$0 | \$0 | \$0 | Up to \$22,725,332 |
| <u>Cost</u> - DOR - computer | (\$174,658) | \$0 | \$0 | \$0 |
| <u>Revenue Reduction</u> - tax credit for donations to the Capitol Complex Fund §620.3210 | Up to <u>(\$10,000,000)</u> | Up to <u>(\$10,000,000)</u> | Up to <u>(\$10,000,000)</u> | Up to <u>(\$10,000,000)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | Up to <u>(\$10,174,658)</u> | Up to <u>(\$10,000,000)</u> | Up to <u>(\$10,000,000)</u> | Up to <u>\$12,725,332</u> |

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

| <u>FISCAL IMPACT - State Government</u> | FY 2018 | FY 2019 | FY 2020 | Fully Implemented |
|---|--|--|--|--|
| CAPITOL COMPLEX FUND | | | | |
| <u>Revenue</u> - fees charged by DED (1% of Historic Preservation Credit) §620.3200 | Up to \$800,000 | Up to \$800,000 | Up to \$800,000 | Up to \$800,000 |
| <u>Donations</u> - value of donations (50% tax credit for cash donations, 30% tax credit for donations of artifacts) | Up to \$20,000,000 or \$33,000,000 | Up to \$20,000,000 or \$33,000,000 | Up to \$20,000,000 or \$33,000,000 | Up to \$20,000,000 or \$33,000,000 |
| <u>Cost</u> - administrative expenses §620.3210.3 | (Unknown) | (Unknown) | (Unknown) | (Unknown) |
| <u>Cost</u> - Rehabilitation, renovation & maintenance of capitol complex buildings | <u>(Unknown)</u> | <u>(Unknown)</u> | <u>(Unknown)</u> | <u>(Unknown)</u> |
| ESTIMATED NET EFFECT ON CAPITOL COMPLEX FUND | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

| <u>FISCAL IMPACT -</u> <u>Local Government</u> | FY 2018 (10 Mo.) | FY 2019 | FY 2020 | Fully Implemented |
|---|---------------------|------------|------------|----------------------|
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

Small businesses that receive the tax credit could be positively impacted.

FISCAL DESCRIPTION

Currently, the Department of Economic Development (DED) shall not approve tax credits for the rehabilitation of historic structures which, in the aggregate, exceed \$140 million, increased by any amount of tax credits for which approval shall be rescinded for any reason. For each fiscal year beginning on or after July 1, 2017, the aggregate cap is reduced to \$80 million.

The DED may charge a fee in an amount not to exceed one percent of any tax credit issued to a recipient for the rehabilitation of historic structures. Any revenues generated by such a fee shall be deposited in the Capitol Complex Fund, which is created by this act.

The Capitol Complex Fund is also authorized to receive any eligible monetary donation, as defined in the act, and shall be segregated into two accounts: a rehabilitation and renovation account, and a maintenance account. Ninety percent of the revenues deposited into the fund shall be placed in the rehabilitation and renovation account and seven and one-half percent of revenues deposited in the fund shall be placed in the maintenance account. The remaining two and one-half percent of the funds may be used for the purposes of fund-raising, advertising, and administrative costs.

The choice of projects for which money is to be used, as well as the determination of the methods of carrying out the project and the procurement of goods and services, shall be made by the Commissioner of Administration. No moneys shall be released from the fund for any expense without the approval of the Commissioner of Administration.

For all taxable years beginning on or after January 1, 2017, any qualified donor, as defined in the act, shall be allowed a credit against any state income tax (except employer withheld taxes) or state taxes imposed on financial institutions for an amount equal to fifty percent of the monetary donation amount. Any amount of tax credit that exceeds the qualified donor's state income tax liability may be refunded or carried forward for the following four years.

FISCAL DESCRIPTION (continued)

For all taxable years beginning on or after January 1, 2017, a qualified donor shall be allowed a credit against any state income tax (except employer withheld taxes) or state taxes imposed on financial institutions for an amount equal to thirty percent of the value of the eligible artifact donation, as defined in the act. Any amount of tax credit that exceeds the donor's tax liability shall not be refunded for artifacts, but the credit may be carried forward for four subsequent years.

The DED shall not issue tax credits for donations to the Capitol Complex Fund in excess of \$10 million per year in the aggregate. Donations received in excess of the cap shall be placed in line for tax credits the following year. Alternatively a donor may donate without receiving the credit or may request that their donation is returned.

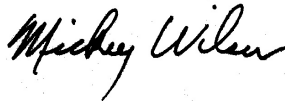
Tax credits issued for donations under this act are not subject to any fee. Tax credits issued under this act may be assigned, transferred, sold, or otherwise conveyed. This act shall sunset six years after August 28, 2017, unless re-authorized by the General Assembly.

This act contains an emergency clause.

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 Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Missouri Development Finance Board
Office of Administration
 Division of Accounting
 Division of Budget and Planning
 Division of Facilities Management, Design and Construction
Office of the State Treasurer
Office of the Secretary of State



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