

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1354-01
Bill No.: SB 255
Subject: Tax Credits, Historic Preservation, Department of Economic Development
Type: Original
Date: February 15, 2019

Bill Summary: This proposal establishes the Capitol Complex Tax Credit Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(Up to \$10,089,273)	(Up to \$10,090,406)	(Up to \$10,091,073)
Total Estimated Net Effect on General Revenue	(Up to \$10,089,273)	(Up to \$10,090,406)	(Up to \$10,091,073)

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 decrease in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Capitol Complex	Up to \$21,200,000	Up to \$21,200,000	Up to \$21,200,000
Total Estimated Net Effect on <u>Other</u> State Funds	Up to \$21,200,000	Up to \$21,200,000	Up to \$21,200,000

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	2 FTE	2 FTE	2 FTE
Capitol Complex	0 to 1 FTE	0 to 1 FTE	0 to 1 FTE
Total Estimated Net Effect on FTE	2 to 3 FTE	2 to 3 FTE	2 to 3 FTE

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 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§620.3200 Historic Preservation Fee

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would 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 1% fee collected by the Department of Economic Development 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. Fees collected for this will impact the calculation under Article X, Section 18(e). Based on the three year average of Historic tax credit issuances \$60,667,663, the fees collected could be around \$606,677 per year.

Officials at the **Department of Economic Development (DED)** assume this creates the Capitol Complex Tax Credit Act. This allows DED to charge a fee of 1% on all historic tax credits issued, payable to MDFB, for the capitol complex fund. The cap on the historic tax credit program is \$120 million per year. 1% of that will be \$1.2 million/year into the fund. This will not impact Total State Revenue since this money goes directly to the MDFB for the fund.

Oversight notes based on the Tax Credit Analysis Form submitted by DED, the table below shows the history of the Historic Preservation Tax Credit amounts authorized, issued, and redeemed of the tax credit.

	FY 2017	FY 2018	FY 2019 (projected)	FY 2020 (projected)
Certificates Issued	162	112	245	246
Projects	113	78	170	170
Amount Authorized	\$154,152,770	\$151,542,288	\$156,000,000	\$136,000,000
Amount Issued	\$85,136,859	\$37,275,810	\$120,000,000	\$120,000,000
Amount Redeemed	\$49,742,927	\$56,483,070	\$55,000,000	\$55,000,000

Amount Outstanding - \$79,245,330 Amount Authorized but Unissued - \$447,822,839

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. The Historic Preservation cap was

ASSUMPTION (continued)

changed on July 1, 2018 to \$90 million for all credits and an additional \$30 million for certain specific projects. Oversight will show revenue to the Capitol Complex Fund in the amount of Up to \$1,200,000 $[(\$90,000,000 + \$30,000,000) \times 1\%]$ starting in FY 2020.

Oversight notes revenue in the Capitol Complex Fund shall be separated into accounts: a Rehabilitation and Renovation account and a Maintenance account. The distribution of the funds shall be 90 percent (\$1,080,000) and 7.5 percent, (\$90,000) respectively. The remaining 2.5 percent (\$30,000) may be used for soliciting donations to the fund, advertising and promoting the fund, and administrative costs of the fund. Oversight will show the breakdown of the funds into the separate accounts.

§620.3210 Capitol Complex Tax Credit Act

Officials at the **B&P** assume this proposal would create a tax credit for individuals or entities that make eligible monetary or artifact donations to the Capitol Complex Fund, beginning January 1, 2019. 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 provision. Issuances of these tax credits are capped at \$10,000,000 annually. These tax credits may offset Tax Year 2019 liabilities; therefore, reducing General and Total State Revenues by up to \$10,000,000 annually beginning in FY 2020.

Officials at the **DED** assume this proposal creates 620.3210, the Capitol Complex Tax Credit Act. Beginning January 1, 2019, a donor gets a tax credit of 50% for monetary donation and 30% for artifact donation up to the cap of \$10 million authorizations per year. This is the impact to Total State Revenue since it is a reduction of tax revenue. DED will need to hire 1 Economic Development Incentive Specialist III (\$51,108) to administer the program. There will be a cost of \$10 million per year but that will be offset by the \$1.2 million into the capitol complex fund each year.

Oversight assumes DED could absorb the additional duties without adding an FTE; however, DED has stated due to current workload, these costs cannot be absorbed. Therefore, Oversight will range the cost from \$0 (FTE can be absorbed) to the estimate provided by DED (FTE is not absorbed) to the Capitol Complex Fund. Oversight notes this proposal allows for DED's administration costs to be paid out of the Capitol Complex Fund.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume this section creates the "Capitol Complex Tax Credit Act". For all taxable years beginning on or after January 1, 2019, this act authorizes a tax credit against the taxes otherwise due under chapter 143 and 148, except for sections 143.191 to 143.265, for all monetary and artifact donations. The tax credit for monetary donations shall not exceed fifty percent of the eligible donation, is refundable and may be carried forward up to four taxable years. The tax credit for artifact donations shall not exceed thirty percent of the eligible donation, is not refundable but may be carried forward up to four taxable years. No more than 10 million dollars in tax credits shall be authorized in any given calendar year.

This section establishes the "Capitol Complex Fund", which is authorized to receive any eligible monetary donation as provided in the section and revenues derived from fees imposed in section 620.3200. The "Capitol Complex Fund" shall be separated into two accounts: a rehabilitation and renovation account and a maintenance account. The distribution of the funds shall be 90 percent and 7.5, respectively. The remaining 2.5 percent may be used for soliciting donations to the fund, advertising and promoting the fund, and administrative costs of the fund.

DOR's Personal Tax Section requires 1 FTE Revenue Processing Technician (\$24,360) for every 6,000 credits redeemed and the Corporate Tax Section requires 1 FTE Revenue Processing Technician (\$24,360) for every 6,000 credits redeemed.

Oversight will show the DOR FTE in the fiscal note. Oversight will show the DOR FTE costs in General Revenue.

Officials at the **Office of the State Treasurer** assume there is no fiscal impact from this proposal.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume a potential decrease of up to \$10,000,000 in premium tax revenues as a result of the creation of the Capitol Complex Tax Credit Act tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

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. This tax credit begins with tax year January 1, 2019, so the first year a person would claim the credit is FY 2020. Therefore, Oversight will show a fiscal impact of Up to the maximum cap of \$10 million beginning in FY 2020.

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 (cash portion). Oversight will show the breakdown of the donations into the separate accounts within the Capitol Complex Fund.

Officials at the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** assume 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 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 require additional resources.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue Reduction</u> - DOR §620.3210 - Capitol Complex tax credit	(Up to \$10,000,000)	(Up to \$10,000,000)	(Up to \$10,000,000)
<u>Cost</u> - DOR §620.3210			
Personal Service	(\$40,600)	(\$49,207)	(\$49,699)
Fringe Benefits	(\$33,391)	(\$40,217)	(\$40,367)
Equip & Exp	(\$15,282)	(\$982)	(\$1,007)
<u>Total Cost</u> -	(\$89,273)	(\$90,406)	(\$91,073)
FTE Change - 2 FTE	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Up to \$10,089,273)</u>	<u>(Up to \$10,090,406)</u>	<u>(Up to \$10,091,073)</u>
Estimated Net FTE Change on General Revenue	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022
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CAPITOL COMPLEX FUND

<u>Additional Revenue</u> - DED §620.3200 90% of the 1% fee charged on the Historic Preservation Credit to be appropriated to the Rehabilitation & Renovation Account	\$1,080,000	\$1,080,000	\$1,080,000
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<u>Additional Revenue</u> - DED §620.3200 7.5% of the 1% fee charged on the Historic Preservation Credit to be appropriated to the Maintenance Account	\$90,000	\$90,000	\$90,000
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<u>Additional Revenue</u> - DED §620.3200 2.5% of the 1% fee charged on the Historic Preservation Credit to be Appropriated for Administration	\$30,000	\$30,000	\$30,000
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<u>Cost</u> - DED §620.3210 paid from the Administration Account			
Personal Service	\$0 to (\$42,590)	\$0 to (\$51,619)	\$0 to (\$52,135)
Fringe Benefits	\$0 to (\$23,487)	\$0 to (\$28,340)	\$0 to (\$28,498)
Equip & Exp	\$0 to (\$11,874)	\$0 to (\$4,578)	\$0 to (\$4,692)
<u>Total Cost</u> -	\$0 to (\$77,951)	\$0 to (\$84,537)	\$0 to (\$85,325)
FTE Change - 1 FTE	0 to 1 FTE	0 to 1 FTE	0 to 1 FTE

<u>Donations</u> - DED §620.3210 - value of donations (50% tax credit for cash donations, 30% tax credit for donations of artifacts) -90% appropriated to the Rehabilitation & Renovation Account	Up to \$18,000,000	Up to \$18,000,000	Up to \$18,000,000
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<u>Donations</u> - DED §620.3210 - value of donations (50% tax credit for cash donations, 30% tax credit for donations of artifacts) -7.5% appropriated to the Maintenance Account	Up to \$1,500,000	Up to \$1,500,000	Up to \$1,500,000
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<u>FISCAL IMPACT - State Government</u>	FY 2020	FY 2021	FY 2022
(continued)	(10 Mo.)		

CAPITOL COMPLEX FUND
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<u>Donations</u> - DED §620.3210 - value of donations (50% tax credit for cash donations, 30% tax credit for donations of artifacts) -2.5% appropriated for Administration	<u>Up to \$500,000</u>	<u>Up to \$500,000</u>	<u>Up to \$500,000</u>
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ESTIMATED NET EFFECT ON THE CAPITOL COMPLEX FUND	<u>Up to</u> <u>\$21,200,000</u>	<u>Up to</u> <u>\$21,200,000</u>	<u>Up to</u> <u>\$21,200,000</u>
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Estimated Net FTE Change on the Capitol Complex Fund	0 to 1 FTE	0 to 1 FTE	0 to 1 FTE
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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 decrease 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 - Local Government</u>	FY 2020	FY 2021	FY 2022
	(10 Mo.)		
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that receive the Historic Preservation Tax Credit or make donations to the Capitol Complex Fund could be fiscally impacted.

FISCAL DESCRIPTION

This act creates the Capitol Complex Tax Credit Act.

The Capitol Complex Fund is 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

FISCAL DESCRIPTION (continued)

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, 2019, 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.

For all taxable years beginning on or after January 1, 2019, 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 Department of Economic Development 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, 2019, unless re-authorized by the General Assembly. (§620.3210)

This act allows the Department to 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 under Chapter 253. Any revenues generated by such a fee shall be deposited in the Capitol Complex Fund. (§620.3200)

ASSUMPTION (continued)

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 Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration Division of Budget and Planning
Office of the Secretary of State
Office of the State Treasurer



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