

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5437-01
Bill No.: SB 1004
Subject: Tax Credits
Type: Original
Date: March 10, 2020

Bill Summary: This proposal prohibits tax credits for the construction or rehabilitation of residences located in certain distressed areas after August 28, 2020.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0	\$4,000,000	\$4,000,000
Total Estimated Net Effect on General Revenue*	\$0	\$4,000,000	\$4,000,000

*This program has a \$16 million annual cap, but historical issuances and projected future issuances average approximately \$4 million per year. Therefore, prohibiting future projects from qualifying for the program is anticipated to save the state \$4 million annually.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	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 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this proposal would eliminate the Neighborhood Preservation Tax Credit for any projects commenced on or after August 28, 2020. The cap on the program is \$16 million (\$8 million for eligible areas and \$8 million for qualifying areas, as defined by law). The proposed change could result in a savings to Total State Revenue (TSR) by up to \$16 million. However, B&P notes that based on the tax credit analysis form provided by the Missouri Department of Economic Development, the three year average authorizations is \$8,194,566 and average redemptions is \$3,082,468. Savings could, therefore, be between \$3,082,468 and \$16,000,000 annually.

Officials from the **Missouri Department of Revenue (DOR)** state this proposal would prohibit the issuance of tax credits for any projects commenced on or after August 28, 2020 (Fiscal Year 2021) for the Neighborhood Preservation Tax Credit Program. This program currently has a \$16 million annual cap and does not have a stop date or sunset date. The five year issue average of the program has been \$3,648,666. Given the possibility that all the credits could be issued for the fiscal year prior to the stop date, DOR assumes this would not have a fiscal impact in Fiscal Year 2021. This proposal would result in a savings to General Revenue of the 5 year issue average up to the annual cap yearly.

Fiscal Year 2021	\$0
Fiscal Year 2022	\$3,648,666 -\$16,000,000
Fiscal Year 2023	\$3,648,666 -\$16,000,000

Officials from the **Missouri Department of Commerce and Insurance (DCI)** assume a potential unknown positive fiscal impact of premium tax revenues (up to the tax credit limit established in the bill) as a result of the changes to the sunset of construction or rehabilitation 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 and which insurers will qualify for the tax credit impacted.

Oversight notes, per the Tax Credit Analysis Form, the Neighborhood Preservation Tax Credit had the following activity:

ASSUMPTION (continued)

	FY 2017 ACTUAL	FY 2018 ACTUAL	FY 2019 ACTUAL	FY 2020 (Est)	FY 2021 (Est)
Certificate s Issued (#)	70	100	122	110	110
Projects (#)	70	100	122	110	110
Amount Authorized	\$8,121,865	\$8,290,584	\$8,171,250	\$10,000,000	\$10,000,000
Amount Issued	\$2,538,320	\$3,923,400	\$4,830,622	\$4,000,000	\$4,000,000
Amount Redeemed	\$3,147,043	\$3,293,155	\$2,807,207	\$3,000,000	\$3,000,000

Oversight notes the Missouri Department of Economic Development has estimated this tax credit will recognized \$4 million in issuances during Fiscal Year 2021. Oversight also notes the three year issue average for the program is \$3,764,000. Therefore, for purposes of this fiscal note, Oversight will reflect the potential revenue increase using from eliminating this tax credit for any projects commenced on or after August 28, 2020 of \$4,000,000 beginning in Fiscal Year 2022.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other state agencies were requested to respond to this proposed legislation but did not.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
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GENERAL REVENUE FUND

<u>Revenue Increase</u> - Section 135.481 - Prohibition of tax credits for construction or rehabilitation of residences located in certain distressed areas after August 28, 2020	<u>\$0</u>	<u>\$4,000,000</u>	<u>\$4,000,000</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$4,000,000</u>	<u>\$4,000,000</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

This proposed legislation could potentially impact any small business that qualifies or would qualify for this tax credit, decreasing their net revenue.

FISCAL DESCRIPTION

Current law authorizes a tax credit for the construction or rehabilitation of residences located in certain distressed areas. This act provides that no such tax credits shall be issued for projects that commence on or after August 28, 2020. (Section 135.481)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

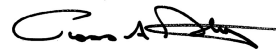
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SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
Missouri Department of Commerce and Insurance



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