COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0310S.03C
Bill No.: SCS for HCS for HB 430
Subject: Taxation and Revenue - Income; Tax Credits; Adoption; Children and Minors; Children's Division
Type: Original
Date: March 29, 2021

Bill Summary: This proposal would modify provisions relating to benevolent tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue*/**	($73,328)	($1,950,416) to could significantly exceed ($3,905,416)	($1,931,240) to could significantly exceed ($3,886,240)	($4,454,007) to could significantly exceed ($6,409,007)
Total Estimated Net Effect on General Revenue	**($73,328)**	**($1,950,416) to could significantly exceed ($3,905,416)**	**($1,931,240) to could significantly exceed ($3,886,240)**	**($4,454,007) to could significantly exceed ($6,409,007)**

*Oversight notes these amounts reflect current contributions to Shelters for Victims of Domestic Violence and Maternity Homes as earning the higher tax credit percentage (from 50% to 70%). The amounts DO NOT reflect any increase in participation that may result from expanding the program to include other entities as well as the elimination of the annual program caps – for these expansions, Oversight used "Could significantly exceed" to report such unknown amount(s). The "Fully Implemented" year (Fiscal Year 2026) includes the removal of the sunset provision for Section 135.600 (Maternity Homes Tax Credit).
**Oversight is also reflecting a range of fiscal impacts, beginning at $0 (participation in the current Adoption Tax Credit program does not materially change) to the difference between the Adoption Tax Credit cap of $2 million and the anticipated Fiscal Year 2022 redemption amount ($45,000), as estimated by DOR, reflecting an increased utilization of the tax credit program.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue – DOR	0 FTE	2 FTE	2 FTE	2 FTE
General Revenue – DSS	1 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**3 FTE**	**3 FTE**	**3 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section(s) 135.325, 135.326, 135.327, & 135.335 – Adoption Tax Credit

Officials from **Office of Administration – Budget & Planning Division (B&P)** state these sections would rename the Special Needs Adoption Tax Credit to the Adoption Tax Credit. In addition, these sections would allow any person residing in the state who proceeds with the adoption of a child on or after January 1, 2022, regardless of whether such child is a special needs child, to receive a tax credit of up to $10,000 for nonrecurring adoption. This credit is capped at $2 million but may be increased by appropriation.

These changes could increase participation in the program and could reduce General Revenue (GR) and TSR by an amount up to $2 million annually.

Officials from the **Missouri Department of Revenue (DOR)** state, currently, a tax credit is available for taxpayers who adopt a special needs child in an amount up to $10,000 for nonrecurring adoption expenses. A business entity that provides funds to an employee to enable the employee to adopt a special needs child can also receive a tax credit up to $10,000 for nonrecurring expenses paid.

These sections, starting January 1, 2022, would remove the restriction that this tax credit be only for the adoption of special needs children and will allow for the adoption of any child.

The current cap is set at $2 million annually but can be adjusted based on appropriation by the General Assembly.

These sections would allow the adoption credit for any child, not just special needs children. However, these sections do not impact the current cap on the program. DOR provides the following information on what has been redeemed each of the last few fiscal years.

Year	Total Redeemed
FY 2020	$29,404.00
FY 2019	$19,185.00
FY 2018	$88,706.00
FY 2017	$127,211.00
FY 2016	$231,367.00
FY 2015	$380,715.00
FY 2014	$718,495.00
FY 2013	$744,155.00
FY 2012	$1,036,226.00
TOTALS	$3,375,464.00

While expanding the number of adopted children that qualify for this program may increase participation in this program; the annual cap of $2 million is not changed. Therefore, DOR does not anticipate a fiscal impact from this program.

DOR notes these sections adds language that requires the taxpayers who adopted a resident special needs child be given priority in receiving the tax credit. It is noted that this is an <u>apportioned tax credit</u>, in which the credit upon reaching the cap is apportioned amongst all filers in the same proportion. Giving priority to certain taxpayers over others and apportioning the credit equally among the filers appears contradictory and DOR is not sure, at this time, how this could be implemented without specific language regarding how to prioritize, or if there would be additional costs from this language.

These sections add the definition of a child which will include children over the age of 18 that cannot care for themselves. This could add additional parents that may be eligible for this tax credit, which were not included in the calculations previously. DOR assumes no additional impact from these sections as the credit will be apportioned equally among all filers.

DOR requires one (1) FTE Associate Customer Service Representative ($24,360 annual salary and $24,244 fringe benefits (Year 2) for every 4,000 apportioned credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phone licenses, and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

Oversight notes DOR anticipates the need for three (3) FTE Associate Customer Service Representatives as a result of this proposed legislation.

Oversight notes the minimum number of taxpayers that would claim this tax credit annually could be as low as 200 ($2,000,000 / $10,000). Furthermore, under current law, the total amount of tax credits that could be redeemed is $2,000,000. Theses sections do not change the existing cap.

Therefore, **Oversight** assumes DOR can continue to administer this tax credit program with existing resources. Should DOR experience the number of redemptions, transfers, and/or errors generated to justify additional FTE, DOR may seek additional FTE through the appropriation process.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** states these sections would expand the "Adoption Tax Credit" for special needs children to include all adopted children in beginning in 2022. There is retained a credit cap of $10,000 per adoption, a cap of $2,000,000 claimed in any one fiscal year, and being non-refundable it has a 5-year carryover.

EPARC is unable to estimate the increase in demand for this credit due to the inclusion of not only special needs adoptions, but all adoptions. However, EPARC measured the potential maximum impact. EPARC estimated future credit redemptions under the current conditions, then subtracted these figures from the existing total annual credits cap of $2 million.

After a historical analysis of the Adoption Tax Credit, EPARC finds that over the last 10 years, redemptions have dropped from levels near the cap at $1,894,187 in Fiscal Year 2010 to mere tens of thousands in the last three (3) fiscal years, e.g., $19,185 in Fiscal Year 2019 and $29,404 in Fiscal Year 2020. Recent amendments to this statute, as late as 2006, may have influenced this substantial drop. This volatility renders a linear forecast negative, as well as the calculation of the 5-year carryover uncertain.

Therefore, EPARC used a simple average of the last three (3) fiscal years' redemptions, $45,765, as the figure for forecasted annual redemptions going forward. Subtracting this figure from the existing total annual credits cap of $2 million, EPARC finds that the potential maximum impact of this bill, a reduction in Net General Revenue of $1,954,235 annually.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state these sections could cause a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the change to the "Adoption 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 and which insurers will qualify for the tax credit proposed. DCI 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.

Oversight notes DCI assumes the programming changes required as a result of these sections can be done so under existing appropriation.

Oversight notes these sections change the name of the Special Needs Adoption Tax Credit to Adoption Tax Credit.

Currently, the Special Needs Adoption Tax Credit is limited to adoptions of special needs children who are residents or wards of residents of Missouri at the time the adoption is initiated.

These sections remove the requirements that such child being adopted be a special needs child or a resident or ward of a resident of Missouri. Therefore, a tax credit may be awarded to residents of this state who adopts <u>any</u> child or to a business who provides the funds necessary for an employee to adopt <u>any</u> child.

Theses sections state that priority shall be given to applications to claim the tax credit for special needs children who are residents or wards of residents of this state at the time the adoption is initiated.

Oversight notes these sections add a definition of "Child". The definition of "Child" is "any individuals who: has not attained an age of at least eighteen (18) years; or is eighteen (18) years of age or older but is physically or mentally incapable of caring for himself or herself".

Oversight notes the definition of "Special Needs Child" is modified. The current definition of "Special Needs Child" is "a child for whom it has been determined by the children's division, or by a child-placing agency licensed by the state, or by a court of competent jurisdiction to be a child: that cannot or should not be returned to the home of his or her parents; and who has a specific factor or condition such as ethnic background, age, membership in a minority or sibling group, medical condition, or handicap because of which it is reasonable to conclude that such child cannot be easily placed with adoptive parents".

These sections modify the definition of "Special Needs Child" to be "a child for whom it has been determined by the children's division, or by a child-placing agency licensed by the state, or by a court of competent jurisdiction to be a child: that cannot or should not be returned to the home of his or her parents; and who has a specific factor or condition such as age, membership sibling group, medical condition or diagnosis, or disability because of which it is reasonable to conclude that such child cannot be easily placed with adoptive parents".

Oversight notes the definition of "Handicap" is modified to become the definition of "Disability".

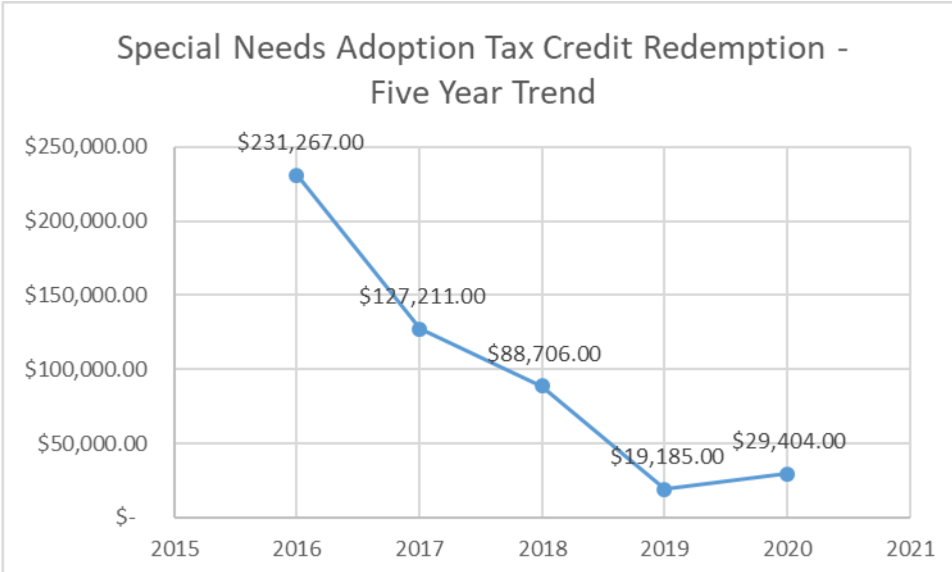
Oversight notes the tax credit program has a cap of $2 million which is not changed by these sections.

Oversight assumes participation in the tax credit program under these sections could increase as a result of the reduced requirements needed to receive the tax credit.

Oversight notes, per the Tax Credit Analysis submitted to Oversight by the Missouri Department of Revenue, the Special Needs Adoption Tax Credit had the following activity as it is currently administered:

Special Needs Adoption Tax Credit	**FY 2018 ACTUAL**	**FY 2019 ACTUAL**	**FY 2020 ACTUAL**	**FY 2021 (year to date)**	**FY 2021 (Full Year – est.)**	**FY 2022 (Budget Year – est.)**
Amount Redeemed	$88,706	$19,185	$29,404	*$0*	$45,000	$45,000

Oversight notes, based on information provided to Oversight by DOR, the three (3) year average amount of Special Needs Adoption Tax Credit claimed and allowed on tax returns totals $45,765. Oversight further notes the five (5) year average amount of Special Needs Adoption Tax Credit claimed and allowed on tax returns totals $99,155. Below is a visualization showing the five year redemption trend for the Special Needs Adoption Tax Credit:



Oversight assumes much of the downward trend shown above is a result of Senate Bill(s) 20, 15, and 19 of the 2013 Regular Session which modified the Special Needs Adoption Tax Credit program by prohibiting the Special Needs Adoption Tax Credit for the adoption of non-resident children.

Oversight assumes, if passed, these sections would likely cause an upward trend in tax credit redemptions.

Oversight notes, per DOR, the estimated amount of Special Needs Adoption Tax Credit that will be claimed and allowed on tax returns during Fiscal Year 2022 totals $45,000. Oversight notes the modifications to the Special Needs Adoption Tax Credit would begin January 1, 2022. Tax returns for Tax Year 2022 would not be filed until after January 1, 2023 (Fiscal Year 2023).

Therefore, for purposes of this fiscal note, **Oversight** will show a reduction to GR equal to a range, beginning at $0 (participation in the tax credit program does not change) to the difference between the tax credit cap of $2 million and the estimated Fiscal Year 2022 redemption amount, as estimated by DOR, beginning in Fiscal Year 2023.

Section 135.550 – Domestic Violence Tax Credit

Officials from **B&P** state this section would expand the definition of a "Domestic Violence Shelter". This provision would also increase the contribution percentage for the tax credit and remove the annual redemption cap beginning in Fiscal Year 2023.

Starting in Fiscal Year 2023, this section increases the amount of the Shelter for Victims of Domestic Violence Tax Credit from 50% of the contribution to 70% of the contribution as well as removes the cap on the credit. Increasing the percentage amount could encourage additional taxpayers to participate in the program. At 50%, the current $2 million cap would generate $4 million in contributions.

However, B&P notes that this section removes the annual $2 million redemption cap. Therefore, B&P will show an impact of could exceed $800,000 annually starting in Fiscal Year 2023.

Increasing the allowable contribution rate to 70% could cost the state $2,800,000 ($4 million x 70%) in credits. This could result in an additional $800,000 ($2,800,000 - $2,000,000) in credits per year.

B&P estimates that this provision may reduce Total State Revenue (TSR) and General Revenue (GR) by an amount that could exceed $800,000 annually beginning in Fiscal Year 2023.

Officials from the **DOR** state, currently, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability, in an amount equal to fifty percent (50%) of the amount such taxpayer contributed to a shelter for victims of domestic violence. No taxpayer is allowed to claim more than $50,000 and the total cumulative cap on the program is two million dollars ($2,000,000) annually. DOR notes the current tax credit program has issued the following amount of credits:

Year	Issued
FY 2020	$1,858,165.23
FY 2019	$1,752,800.86
FY 2018	$1,881,995.47
FY 2017	$1,611,058.21
FY 2016	$1,892,974.11
FY 2015	$1,426,180.09
FY 2014	$1,256,761.49

This section expands the existing program to allow rape crisis centers and nonprofit organizations established and operating for the purpose of supporting a shelter for victims of domestic violence that are operated by the state or a political subdivision to also receive this credit. This could potentially expand the number of taxpayers that could be eligible to claim the tax credit.

Oversight assumes the inclusion of rape crisis centers and non-profit organizations established and operating for the purpose of supporting a shelter for victims of domestic violence and are operated by the state or a local political subdivision in the definition of “shelter for victims of domestic violence” to receive tax credits, as stated by DOR, is to the effect that such entities would be allocated a specific amount of tax credits permitted to be awarded to the contributors to such entities; not to the effect that such entities would claim the tax credits themselves.

DOR states this section increases the percent of the contribution from 50% to 70% for the amount of the tax credit. Additionally, it removes the annual cap starting July 1, 2022 (Fiscal Year 2023). All of these changes are expected to encourage more taxpayers to contribute and claim the tax credit. The five (5) year average of the program has been $1,599,397.78.

Assuming the $1,599,397.78 had been half of the domestic violence shelters contributions, then increasing the tax credit percent to seventy percent (70%) would have resulted in $2,239,157 in tax credits; an increase of $639,759.

The increased percent of the credit could result in additional contributions being made to domestic violence shelters, but DOR does not have any information as to how many more contributions would be made.

Additionally, the expansion of the credit to the other organizations may increase the number of credits claimed but DOR is unable to calculate any increase.

DOR will assume this section will increase the loss to GR by an amount greater than $639,759.

DOR anticipates the need for: one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 apportioned credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and licenses and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated as a result of the expansion of the two tax credit programs. DOR also anticipates the need additional expense for a one-time form and system update. DOR has applied these costs beginning in Fiscal Year 2023.

Oversight notes neither the Shelters for Victims of Domestic Violence Tax Credit or the Maternity Home Tax Credit are apportioned tax credits. Furthermore, neither the Shelters for Victims of Domestic Violence Tax Credit or the Maternity Home Tax Credit may be transferred.

Therefore, for purposes of this fiscal note, **Oversight** will report DOR's administrative impact for the two (2) FTE Associate Customer Service Representatives for the tax credit redemptions and for the errors/correspondence generated as well as the cost for a one-time form and system update. Oversight notes the administrative impact reported for DOR are for the changes made to **both** the Shelters for Victims of Domestic Violence Tax Credit and the Maternity Home Tax Credit; Oversight will not report two (2) FTE for **each** program.

Officials from **EPARC** state this section would expand the Domestic Violence Tax Credit program to not only include a credit for contributions made to a "Shelter for victims of domestic violence," but also contributions made to "nonprofit organization(s) established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence" as well as "Rape Crisis Center(s)."

Currently the credit may be equal to 50% of contributions made, but this section will increase this proportion to 70%. Lastly, it will remove the cap on the cumulative amount of tax credits which may be claimed by all the taxpayers contributing to these entities after the 2022 fiscal year.

Moving forward, EPARC assumes the demand for this credit program will not be impacted by the inclusion of "Rape Crisis Center" language. EPARC instead focused on the increase in the amount of credits generated by the increase in the proportion of contributions made from 50% to 70%. To do so, EPARC forecasted this expenditure into Fiscal Year 2023 through Fiscal Year 2025 at both the 50% of contributions level as well as the 70% of contributions level. The difference between these two (2) forecasts is the impact of this bill. The following table reflects these forecasts.

Fiscal Year	DVC Credits Redemption Forecast At 50% of Contribution	DVC Credits Redemption Forecast At 70% of Contribution	Increase In DVC Credit Redemption
2023	$1,640,018	$2,296,026	$656,008
2024	$1,710,056	$2,394,079	$684,023
2025	$1,780,094	$2,492,131	$712,037

EPARC recognizes that the amount of credits in this program increases by $656,007 in Fiscal Year 2023, $684,022 in Fiscal Year 2024, and $712,037 in Fiscal Year 2025. These amounts correspond to an equivalent reduction in Net General Revenue.

Officials from the **Missouri Department of Social Services (DSS)** state one (1) FTE Administrative Support Professional ($42,654 annual salary) will be needed to process the additional tax credit requests as a result of the elimination of the cap on the Shelter for Victims of Domestic Violence Tax Credit and the Maternity Home Tax Credit.

For purposes of this fiscal note, **Oversight** will report the DSS's administrative cost(s), as reported by DSS.

Oversight notes, according to the Tax Credit Analysis submitted to Oversight by the Missouri Department of Social Services, regarding this tax credit program, the Shelter for Victims of Domestic Violence Tax Credit Program had the following activity as it is currently administered:

Shelter for Victims of Domestic Violence Tax Credit	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021 (Year to Date)	Fiscal Year 2022 (Budget Year)
Certificates Issued (#)	2,403	2,035	1,920	-	2,000
Amount Authorized	$1,871,245	$1,752,801	$1,858,165	-	$1,800,000
Amount Issued	$1,871,245	$1,752,801	$1,858,165	-	$1,800,000
Amount Redeemed	$1,510,572	$883,099	$1,434,287	-	$1,400,000

Oversight notes this section adds the definition of "Rape Crisis Center" which is defined as "a community-based non-profit rape crisis center, as defined in Section 455.033, located in this state and that provides twenty-four (24) hour core services of hospital advocacy and crisis hotline support to survivors of rape and sexual assault".

Oversight notes this proposed legislation expands the definition of "Shelter for Victims of Domestic Violence" to include "a non-profit organization established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions".

Oversight notes, under this proposed legislation, individuals who contribute to the newly defined Rape Crisis Center(s) and/or to the newly added non-profit organizations established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions would be eligible to receive a tax credit for such contribution.

Oversight assumes an increase in the number of entities that are permitted to award theses tax credits could increase the participation in the tax credit program.

Oversight notes, currently, any individual making a qualifying contribution would receive a tax credit equal to fifty percent (50%) of the qualifying contribution made. This proposed legislation increases the amount of tax credit individuals would receive from fifty percent (50%) of the contribution to seventy percent (70%) of the contribution beginning on and after July 1, 2022 (Fiscal Year 2023).

Oversight notes, currently, the cumulative amount of Shelter for Victims of Domestic Violence Tax Credits which may be claimed by all taxpayers shall not exceed $2,000,000 in any given fiscal year. This proposed legislation eliminates the existing cap for all fiscal years beginning on and after July 1, 2022 (Fiscal Year 2023).

Oversight notes, the three (3) year average amount of Shelter for Victims of Domestic Violence Tax Credits issued totals $1,827,404.

Oversight estimates, as these tax credits would have been awarded at fifty percent (50%) of the total contribution, the total amount of contributions would equal $3,654,807 ($1,827,404*2).

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggests a total of $2,558,365 would be issued (3,654,807*70%); a difference of $730,961.

Oversight notes the Missouri Department of Social Services estimates $1,800,000 will be issued in Fiscal Year 2022. Oversight estimates, then, the total amount of contributions would equal $3,600,000 ($1,800,000*2).

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggests a total of $2,520,000 would be issued ($3,600,000*70%); a difference of $720,000.

<u>**Oversight** assumes participation in the tax credit program could increase provided the number/type of entities that can award these tax credits increases. Oversight assume participation in the program could increase provided the percent used to calculate a taxpayer's tax credit is increased. Oversight further assumes participation in the tax credit program could increase provided the cumulative cap is eliminated.</u>

Oversight notes that it is difficult to estimate the impact of a tax credit program with no cap on the amount of tax credits that can be authorized/issued/redeemed.

However, Oversight notes, based on the most recent Tax Credit Analysis, tax credit claims have not reached the cap of $2 million.

Oversight notes the modifications to this section would become effective July 1, 2022 (Fiscal Year 2023)

For purposes of this fiscal note, Oversight will report a revenue <u>reduction</u> to GR equal to an amount that "Could significantly exceed (as a result of the inclusion of rape crisis centers and additional non-profit organizations and the elimination of the annual cap) $720,000" (as a result of the increase in the percent used to calculate the tax credit) beginning in Fiscal Year 2023.

Oversight notes this section suggests that individuals who contributed to a shelter for victims of domestic violence <u>or a rape crisis center</u> for **all fiscal years ending on or before June 30, 2022** shall be allowed to claim a tax credit against the taxpayer's state tax liability.

Oversight assumes this may permit retroactivity within the tax credit program; individuals who have contributed in the **past** to rape crisis centers and non-profit organizations established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence, operated by the state or one of its political subdivisions may qualify for this tax credit so long as such contributions and tax credit claims occur within the current statute of limitations.

Therefore, **Oversight** notes the estimated reduction to GR could be significantly larger than anticipated within the first several years after the effective date of this proposed legislation if individuals who, in the past, made contribution(s) to such entities and now claim a tax credit.

Section 135.600 – Maternity Home Tax Credit

Officials from **B&P** state this section would increase the contribution percentage for the tax credit and remove the annual redemption cap beginning with Fiscal Year 2023.

Starting in Fiscal Year 2023, this section increases the amount of the Maternity Home Tax Credit from 50% of the contribution to 70% of the contribution as well as removing the cap on the credit. Increasing the percentage amount could encourage additional taxpayers to participate in the program. At 50%, the current $3.5 million cap would generate $7 million in contributions.

However, B&P notes that this section removes the annual $3.5 million redemption cap. Therefore, B&P will show an impact of could exceed $1.4 million annually starting in Fiscal Year 2023.

Increasing the allowable contribution rate to 70% could cost the state $4,900,000 ($7 million x 70%) in credits. This could result in an additional $1,400,000 ($4,900,000 - $3,500,000) in credits per year.

B&P estimates that this provision may reduce TSR and GR by an amount that could exceed $1,400,000 annually beginning in Fiscal Year 2023.

Officials from **DOR** state, currently, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability, in an amount equal to fifty percent (50%) of the amount such taxpayer contributed to a maternity home. No taxpayer is allowed to claim more than $50,000 and the total cumulative cap on the program is three million five hundred thousand dollars ($3,500,000) annually.

DOR notes the current tax credit program has issued the following amount of credits:

Year	Issued
FY 2020	$2,678,033.86
FY 2019	$2,390,514.11
FY 2018	$2,499,951.44
FY 2017	$2,482,713.51
FY 2016	$2,499,405.47
FY 2015	$2,104,022.19
FY 2014	$1,810,789.52

This section increases the percent of the contribution from 50% to 70% for the amount of the tax credit. Additionally, it removes the annual cap starting July 1, 2022 (Fiscal Year 2023). These changes are expected to encourage more taxpayers to contribute and claim the tax credit. The five (5) year average of the program has been $2,510,123.68.

Assuming the $2,510,123.68 had been half of the domestic violence shelters contributions, then increasing the tax credit percent to seventy percent (70%) would have resulted in $3,514,173.15 in tax credits: an increase of $1,004,050.

The increased percent of the credit could result in additional contributions being made to domestic violence shelters, but DOR does not have any information as to how many more contributions would be made.

DOR will assume this will increase the loss to GR greater than $1,004,050.

DOR anticipates the need for: one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 apportioned credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and licenses and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated as a result of the expansion of the two tax credit programs. DOR also anticipates the need additional expense for a one-time form and system update. DOR has applied these costs beginning in Fiscal Year 2023.

Oversight notes neither the Shelters for Victims of Domestic Violence Tax Credit or the Maternity Home Tax Credit are apportioned tax credits. Furthermore, neither the Shelters for Victims of Domestic Violence Tax Credit or the Maternity Home Tax Credit may be transferred.

Therefore, for purposes of this fiscal note, **Oversight** will report DOR's administrative impact for the two (2) FTE Associate Customer Service Representatives for the tax credit redemptions and for the errors/correspondence generated as well as the cost for a one-time form and system update. Oversight notes the administrative impact reported for DOR are for the changes made to **both** the Shelters for Victims of Domestic Violence Tax Credit and the Maternity Home Tax Credit; Oversight will not report two (2) FTE for **each** program.

Officials from the **Missouri Department of Social Services (DSS)** state one (1) FTE Administrative Support Professional ($42,654 annual salary) will be needed to process the additional tax credit requests as a result of the elimination of the cap on the Shelter for Victims of Domestic Violence Tax Credit and the Maternity Home Tax Credit.

For purposes of this fiscal note, **Oversight** will report the DSS's administrative cost(s), as reported by DSS.

Oversight notes, according to the Tax Credit Analysis submitted to Oversight by the Missouri Department of Social Services, regarding this tax credit program, the Maternity Home Tax Credit Program had the following activity as it is currently administered:

Maternity Home Tax Credit	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021 (Year to Date)	Fiscal Year 2022 (Budget Year)
Certificates Issued (#)	1,907	$2,036	$1,806	-	2,000
Amount Authorized	$2,499,753	$2,390,514	$2,678,034	-	$2,600,000
Amount Issued	$2,499,753	$2,390,514	$2,678,034	-	$2,600,000
Amount Redeemed	$2,098,721	$1,538,393	$2,263,523	-	$2,200,000

Oversight notes, currently, any individual making a qualifying contribution would receive a tax credit equal to fifty percent (50%) of the qualifying contribution made. This proposed legislation increases the amount of tax credit individuals would receive from fifty percent (50%) of the contribution to seventy percent (70%) of the contribution for all fiscal years beginning on or after July 1, 2022 (Fiscal Year 2023).

Oversight notes, currently, the cumulative amount of Maternity Home Tax Credits which may be claimed by all taxpayers shall not exceed $3,500,000 in any given fiscal year. This proposed legislation eliminates the existing cap for all fiscal years beginning on or after July 1, 2022 (Fiscal Year 2023).

Oversight notes, the three (3) year average amount of Maternity Home Tax Credits issued totals $2,522,767.

Oversight estimates, as these tax credits would have been awarded at fifty percent (50%) of the total contribution, the total amount of contributions would equal $5,045,534 ($2,522,767*2)

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggests a total of $3,531,874 would be issued ($5,045,534*70%); a difference of $1,009,107.

Oversight notes the Missouri Department of Social Services estimates $2,600,000 will be issued in Fiscal Year 2022. Oversight estimates, then, the total amount of contributions would equal $5,200,000 ($2,600,000*2).

Provided the participation in the program remained the same, tax credits awarded at seventy percent (70%) suggest a total of $3,640,000 would be issued ($5,200,000*70%); a difference of $1,040,000.

Oversight assumes participation in the program could increase provided the percent used to calculate a taxpayer's tax credit is increased. Oversight further assumes participation in the tax credit program could increase provided the cumulative cap is eliminated.

Oversight notes that it is difficult to estimate the impact of a tax credit program with no cap on the amount of tax credits that can be authorized/issued/redeemed.

However, Oversight notes, based on the most recent Tax Credit Analysis, tax credit claims have not reached the cap of $3.5 million.

Oversight notes the modifications to this section would become effective July 1, 2022 (Fiscal Year 2023).

For purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to an amount that "Could significantly exceed (as a result of the elimination of the cap) $1,040,000" (as a result of the increase in the percent used to calculate the tax credit) beginning in Fiscal Year 2023.

Oversight notes this proposal also removes the sunset date in Section 135.660. Oversight reflects this change as a cost to the state, since removing this sunset will allow the tax credit program to continue beyond the current expiration date. Therefore, Oversight will report a loss to GR starting in Fiscal Year 2026 (current sunset date of 12-31-2024) of the latest three (3) year average amount of tax credits issued ($2,522,767). For simplicity, Oversight will not reflect a change in the cost of FTE from Fiscal Year 2024 to Fiscal Year 2026.

Section 135.800 – Tax Credit Accountability Act

Officials from **B&P** state this section would remove "special needs" from the adoption credit. B&P notes that this provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from **DOR** state this section updates the name of the Adoption tax credit program in statutes. This will not fiscally impact DOR.

Oversight notes this section modifies the references to "Special Needs Adoption Tax Credits" to "Adoption Tax Credits". Oversight does not anticipate a fiscal impact as it relates to the modification to the aforementioned references. Therefore, Oversight will not report a fiscal impact as it relates to this section.

Section 191.975 – Adoption Awareness Law

Officials from **B&P** state this section would remove "special needs" from references to the adoption tax credit. B&P notes that this provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from **DOR** state this section updates the name of the Adoption tax credit program in statutes. This will not fiscally impact DOR.

Oversight notes this section modifies the references to "Special Needs Adoption Tax Credits" to "Adoption Tax Credits". Oversight does not anticipate a fiscal impact as it relates to the modification to the aforementioned references. Therefore, Oversight will not report a fiscal impact as it relates to this section.

Officials from the **Missouri Department of Social Services (DSS)** state one (1) FTE Administrative Support Professional ($42,654 annual salary) will be needed to process the additional tax credit requests as a result of the elimination of the cap on the Shelter for Victims of Domestic Violence Tax Credit and the Maternity Home Tax Credit.

Legislation as a Whole –

Officials from the **Missouri Department of Health and Senior Services** and the **Office of State Courts Administrator** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
GENERAL REVENUE FUND				
Revenue Reduction – Section 135.327 – Increased Participation In Adoption Tax Credit Program – p. 3-8	$0	$0 to ($1,955,000)	$0 to ($1,955,000)	$0 to ($1,955,000)
Revenue Reduction – Section 135.550 – Modifications To Shelter for Victims of Domestic Violence Tax Credit; 50% to 70%, removes cap,	$0	Could significantly exceed ($720,000)	Could significantly exceed ($720,000)	Could significantly exceed ($720,000)

adds rape crisis centers p. 8 - 14				
Revenue Reduction – Section 135.600 – Modifications to Maternity Home Tax Credit; 50% to 70%, removes cap – p. 14-17	$0	Could significantly exceed ($1,040,000)	Could significantly exceed ($1,040,000)	Could significantly exceed ($1,040,000)
Revenue Reduction – Section 135.600 – Removal Of Maternity Home Tax Credit Sunset Provision p. 17	$0	$0	$0	($2,522,767)
Cost – DOR – Section(s) 135.550 & 135.600 – p. 10 & 15				
Personnel Services	$0	($49,207)	($49,699)	($49,699)
Fringe Benefits	$0	($40,487)	($40,653)	($40,653)
Equipment & Expense	$0	($21,606)	($1,007)	($1,007)
Total Cost	$0	($111,300)	($91,359)	($91,359)
FTE Change – DOR	0 FTE	2 FTE	2 FTE	2 FTE
FISCAL IMPACT – State Government (continued)	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
Cost – DSS – Section(s) 135.550 & 135.600 - p. 11 & 15				
Personnel Services	($35,545)	($43,081)	($43,511)	($43,511)
Fringe Benefits	($23,479)	($28,316)	($28,459)	($28,459)
Equipment & Expense	($14,304)	($7,719)	($7,911)	($7,911)
Total Cost	($73,328)	($79,116)	($79,881)	($79,881)
FTE Change – DSS	1 FTE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDESTIMATED		**($1,950,416) to could significantly**	**($1,931,240) to could significantly**	**($4,454,007) to could significantly**

NET EFFECT ON GENERAL REVENUE FUND	**($73,328)**	**exceed ($3,905,416)**	**exceed ($3,886,240)**	**exceed ($6,409,007)**

FISCAL IMPACT – Local Government	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2026)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that provides the necessary funds to an employee to proceed with the adoption of a child in which, under current law, would not qualify for the Special Needs Adoption Tax Credit as the small business could utilize the tax credit to reduce or eliminate the small business's state tax liability.

Any small business who has made a contribution to a rape crisis center or a non-profit organization established and operating for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions in the recent past could be positively impacted as such entity could amend their Missouri tax return to claim a tax credit to reduce or eliminate their tax liability.

Any small business who will make a contribution to a rape crisis center or a non-profit organization established and operating for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions could be positively impacted as they would receive a tax credit in an amount greater than they would have had this proposed legislation not been passed.

Any small business who will make a contribution to a maternity home could be positively impacted as they could receive a tax credit in an amount greater than they would have had this proposed legislation not been passed.

FISCAL DESCRIPTION

This proposed legislation renames and alters the current "Special Needs Adoption Tax Credit Act" to the "Adoption Tax Credit Act"

Currently, any person residing in this state who proceeds in good faith with the adoption of a special needs child who is a resident or ward of a resident of this state is eligible for a $10,000 nonrefundable tax credit for nonrecurring adoption expenses for each child. Additionally, any business entity providing funds to an employee to enable that employee to proceed in good faith with the adoption of a special needs child is eligible to receive a tax credit of up to $10,000 for nonrecurring adoption expenses for each child, except that only one $10,000 credit is available for each special needs child that is adopted.

Beginning January 1, 2022, this bill removes the special needs and residency requirements for adoptions to be eligible for the tax credit. However, priority will be given to applications to claim the tax credit for special needs children who are residents or wards of residents of this state at the time the adoption is initiated. The House Committee Substitute changes the bills definition of "handicap" to "disability" and modifies the definition of "special needs child".

Current law authorizes a tax credit for contributions to domestic violence shelters in an amount equal to fifty percent (50%) of the contribution, with the maximum annual amount of tax credits limited to $2 million. This proposed legislation increases the tax credit from fifty percent (50%) of the amount contributed to seventy percent (70%) beginning July 1, 2022, and removes the limit on the cumulative amount of tax credits claimed by all taxpayers in a fiscal year beginning July 1, 2022.

This act also adds a definition of "rape crisis center" to allow taxpayers to receive tax credits for contributions to such facilities. (Section 135.550)

Current law authorizes a tax credit for contributions to maternity homes in an amount equal to fifty percent (50%) of the contribution, with the maximum annual amount of tax credits limited to $3.5 million. This proposed legislation increases the tax credit from fifty percent (50%) of the amount contributed to seventy percent (70%) beginning July 1, 2022, removes the limit on the cumulative amount of tax credits claimed by all taxpayers in a fiscal year beginning July 1, 2022, and removes the sunset provision. (Section 135.600)

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

Office of Administration – Budget & Planning Division
Missouri Department of Commerce and Insurance
Missouri Department of Health and Senior Services
Missouri Department of Revenue
Missouri Department of Social Services
Office of State Courts Administrator
University of Missouri’s Economic & Policy Analysis Research Center

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March 29, 2021

TS:LR:OD