COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0310S.04T
Bill No.: Truly Agreed To and Finally Passed SS for SCS for HCS for HB 430
Subject: Taxation and Revenue - Income; Tax Credits; Adoption; Children and Minors; Children's Division
Type: Original
Date: June 17, 2021

Bill Summary: Modifies 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 Fund*	($168,954)	($1,929,792) to could significantly exceed ($7,884,792)	($1,931,240) to could significantly exceed ($7,886,240)	($4,456,959) to could significantly exceed ($10,411,959)
Total Estimated Net Effect on General Revenue	**($168,954)**	**($1,929,792) to could significantly exceed ($7,884,792)**	**($1,931,240) to could significantly exceed ($7,886,240)**	**($4,456,959) to could significantly exceed ($10,411,959)**

*"Could significantly exceed" stems from the changes (such as expansion and the elimination of the annual cap) to the Shelter for Domestic Violence Tax Credit program and the Maternity Home Tax Credit program.

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

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
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 2022	FY 2023	FY 2024	Fully Implemented (FY 2026)
General Revenue Fund – DOR	2 FTE	2 FTE	2 FTE	2 FTE
General Revenue Fund – DSS	1 FTE	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	**3 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 the **Office of Administration – Budget & Planning Division** state these sections modify the Special Needs Adoption Tax Credit and renames it the Adoption Tax Credit. 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, shall be eligible to receive a tax credit of up to $10,000 for nonrecurring adoption. These sections increase the cap to $6 million and allow the cap to be further increased by appropriation.

These changes could increase participation in the program and could reduce General Revenue and Total State Revenues by up to $6 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.

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

These sections modify the existing Special Needs Adoption Tax Credit program. These sections change the name on the credit from the Special Needs Adoption Tax Credit to the Adoption Tax Credit program. The change in the tax credit name does not have a fiscal impact on DOR.

These sections add a definition of child. That definition includes individuals over the age of 18 that are unable to physically or mentally take care of themselves. These sections also modify the definition of disability. These provisions do not pose any concerns to DOR as it will be the responsibility of the Missouri Department of Social Services to determine if a child qualifies for the tax credit.

Currently, a taxpayer or a business can qualify for a tax credit, but only if the qualifying child is first a resident of this state, and secondly is either a ward of the state or a special needs child. Starting January 1, 2022, these sections no longer require the child to be a resident of this state, or be required to be a ward of the state or special needs child. DOR assumes, based on the past history of the program that expanding the number of adopted children that qualify for this program may increase participation in this program. Additionally, starting July 1, 2021, these sections will increase the annual cap of $2 million to $6 million annually. Therefore, DOR assumes an additional fiscal impact of $4 million from this program starting in Fiscal Year 2022.

These sections add language requiring that priority for claiming the credit be given to taxpayers who adopt special needs children or children that are wards of the state. This would require the Missouri Department of Social Services to determine the priority status of each child and with the increased cap, they would be responsible for maintaining a list of qualified applicants and ensure they distribute the tax credits in accordance with the priority statutory requirements. DOR would continue to process each return that has an approved application from the Missouri Department of Social Services as it currently does.

Total Fiscal Impact from Adoption Tax Credit:

Fiscal Year	General Revenue
2022	($4,000,000)
2023	($4,000,000)
2024	($4,000,000)

DOR anticipates the need for 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 phone licenses, and one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated.

DOR further notes the changes made to these sections will result in DOR implementing programming and system changes, along with updates to forms and DOR's website. DOR notes these changes can be absorbed with existing resources.

Oversight notes the Missouri Department of Revenue anticipates the need for three (3) FTE Associate Customer Service Representatives as a result of the changes made under Section(s) 135.325, 135.326, 135.327, and 135.335.

Oversight assumes the minimum number of taxpayers that could claim this tax credit annually at the cap level could be 600 ($6,000,000 (updated cap) / $10,000). In addition, the Missouri Department of Revenue indicates much of the change(s) in responsibility will fall within the Missouri Department of Social Services. Therefore, **Oversight** assumes the Missouri Department of Revenue can continue to administer this tax credit program with existing resources. Should the Missouri Department of Revenue experience the number of redemptions, transfers, and/or errors generated to justify additional FTE, the Missouri Department of Revenue may seek additional FTE through the appropriations process.

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state 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 $6 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 $6 million, EPARC finds that the potential maximum impact of this bill, a reduction in Net General Revenue of $5,954,235 beginning in Fiscal Year 2022.

Oversight notes Section(s) 135.325, 135.326, 135.327, and 135.335 change all reference(s) to the "Special Needs Adoption Tax Credit" to the "Adoption Tax Credit".

Oversight notes Section 135.326 adds a definition of "Child". The definition of "Child" is "any individual who: has not attained an age of at least eighteen years; or is eighteen years of age or older but is physically or mentally incapable of caring for himself or herself".

Oversight notes Section 135.326 modifies the definition of "Special Needs Child". The current definition "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".

The modified definition of "Special Needs Child" becomes "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 in a 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 Section 135.326 renames the current definition of "Handicap" to "Disability".

Currently, pursuant to Section 135.327, 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.

Section 135.327 is modified by removing the requirement(s) that such child being adopted be a special needs child and a resident or ward of a resident of Missouri. Therefore, Oversight assumes the modification(s) will allow a tax credit to be awarded to residents of this state who adopt any child or to a business who provides the funds necessary for an employee to adopt any child.

Oversight notes Section 135.327 is further modified to 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.

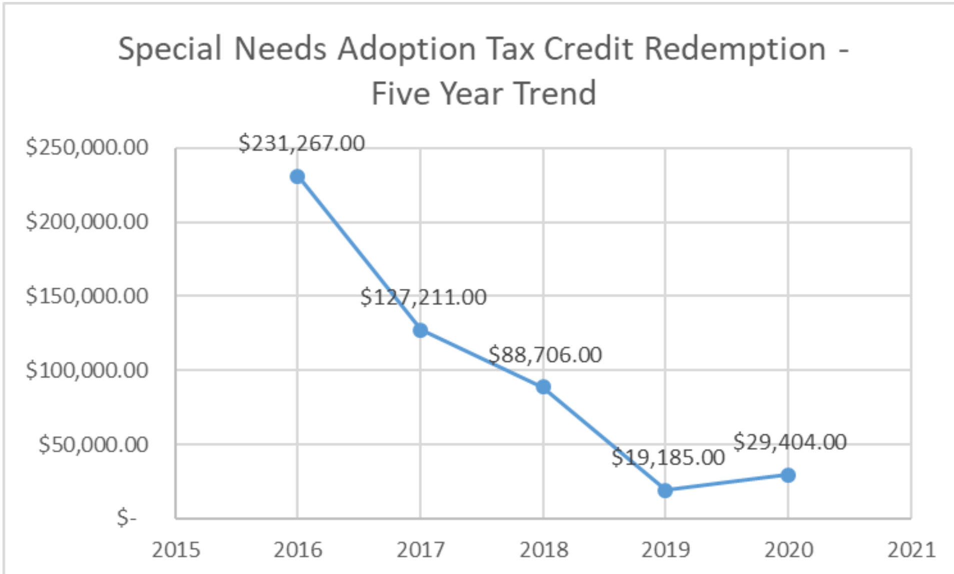
Oversight notes, currently, pursuant to Section 135.327, the tax credit program has a cumulative cap of $2,000,000. Oversight notes Section 135.327 is modified to increase the cap from $2,000,000 to $6,000,000 for all fiscal years beginning on or after July 1, 2021 (Fiscal Year 2022).

Oversight assumes participation in the tax credit program pursuant to Section(s) 135.325, 135.326, 135.327 and 135.335 could increase as a result of the reduced/lessened requirements needed to qualify for the tax credit.

Oversight notes, per the Tax Credit Analysis submitted by the Missouri Department of Revenue, the Special Needs Adoption Tax Credit program 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 the information included in the Tax Credit Analysis, the three (3) year average (2018 – 2020) amount of Special Needs Adoption Tax Credit claimed and allowed on tax returns totals $45,765. Oversight further notes the five (5) year average (2016 – 2020) 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 recognized 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 the modifications to the tax credit program pursuant to Section(s) 135.325, 135.326, 135.327 and 135.335 will likely cause an upward trend in the total amount of tax credits redeemed.

Oversight notes, per the Tax Credit Analysis, the Missouri Department of Revenue estimates that the total 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 all of the modifications to the Special Needs Adoption Tax Credit would begin January 1, 2022, except for the increase in the cumulative cap (from $2,000,000 to $6,000,000) which will begin July 1, 2021 (Fiscal Year 2022).

As a result of the most recent activity recognized under the Special Needs Adoption Tax Credit program, **Oversight** does not anticipate the increase to the cumulative cap will result in a fiscal impact until all other modifications to the Adoption Tax Credit program become effective; Oversight does not anticipate a fiscal impact will occur in Fiscal Year 2022.

As stated above, **Oversight** notes all modifications to the tax credit program pursuant to Section(s) 135.325, 135.326, 135.327, and 135.335 (except for the increase in the cumulative cap) will begin January 1, 2022. Oversight notes tax returns for Tax Year 2022 will not be filed until after January 1, 2023 (Fiscal Year 2023).

Therefore, for purposes of this fiscal note, **Oversight** will show a revenue reduction to General Revenue equal to a range, beginning at $0 (participation in the tax credit program does not change) to the difference between the new tax credit cap of $6 million and the estimated Fiscal Year 2022 redemption amount ($45,000), as estimated by the Missouri Department of Revenue, beginning in Fiscal Year 2023.

Section 135.550 – Domestic Violence Tax Credit

Officials from the **Office of Administration – Budget & planning Division (B&P)** state this section would expand the definition of a domestic violence shelter. This section would also 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 shelter for Victims of Domestic Violence 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 $2 million cap would generate $4 million in contributions. 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. However, B&P notes that Subsection 135.550.6 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.The credit can be carried forwarded to the next succeeding tax year. These credits shall not be assigned, transferred, or sold.

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

Officials from the **Missouri Department of Revenue (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 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
FY 2013	$1,075,861.66
FY 2012	$1,088,440.04

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. This section changes the credits carried forward from 4 years to 1 year and states the credit cannot be assigned, transferred or sold. 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 will increase the exiting loss to General Revenue by more than $639,759.

Total Fiscal Impact from Domestic Violence Credit:

Fiscal Year	General Revenue
2022	$0
2023	(Could exceed $639,759)
2024	(Could exceed $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 the Missouri Department of Revenue'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 the Missouri Department of Revenue 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 **University of Missouri's Economic & Policy Analysis Research Center (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. This section shortens the carry-forward, but this will not change EPARC's estimated impact.

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 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 Section 135.550 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 Section 135.550 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, as a result of the addition and inclusion of the definition of Rape Crisis Center, and the expansion to the definition of Shelter for Victims of Domestic Violence, individuals who contribute to Rape Crisis Centers and/or to 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 to contributors could increase the participation in the tax credit program.

Oversight notes, currently, any individual making a qualifying contribution to a qualifying facility pursuant to Section 135.550 would receive a tax credit equal to fifty percent (50%) of the qualifying contribution made. Oversight notes Section 135.550 is further modified to increase 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. Oversight notes Section 135.550 is further modified to <u>eliminate</u> a cumulative cap for all fiscal years beginning on and after July 1, 2022 (Fiscal Year 2023).

Oversight notes, currently, since the tax credit is not refundable, taxpayers may carry forward any amount of tax credits that exceed the taxpayer’s tax liability, for the tax year in which the credit is claimed, to the next four (4) succeeding taxable years. Section 135.550 is further modified to reduce the number of years that a taxpayer may carry forward the amount that exceeds the taxpayer’s tax liability, for the tax year in which the credit is claimed, from four (4) years to one (1) year.

Oversight notes Section 135.550 states that no Shelter for Victims of Domestic Violence Tax Credit(s) shall be assigned, transferred, or sold.

Oversight notes, per the Tax Credit Analysis submitted by the Missouri Department of Social Services, 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, the three (3) year average (2018 – 2020) amount of Shelter for Victims of Domestic Violence Tax Credits issued is $1,827,404.

Oversight estimates, as these tax credits would have been awarded at fifty percent (50%) of the total contribution, the three (3) year average (2018 – 2020) amount of contributions would equal $3,654,807 ($1,827,404*2).

<u>Assuming participation in the program does not increase or decrease, but remains the same</u>, 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, per the Tax Credit Analysis, the Missouri Department of Social Services <u>estimates</u> $1,800,000 will be issued in Fiscal Year 2022. Oversight estimates, then, the total amount of contributions would total $3,600,000 ($1,800,000*2).

<u>Assuming participation in the program does not increase or decrease, but remains the same</u>, 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.

Oversight <u>assumes participation in the tax credit program could increase provided the number/type of entities that can award these tax credits increases. 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.</u>

Oversight notes 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, claims for the Domestic Violence Tax Credit have not recently reached the cap of $2,000,000.

Oversight notes the modifications to Section 135.550 will become effective July 1, 2022 (Fiscal Year 2023).

For purposes of this fiscal note, **Oversight** will report a revenue reduction to General Revenue 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 (which has been expanded) or a rape crisis center 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, then, this could 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 and pursuant to the Section 135.550.

Therefore, **Oversight** notes the estimated reduction to General Revenue could be significantly larger than anticipated within the first several years if individuals who, in the past, made contribution(s) to such entities and can now claim a tax credit for such contribution(s).

Oversight will not report a fiscal impact as a result of the reduced number of years a taxpayer may carry the tax credit forward. Oversight notes this could result in a savings to General Revenue, should individuals be required to claim less tax credit as a result of the modification to the carry forward provision, compared to current law. However, for purposes of this fiscal note, Oversight assumes taxpayers will adjust their annual contribution(s) to receive maximum benefit in conjunction with the modification to the tax credit's carry forward provision.

Section 135.600 – Maternity Home Tax Credit

Officials from the **Office of Administration – Budget & Planning Division (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. 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. However, B&P notes that Subsection 135.600.6 removes the annual $3.5 million redemption cap. Therefore, B&P will show an impact of could exceed $1 million annually starting in Fiscal Year 2023.

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

Officials from the **Missouri Department of Revenue (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 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
FY 2013	$1,999,957.83
FY 2012	$1,471,340.43
TOTALS	$19,936,728.36

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 maternity home 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 maternity homes, but DOR does not have any information as to how many more contributions would be made.

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

This section also removes the sunset language on this credit. DOR does not anticipate this change will result in an additional impact.

Total Fiscal Impact from Maternity Home Credit:

Fiscal Year	General Revenue
2022	$0
2023	(Could exceed $1,004,050)
2024	(Could exceed $1,004,050)

Officials from the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** state this section would increase the Maternity Home Credit from fifty percent (50%) of the contribution amount to seventy percent (70%) of the contribution amount. It would also lift the $3.5 million cap on the cumulative amount of credits claimed by all taxpayers per fiscal year. Beginning in Fiscal Year 2022, there will be no cap on the Maternity Home Credit.

Moving forward, EPARC assumes the demand for this credit program will not be impacted by removal of the authorization cap. 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 forecasts is the impact of this section. The following table reflects these forecasts.

Fiscal Year	MHC Credits Redemption Forecast 50% of Contribution	MHC Credits Redemption Forecast 70% of Contribution	Revenue Impact
2023	$2,227,473	$3,118,462	$890,989
2024	$2,283,488	$3,196,883	$913,395
2025	$2,339,503	$3,275,304	$935,801

EPARC recognizes that the amount of credits in this program increases by $890,989 in Fiscal Year 2023, $913,395 in Fiscal Year 2024, and $935,801 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 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, currently, any individual making a qualifying contribution to a qualifying facility pursuant to Section 135.600 would receive a tax credit equal to fifty percent (50%) of the qualifying contribution made. Oversight notes Section 135.600 is modified to increase 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 Maternity Home Tax Credits which may be claimed by all taxpayers shall not exceed $3,500,000 in any given fiscal year. Oversight notes Section 135.600 is further modified to eliminate a cumulative cap for all fiscal years beginning on and after July 1, 2022 (Fiscal Year 2023).

Oversight notes, per the Tax Credit Analysis submitted by the Missouri Department of Social Services, 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, the three (3) year average (2018 – 2020) amount of Maternity Home Tax Credits issued is $2,522,767.

Oversight estimates, as these tax credits would have been awarded at fifty percent (50%) of the total contribution, the three (3) year average (2018 – 2020) amount of contributions would equal $5,045,534 ($2,522,767*2).

Assuming participation in the program does not increase or decrease, but remains 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, per the Tax Credit Analysis, 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 total $5,200,000 ($2,600,000*2).

Assuming participation in the program does not increase or decrease, but remains the same, tax credits awarded at seventy percent (70%) suggests 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 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, claims for the Maternity Home Tax Credit have not recently reached the cap of $3,500,000.

Oversight notes the modifications to Section 135.600 will become effective July 1, 2022 (Fiscal Year 2023).

For purposes of this fiscal note, **Oversight** will report a revenue reduction to General Revenue 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 Section 135.600 also removes the sunset date recognized under current law. Oversight reflects this modification as a loss to General Revenue, since removing this sunset will allow the tax credit program to continue beyond the current expiration date. Therefore, Oversight will report a loss to General Revenue starting in Fiscal Year 2026 (current sunset date of 12-31-2024) by an amount equal to the latest three (3) year average (2018 – 2020) 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 the **Missouri Department of Revenue (DOR)** state this section updates the name of the Special Needs Adoption tax credit program as it is referenced in the Tax Credit Accountability Act. This provision does not fiscally impact DOR.

Oversight notes Section 135.800 changes all reference(s) of the Special Needs Adoption Tax Credit to become the "Adoption Tax Credit". 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 the **Missouri Department of Revenue (DOR)** state this section updates the name of the Special Needs Adoption tax credit program as it is referenced in the Adoption Awareness Law. This provision does not fiscally impact DOR.

Oversight notes Section 191.975 changes all reference(s) of the Special Needs Adoption Tax Credit to become the "Adoption Tax Credit". 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.

Legislation as a Whole –

Officials from the **Missouri Department of Commerce and Insurance** anticipate a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the changes to 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 and which insurers will qualify for these tax credits impacted.

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

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 & Increase Of Cumulative Cap From $2M to $6M – p. 3-9	$0	$0 to ($5,955,000)	$0 to ($5,955,000)	$0 to ($5,955,000)
Revenue Reduction – Section 135.550 – Modifications To Shelter for Victims of Domestic Violence Tax Credit; 50% To 70%, Elimination Of Cap, Increase in Qualifying Facilities – p. 9-15	$0	Could significantly exceed ($720,000)	Could significantly exceed ($720,000)	Could significantly exceed ($720,000)
Revenue Reduction – Section 135.600 – Modifications to Maternity Home Tax Credit; 50% To 70%, Elimination Of Cap – p. 15-20	$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. 20	$0	$0	$0	($2,522,767)
Cost – DOR – Section(s) 135.550 & 135.600 – p. 11				
Personnel Services	($40,600)	($49,207)	($49,699)	($50,698)
Fringe Benefits	($33,603)	($40,487)	($40,653)	($40,991)
Equipment & Expense	($21,423)	($982)	($1,007)	($1,057)
Total Cost	($95,626)	($90,676)	($91,359)	($92,746)
FTE Change – DOR	2 FTE	2 FTE	2 FTE	2 FTE

Cost – DSS – Section(s) 135.550 & 135.600 – p. 12 & 18				
Personnel Services	($35,545)	($43,081)	($43,511)	($44,386)
Fringe Benefits	($23,479)	($28,316)	($28,459)	($28,749)
Equipment & Expense	($14,304)	($7,719)	($7,911)	($8,311)
Total Cost	($73,328)	($79,116)	($79,881)	($81,446)
FTE Change – DSS	1 FTE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ONGENERAL REVENUE FUND	**($168,954)**	**($1,929,792) to could significantly exceed ($7,884,792)**	**($1,931,240) to could significantl y exceed ($7,886,240)**	**($4,456,959) to could significantly exceed ($10,411,959)**

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.

This proposed legislation could positively impact any small business that 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 as such entity could amend their Missouri tax return to claim a tax credit to reduce or eliminate their tax liability.

This proposed legislation could positively impact any small business that contributes to a qualifying maternity home, a qualified shelter for victims of domestic violence, and/or a qualified rape crisis center, as such small business would receive a tax credit in an amount greater (70%) than the amount that would be awarded to such small business under current law (50%).
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FISCAL DESCRIPTION

Adoption Tax Credit

This bill 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 bill changes the definition of "handicap" to "disability" and modifies the definition of "special needs child". The bill defines a "child" as any individual under 18 years old or over 18 but is physically or mentally incapable of caring for themselves.

Beginning with the fiscal year beginning July 1, 2021 this tax credit is capped at $6 million for a tax year. (Section(s) 135.325 – 135.335, 135.800 and 191.975)

Domestic Violence Shelter Tax Credit

Current law authorizes a tax credit for contributions to domestic violence shelters in an amount equal to 50% of the contribution, with the maximum annual amount of tax credits limited to $2 million. This bill increases the tax credit from 50% of the amount contributed to 70% beginning July 1, 2022, and lowers the taxable year that the credit may be carried over from the next four successive to only the successive tax year. The bill removes the $2 million limit on the cumulative amount of tax credits claimed by all taxpayers in a fiscal year beginning July 1, 2022.

This bill defines a "rape crisis center" as a community-based nonprofit rape crisis center in this state that provided 24 hour core services of hospital advocacy and crisis hotline support to survivors of rape and sexual assault. The bill adds to the definition of "shelter for victims of domestic violence" a nonprofit organization established and operating exclusively for supporting a shelter for victims of domestic violence operated by the state or political subdivision. This bill allows taxpayers to receive tax credits for contributions to such facilities. (Section 135.550)

Maternity Home Tax Credit

Current law authorizes a tax credit for contributions to maternity homes in an amount equal to 50% of the contribution, with the maximum annual amount of tax credits limited to $3.5 million. This bill increases the tax credit from 50% of the amount contributed to 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. The sunset provision is repealed. (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
University of Missouri's Economic and Policy Analysis Research Center

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