

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3038S.01I
Bill No.: SB 717
Subject: Taxation and Revenue - Income; Tax Credits; Urban Redevelopment; Agriculture
Type: Original
Date: January 3, 2022

Bill Summary: This proposal authorizes a tax credit for urban farms located in a food desert.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	Up to (\$100,000)	Up to (\$100,000)	Up to (\$100,000)
Total Estimated Net Effect on General Revenue	Up to (\$100,000)	Up to (\$100,000)	Up to (\$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds			

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	0	0	0

- ☐ 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 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.1610 - Tax Credit for Urban Farms

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposed legislation, for all tax years beginning on or after January 1, 2023, creates a tax credit for taxpayers who establish an urban farm within a classified food desert within the state. If an urban farm is established within a qualifying area, the qualifying taxpayer would be able to claim a tax credit against their state tax liability up to 50% of the eligible expenses for establishing the urban farm. No urban farm can claim a tax credit in excess of \$5,000. The tax credits may be carried forward to the next three (3) succeeding tax years. There is a \$100,000 cap placed on the tax credit.

This proposed legislation could reduce General Revenue (GR) and Total State Revenue (TSR) up to (\$100,000) annually and could impact the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this proposal would allow a tax credit against a taxpayer's state tax liability equal to fifty percent (50%) of the eligible expenses for establishing an urban farm starting on August 28, 2022 (the effective date of the act). The tax credit cannot be transferred, sold or assigned. The credit is not refundable but can be carried forward the next three years (3). The total amount of credits that can be authorized annually is \$100,000. No taxpayer may receive more than \$5,000 in credits per each urban farm. DOR assumes the impact to General Revenue would be a loss of Up to the \$100,000 that can be authorized annually. The first tax returns claiming the credit will start being filed in January 2023 (FY 2023).

Fiscal Year	Loss to General Revenue
2022	\$0
2023	(Up to \$100,000)
2024	(Up to \$100,000)
2025	(Up to \$100,000)

DOR assumes this would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to our website and changes would be needed in our individual income tax system. DOR notes the costs to update these items is \$3,596.50. DOR will need the following FTE should the number of credits redeemed justify the FTE.

- a) One (1) FTE Associate Customer Service Representative is needed for every 6,000 tax credits redeemed, and

- b) One (1) FTE Associate Customer Service Representative is needed for every 7,600 errors/correspondence generated. DOR also anticipates the need for additional equipment and expense for form and system updates.

Oversight notes this proposed legislation states that no taxpayer shall claim a tax credit in excess of five thousand dollars (\$5,000). The cumulative amount of tax credits that may be authorized in any calendar year shall not exceed one hundred thousand dollars (\$100,000). In addition, the tax credits created shall not be transferred, sold, or assigned. Therefore, Oversight assumes DOR can absorb the responsibilities associated with the new tax credit with existing resources. Should the number of redemptions or the number of errors generated prove to be significant, DOR may seek additional FTE through the appropriation process.

Officials from the **Missouri Department of Agriculture – Missouri Agricultural & Small Business Development Authority (MASBDA)** state MASBDA does not currently receive funds from General Revenue or Federal sources to administer any programs. All revenues are from fees which pay for MASBDA's administrative costs.

MASBDA assumes that a non-refundable application fee of \$100 will be charged to each applicant.

MASBDA states Section 348.080 gives MASBDA the authority to collect fees and charges, as the authority determines to be reasonable, in connection with its loans, advances, insurance, commitments, and servicing.

This is the same application fee for four (4) other MASBDA tax credit programs (New Generation Processing Entity initial application, New Generation Producer/Investor Tax Credit application, Agricultural Product Utilization Contributor contribution application, Qualified Beef Tax Credit application).

MASBDA notes the only program that does not charge the \$100 fee is the Family Farm Breeding Livestock Tax Credit program. The program has a review fee of 1% of the family farm loan amount and that fee is under Section 348.500.

MASBDA indicates that each tax credit program has a bank account set up for all administrative/program activities.

MASBDA assumes that the current (5) employees of MASBDA will be sufficient to run this program and no additional equipment will need to be purchased. MASBDA's cost allocation is based on percentage of time spent on each program per fiscal year by employee. Our assumption is that the Urban Farms Tax Credit program will add approximately 8% more program activity for Fiscal Year 2022. Fiscal Year 2023 estimated salary total is \$16,466 per Fiscal Note worksheet. Other administrative costs such as office supplies, postage, printing, etc.... are estimated approximately at \$1,500 for this new program.

Oversight notes “Eligible Expenses” are defined as “expenses incurred in the construction or development of establishing an urban farm”, defined as “an agricultural plot or facility in an urban area that produces agricultural products solely for distribution to the public by sale or donation...; however, “shall not include personal farms or residential lots for personal use.”

The fifty percent (50%) tax credit shall not exceed a taxpayer’s state tax liability. Any amount of tax credit that exceeds the taxpayer’s state tax liability may be carried forward to the next three (3) succeeding tax years.

Therefore, **Oversight** will report a revenue reduction to GR by an amount “Up to” \$100,000 beginning in Fiscal Year 2023. Oversight notes the tax credit program created would sunset December 31st six (6) years after the effective date of this section.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State’s office is provided with core funding to handle a certain amount of normal activity resulting from each year’s legislative session. The fiscal impact for this fiscal note to Secretary of State’s office for Administrative Rules is less than \$5,000. The Secretary of State’s office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

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

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Revenue Reduction- Section 135.1610 – Tax Credit For Establishing, or improving Urban Farms</u>	<u>Up to</u> <u>(\$100,000)</u>	<u>Up to</u> <u>(\$100,000)</u>	<u>Up to</u> <u>(\$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Up to</u> <u>(\$100,000)</u>	<u>Up to</u> <u>(\$100,000)</u>	<u>Up to</u> <u>(\$100,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that establishes an urban farm within a food desert, as defined, as such small business could qualify for a tax credit that would reduce or eliminate such small business's tax liability (Section 135.1610).

FISCAL DESCRIPTION

This act authorizes a tax credit in an amount equal to fifty percent of a taxpayer's expenses incurred in the construction or development of establishing or improving an urban farm in an urban area, as such terms are defined in the act.

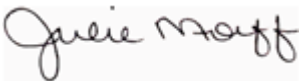
The tax credit shall not exceed \$5,000 for any single urban farm and shall not be transferable or refundable, but may be carried forward for three years. The total amount of tax credits authorized under this act shall not exceed \$100,000 in any calendar year.

This act shall sunset after six years unless reauthorized by the General Assembly. (Section 135.1610)

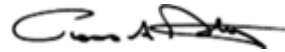
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri Department of Agriculture
Department of Revenue
Office of Administration – Budget & Planning
Office of the Secretary of State
Joint Committee on Administrative Rules



Julie Morff
Director
January 3, 2022



Ross Strobe
Assistant Director
January 3, 2022