

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3501S.04I
 Bill No.: SB 905
 Subject: Tax Credits; Economic Development; Department of Economic Development
 Type: Original
 Date: March 20, 2022

Bill Summary: This proposal establishes the Missouri Rural Workforce Development Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
General Revenue Fund*	(\$165,067) up to \$1,384,933	(\$176,943) up to or could exceed \$1,373,057	(\$179,990) up to or could exceed (\$23,629,990)	(\$183,690) up to or could exceed (\$23,633,690)
Total Estimated Net Effect on General Revenue	(\$165,067) up to \$1,384,933	(\$176,943) up to or could exceed \$1,373,057	(\$179,990) up to or could exceed (\$23,629,990)	(\$183,690) up to or could exceed (\$23,633,690)

*The program has a \$25 million annual cap on tax credit issuances.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	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 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
General Revenue Fund	2 FTE	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE	2 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 2023	FY 2024	FY 2025	Fully Implemented (FY 2026)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Sections 620.3500, 620.3505, 620.3510, 620.3515, 620.3520, 620.3525 & 620.3530 “Missouri Rural Workforce Development Act”

In response to the similar proposal, SB 465 -2021, officials from the **Office of Administration – Budget & Planning Division (B&P)** stated this proposed legislation would create a tax credit for taxpayers making a capital investment in a rural fund against such investor’s state tax liability. The tax credit shall be equal to a proportion of their investment into the rural fund. There is a cap of \$25 million that can be redeemed each calendar year; therefore, Total State Revenue (TSR) could be reduced by up to \$25 million. The tax credit has a five (5) year carry forward; therefore, in any particular calendar year, more than \$25 million may be redeemed.

In addition, a rural fund that seeks to have an equity investment certified as a capital investment eligible for credits shall pay a nonrefundable application fee of five thousand dollars (\$5,000) to the Missouri Department of Economic Development. B&P assumes this money would be deposited into the General Revenue Fund (GR). Therefore, GR could be increased by an unknown amount. There is not enough available data for B&P to estimate the potential revenues.

The rural fund could be subject to a penalty. B&P assumed this money would be deposited into GR. Therefore, GR and TSR could be increased by an unknown amount.

This proposal could impact the calculation pursuant to Art. X, Sec. 18(e).

Officials from the **Missouri Department of Economic Development (DED)** state this proposed legislation shall be known as the Missouri Rural Workforce Development Act.

This proposed legislation requires DED to accept applications from “rural funds” that seek to have an equity investment certified as a “capital investment” eligible for tax credits.

DED notes a “Rural Fund” is any entity certified by DED under this proposed legislation. A “Capital Investment” is an investment in a rural fund by a rural investor that is acquired after the effective date of this proposed legislation at its original issuance solely in exchange for cash, has one hundred percent (100%) of its cash purchase price used by the rural fund to make qualified investments in eligible businesses located in this state by the third anniversary of the initial credit allowance date, and is designated by the rural fund as a capital investment and certified by DED as a capital investment.

DED notes, upon making a capital investment, a rural investor shall have a vested right to a credit against the investor’s state tax liability in an amount equal to the applicable percentage for such credit allowance date multiplied by the purchase price paid to the rural fund for the capital investment. DED states that no eligible business that receives a qualified investment, or any

affiliates of such eligible business, shall directly or indirectly own or have the right to acquire an ownership interest in a rural fund.

DED notes that no new applications can be accepted after 12/31/32.

DED states there is an annual program cap of twenty five million dollars (\$25,000,000). DED anticipates the need to hire two (2) FTE Economic Development Specialists to administer the program created.

Oversight will include DED's FTE costs, as reported by DED, less the costs reported for in-state and out-of-state travel, as this proposed legislation does not require DED to inspect or audit any site(s).

Officials from the **Missouri Department of Revenue (DOR)** note this proposal would add new sections 620.3500 to 620.3530, known as the "Missouri Rural Workforce Development Act." It would be administered by DED. DOR is not mentioned in the proposal, but would be responsible for processing the tax credits claimed by taxpayers on returns and coordinate, as necessary, with DED.

Section 620.3515 sets the annual cap for the tax credit at \$25 million. The credits are not refundable or sellable.

Section 620.3520 - Authorizes the tax credit, not exceeding the amount of the rural investor's income tax for the year in which the credit is claimed. Unused portions of the credit may be carried forward to the next five tax years but may not be carried back.

Section 620.3520.3 - Sets forth the circumstances under which DED may recapture from a rural investor that claimed the credit.

620.3520.4 - provides that recaptured credits are to be re-distributed, pro rata, to credit applicants whose allocations were previously reduced.

DOR assumes that DED would notify DOR of any recaptured credits. DOR would then recalculate the taxpayer's return and bill the taxpayer for any shortcomings. Therefore, DOR assumes they could absorb this duty with existing staff should it be necessary for DED to do a recapture of credits.

This proposal would become effective on August 28, 2022. This proposal states that a capital investment is any equity investment in a rural fund by a rural investor and that investment must be made AFTER the effective date of this proposal. After August 28, 2022 potential investors could make the required investments and then file an application with DED along with a \$5,000 application fee. Upon certification by DED, the investors would be eligible to receive the tax credit for the six credit allowance dates. Those credit allowance dates are the date of certification and each of the five anniversary dates thereafter. Based on the requirements of the investment,

for fiscal note purposes we will assume the first date of certification will be January 1, 2023.

This proposal states the tax credit is based on an applicable percentage of the investment. The percentage for the first two years is zero (0%) and each of the next four years the percentage is fifteen percent (15%). Therefore with a certification date of January 1, 2023, the first two years no credits would be issued. Starting January 1, 2025 the first credits would be issued. They could potentially (depending on when issued) be redeemed in that same year. See example:

Example: A taxpayer qualifies for a \$1 million dollar investment on January 1, 2023. Here is the estimated amount of credit received and when.

YEAR	CREDIT ALLOWANCE DATE	CREDIT AMOUNT
1/1/2023	1	\$0
1/1/2024	2	\$0
1/1/2025	3	\$150,000 (\$1,000,000 x 15%)
1/1/2026	4	\$150,000 (\$1,000,000 x 15%)
1/1/2027	5	\$150,000 (\$1,000,000 x 15%)

This will be a loss to general revenue of up to the \$25 million annually starting in FY 2025.

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.

- 1 FTE Associate Customer Service Rep for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Rep for every 7,600 errors/correspondence generated

Officials from the **Missouri Department of Commerce and Insurance (DCI)** anticipate a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the creation of the Missouri Rural Workforce Development 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.

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, DCI may need to request more expense and equipment appropriation through the budget process.

Oversight notes this proposed legislation would award tax credits to rural investors who have made an equity investment in a rural fund so long as such equity investment is later certified, by the Missouri Department of Economic Development, as a capital investment.

In order for an equity investment to be certified as a capital investment, a rural fund must apply with the Missouri Department of Economic Development to have the equity investment certified as a capital investment. The applicant must complete an application including the amount of capital investment requested, a copy of the applicants, or the affiliate of the applicant's, license as a Rural Business Investment Company (RBIC) under 7 U.S.C. Section 2009cc (U.S.D.A Rural Business Investment Program) or as a Small Business Investment Company (SBIC) under 15 U.S.C. Section 681 (SBA Small Business Investment Program), evidence that the applicant or affiliates of the applicant have invested at least one hundred million dollars (\$100,000,000) in nonpublic companies located in counties within the United States with a population of less than fifty thousand, a business plan that includes a revenue impact assessment, and a nonrefundable application fee of \$5,000.

Per the [Small Business Investment Company Program Overview](#), as of September 30, 2021, there were approximately 307 privately owned and managed SBA licensed SBICs.

Table 1: Program Composition of the Types of Operating SBICs					
Type of Operating SBICs	FY End 2017	FY End 2018	FY End 2019	FY End 2020	FY End 2021
Total Number of Type of Operating SBICs	315	305	300	302	307
Number of Debenture SBICs	227	227	224	232	235
Number of Participating Security SBICs	33	25	22	12	9
Number of Bank-Owned or Non-Leveraged SBICs	47	47	48	52	56
Number of Specialized SBICs	8	6	6	6	7

Per correspondence received from the United States Department of Agriculture in February 2021, there are approximately 10 certified [RBIC's](#). In addition, there have been four (4) investments made in Missouri totaling almost \$12,000,000.

Oversight assumes SBICs and RBICs are nationally oriented; various companies may focus on specific regions but no one entity is specific to the State of Missouri.

Oversight notes this proposed legislation states that a capital investment is any equity investment in a rural fund by a rural investor which, is acquired **after** the effective date of this proposed legislation.

Oversight notes this proposed legislation would require applicants under this proposed legislation to submit an application to the Missouri Department of Economic Development accompanied with a nonrefundable \$5,000 application fee.

Oversight notes this proposed legislation does not specifically state where the application fee(s) shall be deposited. For the purpose of this fiscal note, Oversight will assume such application fee(s) will be deposited into GR.

Oversight notes the Missouri Department of Economic Development shall begin accepting applications ninety days after the effective date of this proposed legislation. Therefore, Oversight assumes applications, accompanied with the nonrefundable fee of \$5,000 could be submitted as early as Fiscal Year 2023.

Therefore, **Oversight** will report a revenue gain to GR equal to \$0 (no applications/fee(s) submitted) or \$5,000 (one application/fee is submitted) up to \$1,585,000 ($\$5,000 * (307 \text{ (# of SBICs)} + 10 \text{ (# of certified RBICs)})$) beginning in Fiscal Year 2023.

Oversight notes, once an equity investment is certified as a capital investment, the rural investor shall have a vested right to a tax credit to be issued to be used against the rural investor's state tax liability that may be utilized on each credit allowance date of such capital investment in an amount equal to the applicable percentage for such credit allowance date multiplied by the purchase price paid to the rural fund.

Oversight, then, assumes the following example describes a tax credit allocation under this proposed legislation:

If Company A were to have \$100,000,000 certified as a capital investment on January 1, 2023, Company A's credit allowance date(s) would be: January 1, 2003 (0%), January 1, 2024, (0%) January 1, 2025 (15%), January 1, 2026 (15%), January 1, 2027(15%), and January 1, 2028 (15%).

Oversight assumes, then, Company A would **not** receive a tax credit (a tax credit equal to zero percent (0%) multiplied by the amount certified as a capital investment) on January 1, 2023 and January 1, 2024.

Each January thereafter, with the last January being January 1, 2028, Company A would receive a tax credit equal to fifteen percent (15%) of the amount certified as a capital investment; or \$15,000,000.

Oversight assumes, then, Company A would receive a **total** of \$60,000,000 in tax credits over the course of six (6) years to be used throughout a total of eleven (11) years.

Oversight notes the Missouri Department of Economic Development shall begin accepting applications ninety days after the effective date of this proposed legislation. Therefore, Oversight assumes applications could be submitted as early as Fiscal Year 2023.

Oversight assumes, then, based on the tax credit allocation equation created under this proposed legislation, a rural investor could receive a tax credit in an amount greater than zero (\$0) beginning two (2) years after the initial certification date; Fiscal Year 2025.

Therefore, **Oversight** estimates the tax credit provision of this proposed legislation could result in a revenue reduction equal to \$0 (no certified capital investments) up to \$25,000,000 (tax credit authorization cap) beginning in Fiscal Year 2025.

Oversight notes this proposed legislation would allow for the recapture of tax credits issued to taxpayers provided rural fund(s) do not meet the requirements established in this proposed legislation.

Oversight notes this proposed legislation states that recaptured tax credits would be reverted to the Missouri Department of Economic Development and be reissued to applicants whose capital investment allocations were reduced in accordance with the application process (authorization cap).

Oversight further notes this proposed legislation does not specifically state where the payment of recaptured tax credits would be deposited. For the purpose of this fiscal note, **Oversight** will assume recaptured tax credit payments will be deposited into GR with the assumption that the Missouri Department of Economic Development will be distributed the funds for further tax credit authorization(s).

Oversight notes tax credits authorized may be recaptured as early as the third anniversary date. Therefore, **Oversight** assumes this could be as early as Fiscal Year 2025.

Oversight is unable to determine the actual fiscal impact of the tax credit recapture provision. Therefore, for the purpose of this fiscal note, **Oversight** will report a revenue gain equal to "\$0 to Unknown" and a revenue reduction equal to "\$0 or Unknown" beginning in Fiscal Year 2025.

Oversight notes the provisions of this proposed legislation state the Missouri Department of Economic Development shall not accept any new applications for tax credits after December 31, 2032.

Officials from the **Department of Labor and Industrial Relations, Higher Education and Workforce Development, Missouri Department of Agriculture, Office of the State Treasurer, Office of the State Courts Administrator, State Tax Commission**, and the **University of Missouri System** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note for these agencies.

Officials from the City of Kansas City and City of Springfield both Officials assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2026)
GENERAL REVENUE FUND				
<u>Revenue Gain- Section 620.3510 – Nonrefundable Application Fee of \$5,000 – p. 6</u>	\$0 or \$5,000 up to \$1,555,000			
<u>Revenue Reduction – Section 620.3515 – Tax Credit For Certified Capital Investment(s) -- p. 6-7</u>	\$0	\$0	\$0 up to (\$25,000,000)	\$0 up to (\$25,000,000)
<u>Revenue Gain – Transfer In – Section 620.3520 – Recapture of Tax Credits From Rural Investor – p. 7-8</u>	\$0	\$0	Unknown	Unknown
<u>Revenue Loss – Transfer Out – Section 620.3520 – Recaptured Tax Credits (Re)Allocated to Missouri Department of Economic Development -- p. 7-8</u>	\$0	\$0	(Unknown)	(Unknown)
<u>Cost – Section(s) 620.3510, 620.3515 & 620.3520 – DED – p. 4</u>				
Personnel Services	(\$86,235)	(\$105,552)	(\$107,663)	(\$109,816)
Fringe Benefits	(\$53,567)	(\$64,975)	(\$65,683)	(\$66,997)

Equipment & Expense	(\$30,265)	(\$11,416)	(\$11,644)	(\$11,878)
Total Cost	(\$170,067)	(\$181,943)	(\$184,990)	(\$188,690)
FTE Change – DED	2 FTE	2 FTE	2 FTE	2 FTE
ESTIMTED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$165,067) up to \$1,384,933</u>	<u>(\$176,943) up to or could exceed \$1,373,057</u>	<u>(\$179,990) up to or could exceed (\$23,629,990)</u>	<u>(\$183,690) up to or could exceed (\$23,633,690)</u>

<u>FISCAL IMPACT</u> - Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2026)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for a tax credit under this proposed legislation as such small business could reduce or eliminate such small business's state tax liability.

FISCAL DESCRIPTION

This act establishes the "Missouri Rural Workforce Development Act", which provides a tax credit for certain investments made in businesses located in rural areas in this state.

This act allows investors to make capital investments in a rural fund, as defined in the act. Such investors shall be allowed a tax credit for a period of six years beginning with the year the investor made a capital investment. The tax credit shall be equal to a percentage of the capital investment. The percentage shall be zero for the first two years, and fifteen percent for the subsequent four years. Tax credits issued under the act shall not be refundable, but may be carried forward to any of the five subsequent tax years, as described in the act. No more than \$25 million dollars in tax credits shall be authorized in a given calendar year.

A rural fund wishing to accept investments as capital investments shall apply to the Department of Economic Development. The application shall include the amount of capital investment requested, a copy of the applicant's license as a rural business or small business investment company, evidence that the applicant has made at least \$100 million in investments in nonpublic companies located in counties throughout the United States with a population less than fifty

thousand, evidence that the applicant has made at least \$30 million in investments in nonpublic companies located in Missouri, and a business plan that includes a revenue impact statement projecting state and local tax revenue to be generated by the applicant's proposed qualified investments, as described in the act. The rural fund shall also submit a nonrefundable application fee of \$5,000.

The Department shall grant or deny an application within thirty days of receipt. The Department shall deny an application if such application is incomplete or insufficient, if the revenue impact assessment does not demonstrate that the business plan will result in a positive economic impact on the state over a ten year period, or if the Department has already approved the maximum amount of capital investment authority.

Rural funds shall use capital investments made by investors to make qualified investments, as defined in the act, in eligible businesses. An eligible business is a business that, at the time of the qualified investment, has fewer than two hundred fifty employees and has its principal business operations in the state.

The Department may recapture tax credits if the rural fund does not invest sixty percent of its capital investment authority in qualified investments within two years of the date of the capital investment, and one hundred percent of its capital investment authority within three years, if the rural fund fails to maintain qualified investments equal to ninety percent of its capital investment authority in years three through six, as described in the act, if prior to exiting the program or thirty days after the sixth year, the rural fund makes a distribution or payment that results in the fund having less than one hundred percent of its capital investment authority invested in qualified investments, or if the rural fund violates provisions of the act.

Rural funds shall submit annual reports to the Department, including the name and location of each eligible business receiving a qualified investment, the number of jobs created and jobs retained as a result of qualified investments, the average salary of such jobs, and any other information required by the Department, as described in the act.

At any time after the sixth anniversary of the capital investment, a rural fund may apply to the Department to exit the program. The Department shall respond to such application within fifteen days. A rural fund shall be subject to penalties for not meeting projected job creation metrics, as described in the act.

The Department shall not accept new applications for tax credits under the act after December 31, 2032.

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

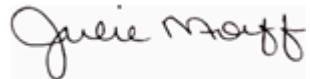
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Office of Administration – Budget & Planning
Department of Commerce and Insurance
Department of Economic Development
Department of Revenue
Office of the State Treasurer
State Tax Commission
Office of the State Courts Administrator
University of Missouri System
City of Kansas City
City of Springfield



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