

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3868S.01I
 Bill No.: SB 658
 Subject: Tax Credits
 Type: Original
 Date: January 23, 2022

Bill Summary: This proposal prohibits tax credits for the construction or rehabilitation of residences located in certain distressed areas after August 28, 2022.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	\$0	\$5,403,307 to \$16,000,000	\$5,403,307 to \$16,000,000
Total Estimated Net Effect on General Revenue	\$0	\$5,403,307 to \$16,000,000	\$5,403,307 to \$16,000,000

*Oversight has ranged the fiscal impact (savings) from prohibiting tax credit issuances under the Neighborhood Preservation Act from the three (3) year issuance (FY 2019-2021) average (\$5,403,307) to the annual cap of \$16 million.

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	\$0	\$0	\$0

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

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would eliminate the Neighborhood Preservation Tax Credit for any projects commenced on or after August 28, 2022. The cap on the program is \$16M (\$8M for eligible areas and \$8M for qualifying areas, as defined by law).

The proposed change could result in a savings to TSR by up to \$16M. However, B&P notes that based on the tax credit analysis form provided by DED, the three year average authorizations is \$8,105,167 and average redemptions is \$4,492,552. Savings could therefore be between \$4,492,552 and \$16,000,000 annually.

Officials from the **Department of Revenue (DOR)** assume this proposal eliminates the Neighborhood Preservation Tax Credits. This program began in 1999 and has an annual cap of \$16,000,000. The credit was based on the contributions made to develop projects in certain areas. This credit will stop as of August 28, 2022.

For informational purposes, the Department is providing information over the last few years on the amount of the credits that were issued and redeemed.

Year	Authorized	Issued	Total Redeemed
FY 2021	\$8,050,000.00	\$5,082,098.68	\$7,011,854.52
FY 2020	\$8,094,250.00	\$5,879,298.43	\$3,658,595.10
FY 2019	\$8,171,250.00	\$4,830,622.10	\$2,807,206.80
FY 2018	\$8,290,583.75	\$3,923,399.76	\$3,293,154.79
FY 2017	\$8,121,865.00	\$2,538,319.73	\$3,147,042.54
FY 2016	\$1,007,875.82	\$11,197,639.74	\$2,963,956.70
FY 2015	\$8,210,050.00	\$3,090,703.26	\$1,766,762.55
FY 2014	\$7,015,264.52	\$2,199,211.15	\$1,789,898.44
FY 2013	\$9,352,479.69	\$2,305,114.68	\$1,232,213.95
FY 2012	\$9,145,201.93	\$969,306.53	\$2,159,654.10
TOTALS	\$75,458,820.71	\$42,015,714.06	\$29,830,339.49

Since this credit would not stop until August 28, 2022, it is assumed the credits will still be issued in FY 2023. This proposal will result in savings to the state of \$7,545,882 the average authorized over the last 10 years starting in FY 2024.

This will not be expected to have an administrative impact on the Department.

Officials from the **Missouri Department of Economic Development (DED)** state this proposed legislation eliminates the Neighborhood Preservation Act Program. No tax credits should be issued for projects commenced on or after August 28, 2022; however, credits may be issued for tax credits authorized on or before August 28, 2022.

The program has a total combined cap of \$16 million; \$8 million for Qualifying Areas and \$8 million for Eligible Areas. DED exhausts the \$8 million cap annually for the Qualifying Areas but the \$8M cap for the Eligible Areas is not met. Average annual issuances for the program are \$4 million per year.

This proposed legislation would cause a cost savings to General Revenue (GR) of \$2,800,000 from Fiscal Year 2023 – 2025. DED notes there is still a Cost to Benefit of \$1.00 to \$0.20. With this in mind, the State of Missouri will be losing some of the economic benefit on the savings to

the program. With the Cost to Benefit ratio added in, the final total savings would be **\$2,240,000**. Below is a breakdown per fiscal year and a formula for how savings were determined:

- For Fiscal Year 2023 – DED will still be able to issue credits that were authorized or where the project commenced prior to 8/28/2022. \$0 savings for FY23.
- For Fiscal Year 2024 – Based on prior year’s authorizations, roughly 20% of the credits were issued in the second year from when the project was originally authorized. Average issuances per year are \$4 million; \$4 million x 20% = \$800,000. \$800,000 savings x .2 Cost to Benefit Ratio = \$160,000. \$800,000 - \$160,000 = \$640,000 savings for Fiscal Year 2024.
- For Fiscal Year 2025 – Based on prior year’s authorizations, roughly 50% of the credits were issued in the third year from when the project was originally authorized. Average issuance per year are \$4 million; \$4 million x 50% = \$2 million. \$2,000,000 x .2 Cost to Benefit ratio = \$400,000. \$2,000,000 - \$400,000 = \$1,600,000 savings for Fiscal Year 2025.
- Total: \$640,000 + \$1,600,000 = \$2,240,000

Since this legislation eliminates a program, no FTEs will need to be hired.

Oversight notes most of Missouri’s tax credits provide a return or benefit on the tax credit investment. However, Oversight assumes this to be an indirect impact and will report the fiscal impact to the State of Missouri ranging from the three year average amount of Neighborhood Preservation Tax Credit(s) issued to the cumulative tax credit cap of the tax credit program.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state this proposed legislation could result in a potential unknown increase of premium tax revenues in FY2023, FY2024 and FY2025 as a result of the modification of the construction or rehabilitation tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

For purposes of this fiscal note, **Oversight** will report the fiscal impact to the State of Missouri ranging from the three (3) year average amount of Neighborhood Preservation Tax Credit(s) issued to the cumulative tax credit cap of the tax credit program. Oversight notes, though, that

tax credit redemptions for the Neighborhood Preservation Tax Credit are likely continue for a maximum of five (5) years after the issuance of tax credits for projects commenced before August 28, 2022. This could result in the actual and true fiscal impact of this proposed legislation to result in future fiscal years, rather than the years reported in this fiscal note.

Oversight notes this proposed legislation would eliminate the Neighborhood Preservation Tax Credit for any projects commenced on or after August 28, 2022 (Fiscal Year 2023).

Oversight notes, per the most recent Tax Credit Analysis received from the Missouri Department of Economic Development, the Neighborhood Preservation Tax Credit recognized the following activity:

Fiscal Year	2018	2019	2020	2021 (est.)	2022 (Budget Year)
Certificates Issued (#)	100	122	95	110	110
Projects/Participants (#)	100	122	95	110	110
Amount Authorized	\$8,290,584	\$8,171,250	\$8,094,250	\$8,200,000	\$8,200,000
Amount Issued	\$3,923,400	\$4,830,622	\$5,879,298	\$5,500,000	\$5,500,000
Amount Redeemed	\$3,293,155	\$2,807,207	\$3,658,595	\$5,000,000	\$5,000,000

Oversight notes the three (3) year average (Fiscal Year(s) 2019 – 2021) amount of Neighborhood Preservation Tax Credits issued equals \$5,403,307.

Oversight notes this proposed legislation would eliminate future authorizations of the Neighborhood Preservation Tax Credit beginning August 28, 2022. Oversight notes this suggests that authorizations would not occur for four (4) months of Tax Year 2022. Oversight notes taxpayers would not file their Tax Year 2022 tax returns until after January 1, 2023 (Fiscal Year 2023). However, for simplicity, Oversight will assume all credits would be authorized prior to August 28, 2022. Therefore, Oversight assumes Tax Year 2024 would be the first tax year to recognize a result of this proposed legislation. Tax Year 2023 tax returns would not be filed until after January 1, 2024 (Fiscal Year 2024).

Therefore, for purposes of this fiscal note, Oversight will report a revenue gain to GR equal to \$5,403,307 to \$16,000,000 (tax credit program cap) beginning in Fiscal Year 2024.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Revenue Gain- Section 135.481 – Elimination of Neighborhood Preservation Tax Credit Authorizations Beginning August 28, 2021</u>	\$0	<u>\$5,403,307 to \$16,000,000</u>	<u>\$5,403,307 to \$16,000,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	<u>\$5,403,307 to \$16,000,000</u>	<u>\$5,403,307 to \$16,000,000</u>

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

FISCAL IMPACT – Small Business

This proposed legislation would negatively impact any small business that would have otherwise qualified for the Neighborhood Preservation Tax Credit for projects commenced after August 28, 2021 had the tax credit not been eliminated.

FISCAL DESCRIPTION

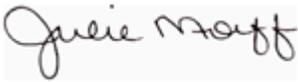
Current law authorizes a tax credit for the construction or rehabilitation of residences located in certain distressed areas. This act provides that no such tax credits shall be authorized for projects that commence on or after August 28, 2022.

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

Department of Economic Development
 Office of Administration – Budget & Planning
 Department of Revenue
 Department of Commerce and Insurance

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