

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4530H.09C  
 Bill No.: HCS for SS No. 2 for SCS for SB 968  
 Subject: Corporations; Tax Credits; Taxation and Revenue - Income; Charities; Business and Commerce; Employees - Employers; Contracts and Contractors  
 Type: Original  
 Date: May 9, 2022

Bill Summary: This proposal modifies provisions relating to business entities.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	Could exceed \$6,305,908	Could exceed (\$3,783,633)	Could exceed (\$3,788,984)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Could exceed \$6,305,908</b>	<b>Could exceed (\$3,783,633)</b>	<b>Could exceed (\$3,788,984)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Missouri Disaster Fund *	\$0	\$0	\$0
Other State Funds	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Legal Expense	\$0	\$0	\$0
Unemployment Automation Fund	\$4,402,670 to \$5,000,000	\$4,402,670 to \$5,000,000	\$4,402,670 to \$5,000,000
School District Trust Fund	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Parks and Soils State Sales Tax	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Conservation Commission	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(Unknown) to \$5,000,000</b>	<b>(Unknown) to \$5,000,000</b>	<b>(Unknown) to \$5,000,000</b>

\* §44.032 Transfer-in and expenses net to zero. Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Federal Funds	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Unemployment Trust	(\$4,402,670) or up to (\$5,000,000)	(\$4,402,670) or up to (\$5,000,000)	(\$4,402,670) or up to (\$5,000,000)
Unemployment Compensation Administration Trust	\$0 or up to (\$91,109)	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>(\$4,402,670) or up to (\$5,091,109)</b>	<b>(\$4,402,670) or up to (\$5,000,000)</b>	<b>(\$4,402,670) or up to (\$5,000,000)</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
General Revenue	Could exceed 3 FTE	Could exceed 3 FTE	Could exceed 3 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>Could exceed 3 FTE</b>	<b>Could exceed 3 FTE</b>	<b>Could exceed 3 FTE</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

## FISCAL ANALYSIS

### ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek approval to publish a new fiscal note.

### Section 8.250 – Posting for invitation for bid:

In response to similar provisions in SB 758, officials from the **Office of Administration - Facilities Management, Design and Construction (OA-FMDC)** stated this section of the proposal would permit OA-FMDC to place invitations to bid for construction projects on its website or MissouriBUYS for a period of ten days or more rather than advertising in the newspaper. On average, for the period from FY19- FY21, FMDC spent \$101,990 per year on newspaper advertising. However, this number is lower than in the past given that many construction projects have been on hold during this timeframe. FMDC's advertising costs averaged around \$300,000 per year in the past when more capital improvement projects were being completed. FMDC expects a saving of \$100,000 to \$300,000 per year from this change.

**Oversight** does not have any information to the contrary. Therefore, Oversight will reflect the estimated savings provided by OA-FMDC.

### Section 44.032 Emergency management for Rural Electric Cooperatives:

Officials from the **Department of Public Safety - State Emergency Management Agency (SEMA)** assume this provision will have a fiscal impact on SEMA and could require a substantial amount of general revenue. SEMA notes while there has been ongoing discussion regarding obligation of funds for the "Missouri Disaster Fund", there is currently no general revenue obligated to the fund.

As an example of a potential fiscal impact on SEMA, Missouri recently received a new Major Presidential Disaster Declaration, FEMA-4636-DR-MO, for severe storms and tornadoes that occurred on December 10, 2021. The Major Presidential Disaster Declaration is designated for seven (7) counties and has eight (8) eligible applicants under the FEMA Public Assistance Program. Seven (7) of the eight (8) eligible applicants are Rural Electric Coops. FEMA has estimated the disaster damages for FEMA-4636-DR-MO at \$27.3 million. All of the \$27.3 million in estimated damages belong to the Rural Electric Coops with the exception of \$63,000, which is road and debris damages in Reynolds County.

In response to similar legislation (HCS for HB 2328), officials from **Office of Administration - Budget and Planning (B&P)** noted this section would allow rural electric cooperatives to access disaster and emergency related funding. B&P defers to SEMA for an impact from this provision.

**Oversight** assumes, based on SEMA's response, that General Revenue funds will be used to cover expenses under §44.032. Oversight will reflect a \$0 to (Unknown, Greater than \$250,000) impact to General Revenue and will assume that expenses to the Missouri Disaster Fund will equal the amount transferred in from General Revenue and net to zero. Oversight notes as of February 2022, the balance in the Missouri Disaster Fund is \$638,477.

In response to similar legislation (HCS for HB 2328), officials from the **Department of Commerce and Insurance**, the **Department of Economic Development**, the **Department of Natural Resources**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation**, the **Office of Administration**, the **Hughesville Water/Wastewater**, the **Little Blue Valley Sewer District**, the **Metropolitan St. Louis Sewer District**, the **South River Drainage District**, the **Wayne County PWS #2**, and the **Hancock Street Light District** each assume the provision will have no fiscal impact on their respective organizations.

**Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies for this section.

### **Section 105.1500 – Personal Privacy Protection Act**

In response to this proposal and/or similar proposals, officials from the **Missouri Ethics Commission**, **Office of Administration**, **Missouri Highway Patrol**, **Office of the State Public Defender**, and **Missouri Office of Prosecution Services** each assumed the proposal will have no fiscal impact on their respective organizations.

**Oversight** assumes subsection 105.1500.5 of this proposal would allow causes of action against various public agencies throughout the state. If the state is found liable, there may be additional payouts from the State Legal Expense Fund. Oversight assumes an annual fiscal impact from \$0 (no such civil actions brought against the state) to an unknown amount - not likely to exceed \$250,000 – of civil damages payouts.

Therefore, **Oversight** will assume the net fiscal impact to the Legal Expense Fund will be \$0 due to transfers in from General Revenue, Federal Funds, and Other State Funds from various state agencies to offset judgements against the state.

### **Section 130.029 – Contributions by Limited Liability Companies**

In response to similar proposals, officials from **Office of Administration - Budget and Planning (B&P)** noted this section would allow limited liability companies (LLCs) to make

political contributions. Section 130.029.4(2) requires LLCs be operational for at least one year prior any contributions and to file a form with the Missouri Ethics Commission.

B&P notes that SA2 removes all references to S-Corporations and the definition of “corporation” under Section 130.029.4(3).

This provision will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** note this provision allows a limited liability company that is not classified as a corporation, to make contributions to any candidate committee. This will not have a fiscal impact on the Department.

**Oversight** notes officials from the Department of Revenue and the Office of Administration - Budget and Planning both assume this provision will have no fiscal impact on state and local funds. Oversight does not have any information to the contrary.

**Section 135.800, 135.802, 135.805, 135.810, 135.815, 135.825 – Tax Credit Accountability Act;**

Officials from the **Department of Revenue (DOR)** assume the tax credit accountability act requires that recipients of certain tax credits file an annual report declaring information about the holder of the tax credit as well as certain number of jobs created by the projects. DOR is to assess a penalty against each recipient that fails to file the reports as required. The penalties for failing to file are currently steep and several taxpayers end up owing more in penalties than in the credit received.

The tax credit accountability act is being modified to help the taxpayer understand their responsibilities for reporting and to make the reporting easier. This proposal will require that every applicant under TCAA sign a statement affirming that they are aware of the reporting requirements of section 135.805 and the penalty provisions of section 135.810. DOR assumes the creation and distribution of this acknowledgment to the tax credit administering agencies would not have a fiscal impact. However, DOR officials hope it will help less taxpayers owe the fees for non-compliance.

This proposal is clarifying that this annual filing requirement is on June 30th and is for the first three years after the issuance of the credits. It requires the name of each tax credit recipient and amount of tax credits issued shall be made available for public inspection. These requirements may be satisfied by making such information available to the public through the Department of Economic Development’s website or the Missouri accountability portal.

This proposal modifies the penalty provisions. This proposal provides that thirty days after the annual report is past due, the administering agency shall send notice by either registered or certified mail to the last known address of the entity obligated to complete the report. Three months after the annual report is past due, the agency shall notify the department of revenue of

any taxpayer subject to penalties. The payment of penalties under this section shall be due as of the filing date of the taxpayer's next income tax return. If not required to file, it shall be due as of the next April 15. The director of revenue shall prepare forms and rules to allow the reporting and satisfaction of liability for such penalties and for valuable consideration, may enter into agreements to compromise or abate some or all of the penalty amount. Any nonpayment of liability for penalties by the due date under this section shall be subject to the same provision of law as a liability for unpaid income tax including underpayment interest provisions but excluding income tax penalties and addition to tax provisions.

The Department assumes this changes can be made using DOR's existing resources.

In response to similar proposals, officials from the **Office of Administration – Budget & Planning** assumed this section rearranges and changes certain definitions as follows:

Section 135.800 – Tax Credit Accountability Act

Section 135.800.2(5) removes the Health Care Access Fund tax credit from the list of domestic and social tax credits. B&P notes that the Health Care Access Fund tax credit has never been implemented.

Section 135.800.2(5) also adds the Health, hunger and hygiene tax credit to the definition of domestic and social tax credits.

Section 135.800.2(10) changes the definition of “recipient” to clarify that a recipient is not a person or entity that receives a transferred tax credit.

Section 135.802 – Tax Credit Application Requirement:

Section 135.802.1(5) requires that created jobs must be the direct result of project under consideration.

Section 135.800.10 would allow DED to require additional information from applicants.

Section 135.800.12 would require an applicant to sign a statement acknowledging the tax credit reporting requirements and penalty for failure to file the annual reports.

Section 135.805 – Annual Tax Credit Reports –

This section would remove the annual reporting exemption currently in place for recipients of environmental tax credits. B&P notes there are currently no active environmental tax credits (charcoal producer tax credit, wood energy tax credit, and alternative fuel stations tax credit).

Section 135.805 requires the annual report to include the number of jobs directly created by the project.

This section would also require the annual reports to include projected and actual project costs and completion time. B&P notes that currently the annual reports only require projected or actual information, but not both.

This section also removes the requirement that the first annual report not be due until June 30<sup>th</sup> one year after the tax credits were issued. However, this proposal would shorten the grace period from one year to one month after the tax credits are issued.

Tax Credit Issued	Current Law	Proposal
May 30, 2023	June 30, 2024	June 30, 2023
June 1, 2023	June 30, 2024	June 30, 2024

Section 135.805.13 would allow administering agencies to publish relevant tax credit reporting data on either DED’s website or the Missouri Accountability Portal.

Section 135.810 – Failure to File Annual Tax Credit Report

This section would change the timing and penalties for individuals and entities that do not file a required annual tax credit report.

This proposal would make the following changes to the TCAA reporting penalties:

Reporting Penalty	Current Law	Proposed
Failure to File	6 – 11 months – 2% per month (max 12%)	1 <sup>st</sup> report, 3 months and up – 1% per month (max 10%)
	12 months and up – 10% per month (max 100%)	2 <sup>nd</sup> report, 3 months and up– 1.5% per month (max 20%)
		3 <sup>rd</sup> report, 3 months and up – 1.5% per month (max 20%)
Fraud	100%	200%

Based on information provided by DOR, on average, 58 taxpayers per year fail to file the required TCAA reports for at least two years. DOR only issues a notice of deficiency after the maximum penalty has accrued over two years. For example: a taxpayer is required to file a TCAA report in 2018, but fails to submit such report. DOR would not send a notice of deficiency (NOD) until June 2021 when the maximum 100% penalty has been met. The following table shows the number of deficiency notices that have been sent each year from 2015 through 2018.

Year TCAA Report Covers	Year TCAA Report Due	Year NOD Issued	Number of NOD reports
2015	2016	2018	36
2016	2017	2019	47
2017	2018	2020	83
2018	2019	2021	67

From 2018 through 2020, DOR collected between \$42,391 and \$305,870 a year in failure to report penalties. These penalties go to general revenue. The following table shows the amount collected per TCAA report year:

Year TCAA Report Covers	Year TCAA Report Due	Year NOD Issued	Collected as of 9/20/2021
2015	2016	2018	\$81,539
2016	2017	2019	\$305,870
2017	2018	2020	\$42,391
2018	2019	2021	\$0

However, this proposal would not eliminate the TCAA failure to file penalty, it would only reduce the maximum penalty from 100% to 20% for each of the three required reports. Therefore, B&P estimates that this proposal could reduce penalty collections by \$33,913 to \$244,696 per year beginning in FY24.

TCAA Report Year	Current Penalty	Proposed Penalty	Loss in Penalty Revenue
2015	\$81,539	\$16,308	(\$65,231)
2016	\$305,870	\$61,174	(\$244,696)
2017	\$42,391	\$8,478	(\$33,913)

**Oversight** notes that Section 135.810 – Failure to File Annual Tax Credit Report shortens the amount of time the claimant has to file annual report and reduces the amount of penalties. Additionally, the proposal increases fraud penalties from 100% to 200% of the tax credits issued. B&P assumes that there would be a loss in Penalties Revenue due to the reduction of the maximum penalties from 100% to 20%. Oversight notes the three average loss in penalty revenue is shown in the table below:

TCAA Report Year	Current Penalty	Proposed Penalty	Loss in Penalty Revenue
2015	\$81,539	\$16,308	(\$65,231)
2016	\$305,870	\$61,174	(\$244,696)
2017	\$42,391	\$8,478	(\$33,913)
<b>Average</b>			<b>(\$114,613)</b>

**Oversight** assumes the loss of penalty revenues is unknown, but could exceed \$114,613 as shown above.

### **Section 143.081- tax credit for S-Corporation shareholders**



In response to similar proposals, officials from **Office of Administration - Budget and Planning (B&P)** noted this provision would grant a tax credit for S-Corporation shareholders for income earned outside of Missouri, if the income earned out of state is not subject to income taxes in the state in which it was earned. The tax credit shall be equal to the shareholders proportion of Missouri income tax owed on such out of state S-Corporation income. This credit would begin on August 28, 2022. Since this is before the end of the 2022 tax year, B&P assumes that the credit would be available for taxpayers filing their annual 2022 tax returns.

B&P notes that shareholders are already allowed a resident income tax credit if income earned out of state is subject to another state's income tax. B&P further notes that this would essentially eliminate the Missouri tax on all out of state income earned by any S-Corporation, if that income is not subject to any other state's income tax.

Based on information provided by DOR, for tax year 2018 fewer than 1% of S-Corporations claimed out-of-state income. However, B&P was unable to determine how much of such S-Corporations income was derived from out-state-sources and how much of that income came from other states that do not levy an income tax. Therefore, B&P estimates that this provision will have an unknown negative impact on TSR and GR beginning in FY23.

Officials from the **Department of Revenue (DOR)** note this provision would allow a resident shareholder in an S-Corp to be eligible for a credit issued pursuant to this section in an amount equal to the shareholder's pro rata share of any income tax imposed pursuant to Chapter 143 on income derived from sources in another state of the United States, or a political subdivision thereof, or the District of Columbia, and which is subject to tax pursuant to Chapter 143 but is not subject to tax in such other jurisdiction.

S-Corps are required to file a MO-1120S (S-Corporation Income Tax Return) with the Department of Revenue annually. One of the questions on the form requires S-Corps to disclose if any of the income they receive is from sources other than those located in Missouri. Of the 87,907 S-Corps that completed the 2018 MO-1120S form less than 1% indicated income outside Missouri.

The Department is unable to estimate the amount of the income that was reported as out of the state. Additionally, the Department cannot determine if any of that income is from jurisdictions that do not tax. The Department assumes an unknown impact that could exceed \$250,000 annually.

No administrative fiscal impact is expected to the Department from this provision.

**Oversight** is unable to estimate the amount of out of state income reported. Therefore, **Oversight** will show a negative unknown impact that could exceed \$250,000 annually for this section.

### **Section 143.119 Self-Employed Health Insurance Tax Credit**

Officials from the **DOR** notes this proposal modifies the existing self-employed health insurance tax credit program. The purpose of the Self-Employed Health Insurance tax credit was to provide persons who may not otherwise be able to purchase health insurance a credit to help offset the cost of the insurance. This credit is currently refundable. This credit is not limited to Missouri residents or taxpayers with a Missouri tax liability. The following has been distributed to non-residents with no Missouri taxable income:

CY 2021 so far 485 total returns filed claiming \$483,794  
CY 2020 850 total returns filed claiming \$947,611  
CY 2019 748 total returns filed claiming \$953,114  
CY 2018 617 total returns filed claiming \$720,514

This proposal modifies the existing tax credit program to ensure only those with a Missouri tax liability will get this credit. It also makes it non-refundable. It also adds sunset language similar to the other tax credits.

Currently there is a deduction allowed to be taken under Section 143.113 for these same self-employed health insurance expenses. This proposal would limit a person to either the tax credit or the deduction.

It is expected that these changes would result in a savings to the state of greater than \$873,746 annually.

This proposal will require the Department to update its MO-SHC form and the individual income tax filing system. These costs are estimated at \$3,596.

**Oversight** assumes DOR could absorb these costs within current appropriation amounts.

In response to similar proposals, officials from the **B&P** assumed this section would limit the self-employed tax credit to individuals with a Missouri income tax liability of \$3,000 or less. In addition, the credit is changed from refundable to non-refundable, non-transferable, and cannot be carried forward or back to any other tax year.

In addition, no individual can claim both this tax credit and the tax deduction under Section 143.113 in the same tax year. Based on data provided by DOR, 92% of taxpayers claim both the self-employed health insurance tax credit and the self-employed health insurance tax deduction each year.

Subdivision 3 would sunset the tax credit, unless reapproved, on December 31, 2028. Therefore, unless reapproved, tax year 2028 would be the last year that this credit could be claimed.

B&P notes that currently non-Missouri residents with no Missouri income tax liability are able to apply for the refundable self-employed health insurance tax credit. B&P further notes that under this provision, such individuals would still be able to apply for the credit (as their Missouri tax liability would be less than \$3,000). However, this proposal also makes the credit non-refundable. Therefore, non-Missouri residents with no Missouri tax liability would no longer benefit from the tax credit.

Per DOR, an average 9,940 taxpayers claim the self-employed health insurance tax credit each year with average yearly credit redemptions of \$8,869,960. Based on additional DOR data, prohibiting the credit for non-Missouri residents and Missouri residents with an income tax liability greater than \$3,000 would lower the number of taxpayers eligible for this credit by approximately 66.7% each year.

Preventing non-Missouri residents, with no Missouri income tax liability, would reduce tax credit redemptions by up to \$900,000 per year. Disallowing the credit for Missouri residents with an income tax liability greater than \$3,000 would further reduce redemptions by approximately \$5,586,511 per year. B&P is unable to determine the amount of additional savings from making the credit non-refundable, but it could be a substantial amount of the remaining eligible credits (up to \$2,383,449).

B&P notes that this provision would begin August 28, 2022, during tax year 2022. B&P assumes that because this language would take effect before taxpayers file their 2022 tax returns, this provision would impact tax year 2022.

Therefore, B&P estimates that this provision could increase TSR and GR by up to \$8,869,960 annually beginning in FY23. B&P estimates that this proposal could increase TSR and GR by up to \$8,869,960 in FY23. Once fully implemented, this proposal could increase TSR and GR by up to \$8,836,047 to \$8,625,264 annually.

Provision	FY23		FY24		
	Low	High	Low	High	
TCAA Reporting Penalties	\$0	\$0	(\$33,913)	(\$244,696)	
Self-Employed Health Insurance Tax Credit	Up to	\$8,869,960	Up to	\$8,869,960	
Total GR Impact	Up to	\$8,869,960	Up to	\$8,836,047	\$8,625,264

**Oversight** agrees with the DOR and B&P and the overall projection of impact for non-Missouri residents, with no Missouri income tax liability, and will show reduced tax credit redemptions that could be less than or exceed \$900,000 per year for purpose of this fiscal note.

**Oversight** will also show additional reduction of tax credit redemptions for taxpayers who would now not qualify for the credit (Missouri residents with an income tax liability greater than \$3,000). **Oversight** assumes the savings in tax credit redemptions is unknown however is estimated at \$5,942,873 as shown in table below. Oversight assumes this savings in tax credit

redemptions could exceed the amount estimated given that those with higher income tax liability likely represent a larger portion of the total redemption amount and are now excluded.

Total Redemption	\$	8,869,960.00
Total Self-employed Filers		9940
Average credit	\$	892.35
Calculation of average credit		\$8,869,960 /9940
Over 3,000 liability (67.7%)		<b>6660</b>
		9940*67.7
Less than \$3,000 liability		<b>3280</b>
		9940*33.3
<b>Over \$3,000 Liability</b>	\$	<b>5,942,873.20</b>
Less than \$3,000 liability	\$	2,927,086.80
<b>Out of State</b>		<b>\$900,000</b>
<b>Lesser or Could exceed</b>	\$	<b>6,842,873.20</b>
Calculation of impact for taxpayer over 3,000 liability (residents and non-residents)		\$900,000 + \$5,942,873

**Oversight** notes that the taxpayers with liability less than \$3,000 have a choice to claim either Self-Employed Health Insurance Tax Credit, as specified in Section 143.119, or Self-Employed Health Insurance Tax Deduction each year but not both. Oversight assume there are estimated 3280 self-employed filers (with total amount of possible redemption totaling to \$2,927,087) in State of Missouri with such a liability. However, Oversight is not able to estimate the actual impact for this group due to the complexity (as shown in table below) of the individual selection of either tax liability choice proposed in this legislation. Therefore, Oversight will note Unknown amount of the savings to GR for this specific group.

Officials from the **Department of Economic Development** and the **Missouri Department of Agriculture** both 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 above organizations.

### **Section 143.436 "SALT Parity Act"**

In response to similar language in Perfected SB 931, officials from **Office of Administration - Budget and Planning (B&P)** noted this provision would allow pass-through businesses (LLCs, partnerships, sole proprietorships, and S-corporations) to file their Missouri income tax at the entity level, rather than the individual level starting with tax year 2023. B&P notes that the election to complete an entity level tax return shall be made on a voluntary year-by-year basis.

B&P notes that the purpose of this bill is to allow businesses to fully deduct their state and local taxes (SALT) at the federal level, while minimizing the impact to states that pass this or similar language. Under the Tax Cut and Jobs Act (TCJA, 2017) individuals cannot claim a SALT deduction greater than \$10,000, while businesses can claim their full SALT expenses. This has created a significant federal tax increase for pass-through businesses whose SALT deduction is greater than the \$10,000 cap x the number of pass-through members. For example:

- Business A consists of 4 members and has a total SALT liability of \$20,000
  - Business A would not be impacted by the individual SALT limitation as the combined SALT limit for the 4 members would be \$40,000 (4 members x \$10,000 per member cap).
  - Business A would likely not choose to file taxes at the entity level under this provision.
- Business B consists of 4 members and has a total SALT liability of \$80,000
  - Business B would be impacted by the individual SALT limitations as the combined SALT limit of \$40,000 (4 members x \$10,000 per member cap) is less than the \$80,000 entity SALT liability.
  - Business B would likely chose to file taxes at the entity level under this provision.

B&P further notes that as of the creation of this fiscal note, the IRS is allowing this particular SALT cap work around. If the IRS disallows this work around, B&P assumes that entities would no longer choose to file a Missouri return at the entity level.

Currently each member of a pass-through business must file their own Missouri income tax return showing their portion of business income and deductions. The individual is then responsible for their portion of the Missouri income tax. Individuals are also granted a tax credit for taxes paid in other states, for businesses that operate in multiple states.

Under this provision, the entity itself could elect to file a Missouri income tax return. The business is to include the same income, deductions, and credits granted at the federal level. If the calculations result in a net loss, the loss is not refundable, but the business may carry the loss

forward until fully used. B&P notes that individuals are not granted a similar net operating loss credit. Therefore, this provision may have an unknown impact on TSR and GR.

B&P notes that businesses would be required to use the corporate income allocation method, as opposed to the current individual allocation method, when determining the amount of income to allocate to Missouri and other states. Therefore, this provision may have an unknown positive or negative impact to TSR and GR depending on the composition of a business's income.

In exchange for filing at the entity level, the entity must calculate their tax due using the highest individual income tax under Section 143.011 in a given tax year. Currently individuals calculate their tax due using the graduated brackets and rates under Section 143.011. This may have minimal impact to TSR and GR.

This provision would allow non-Missouri residents, with no other Missouri source income other than the income now reflected at the entity level, to not file a Missouri income tax return.

This provision would further grant Missouri residents, and non-residents with other Missouri source income, a 95% tax credit for their pro-rata share of the taxes paid to other states at the entity level. B&P notes that this provision would allow a 100% credit for S-corporations. This credit would only be granted for the taxes paid at the entity level to other states. This may have an unknown impact to TSR and GR. B&P notes that the impact would depend on the impacts created by changing how business income is allocated between states. The credit is non-refundable, but may be carried forward until fully used.

B&P does not know how many businesses would elect to pay Missouri taxes at the entity level. Further, B&P does not know the income composition of such businesses or the current tax liability of members and thus cannot estimate how this provision may impact their Missouri tax liability. Therefore, B&P estimates that this provision may have an unknown positive or negative impact on TSR and GR beginning with FY24.

Officials from the **Department of Revenue (DOR)** note under the Tax Cut and Jobs Act (2017) the federal government limited the amount of state and local taxes (SALT) an individual could deduct for federal income tax purposes to no more than \$10,000 (\$5,000 for those married filed separately) annually. However, there were no changes to the limitations on the amount of a deduction connected with a business entity directly.

Capping the amount of the SALT deduction at the federal level resulted in fewer taxpayers being able to reduce their federal tax liability.

Under current law a pass-through entity's (S Corporations or Partnership) shareholders pay income tax on the shareholder's pro rata share of the entity's income attributable to Missouri. They file their share on their individual income tax return rather than the business entity filing a corporate income tax return. Therefore, each member reports their proportion of the entity's

whole income. Therefore, each of the individual members is subject to the \$10,000 SALT limit on their return.

This provision creates the SALT Parity Act. The purpose of the act is to help companies increase the amount of itemized deductions they can claim at the federal level by finding a work-around of the \$10,000 SALT deduction. Increasing their itemized amount would result in a savings to taxpayers, as their federal tax liability would decrease.

A business entity is not bound by the \$10,000 limit. So a plan was created in several states and appears to be allowed by the federal government that would allow the business entity to report the group's income and pay the taxes of the group as a whole. The business entity then receives the greater itemized deduction on their federal return and lowers their overall tax liability. This results in a savings to the business entities.

This provision is setting up this work around at the state level for Missouri businesses. This provision in Section 143.436.3 & 143.436.4 would allow partnerships and S Corporations to pay as a whole. The partnership or S Corp would report income for the whole business and file a return on behalf of the entire group. For tax years beginning on or after January 1, 2023, this act would allow the pass-through business entity to elect to pay a company tax. The tax is to equal the sum of each member's income and loss items, as described in federal law, reduced by a deduction allowed for qualified business income, as described in federal law, and modified by current provisions of state law relating to the taxation of pass-through entities, with such sum multiplied by the highest rate of tax in effect for the state personal income tax rate.

Per this provision they would be required to use the highest individual income tax rate for the tax rate. That rate is currently 5.3% for TY 2022. Currently, if members of the business entity pay taxes, the amount paid depends on their income and which tax bracket they are assessed at. Having these business entities pay the state the highest individual income tax rate could potentially result in an increase in revenue to the state as opposed to each member filing separately.

Upon filing the business entity tax return, the business entity notifies the Department of its election to file as a group and provides a report to the Department of the proportional share of income earned and tax paid of each member. The individual members of the business entity are then required to file an individual income tax return. They must report the amount of the pro rata share that was paid by the business entity. They are then allowed a credit against the tax already paid by the business entity.

The credit is equal to their pro rata share of the tax paid. This provision states these credits are not refundable but can be carried over until fully taken. The lack of refundability of the credits could result in some members not being able to use their credits. If credits are never redeemed this results in revenue to the state.

This provision is Section 143.436.11 requires these business entities to annually elect whether or not to participate in this business entity tax program. This program is strictly voluntary. Due to the voluntary nature of this program, the Department is not able to determine how many potential S Corps or partnerships would chose to participate each year.

The Department assumes that business entities would chose to participate based on what is best for the majority of its members. While a business entity may choose what is best for the majority of its members, some members may not see a benefit under this program. Individual income tax returns are specific to each taxpayer's life situation. Two people with the same job and same income may have very different life situations that can impact the amount of tax liability they will have. One may be married with kids while the other may be single with no kids but an illness that requires extensive medical payments. Their final tax liability may be different.

Is it possible that due to an individual's life situation they end up owing less in taxes to the State than they otherwise would have if their business reported under current law? It is possible. It is also possible they could owe more. Depending on which happened, additional or less revenue to the state is possible.

The Department notes it is unable to estimate the actual fiscal impact of this provision. The Department cannot predict the number of business entities that would chose to participate in this voluntary program. Nor is the department able to predict how many of the individual taxpaying business entity members would benefit or be hurt by this provision. The Department notes that business entity members would benefit from the increased federal deduction and receive a savings on their federal return. However, based on the taxes paid by the business entity as a whole and the credits provided the members this provision would not result in more than a minimal impact to the state.

The Department notes this provision would ease an administrative burden on the Department. Under current law, in order to audit the Department spends a lot of time trying to identify all the members of a business entity to ensure all the tax is paid. With the business entities filing the taxes and reporting the number of partners and pro rata share of the income, this would allow the Department to more easily audit these businesses, saving time and resources. This provision with the previous partnership audit reporting laws that passed in 2020 will ease some of the time consuming tracking of these business entities. The amount of the impact can't be determined due to the voluntary nature of the program.

The Department notes this will require making changes to the existing tax reporting forms and potentially the creation of a new form for identifying the business entity members and their pro rata share. These changes are estimated to cost \$5,000. Additional programming and other website updates would result in \$3,596 in costs.

**Oversight** assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the form and programming



(administrative) costs related to this provision. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process. Officials from the DOR assume the provision will have minimal fiscal impact on their organization.

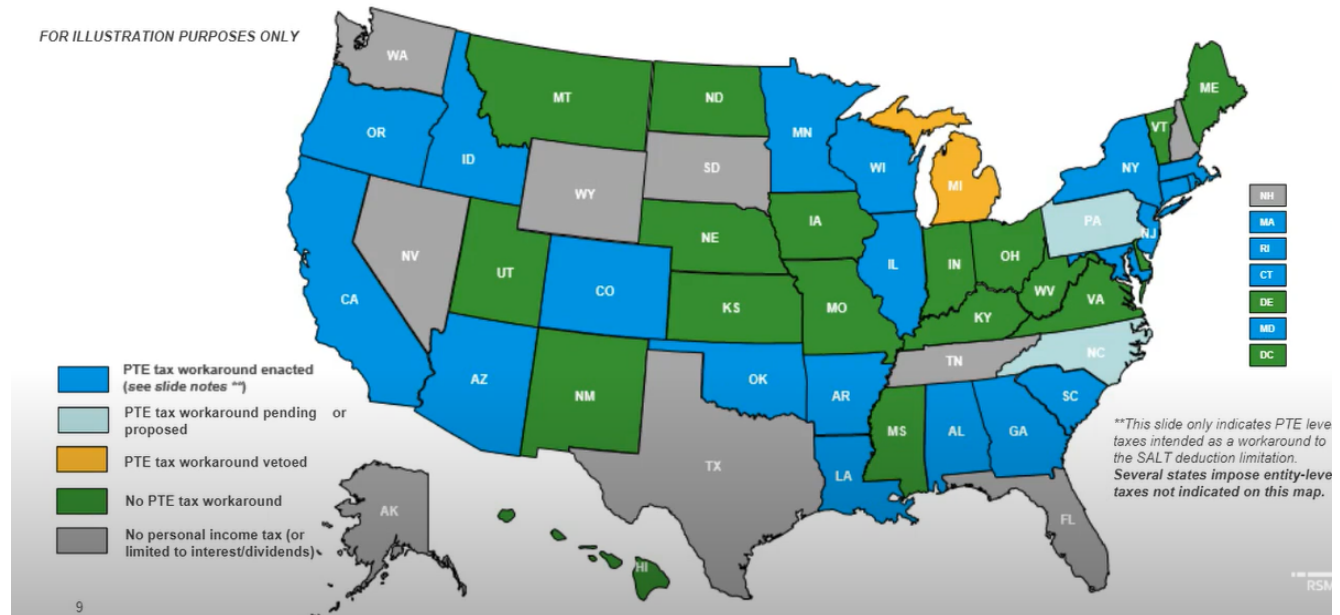
**Oversight** notes that **DOR** and **B&P** both note the deductions for purpose of the state and local taxes (SALT) paid by pass-through business owners are currently capped at \$10,000.

Conversely, C corporations are allowed to fully deduct these same expenses. In states that tax pass-through firms at the owner level, the disparate treatment puts their firms at a significant disadvantage compared to C corporations. As such, restoring the federal SALT deduction in its entirety for pass-through entities has been a key priority for [S-CORP](#) and the [Main Street Employers coalition](#) since the cap was implemented back in 2017.

**Oversight** notes, that according to the [taxpolicycenter.org](#), a joint project from the Urban Institute and the Brookings Institution, in 2017, 16 percent of tax filers with income between \$20,000 and \$50,000, 76 percent of tax filers with income between \$100,000 and \$200,000, and over 90 percent of tax filers with income above \$200,000 claimed SALT.

**Oversight** notes since 2018, the Main Street Employers coalition has led advocacy efforts to restore the State and Local Tax (SALT) deduction for pass-through businesses. More than a half dozen states have enacted various version of such a legislation to date and, following the 2020 Treasury Department announcement, IRS Notice 2020-75 (11/2020), validating this legislative approach, SALT Parity measures are being actively considered in more than a dozen states this year.

## State PTE tax - Overview



<https://news.bloombergtax.com/tax-insights-and-commentary/salt-cap-workaround-pass-through-entity-tax-update-part-ii>

**Oversight** notes that under this provision, a small business may elect to pay tax at the entity level, and a corresponding credit is allowed at the partner, member, or shareholder level. There are four main categories of businesses, which would qualify for such a deduction as shown below:

- General Partnerships
- Limited Partnerships
- Limited Liability Companies
- Sub-Chapter S Corporations

Additionally, there are no restrictions as to Multi-tier Partnerships or Trusts that are entity partner members.

**Oversight** notes that officials from the DOR and SOS added, via additional e-mails, that there are currently at least 81,000 S-Corporations in Missouri. The Department of Revenue is not able to discern how many partnerships are currently in Missouri. Officials from the SOS note that a partnership can exist and function as a business without any kind of document setting out the rights or responsibilities of the partners. These partnerships function similarly to a sole proprietorship, but have two or more owners (partners). The only partnerships which have to register with the SOS are those which intend to limit the liability of the individual partners or the

partner company, and in this regard, function similarly to a corporation. Therefore, neither DOR nor SOS can estimate the collective number of partnerships which operate in Missouri at any given time, as they are not all required to register.

**Oversight** notes that by paying tax at the entity level, members of the PTE are deducting expenses and taxes incurred by the trade or business (i.e., an above-the-line deduction) versus a conventional below-the-line deduction at an individual level that would be subject to the SALT limitation of \$10,000. Moreover, according to estimates from the U.S. Congress’ Joint Committee on Taxation, less than 15% of taxpayers currently qualify to itemize their deductible amounts while filing taxes with average AGI of \$60,981 and an average SALT amount of \$9,958.

As provided in the provision, companies file their income tax at the individual level while using the 95% credit for filing at the entity level as a deduction. For the purpose of this provision, **Oversight** will assume that the company election process will happen throughout FY 2023 due to various companies’ filing tax schedules. (I.e. some filing monthly, quarterly, annually, etc.)

For information purpose, **Oversight** will show the various impact of the provision below:

**Table 1**

Proposed - *assuming \$200,000 deductible without SALT cap			
Entity Level	ABC LLP - 2 Members 50/50 Partners		
Net Income	800,000		
Tax liability paid	32,000		
Member level	A - 50%		B-50%
Net Income	\$ 400,000.00	\$ 400,000.00	
Tax	\$ 21,200.00	\$ 21,200.00	
Tax Credit at 95%	(\$32,000/2)*.95		(\$32,000/2)*.95
Tax credit amount awarded	\$ 15,200.00	\$ 15,200.00	
Tax liability amount at members level	\$ 6,000.00	\$ 6,000.00	
Total tax paid	\$ 22,000.00	\$ 22,000.00	
		\$ 44,000.00	

**Oversight** notes the example in Table 1 shows how the 95% tax credits would work against the personal income taxes at the individual member level from the current law.

Table 2

Current Law			
Entity Level	ABC LLP - 2 Members 50/50 Partners		
Net Income	1,000,000		
Tax liability paid	0		
Member level	A - 50%		B-50%
Net Income (entity + other income)	\$ 600,000.00		\$ 600,000.00
Tax	\$ 31,800.00		\$ 31,800.00
Tax Credit at 95%			
Tax credit amount awarded			
Tax liability amount at members level			
Total tax paid to the State	\$ 31,800.00		\$ 31,800.00
			\$ 63,600.00

**Oversight** notes in Table 2, the current law provides lesser tax deductions beyond SALT allowable deductions. However, Table 3 also shows that due to the personal income of each member within the partnership, the overall collected tax in Missouri would not be lesser or higher, but minimally higher or lesser depending on the individual company and each member's personal tax consequence.

**Table 3.**

Entity Level	ABC LLP - 2 Members 50/50 Partners		
Net Income	800,000		
Tax liability paid	32,000		
Member level	A - 50%		B-50%
Net Income (entity + other income)	\$ 600,000.00		\$ 600,000.00
Tax	\$ 31,800.00		\$ 31,800.00
Tax Credit at 95%	(\$32,000/2)*.95		(\$32,000/2)*.95
Tax credit amount awarded	\$ 15,200.00		\$ 15,200.00
Tax liability amount at members level	\$ 16,600.00		\$ 16,600.00
	(31,800-15,200)		
Total tax paid	\$ 32,600.00		\$ 32,600.00
	partner 1+ partner 2 tax totals		\$ 65,200.00

**Oversight** is not able to discern the level of gain or loss to general revenue in any given year because there is currently no data showing the amount of individual income levels or tax rate for each affected company specified within the provision. (I.e. LLP, LP, S-Corp. etc.)

**Oversight** notes the provision shall be apply to tax years ending on or after December 31, 2022. The taxpayers will not be filing their 2022 income taxes until January 1, 2023 (FY 2023).

Therefore, Oversight will note a minimum Unknown positive to Unknown negative impact beginning in FY 2023 in the fiscal note.

**Oversight** notes that while the Tax Cuts and Jobs Act placed a \$10,000 cap on the SALT deduction, it's only temporary. The cap applies to taxable years 2018 through 2025. After tax year 2025, the cap will end, and taxpayers will once again be able to deduct 100 percent of their eligible state and local taxes, unless other tax code changes are passed before then.

### **Sections 288.132 & 288.133 – Unemployment Automation Fund**

In response to similar proposals, officials from **Department of Labor and Industrial Relations (DOLIR)** stated the Section 288.133 would require each employer that is liable for contributions to pay an annual unemployment automation adjustment of two one-hundredths of one percent of the employer's total taxable wages for the twelve-month period ending the preceding June thirtieth. The total adjustment due from all employers is not to exceed five million dollars.

In addition, for the first calendar quarter of each year, the total amount of tax contributions otherwise due for each employer liable for contributions shall be reduced by the dollar amount of the automation adjustment.

Taxable wage for period ending June 30, 2021: \$ 22,013,351,744 X 0.02% = \$4,402,670.

The Department anticipates being able to absorb the implementation costs, including ITSD costs through a current UI maintenance agreement and existing funds. However, until the FY 2023 budget is final, the Department cannot identify specific funding sources.

**Oversight** notes for this bill, **ITSD** assumes they will contract out the programming changes needed to update automation adjustment percentage, contribution rate of employers, and to create tables for unemployment automation fund. ITSD estimates the project would take 820.8 hours at a contract rate of \$111 per hour for a total cost to the state of **\$91,109**.

**Oversight** notes that DOLIR has an existing maintenance contract that is paid by the Unemployment Compensation Administration Fund, supplemented by the Unemployment Automation Fund as funds are available. Additionally, DOLIR selects its ongoing consultancy rate dependent on difficulty of the programing and has a choice to employ in-house ITSD at \$95 per hour, or outside IT consultants at \$111 per hour. Therefore, **Oversight** will reflect a one-time IT consultant cost of \$0 up to (\$91,109) in the fiscal note for FY 2023.

### **311.060 – Liquor Licenses**

Officials from the **Department of Public Safety - Division of Alcohol and Tobacco Control** 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 this section.

### **311.094 – Entertainment Districts**

Officials from the **Department of Public Safety - Division of Alcohol and Tobacco Control** assume the proposal will have no fiscal impact on their organization.

**Oversight** assumes this new section may result in a non-material amount of liquor license revenue as it seems to apply to only one district in one city. Oversight assumes the amount will not reach our materiality threshold and therefore we will reflect a zero impact in the fiscal note for this section.

### **347.143 – Dissolving a limited liability company**

Based on a response from the Office of the Secretary of State to HB 1803, **Oversight** assumes this part of the proposal would not create a fiscal impact.

### **407.475 – Charitable Organizations**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this section would prohibit a state agency from requiring a charitable organization to provide annual filing or reporting beyond those required under section 407.462 and federal law.

B&P notes that some charitable organizations may be required to file annual state tax returns, which are not one of the allowable filing or reporting requirements under section 407.462 or federal law. B&P defers to DOR for more information.

Therefore, this section may reduce GR and TSR by an unknown amount. This section may impact the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue** note this provision would not allow a state agency to put an annual filing or reporting requirements on a charity that is more stringent than other organization's requirements. This will not have a fiscal impact on the Department.

**Oversight** will reflect the possible scenario described by B&P if charitable organizations are no longer required to report and file tax returns on unrelated business taxable income as a result of this provision. Therefore, the state may see a reduction in tax revenue of an unknown amount. Oversight will show the impact as a \$0 or (Unknown) potential loss of general revenue funds.

### **415.415 – Self Storage Facility**

**Oversight** assumes this section would not create a fiscal impact to the state or local political subdivisions.

#### **431.204 - Business Covenants**

In response to a similar proposal (SB 833) officials from the **Administrative Hearing Commission** assumed this provision will have no fiscal impact on their agency.

In response to a similar proposal (SB 833) officials from the **City of Kansas** and **City of Springfield** both assumed this provision will have no fiscal impact on their respective organizations.

In response to a similar proposal (SB 833) officials from the **Missouri State University** and **University of Missouri System** both assumed this provision will have no fiscal impact on their respective organizations.

**Oversight** notes the above mention agencies, universities, and local political organization have stated the provision would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact on the fiscal note for this section.

In response to similar legislation (SB 833), officials from the **Department of Labor and Industrial Relations, Missouri Department of Conservation, Missouri Department of Transportation, Attorney General's Office, Office of Administration,** and the **Administrative Hearing Commission** each assume this provision will have no fiscal impact on their respective agencies.

In response to similar legislation (SB 833), officials from the **City of Kansas** and **City of Springfield** both assume this provision will have no fiscal impact on their respective organizations.

In response to similar legislation (SB 833), officials from the **Missouri State University** and **University of Missouri System** both assume this provision will have no fiscal impact on their respective organizations.

**Oversight** notes the above mention agencies, universities, and local political organization have stated the provision would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact on the fiscal note for this section.

#### **Section 493.050, 493.070 – Newspaper advertisements**

**Oversight** assumes the changes in these sections would not create a fiscal impact.

### **Section 537.529 – Uniform Public Expression Protection Act**

In response a similar proposal (HB 2624), officials from the **Department of Commerce and Insurance**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education and Workforce Development**, the **Department of Health and Senior Services**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety (Office of the Director, Capitol Police, Alcohol & Tobacco Control, Fire Safety, Gaming Commission, Missouri Highway Patrol, Missouri National Guard, State Emergency Management Agency and Veterans Commission)**, the **Office of the Governor**, the **Joint Committee on Administrative Rules**, the **Joint Committee on Public Employee Retirement**, the **Missouri Lottery Commission**, the **Missouri Consolidated Health Care Plan**, the **Department of Agriculture**, the **Missouri Department of Conservation**, the **Missouri Ethics Commission**, the **Missouri House of Representatives**, the **Department of Transportation**, the **Office of Prosecution Services**, the **Office of Administration (Administrative Hearing Commission and Budget and Planning)**, the **Office of the State Auditor**, the **Missouri Senate**, the **Office of the State Public Defender**, the **Office of the State Treasurer**, the **MoDOT & Patrol Employees' Retirement System**, the **Petroleum Storage Tank Insurance Fund**, the **University of Missouri System**, the **State Tax Commission**, the **City of Claycomo**, the **City of Kansas City**, the **City of O'Fallon**, the **City of Springfield**, the **Jackson County Board of Elections**, the **Kansas City Board of Elections**, the **Platte County Board of Elections**, the **St. Louis County Board of Elections**, the **Newton County Health Department**, the **St. Louis County Health Department**, the **Phelps County Sheriff**, the **Kansas City Police Department**, the **St. Joseph Police Department**, the **St. Louis County Police Department**, the **Crawford County 911 Board**, the **Hermann Area Hospital District**, **Missouri State University**, the **University of Central Missouri**, **St. Charles Community College**, the **Joint Committee on Education, Legislative Research, Oversight Division**, the **Missouri Higher Education Loan Authority**, the **Missouri State Employee's Retirement System** and the **State Tax Commission** each assumed the proposal will have no fiscal impact on their respective organizations.

### **Section 620.1039 – Research Expense Tax Credit and Sales Tax Exemption**

In response to a similar proposal (SB 688), officials from the **Office of Administration – Budget & Planning (B&P)** assumed this proposal reauthorizes the tax credit for qualified research expenses. A taxpayer may receive a tax credit in an amount up to 15% of the excess of the taxpayer's qualified research expenses or 20% of the excess of the taxpayer's qualified research expenses if such expenses relate to research that is conducted in conjunction with a public or private college or university located in this state. No taxpayer shall receive a tax credit in excess of \$300,000 in a calendar year.



This credit would have a 12 year carry forward provision. The credits may be transferred, sold, or assigned. The cap on the credits is \$10M, provided that \$5M shall be reserved for minority business enterprises, women's business enterprises, and small businesses. If the entirety of the \$5M reserved for minority business enterprises, women's business enterprises, and small businesses is not issued or awarded by November 1<sup>st</sup> of the tax year, the amount may be issued to any taxpayer otherwise eligible for the tax credit.

Purchases of Missouri qualified research and development equipment will be exempted from all state and local sales and use tax including, but not limited to, sales and use tax authorized or imposed under section 32.085 and chapter 144. It is unknown how many entities would utilize the sales tax exemption or the fiscal impact of such a sales tax exemption. Therefore general and total state revenue may be reduced by an amount that could exceed \$10M, starting in FY24.

This program may encourage economic activity. B&P cannot estimate additional induced revenues.

The proposal could impact the calculation under Article X, Section 18(e).

Officials from the **Department of Economic Development** note:

Section 620.1039.1 adds definitions for:

- (1) Additional qualified research expenses
- (2) Minority business enterprise
- (3) Missouri qualified research and development equipment
- (4) Qualified research expenses
- (5) Small business
- (7) Women's business enterprise

Section 620.1039.2 (2) - For all tax years beginning on or after January 1, 2023, DED may authorize a tax credit in an amount equal to the greater of:

- (a) 15% of the taxpayer's additional qualified research expenses; or
- (b) If such qualified research expenses relate to research conducted in conjunction with a public or private college or university located in this state, 20% of the taxpayer's additional qualified research expenses.

However, in no case shall a tax credit be allowed for any portion of qualified research expenses that exceed 200% of the taxpayer's average qualified research expenses incurred during the three immediately preceding tax.

Section 620.1039.3 - For all tax years beginning on or after January 1, 2023, where the amount of the credit exceeds the tax liability, the difference between the credit and the tax liability may

only be carried forward for the next 12 succeeding tax years or until the full credit has been claimed, whichever occurs first.

Section 620.1039.7 (2)

(a) For all tax years beginning on or after January 1, 2023, the aggregate of all tax credits authorized under this section shall not exceed \$10M in any year.

(b) \$5M of such \$10M dollars shall be reserved for minority business enterprises, women's business enterprises, and small businesses. Any reserved amount not issued or awarded to a minority business enterprise, women's business enterprise, or small business by November first of the tax year may be issued to any taxpayer otherwise eligible for a tax credit.

(c) No single taxpayer shall be issued or awarded more \$300,000 in tax credits in any year.

(d) In the event that total eligible claims for credits received in a calendar year exceed the annual cap, each eligible claimant shall be issued credits based upon a pro-rata basis, given that all new businesses, defined as a business less than 5 years old, are issued full tax credits first.

Reauthorizing the tax credit will likely reduce annual TSR by up to the annual cap on the program of \$10M.

Since this legislation requires additional duties, responsibilities, prioritization of credits, and monitoring than the prior legislation, DED will need to hire 2.0 FTE to administer the program.

**Oversight** notes that in response to the similar proposals, HB 1579 (2022) and SCS SB 545 (2021), the DED only requested one FTE for this program.

**Oversight** notes the prior Tax Credit for Qualified Research Expenses expired for all tax years beginning on or after January 1, 2005. Therefore, for purposes of this fiscal note, Oversight will include DED's 1 FTE administrative cost(s), as reported by DED in all previous versions of this proposal, less the "In-State" and "Out of State" travel costs reported as this proposed legislation does not require that DED visit, evaluate or audit any site(s).

Officials from the **Department of Revenue (DOR)** note:

Section 620.1039 Qualified Research Tax Credit

This proposal would reinstate the expired qualified research tax credit program starting January 1, 2023. The original program stopped in 2005.

This proposal creates a tax credit in an amount up to 15% of the taxpayer's qualified research expense or 20% of the taxpayer's qualified research expense if those expenses are related to university research. Starting January 1, 2023 this allows the credit to be carried forward for twelve years and imposes a cap of \$10 million. This proposal requires that \$5 million of the

credit be reserved for minority business enterprises, women's business enterprises and small businesses. Each taxpayer is limited to \$300,000 in credits.

The Department notes this proposal would begin in January 1, 2023 and would be claimed on the returns starting in January 2024 (FY 2024). The Department assumes that since this proposal has a cap of \$10 million annually it would be expected to produce a loss to general revenue of the \$10 million.

Since the previous credit expired 15 years ago, this credit is no longer listed on our MO-TC form or in our individual income tax filing system. This would require programming and form changes estimated at \$3,596. The Department would need the following FTE should the number of credits received justify the FTE.

- \* 1 FTE Revenue Processing Technician for every 6,000 credits redeemed
- \* 1 FTE Revenue Processing Technician 1 for every 4,000 tax credit transfers with CISCO phones and license.
- \* 1 FTE Revenue Processing Technician for every 7,600 errors/correspondence generated
- \* 1 FTE Revenue Processing Technician for every 1,100 refund requests

#### Section 620.1039.5 – Sales and Use Tax Eliminated On Qualified Research Equipment

This Section creates a state and local sales tax exemption for all purchases of qualified research and development equipment and property. This proposal does not cap the amount of sales tax exemption that can be claimed nor is it bound by the \$10 million cap of the tax credit. The proposal allows the exemption on all items that are considered "qualified research expenses" as defined by 26 U.S.C. Section 41.

The federal definition includes both equipment and salaries of employees. The Department is unable to determine how many businesses will qualify for the mix of tax credits and sales tax exemptions or the amount of equipment that would become exempt from the sales tax due to these qualified research projects. This proposal would result in a loss to the sales tax funds. This would be an unknown loss to General Revenue, School District Trust Fund, Conservation Commission, and the Park, Soil & Water Funds.

**Oversight** notes that DOR officials assume most of the equipment and R&D expenses are currently covered by existing sales tax exemption; however it could potentially impact all funds receiving sales tax revenue currently. Due to the extent of current sales tax exemption as identified in RSMo 144.054 the amount newly exempt sales tax will not exceed \$250,000 annually. Therefore, Oversight will reflect range in loss of revenue \$0 to Unknown to the General Revenue, School District Trust Fund, Conservation Commission, and the Park, Soil & Water Funds.

However, **Oversight** notes the first tax year in which taxpayers would qualify for the tax credit created is Tax Year 2023. Oversight notes individuals would not file their Tax Year 2023 tax returns until after January 1, 2024 (6 months after the beginning of Fiscal Year 2024).

Therefore, **Oversight** will report DOR's administrative cost(s) beginning in Fiscal Year 2024 assuming DOR can hire and train such FTE(s) within the first six (6) months of Fiscal Year 2024; before Tax Year 2023 tax returns would begin to be filed claiming the proposed tax credit.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** note:

The proposal has a potential, unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2024 and FY2025 as a result of the modification of the qualified research 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 modified tax credit.

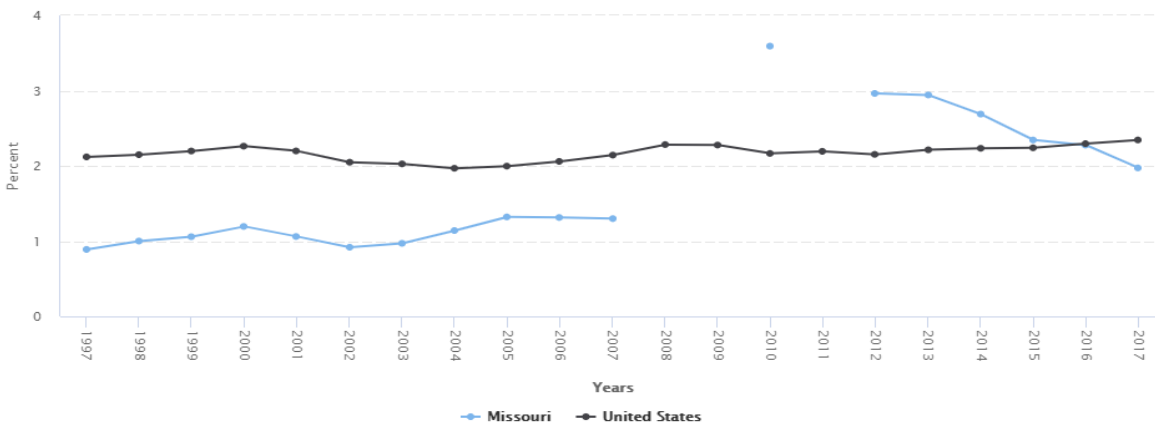
**Oversight** notes this proposed legislation would, beginning in Tax Year 2023, authorize a tax credit equal to ten percent (15%) of the excess of the taxpayer's qualified research expenses within this state during the tax year over the average of the taxpayer's qualified research expenses within this state over the immediately preceding three (3) tax years.

**Oversight** notes, should the taxpayer's qualified research expenses be related to research that is conducted in conjunction with a public or private college or university located in this state, the tax credit authorized would be equal to twenty percent (20%) of the excess of the taxpayer's qualified research expenses within this state during the tax year over the average of the taxpayer's qualified research expenses within this state over the immediately preceding three (3) tax years.

**Oversight** notes this proposed legislation defines "Qualified Research" as "the same meaning as prescribed in 26 U.S.C. 41". Oversight notes 26 U.S.C 41 defines "Qualified Research Expenses" as "the sum of the following amounts which are paid or incurred by the taxpayer during the taxable year in carrying on any trade or business of the taxpayer – (A) in-house research expenses, and (B) contract research expenses". Oversight assumes, then, that the tax credit would be calculated similar to the following example:

Tax Credit Allocation Example		
Tax Year	Total Research Expense	
2019	\$85,000,000	
2020	\$96,000,000	
2021	\$100,000,000	
<b>3 Year Average</b>		\$93,666,667
2022	\$ 109,000,000	
<b>Excess of Three Year Average</b>	\$ 15,333,333	(109,000,000 - 93,666,667)
	15%	20%
Equal to 15% to 20% of Excess	\$ <b>2,300,000</b>	\$ <b>3,066,667</b>

Business-Performed R&D as a Percentage of Private-Industry Output



**Oversight** notes the trend line(s) shown above report the business-performed research and development as a percentage of private-industry output. Thus, the assumption could be that Missouri’s business-performed research and development has not truly declined; but rather Missouri’s private-industry output has continuously increased by amounts greater than the increase in Missouri’s business-performed research and development. The following data, however, suggests that Missouri’s business-performed research and development **has** been declining.

Year	<a href="#">Missouri Chained GSP</a> (Actual)	Estimated Private Sector Contribution To Total GSP (89%)	<a href="#">Missouri Research and Development - As A Percent of Private-Industry Output</a>	Estimated Missouri Business-Performed Research and Development (\$)
2016	\$ 276,211,000,000	\$ 245,828,000,000	2.27%	\$ 5,580,000,000
2017	\$ 279,264,000,000	\$ 248,545,000,000	1.97%	\$ 4,896,000,000
2018	\$ 284,696,000,000	\$ 253,379,000,000	2.56%	\$ 6,487,000,000
2019	\$ 287,659,000,000	\$ 256,057,000,000	2.19%	\$ 5,607,000,000
2020	\$ 227,354,000,000	\$ 246,845,060,000	2.08%	\$ 5,146,423,287

Based on the data above, Oversight assumes business-performed research and development in Missouri did decline during 2016-2019. According to the article published by Business Environment Profiles – United States R&D expenditure will R&D expenditure is expected to decline 4.8% in 2020 (from 2019 levels - 2.19% to 2.08%) due to the ongoing economic crisis and COVID-19 pandemic. ([R&D Expenditure Projections](#)).

Based on the data above, Missouri’s three (3) year average estimated business-performed research and development totals \$5,663,203,648 (2017 – 2019). Based on the data above, Missouri’s estimated business-performed research and development in 2020 totaled \$5,146,423,287. This suggests that there would be potentially no amount in excess of the three (3) year average to be used to calculate a tax credit.

**Oversight** notes, though, that the data reported above are a representation of the State of Missouri as a whole, and not each individual business.

Should the assumption be accepted that each of Missouri’s individual business’s research and development trends follow that of Missouri as a whole, **Oversight** assumes no tax credits would be authorized under this proposed legislation (**unless research and development has increased since the last year reported**).

**Oversight** assumes, though, such an assumption is not likely; some businesses in Missouri may recognize increased research and development each year, even as the state, as a whole, recognizes a continuous decrease.

Since the actual amount of future tax credit authorization(s) is unknown, for purposes of this fiscal note, Oversight will report a revenue reduction to GR equal to an amount “Up to” the \$10,000,000 cap beginning in Fiscal Year 2024.

**Section 620.3900 – Regulatory Sandbox Act**

In response to similar proposals, officials from the **Office of Administration – Budget & Planning** noted:

An applicant shall remit to the regulatory relief office an application fee of five thousand dollars per application for each innovative offering. It is not specified in the bill where this money will be deposited, therefore B&P assumes it will be GR. This will have an unknown positive impact on GR and TSR.

This bill would also provide that during the demonstration period, a sandbox participant shall not be subject to the enforcement of state laws or regulations identified in the written agreement between the regulatory relief office and the sandbox participant. There is not enough information on what laws or regulations may be waived or what impact the waiver will have on TSR.

**Oversight** notes that an applicant shall remit to the regulatory relief office an application fee of \$300 (changed from \$5,000 in original bill) per application for each innovative offering. Therefore, Oversight will reflect a potential positive fiscal impact on State Funds for this application fee.

**Oversight**, for the purpose of this fiscal note, retrieved average patent filings in the State of Missouri to estimate how many entrepreneurs would potentially be participating in this pool. According to the [U.S. Patent and Trademark Office](#) – Patent Technology Monitoring Data (PTMT) there were on average 868 patents filed by Missourians annually between FY 2000 to FY 2015.

**Oversight** notes that the proposal assesses a \$300 fee that must be paid in order to participate in this program. Oversight assumes that the fee structure could potentially result in additional revenue of \$260,400 (\$300 x 868 potential innovative entrepreneurs). Therefore, for purpose of this fiscal note, **Oversight** will reflect a positive unknown amount to the General Revenue Fund

**Oversight** assumes that the fee paid to participate will be remitted to the GR, for purpose of this fiscal note, and as shown above the amounts collected could potentially exceed \$250,000.

Officials from the **Department of Revenue (DOR)** note:

The proposal would create a new government entity, the “regulatory relief office,” which may enter into agreements to essentially waive the requirements of Missouri’s statutes and regulations on certain participating businesses. The proposal directs the regulatory relief office to consult with applicable agencies, including concerning whether the applicable agency has previously investigated, sanctioned, or pursued legal action against the applicant. The proposed legislation prohibits these agreements from exempting an applicant “from any income, property, or sales tax liability unless such applicant otherwise qualifies for an exemption from such tax.”

Should a participant in this program, be allowed to not pay taxes this will impact state revenue and DOR. DOR has numerous other tax types besides the income tax and sales tax exempted under this proposal. Examples include, withholding tax, tire and battery fee taxes, use taxes and more that do not appear protected under this proposal. Additionally, this regulatory relief office is given authority to waive state law and regulations. DOR is concerned this would result in

filing deadlines being moved or changed for some filers and not others or payments being waived.

Additionally, this proposal requires the agencies to provide information on DOR's relationships with a participating business to the regulatory relief office. Some of this information is currently protected under DOR's confidentially laws.

At this time, DOR is unable to estimate a fiscal impact from this proposal. DOR could possibly need additional FTE to work with the regulatory relief office depending on the number of participants, as well as have losses to revenue if participants are allowed to not pay taxes.

**Oversight** notes DOR assumes the proposal would allow for selected companies, who participate in the Sandbox program, to receive relief from various taxes which would have an effect on General Revenues and Other State Funds. Additionally, the DOR assumes the need for additional FTE to ensure compliance with this proposal. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a potential (\$0 or) unknown negative impact to the General Revenue and Other State Funds, as a result of reduction in a various tax revenues and potential FTE costs, in the fiscal note.

Officials from the **Department of Economic Development (DED)** assume the proposal states that the regulatory relief office will be administered by a sandbox program director. DED has estimated personal service costs by taking a mid-range salary of a typical Program Director (Designated Principal Assistant) at DED who oversees an office but does not supervise staff. DED also believes additional review (e.g., reviews of state laws) would require a legal counsel FTE. If DED determines that additional staff are needed to administer the sandbox program, DED will request additional FTE through the normal budget process.

**Oversight** notes that DED assumes the proposal will have a direct fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect DED's FTE in the fiscal note.

Officials from the **Missouri Department of Conservation (MDC)** assume the proposal will have an unknown fiscal impact on their organization and could potentially affect MDC funds.

**Oversight** notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution, thus MDC's sales taxes are constitutional mandates.

Additionally, **Oversight** notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. Therefore, Oversight will reflect the fiscal impact estimates for DNR's funds. Therefore, **Oversight** will reflect the MDC's and DNR's fiscal impact estimates in the fiscal note.



Officials from the **Department of Commerce and Insurance (DCI)** assume the proposal, specifically Sections 620.3900 - 620.3930, would have an unknown impact to DCI depending on the number of businesses and individuals that would request to participate in the Sandbox Program.

**Oversight** notes that changes in the HCS exempt the Division of Professional Registration. DCI assumes this proposal would have a direct fiscal impact on other areas of their organization. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a negative unknown impact to various state funds in the fiscal note.

**Oversight** notes that there are few examples of various agency costs in similar Sandbox proposals filed in the States of Utah, Ohio, Nebraska, Nevada, and the Arizona. Each fiscal note addresses the difficulty of projecting any costs associated with the proposals. However, recent fiscal note submitted to the Nebraska Legislature for consideration of similar bill LB 1127 ([Nebraska Sandbox proposal - 2022](#)) from various agencies claiming costs associated with the proposal, are provided in the Table 1.

**Oversight** notes that the Missouri Sandbox proposal requires, among other duties, the Administrator to:

- Act as a Liaison between private businesses and agencies of the State
- Consult with each affected agency
- Establish Program to enable a person to obtain legal protections
- Review State Laws
- Create a framework for analyzing the risk level of the health, safety, and financial well-being of consumers
- Propose and enter into reciprocity agreements
- Enter into agreements with or adopt best practices of corresponding federal regulatory agencies and other states
- Create and maintain the Department's website
- Create and submit annual reports to the governor and general assembly

**Oversight** notes that there are many other duties required from the Sandbox Office under this proposal. Therefore, it is probable that the agencies tasked with the regulatory implementation of this program, such as DOR or DED, will need additional FTEs in order to provide the regulatory framework and compliance procedures for this Act.

**Oversight** notes that Missouri population is at least 3 times greater (6.6M – Missouri population / 1.94M –Nebraska Population) than that of Nebraska, thus the costs could potentially reach a higher level of expenditure in Missouri. Therefore, for purpose of this fiscal note, **Oversight** will note an unknown negative impact to the General Revenue and Other State Funds, which could potentially exceed \$250,000 in various FTE and forgone tax revenue costs to various state funds in the fiscal note.

Table 1.

AGENCY	FY 2023	FY 2024
Department of Economic Development	\$ 520,380.00	\$ 641,930.00
Department of Banking and Finance	\$ 223,025.00	\$ 215,325.00
Board of Engineers and Architects	\$ 3,300.00	\$ 3,300.00
Department of Environment and Energy	\$ 202,371.00	\$ 202,371.00
Department of Agriculture	\$ 77,500.00	\$ 77,500.00
Liquor Control Commission NFI NFI	No Fiscal Impact	No Fiscal Impact
Motor Vehicle Industry Licensing Board No discernable impact No discernable impact	No Discernable impact	No Discernable impact
Nebraska State Electrical Division Indeterminable Indeterminable	Indeterminable	Indeterminable
Board of Barber Examiners Indeterminable Indeterminable	Indeterminable	Indeterminable
Attorney General NFI NFI	No Fiscal Impact	No Fiscal Impact
Nebraska Real Estate Commission Negligible to significant Negligible to significant	Negligible to Significant	Negligible to Significant
Supreme Court NFI NFI	No Fiscal Impact	No Fiscal Impact
Department of Labor NFI NFI	No Fiscal Impact	No Fiscal Impact
Department of Administrative Services	\$ 71,200.00	\$ 77,000.00
Department of Insurance	\$ 168,900.00	\$ 173,317.00
<b>Total</b>	<b>\$ 1,127,776.00</b>	<b>\$ 1,217,426.00</b>
<b>FTE total</b>	9.5	10.5

Officials from the **Attorney General’s Office**, the **Office of Administration – Administrative Hearing Commission**, the **Office of Administration – Director’s Office**, the **Missouri Department of Transportation**, the **Department of Natural Resources**, and the **Office of the State Auditor** each assume the proposal will have no fiscal impact on their organizations. **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**, the **City of O’Fallon**, the **City of Springfield**, and the **City of Claycomo** each assume this proposal would not have a direct fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, **Oversight** will reflect a zero impact in the fiscal note for these local political subdivisions.

**Oversight** notes each county and city assess sales or use tax on the sale of goods in Missouri. The tax remitted to a various local political subdivisions serves the local political subdivision needs. DOR assume the companies could receive relief from various taxes. This could have an effect on the local political subdivisions. Therefore, **Oversight** will note a potential unknown negative impact to the local political subdivision funds in the fiscal note, depending upon sandbox participants and applications.

**Section 1 – Extension of time to reach project requirements.**

Officials from the **Department of Revenue** state they are unable to determine what this section is referencing. It allows for companies to receive an extension of benefits but does not specify

which benefits. If this changes the requirements of any of the tax credit programs this could have a negative fiscal impact on the general revenue.

**Oversight** assumes this part of the proposal may result in reduction in penalties paid to the state. Oversight will reflect this potential loss of penalty revenue as part of changes to the Tax Credit Accountability Act (Sections 135.810 et al).

**Deletion of Section 537.528 – Torts and Actions for Damages**

Officials from the Office of the State Courts Administrator did not respond to our request for fiscal impact. **Oversight** will assume removing this section will not result in a direct fiscal impact to the state.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>GENERAL REVENUE FUND</b>			
<u>Savings</u> – OA §8.250 p.3 Newspaper Advertising	\$100,000- \$300,000	\$100,000- \$300,000	\$100,000- \$300,000
Transfer Out – §44.032 - Missouri Disaster Fund to now cover rural electric cooperatives p. 3-4	\$0 to (Unknown, Greater than \$250,000)	\$0 to (Unknown, Greater than - \$250,000)	\$0 to (Unknown, Greater than \$250,000)
<u>Cost</u> - Potential increase in payments to Legal Expense Fund for increase in claims §105.1500.5 p. 4	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> – DED - of Penalties Revenue – Section 135.810 (and §1) – reduction in penalty revenue for timely filing and additional time allowed for meeting benchmarks p 5-8 and p. 34	Could Exceed (\$114,638)	Could Exceed (\$114,638)	Could Exceed (\$114,638)
Revenue Loss - §143.081 Tax Credit for S-Corporation p. 8-9	(Unknown – could exceed \$250,000)	(Unknown – could exceed \$250,000)	(Unknown – could exceed \$250,000)
Savings from Credit Redemption – Section 143.119 for self- employed filers with greater than \$3,000 liability p. 9-12	Unknown, Exceed \$5,942,873	Unknown, Could Exceed \$5,942,873	Unknown, Could Exceed \$5,942,873
Savings from Credit Redemption – Section 143.119 for self- employed non-resident filers p.	Unknown, Could Exceed \$900,000	Unknown, Could Exceed \$900,000	Unknown, Could Exceed \$900,000
Savings from Credit Redemption – (Section 143.119) no longer refundable p. 9-12	Unknown	Unknown	Unknown

Revenue Loss or Gain - §143.436 SALT Parity Act: Entity And Individual Tax Liability Paid p. 13-20	Minimum Unknown to Minimum (Unknown)	Minimum Unknown to Minimum (Unknown)	Minimum Unknown to Minimum (Unknown)
<u>Loss</u> – §407.475 DOR – if, with this bill, charitable organizations are no longer required to file certain tax returns p. 22	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Revenue Reduction</u> – Section 620.1039 – Tax Credit For Qualified Research Expenses p. 24-26	\$0	Up to (\$10,000,000)	Up to (\$10,000,000)
<u>Cost</u> – DED – Section 620.1039 – Administration Of Tax Credit Program p. 24-26			
Personnel Services	(\$36,305)	(\$44,437)	(\$45,326)
Fringe Benefits	(\$24,500)	(\$29,692)	(\$29,990)
Equipment & Expense	(\$10,469)	(\$2,647)	(\$2,701)
Total Cost - DED	(\$71,274)	(\$76,776)	(\$78,017)
Total FTE – DED	1 FTE	1 FTE	1 FTE
<u>Loss of Sales tax Revenue</u> – 620.1039 5. –research & development equipment p. 27	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Revenue Gain</u> – Regulatory Sandbox Act - \$300 Fee Paid to participate in the program §620.3915.2 p. 30-34	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> – Regulatory Sandbox Act Reduction in Revenues – various tax not paid p. 30-34	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost</u> – DOR– Regulatory Sandbox Act FTE necessary to comply with the proposal p. 30- 34	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

<u>Costs</u> – DED - Regulatory Sandbox Act - FTE p. 30-34			
Personnel Service	(\$118,757)	(\$145,358)	(\$148,265)
Fringe Benefits	(\$64,469)	(\$78,318)	(\$79,293)
Expense & Equipment	(\$17,827)	(\$11,416)	(\$11,644)
<u>Total Costs</u> -	<u>(\$201,053)</u>	<u>(\$235,092)</u>	<u>(\$239,202)</u>
FTE Change	2 FTE	2 FTE	2 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>Could exceed \$6,305,908</u></b>	<b><u>Could exceed (\$3,783,633)</u></b>	<b><u>Could exceed (\$3,788,984)</u></b>
Estimated Net FTE Change on General Revenue	Could exceed 3 FTE	Could exceed 3 FTE	Could exceed 3 FTE
<b>MISSOURI DISASTER FUND (0663)</b>			
<u>Transfer In</u> – §44.032 - from General Revenue p. 3-4	\$0 to Unknown, Greater than \$250,000	\$0 to Unknown, Greater than \$250,000	\$0 to Unknown, Greater than \$250,000
<u>Cost</u> – §44.032 SEMA - Disaster damages p. 3-4	<u>\$0 to (Unknown, Greater than \$250,000)</u>	<u>\$0 to (Unknown, Greater than \$250,000)</u>	<u>\$0 to (Unknown, Greater than \$250,000)</u>
<b>ESTIMATED NET EFFECT ON THE MISSOURI DISASTER FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b>OTHER STATE FUNDS</b>			
<u>Cost</u> - Potential increase in payments to Legal Expense Fund for increase in claims §105.1500.5 p. 4	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss of Revenues</u> – Regulatory Sandbox - to various State Funds – various tax not paid p.30-34	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

<b>ESTIMATED NET EFFECT TO OTHER STATE FUNDS</b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>
<b>LEGAL EXPENSE FUND (0692)</b>			
<u>Transfer In</u> - from GR, Federal, and Other State Funds Potential increase in claims p. 4	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Transfer Out</u> - payment of discrimination claims §105.1500.5 p. 4	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
<b>ESTIMATED NET EFFECT TO THE LEGAL EXPENSE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b>UNEMPLOYMENT AUTOMATION FUND (0953)</b>			
<u>Transfer In</u> - DOLIR (288.132 & 288.133) from Federal Unemployment Trust Fund p. 20-21	\$4,402,670 or up to <u>\$5,000,000</u>	\$4,402,670 or up to <u>\$5,000,000</u>	\$4,402,670 or up to <u>\$5,000,000</u>
<b>NET EFFECT ON UNEMPLOYMENT AUTOMATION FUND (0953)</b>	<b>\$4,402,670 or up to <u>\$5,000,000</u></b>	<b>\$4,402,670 or up to <u>\$5,000,000</u></b>	<b>\$4,402,670 or up to <u>\$5,000,000</u></b>
<b>SCHOOL DISTRICT TRUST FUND</b>			
<u>Loss of Sales tax Revenue</u> – 620.1039 5. –research & development equipment p. 27	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND (0688)</b>	<b>\$0 to <u>(Unknown)</u></b>	<b>\$0 to <u>(Unknown)</u></b>	<b>\$0 to <u>(Unknown)</u></b>

<b>PARKS AND SOILS STATE SALES TAX FUNDS (0613 &amp; 0614)</b>			
<u>SA 3 - Loss of Sales tax Revenue – 620.1039 5. –research &amp; development equipment p. 27</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS (0613 &amp; 0614)</b>	<b>\$0 to <u>(Unknown)</u></b>	<b>\$0 to <u>(Unknown)</u></b>	<b>\$0 to <u>(Unknown)</u></b>
<b>CONSERVATION COMMISSION FUND (0609)</b>			
<u>Loss of Sales tax Revenue – 620.1039 5. –research &amp; development equipment p. 27</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND (0609)</b>	<b>\$0 to <u>(Unknown)</u></b>	<b>\$0 to <u>(Unknown)</u></b>	<b>\$0 to <u>(Unknown)</u></b>
<b>FEDERAL FUNDS</b>			
<u>Various Federal Funds - Potential increase in payments for increase in claims §105.1500.5 p. 4</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
<b>UNEMPLOYMENT TRUST FUND (0122)</b>			



Transfer Out - DOLIR To State Unemployment Automation Fund (288.132 & 288.133) p. 20-21	(\$4,402,670) or up to (\$5,000,000)	(\$4,402,670) or up to (\$5,000,000)	(\$4,402,670) or up to (\$5,000,000)
<b>NET EFFECT ON UNEMPLOYMENT TRUST FUND (0122)</b>	<b>(\$4,402,670) or up to (\$5,000,000)</b>	<b>(\$4,402,670) or up to (\$5,000,000)</b>	<b>(\$4,402,670) or up to (\$5,000,000)</b>
<b>UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND (0948)</b>			
Cost - DOLIR - ITSD costs (288.132 & 288.133) p. 20-21	<u>\$0 up to (\$91,109)</u>	<u>\$0</u>	<u>\$0</u>
<b>NET EFFECT ON UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND</b>	<b><u>\$0 up to (\$91,109)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Cost</u> - Potential increase in claims §105.1500.5 p. 4	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss of Revenues</u> – Regulatory Sandbox Act - to various local funds –various tax not paid (p.30-34)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Loss of Sales tax Revenue</u> – 620.1039 5. –research & development equipment p. 27	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>

FISCAL IMPACT – Small Business

Certain small businesses may be impacted by this proposal.

FISCAL DESCRIPTION

This act modifies provisions relating to business entities.

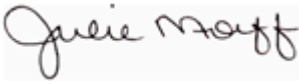
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

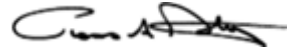
- Department of Commerce and Insurance
- Department of Economic Development
- Department of Elementary and Secondary Education
- Department of Higher Education and Workforce Development
- Department of Health and Senior Services
- Department of Mental Health
- Department of Natural Resources
- Department of Corrections
- Department of Labor and Industrial Relations

Department of Revenue  
Department of Public Safety  
Department of Social Services  
Office of the Governor  
Joint Committee on Administrative Rules  
Joint Committee on Public Employee Retirement  
Missouri Lottery Commission  
Missouri Consolidated Health Care Plan  
Department of Agriculture  
Missouri Department of Conservation  
Missouri Ethics Commission  
Missouri House of Representatives  
Department of Transportation  
Office of Prosecution Services  
Office of Administration  
Office of the State Auditor  
Missouri Senate  
Office of the State Public Defender  
Office of the State Treasurer  
MoDOT & Patrol Employees' Retirement System  
Petroleum Storage Tank Insurance Fund  
University of Missouri System  
State Tax Commission  
City of Claycomo  
City of Kansas City  
City of O'Fallon  
City of Springfield  
Jackson County Board of Elections  
Kansas City Board of Elections  
Platte County Board of Elections  
St. Louis County Board of Elections  
Newton County Health Department  
St. Louis County Health Department  
Phelps County Sheriff  
Kansas City Police Department  
Missouri State University  
University of Central Missouri  
St. Charles Community College  
Joint Committee on Education  
Legislative Research  
Oversight Division  
Missouri Higher Education Loan Authority  
Missouri State Employee's Retirement System  
State Tax Commission

L.R. No. 4530H.09C  
Bill No. HCS for SS No. 2 for SCS for SB 968  
Page **44** of **44**  
May 9, 2022



Julie Morff  
Director  
May 9, 2022



Ross Strobe  
Assistant Director  
May 9, 2022