

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5943S.01I
 Bill No.: SB 14
 Subject: Tax Credits
 Type: Original
 Date: September 16, 2022

Bill Summary: This proposal extends the sunset on the wood energy tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	(\$1,500,000) or up to (\$3,000,000) depending on appropriation	(\$1,500,000) or up to (\$6,000,000) depending on appropriation	(\$1,500,000) or up to (\$6,000,000) depending on appropriation
Total Estimated Net Effect on General Revenue	(\$1,500,000) or up to (\$3,000,000) depending on appropriation	(\$1,500,000) or up to (\$6,000,000) depending on appropriation	(\$1,500,000) or up to (\$6,000,000) depending on appropriation

*The fiscal impact is ranged from the FY 2021 appropriation level (\$1.5 million) to the annual program cap (\$6 million). The FY 2023 appropriation level is \$3 million.

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

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

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

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.305 Wood Energy Tax Credit

Officials from the **Department of Revenue (DOR)** state the proposed legislation would reauthorize the Missouri Wood Energy tax credit until 2032. Currently the tax credit expired June 30, 2020. This proposal adds language extending the credit to June 30, 2032.

The Wood Energy Tax Credit is an appropriated tax credit. DOR notes the Wood Energy Tax Credit can be appropriated up to its \$6 million annual cap. The legislature appropriated \$1 million in credits in FY 2018 and FY 2019. For FY 2020 they appropriated \$1.5 million and in FY 2021 they appropriated \$740,000. No appropriations were made for FY 2022 and FY 2023.

For informational purposes, DOR is showing the authorizations, issuances and redemptions of this credit over the last several years. This credit began in 1985.

Year	Authorized	Issued	Redemption by Corp Income	Redemption by Fiduciary	Redemption by Individual	Total Redeemed
FY 2022	\$0.00	\$0.00	\$120,576.10		\$436,567.41	\$557,143.51
FY 2021	\$717,800.00	\$717,800.00	\$146,019.00	\$0.00	\$172,490.40	\$318,509.40
FY 2020	\$1,455,000.00	\$1,455,000.00	\$668,903.93	\$0.00	\$436,773.75	\$1,105,677.68
FY 2019	\$678,887.19	\$678,887.19	\$355,397.70		\$433,172.93	\$788,570.63
FY 2018	\$970,000.00	\$970,000.00	\$895,319.15		-\$4,231.66	\$891,087.49
FY 2017	\$970,000.00	\$970,000.00	\$294,516.28	\$665,388.00	\$414,717.72	\$1,374,622.00
FY 2016	\$1,000,000.00	\$1,000,000.00	\$273,846.00		\$370,433.49	\$644,279.49
FY 2015	\$64,293.79	\$64,293.79	\$306,775.07		\$1,913,564.51	\$2,220,339.58
FY 2014	\$1,770,191.36	\$0.00	\$691,843.00		\$2,161,274.36	\$2,853,117.36
FY 2013	\$3,060,709.70	\$0.00	\$990,603.00		\$1,291,797.51	\$2,282,400.51
FY 2012	\$2,990,840.41	\$0.00	\$973,467.50		\$2,519,741.48	\$3,493,208.98
TOTALS	\$13,677,722.45	\$5,855,980.98	\$5,717,266.73	\$665,388.00	\$10,146,301.90	\$16,528,956.63

This proposal would require that DOR re-implement and/or continue to conduct its processes pertaining to the wood energy producer tax credit until at least December 31, 2032 (and potentially longer if carryovers of such credits may be claimed after that date). For example, DOR would need to accept certifications of assignment of the wood energy producer tax credit (Section 135.305, RSMo), and conduct certain post-issuance compliance functions regarding Tax Credit Accountability Act reports required in connection with the wood energy producer tax credit (see, e.g., Section 135.800, RSMo).

Since DOR has forms and computer programs set up to handle this credit, they do not believe this would have any additional administrative impact. However, the restarting of this credit could result in a loss to general revenue and total state revenue up to the \$6 million annual cap starting on October 1, 2022 (FY 2023).

Officials from the **Office of Administration – Budget & Planning (B&P)** note the authorization, under Section 135.305, for the Wood Energy Producers Tax Credit ended on June 30, 2020. This proposal would extend the tax credit of \$5 per ton of processed material to 2032,

with an annual authorization cap of \$6 million, subject to appropriations. A Missouri wood energy producer shall be eligible for a tax credit on taxes otherwise due under chapter 143, except sections 143.191 to 143.261, as a production incentive to produce processed wood products in a qualified wood-producing facility using Missouri forest product residue.

The following redemption appropriations have been made for the Wood Energy tax credit:

Fiscal Year	Appropriation
2022	\$1.5 million (HB 6 6.350)
2021	\$740,000 (HB 2006 6.350)
2020	\$1.5 million (HB 6)
2019	\$1.0 million (HB 2007)
2018	\$1.0 million (HB 7)

B&P notes that this section would be impacted by the emergency clause. Therefore, B&P estimates that this proposal could reduce general and total state revenue between \$740,000 (low appropriation limit) and \$6,000,000 (statutory authorization cap) annually beginning in FY23.

Oversight notes, per the Tax Credit Analysis submitted to the Oversight by the Department of Natural Resources (DNR) the Wood Energy Tax Credit had the following activity:

Wood Energy Tax Credit	FY 2019 ACTUAL	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 (Not Available.)	FY 2023 (Budget Year - est.)
Certificates Issued (#)	9	8	8	6	0
Projects/Participants (#)	9	8	8	6	0
Amount Authorized	\$678,887	\$1,455,000	\$717,800	\$0	\$0
Amount Issued	\$678,887	\$1,455,000	\$717,800	\$0	\$0
Amount Redeemed	\$789,077	\$1,105,678	\$1,014,359	\$555,362	\$159,676

Oversight's policy is to show the extension of the tax credit program in the fiscal note. Oversight will show the revenue reduction to TSR and GR for Fiscal Year(s) beginning in Fiscal Year 2023.

Since the cap for the Wood Energy Tax Credit is \$6 million annually (subject to appropriation), for purposes of this fiscal note, **Oversight** will report the extension of the tax credit as a continuation of the program – from the FY 2021 appropriation level (\$1,500,000) up to the \$6 million cap beginning in FY 2023. The appropriation for this program for FY 2023 is \$3 million (6.355); therefore, Oversight will reflect a top range of \$3 million in FY 2023.

Officials from the **Joint Committee on Administrative Rules**, the **Department of Natural Resources**, the **Department of Commerce and Insurance**, the **City of Kansas City**, the **City of O’Fallon**, the **City of Springfield** each assume the proposal will have no impact on their respective organizations.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section 135.305 – Extension of the Wood Energy Tax Credit from 10/30/2020 to 12/31/2028 - p.3-5</u>	(\$1,500,000) or up to <u>(\$3,000,000)</u> depending on appropriation	(\$1,500,000) or up to <u>(\$6,000,000)</u> depending on appropriation	(\$1,500,000) or up to <u>(\$6,000,000)</u> depending on appropriation
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$1,500,000) or up to <u>(\$3,000,000)</u> depending on appropriation	(\$1,500,000) or up to <u>(\$6,000,000)</u> depending on appropriation	(\$1,500,000) or up to <u>(\$6,000,000)</u> depending on appropriation

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for the tax credit under the proposal.

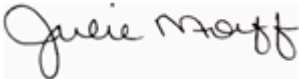
FISCAL DESCRIPTION

A tax credit for the production of certain wood-energy processed wood products expired on June 30, 2020. This act extends the tax credit until June 30, 2032.

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

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Missouri Department of Agriculture
Department of Natural Resources
Missouri Department of Conservation
Joint Committee on Administrative Rules
Department of Commerce and Insurance
City of Kansas City
City of O’Fallon
City of Springfield



Julie Morff
Director
September 16, 2022



Ross Strobe
Assistant Director
September 16, 2022