COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0214H.04C
Bill No.: HCS for SS for SB 143
Subject: Taxation and Revenue - General; Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: May 2, 2023

Bill Summary: This proposal modifies provisions related to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
General Revenue*	Up to ($552,564,012)	Up to ($1,250,347,323)	Up to ($1,278,440,989)	Up to ($1,405,653,134)
Total Estimated Net Effect on General Revenue	**Up to ($552,564,012)**	**Up to ($1,250,347,323)**	**Up to ($1,278,440,989)**	**Up to ($1,405,653,134)**

*Oversight notes the funds impacted by §135.098 and §144.064.3 (excise tax used as a tax credit or a sales tax reduction) will change depending on whether the income tax credit or sales tax retention is utilized. An income tax credit will only impact state General Revenue, while the sales tax retention will impact all state and local funds receiving sales taxes.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Blind Pension Fund	$0	Up to ($2,449,449)	Up to ($2,449,449)	Up to ($2,449,449)
School District Trust Fund (0688)	Up to ($31,260,516)	Up to ($29,533,501)	Up to ($29,533,501)	Up to ($29,533,501)

Parks and Soils State Sales Tax Fund(S) (0613 & 0614)	Up to ($3,126,352)	Up to ($3,749,049)	Up to ($3,749,049)	Up to ($3,749,049)
Conservation Commission Fund (0609)	Up to ($3,907,940)	Up to ($4,683,506)	Up to ($4,683,506)	Up to ($4,683,506)
Total Estimated Net Effect on Other State Funds	**Up to ($38,294,808)**	**Up to ($40,415,505)**	**Up to ($40,415,405)**	**Up to ($40,415,505)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
General Revenue Fund*	11 FTE	22 FTE	22 FTE	22 FTE
Total Estimated Net Effect on FTE	**11 FTE**	**22 FTE**	**22 FTE**	**22 FTE**

*Oversight notes the FTE projections are due to the Section 144.064.02 – Firearms Sales Tax Retention 1 FTE (DOR), Section 135.010 to 025 Childcare Tax Credits - 5 FTE (DED), Section 135.050 4 Child Care Tax Credits (FTE DESE), Sections 135.010 to 025 & Section 135.2560 Success Tax Credit - 11 FTE (DOR), and Section 135.1620 - 1 FTE (DED)

☒ 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 2024	FY 2025	FY 2026	Fully Implemented (FY 2027)
Local Political Subdivisions	**Up to ($127,242,508)**	**Up to ($741,477,509)**	**Up to ($741,477,509)**	**Up to ($741,477,509)**

FISCAL ANALYSIS

ASSUMPTION

Section 32.115.4 Affordable Housing Tax Credit

Officials from the **Office of Administration – Budget and Planning (B&P)** assume this proposal will not impact TSR or the calculation under Article X, Section 18(e).

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

The Affordable Housing tax credit program is a two part credit with an $11 million combined cap. The first part of the credit is for businesses that are making contributions to affordable housing. This part of the credit is limited to $10 million of the cap. The second part of the credit is for businesses that make contributions to neighborhood organizations and this part of the credit is limited to $1 million of the cap. This proposal allows the contributions to the neighborhood organizations to use any remaining cap space not used by the businesses making contributions to affordable housing. Therefore, the $1 million cap can be increased if the $10 million doesn't use all their allotment. Since this proposal just allows the sharing of a cap this would not have any additional fiscal impact on the state.

For informational purposes, the Department is providing the amount of the Affordable Housing Tax Credit that has been authorized, issued and redeemed over the last few years.

Year	Authorized	Issued	Total Redeemed
FY 2022	$4,835,176.00	$10,482,025.00	$3,619,925.08
FY 2021	978,796.00	$3,592,427.00	$4,119,705.33
FY 2020	$10,971,408.00	$4,510,701.00	$4,025,790.93
FY 2019	$4,253,693.00	$3,308,659.00	$5,001,344.36
FY 2018	$4,676,726.00	$6,145,103.00	$4,752,091.61
FY 2017	$10,347,442.00	$7,386,034.00	$10,172,299.92
FY 2016	$10,988,370.00	$13,171,092.00	$8,484,672.81

FY 2015	$10,901,753.00	$8,717,177.00	$3,358,807.75
FY 2014	$8,197,923.00	$4,844,279.00	$5,620,749.73
FY 2013	$6,495,974.00	$4,967,887.00	$7,406,987.96
FY 2012	$4,871,580.00	$5,990,591.00	$5,629,465.92
Total	**$77,518,841**	**$73,115,975**	**$62,191,841**

(For more information, please see Form 14 AHAP and NAP in MOLIS internal docs.)

This proposal will not a fiscal impact on the Department of Revenue.

Section 32.115.2(1) Neighborhood Assistance Tax Credit

Officials from the **Office of Administration (B&P)** assume this proposal would increase the value of the neighborhood assistance tax credits to 70% of each contribution. B&P notes that the three-year average redemption amount for neighborhood assistance was $8,720,836 from FY20 - FY22. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been $12,209,170 for neighborhood assistance. Therefore, this provision could reduce GR by $3,488,334 annually beginning in FY24.

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

This provision changes the Neighborhood Assistance Tax Credit program. The Neighborhood Assistance Tax Credit program has a $16 million cap with the credit based on 50% of the contribution made. This proposal is changing the credit from 50% of the contribution to 70%. For informational purposes they provided the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2022	$12,673,134.00	$11,113,005.75	$8,067,535.14
FY 2021	$11,924,548.00	$9,048,913.00	$8,623,742.15
FY 2020	$13,890,324.00	$8,703,761.00	$9,471,230.74
FY 2019	$15,035,823.00	$10,377,614.00	$8,947,215.78
FY 2018	$14,981,906.00	$12,367,630.00	$10,922,806.90
FY 2017	$14,041,962.00	$14,490,650.00	$14,831,654.53
FY 2016	$13,553,852.00	$13,761,480.00	$10,318,970.97
FY 2015	$15,974,536.00	$11,435,785.00	$8,230,285.75
FY 2014	$11,513,379.00	$9,640,126.00	$10,848,983.24
FY 2013	$14,996,900.00	$10,144,225.00	$7,392,112.96
FY 2012	$11,577,412.00	$8,493,103.00	$9,757,094.83
TOTALS	$150,163,776.00	$119,576,292.75	$**107,411,632.99**

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This change is expected to encourage more taxpayers to contribute and claim the tax credit. The three year average of the redemptions of the program has been $8,720,836.

Increasing the tax credit percent to seventy percent would have resulted in $12,209,170 in tax credits being issued. An increase of $3,488,334. The increased percent of the credit could result in additional contributions being made to the affordable housing program, but the Department does not have any information as to how many more contributions would be made. Since the increased amount is lower than the current cap of $16 million, this is not expected to have any additional impact to the state.

Oversight notes Section 32.115 Neighborhood Assistance Program provides maximum of $32 million annually and shares the total amount with other tax credits as follow:

a) Section(s) 32.111 – Affordable Housing Assistance Tax Credit Program (AHAP up to the same $10 million cap. (If other tax credits are not fully utilized this section can draw additional $1 million allowing the cap reach $11 million annually – as per Section 32.115 4.).

b) Section 135.460 Opportunity Youth program with maximum cap of $6 million.

Oversight notes, currently, the actual Neighborhood Assistance Program can obtain maximum of $16 million annually.

	FY 2020 ACTUAL	**FY 2021 ACTUAL**	**FY 2022 ACTUAL**
Certificates Issued (#)	1,432	1,240	1,371
Projects/Participants (#)	67	67	65
Amount Authorized	$13,890,324	$11,924,548	$12,673,134
Amount Issued	$8,703,761	$9,048,913	$11,113,006
Amount Redeemed	$9,471,231	$8,623,742	$8,067,535

(DED Form 14 – see attachment in MOLIS)

Oversight notes the current average redemption total in last three years was $8,720,836 at 50% contribution percentage.

Oversight notes the 70% contribution would total to $12,209,170 of total average redemption in the same period.

Oversight note that the difference between 50% and 70% contribution redemption would total to $3,488,334 ($12,209,170 - $8,720,836).

Oversight notes this proposal does not change the $16 million maximum cap, instead increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This will allow for those who claim the tax credit receive greater amount of funds, but will not affect the overall maximum cap available under the proposal. (Allowing potentially for fewer participants who are receiving greater amount of tax credit)

Therefore, for the purpose of this fiscal note, **Oversight** will reflect the credit difference of $3,488,334 to the general revenue in the fiscal note.

Section(s) 135.010, 135.025, and 135.030 – Circuit Breaker

In response to the similar proposal, HCS for HB 1134, officials from the **Office of Administration – Budget & Planning (B&P)** assumed this proposal would make multiple changes to the property tax credit (PTC).

Section 135.010 would increase the income allowance for PTC claimants by $800 for renters and $1,800 for homeowners starting with tax year 2024. B&P notes that this provision will begin affecting state revenues in FY25, when taxpayers file their annual PTC form for tax year 2024.

Section 135.025 would increase the maximum PTC credit amount. **Section 135.030.1** would increase the maximum income limits allowed to qualify for the PTC. **Section 135.030.2** would increase the phase-out increments, used when calculating the PTC credit based on an individual's income. B&P notes that because these provisions are effective for calendar year 2024, they will begin affecting state revenues in FY24 as annual PTC claims are filed beginning in January. B&P further notes that the peak PTC claims are January through April each year.

Section 135.025 would increase the renter credit from $750 (current law) to $1,055 and the homeowner credit from $1,100 (current law) to $1,555 starting with tax year 2024. Beginning January 1, 2025, the credits shall be adjusted annually for inflation using CPI-U for the Midwest Region. For the purpose of this fiscal note, B&P will assume a 2% average annual inflation rate. Table 1 shows the estimated credit amounts by tax year.

Table 1: PTC Credit

Calendar Year	Renters	Homeowners
Current	$750	$1,100
2024	$1,055	$1,550
2025	$1,076	$1,581
2026	$1,098	$1,613
2027	$1,120	$1,645

*Assumes 2% average annual inflation

Section 135.025.1 would increase the maximum upper income allowed to claim the PTC. The maximum income limit for renters shall be increased from $27,500 (current law) to $38,200, while the maximum income limit for homeowners shall be increased from $30,000 (current law) to $42,200. Beginning January 1, 2025, the maximum income limits shall be adjusted annually for inflation using CPI-U for the Midwest Region. For the purpose of this fiscal note, B&P will assume a 2% average annual inflation rate. Tables 2 shows the maximum income limits by tax year.

Table 2: Maximum Income Limits

Calendar Year	Renter	Homeowner
Current	$27,500	$30,000
2024	$38,200	$42,200
2025	$38,964	$43,044
2026	$39,743	$43,905
2027	$40,538	$44,783

*Assumes 2% average annual inflation

Section 135.025.2 would increase the phase-out income increments from $300 (current law) to $495 beginning with calendar year 2024.

Section 135.030.3 caps the reduction in the tax credit to 2%. B&P notes that under current law, the tax credit is reduced by (1/16%) for each $300 increase in a taxpayer's income, with a maximum reduction of 4.0%. B&P further notes that under current law, the reduction cap is never met with the existing income limits. This proposal would change the reduction calculation to (1/16%) for every $495 increase in a taxpayer's income, with a maximum reduction of 2.0%. Therefore, after 32 reductions (i.e. income of $29,645 under this proposal) the tax credit will remain a constant amount. Table 3 shows the minimum and maximum PTC amount for renters and homeowners.

Table 3: Minimum and Maximum PTC Credit

Calendar Year	Renter		Homeowner	
	Min	Max	Min	Max
2024	$445	$1,055	$940	$1,100
2025	$466	$1,076	$971	$1,550
2026	$488	$1,098	$1,003	$1,581
2027	$510	$1,120	$1,035	$1,613

*Assumes 2% average annual inflation, starting with tax year 2025.

<u>Maximum Credit and Slower Credit Phase-Out</u>

<u>Renter</u>

In tax year 2021, 66,717 non-homeowners claimed the PTC, with a maximum possible credit of $750. B&P notes that the PTC phases-out as an individual's income increases. This proposal both increases the maximum credit and slows the income phase-out.

Using tax year 2021 data, the most recent available, and the phase-out formula, B&P estimates that increasing the PTC credit from $750 to $1,055, increasing the phase-out limit from $300 to $495, and capping the credit value reduction at 2% could reduce GR by $16,657,443 for FY24. By FY27, the changes to the PTC credit could reduce GR by $20,207,310.

B&P notes that this estimate does not include a higher average PTC claim for the individuals discussed under the "maximum upper limit" section. Therefore, increasing the maximum credit could reduce TSR and GR by more than $20,207,310 by FY27. B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum property tax credit for renters will continue to be adjusted annually for inflation.

Homeowner

In tax year 2021, 64,463 homeowners claimed the PTC, with a maximum possible credit of $1,100. B&P notes that the PTC phases-out as an individual's income increases. This proposal both increases the maximum credit and slows the income phase-out.

Using tax year 2021 data, the most recent available, and the phase-out formula, B&P estimates that increasing the PTC credit from $1,100 to $1,550, increasing the phase-out limit from $300 to $495, and capping the credit value reduction at 2% could reduce GR by $19,344,757 for FY24. By FY27, the changes to the PTC credit could reduce GR by $23,428,736.

B&P notes that this estimate does not include a higher average PTC claim for the individuals discussed under the "maximum upper limit" section. Therefore, increasing the maximum credit could reduce TSR and GR by more than $23,428,736 by FY27. B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum property tax credit for homeowners will continue to be adjusted annually for inflation.

Credit Changes Summary

Based on the above information, B&P estimates that this provision could reduce GR by $36,002,200 in FY24. By FY27, this provision could reduce GR by $43,636,047 annually. Table 4 shows the estimated impact by year.

Table 4: Higher Credit and Slower Phase-Out

Tax Year	Fiscal Year	Renter	Homeowner	Total
2024	2024	($16,657,443)	($19,344,757)	($36,002,200)
2025	2025	($17,804,387)	($20,677,519)	($38,481,906)

2026	2026	($19,005,853)	($22,053,173)	($41,059,025)
2027	2027	($20,207,310)	($23,428,736)	($43,636,047)

Homeownership Rates

Using tax year 2021 PTC claims, the most recent year available, B&P determined the percentage of claimants that were homeowners versus renters. Table 5 shows the percentage for each major filing type.

Table 5: PTC Homeowner vs. Renter

Filing Type	Homeowner	Renter
Age 65+	65.1%	34.9%
Widow(er)	70.5%	29.5%
Disabled	23.1%	76.9%

For the purpose of this fiscal note, B&P will assume the potential newly qualified (under the higher maximum income limits) individuals will follow the same owner/renter pattern. However, it is likely that as the income limit increases, the homeownership rate would also increase.

Maximum Income Limits

Renter

2024:
In tax year 2020, the most recent complete year available, there were 206 individuals who filed as qualifying widow/widower, 55,061 individuals who claimed they were 65 years or older, and 5,722 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $38,200.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 61 of the widow(er), 19,194 age 65 and older, and 4,399 disabled could potentially be renters. Therefore, B&P estimates that 23,654 (61 + 19,194 + 4,399) additional people could qualify for the renter PTC in calendar year 2024.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $445. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $10,526,099 (23,654 x $445) in FY24.

2025:
In tax year 2020, the most recent complete year available, there were 219 individuals who filed as qualifying widow/widower, 58,495 individuals who claimed they were 65 years or older, and

6,119 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $38,964.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 65 of the widow(er), 20,391 age 65 and older, and 4,705 disabled could potentially be renters. Therefore, B&P estimates that 25,160 (65 + 20,391 + 4,705) additional people could qualify for the renter PTC in calendar year 2025.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $466. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $11,724,700 (25,160 x $466) in FY25.

<u>2026:</u>
In tax year 2020, the most recent complete year available, there were 232 individuals who filed as qualifying widow/widower, 61,898 individuals who claimed they were 65 years or older, and 6,476 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $39,743.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 69 of the widow(er), 21,577 age 65 and older, and 4,979 disabled could potentially be renters. Therefore, B&P estimates that 26,625 (69 + 21,577 + 4,979) additional people could qualify for the renter PTC in calendar year 2026.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $488. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $12,992,945 (26,625 x $488) in FY26.

<u>2027:</u>
In tax year 2020, the most recent complete year available, there were 250 individuals who filed as qualifying widow/widower, 65,541 individuals who claimed they were 65 years or older, and 6,837 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $27,500 and $40,538.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 74 of the widow(er), 22,847 age 65 and older, and 5,257 disabled could potentially be renters. Therefore, B&P estimates that 28,178 (74 + 22,847 + 5,257) additional people could qualify for the renter PTC in calendar year 2027.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $510. Therefore, B&P estimates that increase the maximum income limit for renters could reduce TSR and GR by $14,370,620 (28,178 x $510) in FY27.

B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum income for renters will continue to be adjusted annually for inflation.

Homeowner

2024:
In tax year 2020, the most recent complete year available, there were 236 individuals who filed as qualifying widow/widower, 57,100 individuals who claimed they were 65 years or older, and 6,080 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $42,200.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 166 of the widow(er), 37,195 age 65 and older, and 1,405 disabled could potentially be homeowners. Therefore, B&P estimates that 38,767 (166 + 37,195 + 1,405) additional people could qualify for the homeowner PTC in calendar year 2024.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $940. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $36,440,935 (38,767 x $940) in FY24.

2025:
In tax year 2020, the most recent complete year available, there were 255 individuals who filed as qualifying widow/widower, 60,826 individuals who claimed they were 65 years or older, and 1,487 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $43,044.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 180 of the widow(er), 39,622 age 65 and older, and 1,487 disabled could potentially be homeowners. Therefore, B&P estimates that 41,289 (180 + 39,622 + 1,487) additional people could qualify for the homeowner PTC in calendar year 2025.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $971. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $40,091,915 (41,289 x $971) in FY25.

2026:
In tax year 2020, the most recent complete year available, there were 269 individuals who filed as qualifying widow/widower, 64,521 individuals who claimed they were 65 years or older, and 6,780 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $43,905.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 190 of the widow(er), 42,029 age 65 and older, and 1,567 disabled could potentially be homeowners. Therefore, B&P estimates that 43,786 (190 + 42,029 + 1,567) additional people could qualify for the homeowner PTC in calendar year 2026.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $1,003. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $43,917,450 (43,786 x $1,003) in FY26.

2027:
In tax year 2020, the most recent complete year available, there were 292 individuals who filed as qualifying widow/widower, 68,205 individuals who claimed they were 65 years or older, and 7,130 individuals who claimed they were disabled on their individual income tax forms and had a Missouri Adjusted Gross Income (MAGI) between $30,000 and $44,783.

Using the homeowner/renter split discussed above, B&P assumes that of those individuals - 206 of the widow(er), 44,429 age 65 and older, and 1,648 disabled could potentially be homeowners. Therefore, B&P estimates that 46,283 (206 + 44,429 + 1,648) additional people could qualify for the homeowner PTC in calendar year 2027.

In addition, based on the additional maximum credit and slower-phase out discussed above, B&P estimates that the minimum PTC credit for these individuals may be $1,035. Therefore, B&P estimates that increase the maximum income limit for homeowners could reduce TSR and GR by $47,902,884 (46,283 x $1,035) in FY27.

B&P notes that the annual loss for years after FY27 will likely exceed this amount as the maximum income for renters will continue to be adjusted annually for inflation.

Maximum Income Changes Summary

B&P estimates that increasing the maximum income limits could reduce GR by $46,967,034 in FY24. By FY27, this provision could reduce GR by $62,273,504 annually. Table 6 shows the estimated impact by year.

Table 6: Higher Maximum Income Limit

Calendar Year	Fiscal Year	Renter	Homeowner	Total
2024	2024	($10,526,099)	($36,440,935)	($46,967,034)
2025	2025	($11,724,700)	($40,091,915)	($51,816,615)
2026	2026	($12,992,945)	($43,917,450)	($56,910,395)
2027	2027	($14,370,620)	($47,902,884)	($62,273,504)

Bill Summary

B&P estimates that this proposal could reduce TSR and GR by $82,969,234 in FY24. By FY27, this provision could reduce TSR and GR by $105,909,551. Table 7 shows the impact by fiscal year.

Table 7: Summary of GR Impact

Fiscal Year	Renter		Homeowner		Total GR Loss
	Higher Income	Increased Credit	Higher Income	Increased Credit	
2024	($10,526,099)	($16,657,443)	($36,440,935)	($19,344,757)	($82,969,234)
2025	($11,724,700)	($17,804,387)	($40,091,915)	($20,677,519)	($90,298,521)
2026	($12,992,945)	($19,005,853)	($43,917,450)	($22,053,173)	($97,969,420)
2027	($14,370,620)	($20,207,310)	($47,902,884)	($23,428,736)	($105,909,551)

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

Background of Current PTC Program

This proposal makes several modifications to the Senior Property tax credit (PTC). The PTC provides two tax credits, one to homeowners and one to renters that pay property tax. In order to qualify for the PTC program there are income eligibility requirements and a person must:

Be over the age of 65,
Or 100% disabled,
Or a 100% disabled veteran,
Or at least 60 and the qualifying widow of someone in the previous categories.

For homeowners, the PTC provides a credit to offset the amount of actual property tax paid by the homeowner. The credit is up to $1,100 in property tax actually paid but the credit amount phases out as an individual's income rises. The homeowner's credit is for those with incomes of less than $30,000. It should be noted, there is no limit on the number of individuals who can receive the credit annually.

The PTC also currently provides a credit to offset the amount of property tax included in a taxpayer's rent payment. The tax credit for renters is up to $750 in property tax paid and to qualify a renter must have an income less than $27,500. The amount of the credit does phase out as income rises and there is no limit on the number of renters who can receive the credit annually.

This proposal says that all modifications of the property tax credit will begin on January 1, 2024. DOR notes that the majority of the PTC tax returns are received in DOR office between January and April of each year. DOR assume that the changes made by this proposal would fully impact FY 2024.

Proposed Change

This proposal makes numerous changers to the PTC credit.

The first modification would increase the income allowance for PTC claimants by $800 for renters and $1,800 for homeowner's starting with calendar year 2024. This bill impact revenue starting in FY 2025 when the taxpayer's file for their credit.

The second modification in this proposal is in Section 135.025, and will increase the credit amounts for both homeowners from $1,100 to $1,550 and for renters from $750 to $1,055 in fiscal year 2024. Additionally, beginning in calendar year 2025 this proposal will allow that new credit amount to be adjusted for inflation in future fiscal years. DOR uses a 2% inflation rate annually for estimating the increase in the credit. The new credit amount are estimated to be:

PTC Credit Increase

Tax Year	Renters	Homeowners
Current	$750	$1,100
2024	$1,055	$1,550
2025	$1,076	$1,581
2026	$1,098	$1,613
2027	$1,120	$1,645

*Assumes 2% average annual inflation, starting with tax year 2025.

The third modification of the proposal is found in Section 135.030.1, and will increase the maximum income limit to qualify for the credit starting in 2024. Each credit has a maximum income limit that once exceeded means the taxpayer no longer qualifies for the credit. Currently homeowners can have an income up to $30,000 while renters can have up to $27,500. This proposal will increase those amounts starting in tax year 2024. Then beginning in calendar year 2025, this proposal will allow the income limits to be inflation adjusted in future fiscal years.

Maximum Income

Calendar Year	Renter	Homeowner
Current	$27,500	$30,000
2024	$38,200	$42,200
2025	$38,964	$43,044
2026	$39,743	$43,905
2027	$40,538	$44,783

*Assumes 2% average annual inflation, starting with tax year 2025.

This proposal in section 135.025.2 would increase the phase-out income increments from the current $300 to $495 with calendar year 2024.

Lastly in Section 135.030.3 this caps the reduction in the tax credit to 2%. Currently, the tax credit is reduced by (1/16%) for each $300 increase in a taxpayer's income, with a maximum reduction of 4.0%. Under this 4% the reduction cap is never met with the existing income limits. This proposal would change the reduction calculation to (1/16%) for every $495 increase in a taxpayer's income, with a maximum reduction of 2.0%. Therefore, after 32 reductions (i.e. income of $29,645 under this proposal) the tax credit will remain a constant amount. Table 3 shows the minimum and maximum PTC amount for renters and homeowners.

Table 3: Minimum and Maximum PTC Credit

Calendar Year	Renter		Homeowner	
	Min	Max	Min	Max
2024	$445	$1,055	$940	$1,100
2025	$466	$1,076	$971	$1,550
2026	$488	$1,098	$1,003	$1,581
2027	$510	$1,120	$1,035	$1,613

*Assumes 2% average annual inflation, starting with tax year 2025.

Homeownership

In order to run calculations DOR first had to determine how many taxpayer's file as a homeowner or a renter. DOR used internal individual income tax system to pull the current PTC claimants and determine the percentage of homeowners and renters. While DOR recognize that as incomes increase there could be more homeowners at the higher rate, for the simplicity of the fiscal note DOR will hold the rates steady.

PTC Homeowner vs. Renter

Filing Type	Homeowner	Renter
Age 65+	65.1%	34.9%
Widow(er)	70.5%	29.5%
Disabled	23.1%	76.9%

Impact of the Increase in the Maximum Credit and the Slower Credit Phase-Out

Renters

This proposal will increase the maximum credit allowed for renters from $750 to $1,055 as well as slowing down the income phase-out all the while capping the credit value reduction at 2%. .

DOR's PTC records indicate that in tax year 2021, there were 66,717 renters that claimed the PTC credit. Using DOR data, DOR estimates that these changes would reduce general revenue by $16,657,443 in fiscal year 2024 for renters. By tax year 2027 making these changes will reduce general revenue by $20,207,310.

Homeowners

This proposal will increase the maximum credit allowed of homeowners of $1,100 to $1,550. Additionally, it will slow the phase-out of the credit from its current $300 to $495 all the while capping the credit value reduction at 2%. DOR's PTC records indicate that in tax year 2021, there were 64,463 homeowners that claimed the PTC credit. Using DOR internal data, DOR estimates that these changes would reduce general revenue by $19,344,757 in fiscal year 2024 for homeowners. By tax year 2027 making these changes will reduce general revenue by $23,428,736 due to the inflating maximum credit.

Summary of Maximum Credit and Slower Credit Phase-Out
Therefore, these modifications of the credit will result in the following loss to general revenue.

Higher Credit and Slower Phase-Out

Tax Year	Fiscal Year	Renter	Homeowner	Total
2024	2024	($16,657,443)	($19,344,757)	($36,002,200)
2025	2025	($17,804,387)	($20,677,519)	($38,481,906)
2026	2026	($19,005,853)	($22,053,173)	($41,059,025)
2027	2027	($20,207,310)	($23,428,736)	($43,636,047)

Impact of the Maximum Income Limits

DOR notes that in order to determine the impact of the change in the maximum income limits, DOR used the tax year 2020 PTC filing data, and determined that if the cap had been raised, how many more taxpayers could have qualified for the credit. DOR has to calculate the renters and homeowners separately, due to the different maximum income limits being applied. Below is the yearly impact estimated for the next four fiscal years:

Renters -2024

DOR data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $38,200.

206	Qualified Widows
55,061	Age 65 & Older
5,722	Disabled
60,989	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new renters:

61	Qualified Widows
19,194	Age 65 & Older
4,399	Disabled
23,654	New Renters Qualifying

DOR note that the average PTC credit for these renters would be approximately $445. Therefore, DOR assume that the maximum income increase for renters would reduce general revenue by $10,526,099 (23,654 * $445) in FY 2024.

Renters – 2025

The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $38,964.

219	Qualified Widows
58,495	Age 65 & Older
6,119	Disabled
64,833	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new renters:

65	Qualified Widows
20,391	Age 65 & Older
4,507	Disabled
25,160	New Renters Qualifying

DOR note that the average PTC credit for these renters would be approximately $466. Therefore, DOR assume that the maximum income increase for renters would reduce general revenue by $11,724,700 (25,160 * $466) in FY 2025.

Renters - 2026

DOR data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $39,743.

232	Qualified Widows
61,898	Age 65 & Older
6,476	Disabled
68,606	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new renters:

69	Qualified Widows
21,577	Age 65 & Older
4,979	Disabled
26,625	New Renters Qualifying

DOR note that the average PTC credit for these renters would be approximately $488. Therefore, DOR assume that the maximum income increase for renters would reduce general revenue by $12,992,945 (26,625* $488) in FY 2026.

Renters – 2027

The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $27,500 to $40,538.

250	Qualified Widows
65,541	Age 65 & Older
6,837	Disabled
72,628	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new renters:

74	Qualified Widows
22,847	Age 65 & Older
5,257	Disabled
28,178	New Renters Qualifying

DOR note that the average PTC credit for these renters would be approximately $236. Therefore, DOR assume that the maximum income increase for renters would reduce general revenue by $6,655,972 (28,178 * $236) in FY 2027.

Renters – Future Fiscal Years

The PTC program is modified to allow the maximum income limit and the credit amount to inflation adjust annually. Therefore this proposal will continue to have a fiscal impact beyond the fiscal note years.

Homeowners – 2024

The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $42,200.

236	Qualified Widows
57,100	Age 65 & Older
<u>6,080</u>	Disabled
63,416	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new homeowners:

166	Qualified Widows
37,195	Age 65 & Older
<u>1,405</u>	Disabled
38,767	New Homeowners Qualifying

DOR note that the average PTC credit for these homeowners would be approximately $940. Therefore, DOR assume that the maximum income increase for homeowners would reduce general revenue by $36,440,935 (38,767 * $940) in FY 2024.

Homeowners – 2025

The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $43,044.

255	Qualified Widows
60,826	Age 65 & Older
<u>1,487</u>	Disabled
62,568	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new homeowners:

180	Qualified Widows
39,622	Age 65 & Older
<u>1,487</u>	Disabled
41,289	New Homeowners Qualifying

DOR note that the average PTC credit for these homeowners would be approximately $971. Therefore, DOR assume that the maximum income increase for homeowners would reduce general revenue by $40,091,915 (41,289 * $971) in FY 2025.

Homeowners – 2026

The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $43,905.

269	Qualified Widows
64,521	Age 65 & Older
<u>6,780</u>	Disabled
71,570	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new homeowners:

190	Qualified Widows
42,029	Age 65 & Older
<u>1,567</u>	Disabled
43,786	New Homeowners Qualifying

DOR note that the average PTC credit for these homeowners would be approximately $1,003. Therefore, DOR assume that the maximum income increase for homeowners would reduce general revenue by $43,917,450(43,786 * $1,003) in FY 2026.

Homeowners - 2027

The data indicates that the following taxpayers had a Missouri Adjusted Gross Income (MAGI) of $30,000 to $44,783.

292	Qualified Widows
68,205	Age 65 & Older
<u>7,130</u>	Disabled
75,627	Total Income Qualifiers

Using the renter/homeowner split, mentioned above, this would result in the potential new homeowners:

206	Qualified Widows
44,429	Age 65 & Older
<u>1,648</u>	Disabled
46,283	New Homeowners Qualifying

DOR note that the average PTC credit for these homeowners would be approximately $1,035. Therefore, DOR assume that the maximum income increase for homeowners would reduce general revenue by $47,902,884 (46,283 * $1,035) in FY 2027.

Homeowners – Future Fiscal Years

The PTC program is modified to allow the maximum income limit and the credit amount to inflation adjust annually. Therefore, this proposal will continue to have a fiscal impact beyond the fiscal note years.

Summary of the Maximum Income Limits

Increasing the maximum limit would reduce general revenue starting in FY 2024 by $23,413,215. It is estimated to have an impact in the future.

Higher Maximum Income Limit

Calendar Year	Fiscal Year	Renter	Homeowner	Total
2024	2024	($10,526,099)	($36,440,935)	($46,967,034)
2025	2025	($11,724,700)	($40,091,915)	($51,816,615)
2026	2026	($12,992,945)	($43,917,450)	($56,910,395)
2027	2027	($14,370,620)	($47,902,884)	($62,273,504)

Summary – Total Impact of Bill

These modifications to the Senior Property tax credit will reduce general and total state revenue as follows:

Summary of GR Impact

Fiscal Year	Renter		Homeowner		Total GR Loss
	Higher Income	Increased Credit	Higher Income	Increased Credit	
2024	($10,526,099)	($16,657,443)	($36,440,935)	($19,344,757)	($82,969,234)
2025	($11,724,700)	($17,804,387)	($40,091,915)	($20,677,519)	($90,298,521)
2026	($12,992,945)	($19,005,853)	($43,917,450)	($22,053,173)	($97,969,420)
2027	($14,370,620)	($20,207,310)	($47,902,884)	($23,428,736)	($105,909,551)

This proposal will require us to make annual changes to MO-PTC form, website and individual income tax computer system. Those costs are estimated at $7,193 per year.

Oversight notes the DOR & B&P both assume the proposal will have a direct fiscal impact on general revenue beginning in FY 2024.

Oversight notes the average tax credit for renters and the homeowners in FY 2021 was $576.

Oversight extrapolated the renters and homeowner population from the U.S. Census Bureau, for 2021, (the aggregate data provided by the Bureau shows actual income per homeowner) using the specific increase in allowable income levels as follows:

The proposed income level increases:

Entity	Income Level
Renter	$27,500 to $38,200
Homeowner	$30,000 to $42,200

Population per Income Bracket

Income Bracket	Population
Homeowners	
$30,000 to $34,999	38,488
$35,000 to $39,999	38,530
1/2 of population of $40,000 to $44,990	17,000
Total	**94,018**
Renters	
1/2 population of $25,000 to $29,999	19,671
$30,000 to $34,999	38,488
$35,000 to $39,999	38,530
Total	**96,689**

U.S Census Bureau Data (Income - 2021)

Oversight then multiplied each income level population by the population percentage of homeowners and renters provided by U.S. Census Bureau for 2021 to arrive at the total recipients of the tax credit.

Renters	Homeowners
68.80%	32.10%

https://data.census.gov/table?q=homeownership+rate+missouri

Homeowners	94,018 x .688	64,684
Renters	96,689 x .321	31,037
Total of Both		**95,721**

Oversight multiplied the average tax credit paid in 2021 (at $576) by the total of the taxpayers qualified for the tax credit (95,721 - renters and homeowners tables above) to arrive at the potential general revenue expense, applying proposed language, in 2021.

Oversight estimates, using the average tax credit in 2021, the potential impact in general revenue expense will total $55,518,208 annually.

Oversight notes that the **$55,518,208** does not account for the fact that the average tax credit will also increase by minimum of 41% as shown below:

Calendar Year	Renters	Homeowners
Current	$750	$1,100
Proposed	$1,055	$1,550
Percentage Increase	**41%**	**41%**

Oversight notes the 41% increase would allow the average tax credit increase to $806.4 (from previous average of $576) and have a total impact of **$77,186,414**. Therefore, **Oversight** will note the estimated amounts provided by the DOR & B&P are probable and will note the DOR's and B&P's estimated impact in the fiscal note.

Oversight will note the DOR and B&P estimate could be substantially lower or exceed the provided estimate, depending on how many taxpayers will move to higher tax bracket, and how many new additional taxpayers will purchase a home or rent a home annually, beyond current levels

Oversight will note the proposal allows for incremental phase-out of the tax credit depending on increased level of the taxpayer income. The proposal, specifically Section 135.030.2, provides for specific tables that allow for the reduction of tax credit available for certain percentage of property and income level increase throughout future years. The taxpayer's tax credit refund proportionally decreases as the income rises.

Oversight further notes the Section 135.030.3 caps the reduction in the tax credit to 2%. B&P & DOR both note that under current law, the tax credit is reduced by (1/16%) for each $300 increase in a taxpayer's income, with a maximum reduction of 4.0%. B&P further notes that under current law, the reduction cap is never met with the existing income limits.

Oversight notes the HCS proposal would change the reduction calculation to (1/16%) for every $495 increase in a taxpayer's income, with a maximum reduction of 2.0%, instead of current 4%. Therefore, after 32 reductions (i.e. income of $29,645 under this proposal) the tax credit will eventually remain at constant amounts.

Section 135.098 Federal Firearms Excise Tax Credit

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this provision would grant an income tax credit equal to the amount of federal excise tax paid on firearms and ammunition, starting with tax year 2024. B&P notes that while this tax credit would be available for tax year 2024, it would not be taken until FY25 when taxpayers file their annual income tax return.

The tax credit is refundable, but may not be transferred, sold, assigned, or otherwise conveyed. In addition, taxpayers may not claim both this credit and the proposed sales tax retention under Section 144.064.3.

B&P notes that the federal excise tax is levied on the seller of firearms and ammunition, with a 10% tax on handguns and an 11% tax on all other guns and ammunition. Based on data published by the IRS, the three-year average federal excise tax collections were $770,836,333. Using FBI background checks as a proxy for gun and ammunition sales, B&P estimates that Missouri may make up approximately 1.7% of the total excise tax. Using the above data, B&P estimates that Missouri retailers may pay $13,394,061 ($770,836,333 x 1.7%) in federal firearm and ammunition excise tax each year.

Therefore, B&P estimates that this provision could reduce TSR and GR by $13,394,061. However, B&P notes that proposed language in Section 144.064.3 could reduce the amount of the income tax credit taken. Please see the discussion on "Section 144.064.3 - Sales Tax Retention" for more information.

<u>& Section 144.064.2 Firearm & Ammunition Sales Tax Exemption</u>

Officials from the **Office of Administration - Budget and Planning (B&P)** assume for the purpose of this fiscal note, B&P will use the number of FBI background checks to estimate the number of guns purchases per year. B&P notes that not every background check will result in the purchase of a firearm and some background checks will result in the purchase of multiple firearms.

Based on data published by the FBI, the average number of background checks was 625,032 for 2020-2022. According to Pew Research, 62% of gun owners own a handgun, 22% own a rifle or muzzleloader, and 16% own a shotgun. Based on this information, B&P estimates the following annual gun sales:

- Handguns – 387,520
- Rifles/muzzleloaders – 137,507
- Shotguns – 100,005

In addition, B&P found the average price for each gun type:

- Handguns – $255 to $640
- Rifles/muzzleloaders – $710 to $3,030
- Shotguns – $580 to $785

Therefore, B&P estimates that this proposal could exempt $254,450,470 to $743,162,935 in gun sales from state and local sales tax:

- Handguns – $98,817,600 to $248,012,800
- Rifles/muzzleloaders – $97,629,970 to $416,646,210
- Shotguns – $58,002,900 to $78,503,925

<u>Ammunition</u>
Based on price research, B&P estimates that the average price of ammunition for the following types of firearms:

- Handguns - $0.44 per round
- Rifles - $0.57 per round
- Shotguns - $1.40 per round
- Specialty guns (antiques) - $1.47 per round

Based on further research, B&P found that the average gun owner also purchases the following amounts of ammunition rounds:

- Handguns – 500 to 1,500 rounds
- Rifles – 500 to 2,000 rounds
- Shotguns – 250 to 1,000 rounds
- Specialty guns (antiques) – 50 to 250 rounds

Therefore, B&P estimates that the average gun owner spends the following amount on ammunition:

- Handguns - $221 to $662
- Rifles - $284 to $1,138
- Shotguns - $350 to $1,400
- Specialty guns (antiques) - $74 to $368

B&P notes that based on additional data, 74% of ammunition purchases are made for handguns.

Using the FBI background data (discussed above), B&P estimates that this provision could exempt $147,744,640 to $491,733,261 in taxable sales from state and local sales taxes. B&P notes that this estimate only includes ammunitions purchases for new guns and does not include additional purchases for firearms that were bought in previous years.

<u>Summary</u>

Once fully implemented in FY25, B&P estimates that this provision could reduce TSR by $16,992,743 to $52,174,364 and GR by $12,065,853 to $37,046,886. Using the population weighted sales tax rate of 4.07% for 2022, B&P estimates that this provision may reduce local sales tax collections by $16,369,341 to $50,260,275 once fully implemented.

Table 1: Impact by Fund

	FY 2024		FY 2025+	
State Funds	Low	High	Low	High
General Revenue	($10,054,878)	($30,872,405)	($12,065,853)	($37,046,886)
Education (SDTF)	($3,351,626)	($10,290,802)	($4,021,951)	($12,348,962)
Conservation	($418,953)	($1,286,350)	($502,744)	($1,543,620)
DNR	($335,163)	($1,029,080)	($402,195)	($1,234,896)
Total State Loss	($14,160,620)	($43,478,637)	($16,992,743)	($52,174,364)
Local Funds				
Local Sales Tax	($13,641,118)	($41,883,563)	($16,369,341)	($50,260,275)

Officials from the **Department of Revenue (DOR)** assume the manufacturers who sell firearms and ammunition pay a federal excise tax of 10% on the sale price of all pistols and revolvers and 11% on the sale price of all other firearms and ammunition (shells & cartridges). This firearms excise tax is paid quarterly by the manufacturer.

This provision in Section 135.098, will allow manufacturers who pay the federal firearms excise tax to be reimbursed for the amount of federal firearms excise tax they pay. The tax credit would begin on January 1, 2024 and be equal to 100% of the federal firearms tax paid. They can claim this credit against their Missouri individual income tax or corporate tax return.

This credit is not refundable and does not have any limit on the amount of credits claimed by all filers annually. This provision does have a sunset clause.

Per information released by the Internal Revenue Service on the amount of firearms excise tax collected and the FBI Background check information they were able to estimate that Missouri's firearms sales are 1.7% of the total sold:

Tax Year	Federal Excise Tax	MO FBI Checks	US FBI Checks
2019	$544,548,000	497,858	28,007,320
2020	$665,253,000	708,184	39,326,079
2021	$1,102,708,000	634,191	38,573,127
3-year average	$770,836,333	613,411	35,302,175

Therefore $13,394,061 ($770,836,333 * 1.7%) was paid in federal firearms excise tax by Missourians. Since this is a non-refundable tax credit, DOR assumes this will result in a loss to general revenue of less than $13,394,061 annually.

Currently a retailer who sells tangible personal property is required to collect and remit sales tax on the items. That sales tax is reported to DOR either monthly, quarterly or annually.

Under Section 144.064.2 a retailer who only sells firearms and ammunition will no longer be required to collect or remit sales tax. However, some retailers (big box stores) sell firearms/ammunition and other items. Those retailers would no longer be required to collect and remit on their firearms sales but are still required to collect and remit on their other items.

This proposal in Section 144.064.3 creates an alternative way to allow the retailers to receive their federal firearms excise tax back. Instead of choosing to receive the tax credit they can deduct the amount paid in the firearms excise tax from the other sales tax they owe. This way they are reimbursed for the requirement to pay the federal firearms excise tax.

This sales tax deduction is to begin with the effective date of the proposal August 28, 2023 (FY 2024). Since the tax credit will not begin until tax year January 1, 2024 which would not be claimed until they file their returns in January 2025, they assume they will all claim the sales tax deduction in FY 2024.
The Department notes the current state sales tax is 4.225%:
General Revenue is 3%
School District Trust Fund is 1%
Conservation Commission is 0.125%
Parks, Soil & Water Funds are 0.1%
Total 4.225%

The state uses a 4.07% weighted average for the local sales tax.

The Department looked into the price of various firearms. DOR found that no single source maintains data on the amount of firearms that are sold annually. DOR found that prices varied on the different types of firearms:

Rifles $500-$10,000
Shotguns $400-$2,000
Handguns $250-$2,500
Revolvers $200-$1,500

The FBI background check report for Missouri in 2022 showed 472,720 background checks were completed but does not record the price of a firearm. The Department used a $500 cost for a firearm to estimate the impact of this proposal.

The Department notes this proposal becomes effective August 28, 2023. For the simplicity of the fiscal note, DOR will show an impact of 10 months in FY 2024. The lost revenue to the state and locals would be distributed among the funds as follows:

Firearms Only

	FY 2024 (10 months)	FY 2025
General Revenue	($5,909,000)	($7,090,800)
School District	($1,969,667)	($2,363,600)
Conservation	($246,208)	($295,450)
Park Soil	($196,967)	($236,360)
Locals	($8,016,543)	($9,619,852)

The Department was unable to find information on the amount of ammunition sold in Missouri. However, the National Shooting Sports Foundation estimates at least 8.1 billion rounds of ammunition are manufactured in the United States annually. Given that Missouri's population is 1.8% of the total population, DOR could assume that as much as 145,800,000 rounds of ammunition are sold in Missouri annually.

Just like the firearms that vary in price based on the size of the weapon so does the ammunition. The current price is anywhere from $15 to $60 per box, with anywhere from 20 rounds to 50 rounds per box. Assuming all the ammunition in Missouri were sold as 50 rounds per box it would result in 2.9 million boxes of ammunition being sold. At the minimum price of $15 per box this would result in taxable sales of $43,740,000. At the state sales tax rate of 4.225% this proposal would result in a loss of $1,848,015 in state sales tax and another $1,780,218 in local sales tax being exempt. Using this information, DOR could see a loss of:

Ammunition Only

	FY 2024 (10 months)	FY 2025+
General Revenue	($1,093,500)	($1,312,200)
School District	($364,500)	($437,400)
Conservation	($45,563)	($54,675)
Park Soil	($36,450)	($43,740)
Locals	($1,483,515)	($1,780,218)

The Bureau of Economic Analysis maintains records on the amount of sporting equipment, supplies, guns and ammunition that are sold annually. However, these items are lumped together and not segregated for just firearms or ammunition. According to their September 30, 2022 report there was $120.7 billion in goods sold in this category. Since Missouri is 1.8% of the population, DOR could assume that $2,172,600,000 of that category is sold here.

All Sporting Goods (firearms & ammunition)

	FY 2024 (10 months)	FY 2025+
General Revenue	($54,315,000)	($65,178,000)
School District	($18,105,000)	($21,726,000)
Conservation	($2,263,125)	($2,715,750)
Park Soil	($1,810,500)	($2,172,600)
Locals	($73,687,350)	($88,424,820)

For the purpose of the fiscal note, DOR will range the impact from the firearms and ammunition combined amount (low range) to the sporting goods amount (high range).

	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	($7,002,500)	($54,315,000)	($8,403,000)	($65,178,000)
School District	($2,334,167)	($18,105,000)	($2,801,000)	($21,726,000)
Conservation	($291,771)	($2,263,125)	($350,125)	($2,715,750)
Park Soil	($233,417)	($1,810,500)	($280,100)	($2,172,600)
Locals	($9,500,058)	($73,687,350)	($11,400,070)	($88,424,820)

This will require updates to the Department's sales tax system, estimated at $7,193. This proposal also has the potential to increase the number of refund requests. DOR will need 1 Associate Customer Service Representative for every increase of 1,100 refund requests. At this time DOR believes they can absorb the impact, however, should DOR get enough refunds claims to justify new FTE, DOR will seek them through the appropriations process.

<u>Section 144.064.3 Sales Tax Retention</u>

Officials from the **Office of Administration - Budget and Planning (B&P)** assume retailers may elect to retain sales tax remittances equal to the amount they paid in federal firearm and ammunition excise tax, beginning August 28, 2023. In order to qualify, a retailer must timely file their sales tax return. If the retailer's sales tax remittances are less than the amount they paid in federal excise tax, the retailer may carry the difference forward until used.

B&P notes that as Section 144.064.2 would exempt all sales of firearms and ammunition from sales tax, this provision would only impact businesses that sell items other than firearms and ammunition. B&P is unable to determine how many businesses would no longer remit any sales tax due to the exemption created under Section 144.064.2.

B&P is unable to determine how many businesses will elect the income tax credit or the sales tax retention. For the purpose of this fiscal note, B&P will reflect the top potential impact under both scenarios and highlight that they are an "or" outcome. B&P further notes that regardless of which option is elected, the total loss will not exceed the amount paid in federal firearm and ammunition excise tax, estimated here at $13,394,061 annually (see discussion under Section 135.098 – Federal Firearm and Ammunition Excise Tax Credit). <u>However, the funds impacted will change depending on whether the income tax credit or sales tax retention is utilized. B&P notes that the income tax credit will only impact state GR, while the sales tax retention will impact all state and local funds receiving sales tax collections.</u>

Using the estimated amount of $13,394,061 in excise tax paid by MO retailers, and the distribution of monthly FBI checks, B&P estimates that approximately 35.8% of federal excise tax would be paid for September through December sales each year. Therefore, B&P estimates that for tax year 2023 up to $2,443,678 in sales taxes may be retained. Table 2 shows the estimated sales tax retention by fund and tax year.

Table 2: Estimated Sales Tax Retention by Tax Year

State Fund	TY 2023		TY2024	
General Revenue	Up to	($1,735,156)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($578,385)	$0 or up to	($1,614,715)
Conservation	Up to	($72,298)	$0 or up to	($201,839)
DNR	Up to	($57,839)	$0 or up to	($161,471)
Total State Loss	Up to	($2,443,678)	$0 or up to	($6,822,170)
Local Funds				
Local Sales Tax	Up to	($2,354,028)	$0 or up to	($6,571,890)

B&P notes that a taxpayer may not claim both this sales tax retention and the income tax credit under Section 135.098. However, the tax credit is not available for tax year 2023. Therefore, B&P assumes that all businesses with unrelated sales tax will utilize the sales tax retention from September through December 2023. B&P notes that the tax year 2024 impact reflects both the potential that the full amount is taken under the income tax credit or that the full amount is taken under this sales tax retention provision. Table 3 shows the impact by fiscal year.

Table 3: Estimated Sales Tax Retention by Fiscal Year

State Fund	FY 2024		FY 2025	
General Revenue	Up to	($4,157,229)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($1,385,743)	$0 or up to	($1,614,715)
Conservation	Up to	($173,218)	$0 or up to	($201,839)

DNR	Up to	($138,575)	$0 or up to	($161,471)
Total State Loss	Up to	($5,854,765)	$0 or up to	($6,822,170)
Local Funds				
Local Sales Tax	Up to	($5,639,973)	$0 or up to	($6,571,890)

Bill Summary
B&P estimates that this proposal could reduce GR by $11,790,034 to $30,872,405 (100% tax credit usage) or by $11,790,034 to $35,029,634 (100% sales tax retention usage) in FY24. This proposal could also reduce TSR by $16,604,298 to $43,478,637 (100% tax credit usage) or by $16,604,298 to $49,333,402 (100% sales tax retention usage) in FY24.

Once fully implemented, this proposal could reduce GR by $25,459,914 to $50,440,947 (100% tax credit usage) or by $16,909,998 to $41,891,031 (100% sales tax retention usage). This proposal could reduce TSR by $30,386,804 to $65,568,425 (100% tax credit usage) or by $23,814,913 to $58,996,534 (100% sales tax retention usage). In addition, this proposal could reduce local revenues by $22,941,231 to $56,832,165 annually. Table 4 shows the estimated total impact by fund.

Table 4: Summary By Fund and Fiscal Year

	FY 2024				FY 2025+			
State Fund	Low		High		Low		High	
General Revenue								
Sales Tax Exemption		($10,054,878)		($30,872,405)		($12,065,853)		($37,046,886)
Tax Credit		$0		$0 Or	Up to	($13,394,061) Or	Up to	($13,394,061) Or
Sales Tax Retention	Up to	($1,735,156)	Up to	($4,157,229)	Up to	($4,844,145)	Up to	($4,844,145)
Total GR (tax credit vs. sales tax retention)	Up to	**($11,790,034)**		**($30,872,405) Or ($35,029,634)**		**($25,459,914) Or ($16,909,998)**		**($50,440,947) Or ($41,891,031)**
Education								
Sales Tax Exemption		($3,351,626)		($10,290,802)		($4,021,951)		($12,348,962)
Sales Tax Retention	Up to	($578,385)	Up to	($1,385,743)	Up to	($1,614,715)	Up to	($1,614,715)
Total SDTF	Up to	($3,930,011)	Up to	($11,676,545)	Up to	($5,636,666)	Up to	($13,963,677)
Conservation								
Sales Tax Exemption		($418,953)		($1,286,350)		($502,744)		($1,543,620)
Sales Tax Retention	Up to	($72,298)	Up to	($173,218)	Up to	($201,839)	Up to	($201,839)
Total Conservation	Up to	($491,251)	Up to	($1,459,568)	Up to	($704,583)	Up to	($1,745,459)

DNR								
Sales Tax Exemption		($335,163)		($1,029,080)		($402,195)		($1,234,896)
Sales Tax Retention	Up to	($57,839)	Up to	($138,575)	Up to	($161,471)	Up to	($161,471)
Total DNR	Up to	($393,002)	Up to	($1,167,655)	Up to	($563,666)	Up to	($1,396,367)
Total State Revenues (tax credit vs. sales tax retention)		**($16,604,298)**		**($43,478,637)** Or **($49,333,402)**		**($30,386,804)** Or **($23,814,913)**		**($65,568,425)** Or **($58,996,534)**
Local Funds	-							
Sales Tax Exemption		($13,641,118)		($41,883,563)		($16,369,341)		($50,260,275)
Sales Tax Retention	Up to	($2,354,028)	Up to	($5,639,973)	Up to	($6,571,890)	Up to	($6,571,890)
Total Local Funds	**Up to**	**($15,995,146)**	**Up to**	**($47,523,536)**	**Up to**	**($22,941,231)**	**Up to**	**($56,832,165)**

Officials from the **Department of Revenue (DOR)** assume retailers who sell firearms and ammunition pay a federal excise tax of 10% on the sale price of all pistols and revolvers and 11% on the sale price of all other firearms and ammunition (shells & cartridges). This firearms excise tax is paid quarterly by the retailer.

This provision in Section 135.098, will allow retailers who pay the federal firearms excise tax to be reimbursed for the amount of federal firearms excise tax they pay. The tax credit would begin on January 1, 2024 and be equal to 100% of the federal firearms tax paid. They can claim this credit against their Missouri individual income tax or corporate tax return.

This credit is refundable and does not have any limit on the amount of credits claimed by all filers annually. This provision does have a sunset clause.

Per information released by the Internal Revenue Service on the amount of firearms excise tax collected and the FBI Background check information DOR was able to estimate that Missouri's firearms sales are 1.7% of the total sold:

Tax Year	Federal Excise Tax	MO FBI Checks	US FBI Checks
2019	$544,548,000	497,858	28,007,320
2020	$665,253,000	708,184	39,326,079
2021	$1,102,708,000	634,191	38,573,127
3-year average	$770,836,333	613,411	35,302,175

Therefore $13,394,061 ($770,836,333 * 1.7%) was paid in federal firearms excise tax by Missourians. Since this is a refundable tax credit, DOR assumes this will result in a loss to general revenue of $13,394,061 annually.

Currently a retailer who sells tangible personal property is required to collect and remit sales tax on the items. That sales tax is reported to DOR either monthly, quarterly or annually.

Under Section 144.064.2 a retailer who only sells firearms and ammunition will no longer be required to collect or remit sales tax. However, some retailers (big box stores) sell firearms/ammunition and other items. Those retailers would no longer be required to collect and remit on their firearms sales but are still required to collect and remit on their other items.

This proposal in Section 144.064.3 creates an alternative way to allow the retailers to receive their federal firearms excise tax back. Instead of choosing to receive the tax credit they can deduct the amount paid in the firearms excise tax from the other sales tax they owe. This way they are reimbursed for the requirement to pay the federal firearms excise tax.

This sales tax deduction is to begin with the effective date of the proposal August 28, 2023 (FY 2024). Since the tax credit will not begin until tax year January 1, 2024 which would not be claimed until they file their returns in January 2025, DOR assumes they will all claim the sales tax deduction in FY 2024.

The Department notes the current state sales tax is 4.225%:
General Revenue is 3%
School District Trust Fund is 1%
Conservation Commission is 0.125%
Parks, Soil & Water Funds are 0.1%
Total 4.225%

The state uses a 4.07% weighted average for the local sales tax.
Since all the taxpayers would have to claim the sales tax exemption for September through December of 2023 it would result in the following impact to the state and local sales tax funds:

Estimated Sales Tax Retention by Tax Year

State Fund	TY 2023		TY2024	
General Revenue	Up to	($1,735,156)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($578,385)	$0 or up to	($1,614,715)
Conservation	Up to	($72,298)	$0 or up to	($201,839)
DNR	Up to	($57,839)	$0 or up to	($161,471)
Total State Loss	Up to	($2,443,678)	$0 or up to	($6,822,170)
Local Sales Tax	Up to	($2,354,028)	$0 or up to	($6,571,890)

For the remainder of FY 2024, January through June 2024 DOR would assume that some of the taxpayers will chose to claim the sales tax while others would switch to the tax credit. This could potentially result in 10 months of sales tax in 2024.

Estimated Sales Tax Retention by Fiscal Year

State Fund	FY 2024		FY 2025	
General Revenue	Up to	($4,157,229)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($1,385,743)	$0 or up to	($1,614,715)
Conservation	Up to	($173,218)	$0 or up to	($201,839)
DNR	Up to	($138,575)	$0 or up to	($161,471)
Total State Loss	Up to	($5,854,765)	$0 or up to	($6,822,170)
Local Sales Tax	Up to	($5,639,973)	$0 or up to	($6,571,890)

For all the other fiscal years, the taxpayer can choose to take the tax credit (only general revenue impact) or the sales tax deduction (sales tax funds impact). In order to show the potential of either choice DOR will show the impact from $0 to all choosing the sales tax deduction for all sales tax funds except general revenue. For general revenue DOR will show the impact as $0 to the sales tax amount up to all taxpayers choosing the tax credit amount.

Table 4: Summary By Fund and Fiscal Year

State Fund	FY 2024 Low		FY 2024 High	FY 2025+	Low		High
General Revenue							
Sales Tax Exemption	($7,002,500)		($54,315,000)		($8,403,000)		($65,178,000)
Tax Credit	$0		$0 Or	Up to	($13,394,061) Or	Up to	($13,394,061) Or
Sales Tax Retention	($1,735,156)	Up to	($4,157,229)	Up to	($4,844,145)	Up to	($4,844,145)
Total GR (tax credit vs. sales tax retention)	**($8,737,656)**		**($54,315,000) Or ($58,472,229)**		**($21,797,061) Or ($13,247,145)**		**($78,572,061) Or ($70,022,145)**
Education							
Sales Tax Exemption	($2,334,167)		($18,105,000)		($2,801,000)		($21,726,000)
Sales Tax Retention	($578,385)	Up to	($1,385,743)	Up to	($1,614,715)	Up to	($1,614,715)
Total SDTF	($2,912,552)	Up to	($19,490,743)	Up to	($4,415,715)	Up to	($23,340,715)
Conservation							
Sales Tax Exemption	($291,771)		($2,263,125)		($350,125)		($2,715,750)
Sales Tax Retention	($72,298)	Up to	($173,218)	Up to	($201,839)	Up to	($201,839)

Total Conservation	($364,069)	Up to	($2,436,343)	Up to	($551,964)	Up to	($2,917,589)

DNR							
Sales Tax Exemption	($233,417)		($1,810,500)		($280,100)		($2,172,600)
Sales Tax Retention	($57,839)	Up to	($138,575)	Up to	($161,471)	Up to	($161,471)
Total DNR	($291,256)	Up to	($1,949,075)	Up to	($441,571)	Up to	($2,334,071)
Total State Revenues (tax credit vs. sales tax retention)	**($12,305,533)**		**($76,493,625)** Or **($82,348,390)**		**($25,228,286)** Or **($18,656,395)**		**($105,186,411)** Or **($98,614,520)**
<u>Local Funds</u>							
Sales Tax Exemption	($9,500,058)		($73,687,350)		($11,400,070)		($88,424,820)
Sales Tax Retention	($2,354,028)	Up to	($5,639,973)	Up to	($6,571,890)	Up to	($6,571,890)
Total Local Funds	**($11,854,086)**	**Up to**	**($79,327,323)**	**Up to**	**($17,971,960)**	**Up to**	**($94,996,710)**

The federal firearms excise tax would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to their website and changes would be needed in their individual income tax computer system. DOR notes the costs to update these items is $7,193.
The sales tax deduction would require changes to their existing sales tax forms, website and computer system. Those changes are estimated to cost $7,193.

DOR assumes DOR will need one Associate Customer Service Representative ($31,200) to handle the tax credits and sales tax deduction. Should the number justify additional FTE, DOR will seek those through the appropriation process.

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

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 costs for computer upgrades related to this proposal. However, given the number of returns which might be affected Oversight will show the above-mentioned 1 FTE for purposes of this fiscal note. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

The **City of Springfield** anticipates a negative fiscal impact of an undetermined amount.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Oversight notes both DOR & B&P assume this proposal will have a negative fiscal impact to both state and local funds. Therefore, Oversight will show B&P's and DOR's lowest and highest projected fiscal estimates to show the maximum low and high impact of this proposal.

Oversight notes Section 135.098.5 states a taxpayer shall not claim a tax credit pursuant to this section if the taxpayer has retained sales tax pursuant to section 144.064 for the same federal firearms excise tax paid. Oversight is unable to determine how many businesses will claim the income tax credit or the sales tax retention. Oversight will reflect the maximum potential impact under both scenarios as a $0 or up to the maximum impact estimated by DOR and B&P for each provision.

<u>Section 135.327, 135.331 & 135.333 Adoption Tax Credit</u>

In response to the similar proposal, SCS for SB 455, officials from **Office of Administration - Budget and Planning (B&P)** assume this proposal would make multiple changes to the adoption tax credit. This proposal would remove the annual $6 million redemption cap and change the tax credit to refundable beginning with tax year 2024.

B&P notes that the average 3-year redemption amount from FY20 – FY22 was $17,568. In addition, credit redemptions have been $1 million or less since 2012. B&P estimates that this proposal may have an unknown negative impact on TSR and GR beginning FY25.

Officials from the **Department of Revenue (DOR)** note the Adoption Tax Credit program allows taxpayers who adopt a child to get a tax credit for non-recurring expenses that result from the adoption. Additionally, businesses that help cover the costs of their employee's adoptions can receive the credit also. This program has a $6 million annual cap.

This proposal, starting January 1, 2024, removes the $6 million annual cap starting January 1, 2024. Additionally, this proposal allows the credit to be refunded to taxpayers. While this may encourage more people to apply for this credit, it has not been near its $6 million cap. Therefore, DOR assumes this will not have any additional impact on DOR.

For informational purposes, DOR notes that the Adoption tax credit started in 1987. It has gone through numerous changes through the years. Most recently in 2021 when the cap on the program was raised from $2 million to $6 million annually. DOR is providing the amount of credits, issued and redeemed over the last few years.

Table 1.

Year	Issued	Total Redeemed
FY 2022	$19,690.00	$19,690.00
FY 2021	$3,611.00	$3,611.00
FY 2020	$29,404.00	$29,404.00
FY 2019	$19,185.00	$19,185.00
FY 2018	$88,706.00	$88,706.00
FY 2017	$127,211.00	$127,211.00
FY 2016	$225,358.00	$231,367.00
FY 2015	$380,715.00	$380,715.00
FY 2014	$714,857.00	$718,495.00
FY 2013	$744,155.00	$744,155.00
FY 2012	$1,036,226.00	$1,036,226.00
TOTALS	$3,389,118.00	$3,398,765.00

This proposal will require DOR to update the information on forms, website and computer. These changes are estimated at $7,193.

Oversight assumes DOR will be able to absorb the cost of the internal updates; therefore, Oversight will reflect a zero impact for DOR in the fiscal note.

Oversight notes Section 135.331 states that no credit shall be allowable for the adoption of any child who has attained the age of eighteen, unless it has been determined that the child has a medical condition or disability (changed from "handicap").

Oversight notes Section 135.333 allows after January 1, 2024, any amount of tax credit that is issued and which exceeds the tax due shall be refunded to the taxpayer. However, for tax years ending on or before December 31, 2023, any amount of tax credit which exceeds the tax due shall not be refunded, but instead may carry over up to maximum of 5 years.

Oversight notes the proposal, Section 135.327, states that for tax years ending on or before December 31, 2023, priority shall be given to applications to claim the tax credit for special needs children who are residents or wards of residents of this state at the time the adoption is initiated.

Furthermore, for tax years beginning on or after January 1, 2024, there shall be no limit imposed on the cumulative amount of tax credits that may be claimed by taxpayers claiming the credit for nonrecurring adoption expenses. (Currently the cap is set at $6 million per year)

Oversight notes there were 20 taxpayers claiming the tax credit, from FY 2019 to FY 2022. Additionally, the taxpayers redeemed total amount of $71,890 in tax credit within the same period. Therefore, the average redemption amount was $3,595 ($71,890/20) in tax credits. (See DOR table below – Special Needs Children Adaption - Tax Credit Form Analysis)

Table 3.

	FY 2019 ACTUAL	**FY 2020 ACTUAL**	**FY 2021 ACTUAL**	**FY 2022 ACTUAL**
Certificates Issued (#)	0	0	0	0
Projects (#)	7	8	2	3
Amount Authorized	$0	$0	$0	$0
Amount Issued	$0	$0	$0	$0
Amount Redeemed	$19,185	$29,404	$3,611	$19,690
Total Redeemed FY 19, 20, 21, 22				**$71,890**
Total Projects FY 19, 20, 21, 22				**20**

Oversight notes the changes made in HB 429 from 2021 were only implemented starting January 1, 2022, therefore, Oversight does not have enough information to determine the actual increase in tax credits from the changes in that bill (increasing the cap from $2 million to $6 million and opening the credit up to children who are not considered special needs) has been. Oversight assumes the changes in this proposal may cause an additional upward trend in tax credit redemptions. However, the average adoption tax credit redemptions per year (before the changes from HB 429 – 2021 have been implemented) were only $17,973 per year. Oversight assumes the various changes in the bill are unknown and could increase redemptions by the $250,000 threshold in a given year.

Oversight notes the modifications to the Special Needs Adoption Tax Credit proposed in this legislation would begin January 1, 2024. Tax returns for Tax Year 2024 would not be filed until after January 1, 2025 (Fiscal Year 2025). Therefore, for purposes of this fiscal note, Oversight will show a reduction to GR equal to a range, beginning at $0 (participation in the tax credit program does not change) to an unknown amount in Fiscal Year 2025.

Section 135.460 Youth Opportunities Tax Credit

In response to the similar proposal, SCS for SB 455, officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would increase the value of the youth opportunities tax credit to 70% of each contribution. B&P notes that the three-year average redemption amount was $3,875,468 from FY20 – FY22. B&P further notes that had the tax credits been set at 70% of donations, redemptions would have been $5,425,655. Therefore, B&P estimates that this provision could reduce GR by $1,550,187 annually beginning in FY24.

In response to the similar proposal, SCS for SB 455, officials from the **Department of Revenue (DOR)** assume this proposal also changes the Youth Opportunities Tax Credit program. The Youth Opportunities tax credit program has a $6 million cap with the credit based on 50% of the contribution made. For informational purposes they are providing the amount authorized, issued and redeemed for this credit.

Year	Authorized	Issued	Total Redeemed
FY 2022	$5,706,067.00	$3,039,904.00	$2,324,687.48
FY 2021	$5,288,870.00	$1,983,794.00	$4,084,410.34
FY 2020	$1,212,623.00	$4,086,770.50	$5,217,305.70
FY 2019	$5,169,666.00	$5,822,539.00	$4,040,657.57
FY 2018	$6,826,426.00	$5,726,775.00	$4,818,711.26
FY 2017	$5,642,936.00	$6,349,945.00	$5,451,115.04
FY 2016	$6,375,728.00	$5,411,972.00	$4,706,636.11
FY 2015	$7,041,012.00	$5,325,506.00	$4,247,824.65
FY 2014	$5,941,601.50	$5,080,128.00	$5,239,666.42
FY 2013	$5,609,784.00	$5,571,555.00	$3,906,262.62
FY 2012	$5,843,692.62	$4,152,310.83	$4,979,894.20
TOTALS	$60,658,406.12	$52,551,199.33	$49,017,171.39

This proposal increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This change is expected to encourage more taxpayers to contribute and claim the tax credit. The three year average of the redemptions of the program has been $3,875,468.

Increasing the tax credit percent to seventy percent would have resulted in $5,425,655 in tax credits being issued. An increase of $1,550,187. The increased percent of the credit could result in additional contributions being made to the affordable housing program, but the Department does not have any information as to how many more contributions would be made. Since the increased amount is lower than the current cap of $6 million, this is not expected to have any additional impact to the state.

This proposal will increase the amount of the credits issued. DOR will show the loss to general revenue of the increased amounts. While this proposal would begin August 28, 2023, this will impact the state starting FY 2025 when the returns are filed claiming the higher credit amount. This entire proposal will require they update the information on the forms, website and computer for these credits. These changes are estimated at $7,193.

Oversight notes the DOR & B&P both assume that since the increased amount is lower than the current cap of $6 million, where increasing the tax credit percentage from fifty to seventy percent would have resulted in $5,425,655 in tax credits being issued, this is not expected to have any additional impact to the state.

Oversight notes that DED provided actual redemption history, within the program, and shows the average annual redemption amount of $3,875,468.

	FY 2020 ACTUAL	FY 2021 ACTUAL	FY 2022 ACTUAL
Certificates Issued (#)	1,511	760	974
Projects/Participants (#)	7	33	36
Amount Authorized	$1,212,623	$5,288,870	$5,706,067
Amount Issued	$4,086,771	$1,983,794	$3,039,904
Amount Redeemed	$5,217,306	$4,084,410	$2,324,687

(DED Form 14 – see MOLIS attachment)

Oversight notes the above table reflect the 50% redemption amounts under the current law and notes the 70% contribution would total $5,425,655 annually.

Oversight note that the difference between 50% and 70% contribution redemption would total to $1,550,187 ($5,425,655 - $3,875,468).

Oversight notes this proposal does not change the $6 million maximum cap, instead increases the percent of the contribution from 50% to 70% for the amount of the tax credit. This will allow for those who claim the tax credit receive greater amount of funds, but will not affect the overall maximum cap available under the proposal. (Allowing potentially for fewer participants who are receiving greater amount of tax credit) .Therefore, for the purpose of this fiscal note, **Oversight** will reflect the contribution difference of $1,550,187 to the general revenue in the fiscal note for this section.

In response to the similar proposal, SCS for SB 455, officials from the **Department of Commerce and Insurance (DCI)** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2025 and FY2026 as a result of the modification of Adoption 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 new tax credit. **Oversight** will assume for simplicity of fiscal note purposes that credits will be taken exclusively against general revenue.

In response to the similar proposal, SCS for SB 455, officials from the **Department of Economic Development** and the **Department of Social Services** both assume the proposal 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 for the respective organizations in the fiscal note.

Section 135.647 Food Pantry Tax Credit

In response to the similar proposal, HB 653, officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal would increase the annual limit for the food pantry tax credit from $1,750,000 to $2,750,000. B&P notes that this proposal would become effective August 28, 2023. Therefore, B&P assumes that the increase cap would begin in FY24, for tax year 2023. This proposal would also extend the sunset date from 2026 to 2027.

B&P notes that the three-year average redemptions for the food pantry tax credit is $1,543,955. However, redemptions for both FY21 and FY22 were at the annual limit. Therefore, B&P estimates that this proposal may decrease TSR and GR by $1 million annually beginning in FY24.

In response to the similar proposal, HB 653, officials from the **Department of Revenue (DOR)** assume starting August 28, 2023, this proposal will increase the cap on the food pantry tax credit.

Currently the cap is set at $1,750,000 and it will increase to $2,750,000. This will be a loss to general revenue of $1 million starting in FY 2024, the year in which the tax credits will be claimed.

This proposal also extends the sunset on the tax credit another year to 2027.

For informational purposes, the Department notes the Food Pantry tax credit program was created in 2007 and it had a sunset. In 2013, the sunset was extended and the cap was lowered to $1,250,000. Then in 2014, the cap was increased to its current $1,750,000. In 2018 the sunset was extended until 2026. Below is information on the authorization, issuance and redemption of the credits over the last few years.

Year	**Issued**	**Total Redeemed**
FY 2022	$1,749,992.00	$1,749,992.00
FY 2021	$1,749,992.00	$1,749,992.00
FY 2020	$1,131,882.00	$1,131,882.00
FY 2019	$1,380,894.00	$1,380,894.00
FY 2018	$1,679,924.00	$1,679,924.00
FY 2017	$1,584,566.00	$1,584,566.00
FY 2016	$1,155,480.00	$1,155,480.00
FY 2015	$1,118,866.00	$1,118,866.00
FY 2014	$840,234.00	$840,234.00
FY 2013	$72,822.00	$72,822.00
FY 2012	$796,156.10	$796,156.10
TOTALS	$13,260,808.10	$13,260,808.10

Since this is an existing credit DOR already has the forms in place. DOR will need to update the computer program but will do that with existing resources.

Oversight notes the B&P and DOR both assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero administrative impact in the fiscal note for B&P and DOR.

Oversight notes the proposal, Section 135.647.3, allows for increase in the Food Pantry Tax Credit authorization for up to $2,750,000 annually.

Oversight notes this section currently allows for $1,750,000 annually and extends the sunset date to December 31, 2027 (FY 2028).

Oversight notes DOR provided 12-year history of the Food Pantry Tax Credit and shows average redemptions of $1,537,537 within last 5 years (2018-2022).

Oversight notes the greatest amount of redemption of tax credits were in last two years and total $1,749,992 each year.

Oversight notes the proposal allows for up to $2.750 million in tax credit annually. Therefore, **Oversight** will report the difference of $1 million as a reduction in general revenue as a difference from proposed $2,750,000 and previously allotted $1,750,000 for purpose of the fiscal note.

In response to the similar proposal, HB 653, officials from the **Department of Commerce and Insurance,** the **Department of Economic Development**, 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 **Department of Social Services**, 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 Courts Administrator**, the **Office of the State Auditor**, the **Missouri Senate**, the **Office of the Secretary of State**, the **Office of the State Public Defender**, and the **Office of the State Treasurer** each assumed the proposal will have no fiscal impact on their respective organizations.

In response to the similar proposal, HB 653, officials from the **Missouri State University** and the **University of Central Missouri** both assumed the proposal 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 universities.

In response to the similar proposal, HB 653, officials from the **City of Springfield**, the **Jackson County**, the **Platte County**, the **Saint Louis County**, the **Jackson County Commissioner**, the **Newton County Health Department**, the **City of Lincoln Assessor**, the **City of Saint Genevieve Assessor,** the **Clay County Auditor**, the **Phelps County Sheriff**, the **City of Kansas City Police Dept**., the **Saint Louis County Police Dept**., the **City of Kansas City Retirement System**, the **Metro Saint Louis Sewer District Employee Pension Plan**, the **Metropolitan St. Louis Sewer District - 7B Sewer**, the **South River Drainage District - 7D Levee**, the **Wayne County Pwsd #2**, the **Hancock Street Light District**, the **Developmental Disabilities Resource Board of St. Charles**, the **Adair County SB 40 DD Board**, and the **Buchanan County SB 40 Board** each assumed the proposal will have no fiscal impact on their respective organizations.

Oversight notes that the above mentioned agencies have stated the proposal would not have a direct fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

Officials from the **Morgan County Pwsd #2** and the **Adair County SB 40 DD Board** both assumed the proposal will have a fiscal impact on their respective organizations. However, the organizations did not provide any specific details of whether the impact would be positive or negative. Therefore, Oversight will note zero impact in the fiscal note for the above organizations.

Section 135.1310 – Child Care Contribution Tax Credit Act

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

This section would create a tax credit for donations made to eligible childcare providers. The tax credits would begin for tax year 2023 and be equal to 75% of a qualifying donation. B&P notes that this provision may impact revenues beginning in FY24, when tax year 2023 annual income tax returns are filed.

A taxpayer may receive a tax credit of $100 ($175 donation) to $200,000 ($350,000 donation). The tax credits are non-refundable, unless a qualifying contributor is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1310.8(1), no more than $20 million in tax credits may be authorized per year. However, per subdivision 135.1310.8(2) if the full $20 million is authorized, then an addition 15% ($3 million) may be authorized. The additional $3 million may only be used for contributions made to childcare facilities located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to $23 million annually beginning in FY24.

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

Starting January 1, 2023, a qualified taxpayer would be able to claim a tax credit against their state tax liability, in the amount of 75% of a qualified contribution to a qualified child care provider. The qualifying contribution could be cash, stocks, bonds or securities. To be a qualified child care provider the provider must be licensed under Section 210.221. The minimum amount of the credit that may be issued in credit is $100 ($175 donation) while the maximum qualifying amount of the credit is limited to $200,000 ($350,000 donation) annually.

The child care provider receiving the contribution must issue a written verification of the contribution to the taxpayer and file a copy with the Department of Economic Development (DED). This proposal allows the credit to be recaptured if the contribution is not used for providing child care.

This credit is not refundable, and cannot be transferred or sold but they can be carried forward up to five years or carried back one year. The credits are to be distributed on a first-come, first-serve basis with a cumulative $20 million annual cap. This proposal will sunset on December 31, 2029. This proposal allows that if the cumulative $20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to $20 million each year.

This proposal does establish a provision in Section 135.1310.7, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2023. However, this proposal would not be effective until August 28, 2023 (FY 2024) and contributions could not be made nor credits distributed until after that date. This could impact the Department starting when the tax returns are filed in January 2024.

Fiscal Year	Loss to General Revenue
2024	(Could exceed $20,000,000)
2025	(Could exceed $20,000,000)
2026	(Could exceed $20,000,000)

This would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to DOR's website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is $7,193. DOR assumes DOR will need at least 1 Associate Customer Service Representative ($31,200) to handle the new credits being redeemed. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts the Department would ask for additional FTE through the budget process if justified.

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

Officials from the **Department of Economic Development (DED)** assume this tax credit will be administered by the Department of Economic Development.

Child Care Desert - A census tract with poverty rate at least 20% or a median family income of less than 80% statewide average and at least 500 people or 33% of the population are located at least 1/2 mile away from a child care provider in urbanized areas or at least 10 miles away in rural areas.

Tax years beginning on or after 1/1/2023. Tax credit for contribution program. 75% tax credits. Minimum amount of any tax credit issued cannot be less than $100 and cannot exceed $200K per tax year. Credits are not transferable, sellable or refundable. 5-year carry forward period. Tax credits approved first-come-first-served.

Program cap: $20M per CY. If the full amount is authorized in a CY, the cap for the next CY will be increased by 15%. That increased amount must be used for child care providers located in a child care desert. The DED Director must publish the new amount. Contribution verifications must be turned into DED with 60 days of the contribution date. Donations must be used for child care for youth age 12 and younger, including by acquiring or improving child care facilities, equipment, or services, or improving staff salaries, staff training, or the quality of child care.

The department may promulgate rules. This program will sunset on 12/31/2029, unless reauthorized by the general assembly.

Oversight notes that Section 135.1310 "Child Care Contribution Tax Credit Act" allows taxpayers (corporations, charitable organizations which are exempt from federal income tax and whose Missouri unrelated business taxable income, if any, would be subject to the state income tax, and individuals or partnerships subject to the state income tax) to claim tax credit against state tax liability for the tax year in which a verified contribution was made.

Oversight notes the taxpayer is allowed to claim credit against the taxpayer's state tax liability for the tax year in which a verified contribution was made in an amount equal to up to seventy-five percent of the verified contribution to a childcare provider

Oversight notes that under this section the minimum amount of any tax credit issued shall not be less than one hundred dollars, and shall not exceed two hundred thousand dollars per tax year.

Oversight notes that any childcare facility receiving funds from taxpayer must provide the taxpayer with contribution verification. In case where such a facility fails to do so it must provide the taxpayer with refund of his or her contribution.

Oversight notes that there could be a minimum of 115 ($23 million / $200,000) and maximum of 230,000 ($23 million / $100) individual claims.

Oversight notes that the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Additionally, this section allows for additional 15% ($3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under the Section 135.1310 could potentially reach Up to $23 million annually beginning in FY 2024.

Section 135.1325 Employer Provided Child Care Assistance Tax Credit

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

This section would create a tax credit for qualified childcare expenditures. The tax credits would begin for tax year 2023 and be equal to 30% of qualifying expenditures. B&P notes that this provision may impact revenues beginning in FY24, when tax year 2023 annual income tax returns are filed.

A taxpayer may receive a tax credit of up to $200,000 ($260,000 expenditures). The tax credits are non-refundable, unless a qualifying taxpayer is a 501(c)(3) non-profit. The tax credits may not be sold, transferred, or otherwise conveyed. The tax credits may be carried back one year and/or carried forward for up to five years.

Per subdivision 135.1325.7(1), no more than $20 million in tax credits may be authorized per year. However, per subdivision 135.1325.7(2) if the full $20 million is authorized, then an addition 15% ($3 million) may be authorized. The additional $3 million may only be used for childcare facility expenditures located within a childcare desert. Therefore, B&P estimates that this provision may reduce TSR and GR by up to $23 million annually beginning in FY24.

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

Starting January 1, 2023, a qualified taxpayer would be able to claim a tax credit in the amount of 30% of a qualified child care expenditures paid or incurred with respect to a child care facility. This proposal identifies what is a qualifying expenditure and facility. The maximum amount of credits that can be issued to any taxpayer is $200,000 annually.

This credit is not refundable, and cannot be transferred or sold but they can be carried forward up to five years and carried back one year. The credits are to be distributed on a first-come, first-serve basis with a cumulative $20 million annual cap. This proposal will sunset on December 31, 2029.

This proposal allows that if the cumulative $20 million cap is authorized in a single year, then the credit can be increased by 15%. However, the increased amount is reserved for child care providers in a child care desert. It should be noted that the cap resets to $20 million each year.

This proposal does establish a provision in Section 135.1325.6, that should a tax exempt organization as defined by the IRS qualify to receive the credit, they would be able to have the credit refunded to them without having a state tax liability. This allows DOR to establish a procedure should such an organization qualify for the credit.

This provision says the credit is to begin with tax years beginning on or after January 1, 2023. However, this proposal would not be effective until August 28, 2023 (FY 2024) and contributions could not be made nor credits distributed until after that date. This could impact the Department starting when the tax returns are filed in January 2024.

Fiscal Year	**Loss to General Revenue**
2024	(Could exceed $20,000,000)
2025	(Could exceed $20,000,000)
2026	(Could exceed $20,000,000)

This would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to their website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is $7,193. DOR assumes the Associate Customer Service Representative needed for the previous credit would also handle this one. Additional FTE may be needed in the future if the number of new credit redemptions exceed the following amounts. They would ask for additional FTE through the budget process if justified.

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

Oversight notes that Section 135.1325 allows for tax credit associated with the expenditures paid or incurred with respect to a child care facility.

Oversight notes if all current childcare facilities file a claim under this proposal, there could be as many as 2,500 claims, but potentially many more new developed child care facilities, that would need to be processed by the DOR. (See DESE response for current totals of licensed childcares in MO below – page 49)

Oversight notes that DOR request is reasonable, given the uncertainty of the actual utilization of the tax credits at this time, and will note the cost of 1 FTE (Associate Customer Service Representative at $31,200 annually) to the general revenue in the fiscal note beginning FY 2024.

However, **Oversight** notes the DOR might, in the future, be requesting two additional FTE to appropriately handle the potentially greater amount of tax credit returns, customer service questions, and process of the tax credits as specified in Section(s) 135.1310, 135.1325 & 135.1350.

Lastly, **Oversight** will note the one-time cost at $28,772, associated with the updates of DOR's income tax system for all sections within the proposal, in the fiscal note beginning FY 2024.

Officials from the **Department of Economic Development (DED**) note:
This tax credit will be administered by the Department of Economic Development and it applies to tax years beginning on or after 1/1/2023.

Program cap: $20M per calendar year. If the full amount is authorized in a CY, the cap for the next CY will be increased by 15%. That increased amount must be used for child care providers located in a child care desert. The DED Director must publish the new amount. A tax credit for employers' eligible child care assistance expenditures. The tax credit is for up to 30% of child care expenditures, with a total taxable year limit of $200,000 per taxing entity. Credits are not transferable, sellable or refundable. 5-year carry forward period and 1-year carry back period. Tax credits approved first-come-first-served.

The department may promulgate rules.

This program will sunset on 12/31/2029, unless reauthorized by the general assembly.

135.1350. creates the "Child Care Providers Tax Credit Act". Administered by the Department of Elementary and Secondary Education.

DED will need **to hire 5.0 FTE to administer** the two DED programs included in the act. The two DED administered tax credit programs will likely reduce annual TSR by $20M each ($40M total)

Oversight notes that per article from Childcare Aware of Missouri, as shown in the chart below, since the pandemic, of the 115 counties in Missouri, the number of childcare desert counties have increased by 49%.

	February 2020	June 2020	Increase (%)
Total Counties	115	115	
Total Population	5,988,927	5,988,927	
Desert Counties	63	94	49%

Oversight notes that recent research from Child Care Landscape in Missouri noted there were 3,301 open child care programs in CCAMO's database prior to the pandemic. (These include fully licensed programs and home care providers who do not require licensing.) As of late July 2020, the number of open programs decreased to 2,223 and most are operating at partial capacity. Many programs closed temporarily at the beginning of the pandemic.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume Section 135.1350 proposes to develop the "Child Care Providers Tax Credit Act." This tax credit is designed to support childcare providers with a tax credit towards eligible employer withholding tax and capital expenditure investments. DESE assumes a new tax credit section would be required to administer this program. The team: one coordinator, one administrative support assistant and two program specialists, would be responsible for approval issuance, and monitoring of the credits for approximately 2,500 licensed childcare providers in the state.

Oversight notes Section 135.1350 "Child Care Providers Tax Credit Act" beginning on or after January 1, 2024, allows a childcare provider with three or more employees to claim a tax credit in an amount equal:

- to the child care provider's eligible employer withholding tax, and
- up to thirty percent of the child care provider's capital expenditures

Oversight notes that no tax credit for capital expenditures shall be allowed if the capital expenditures are <u>less than one thousand dollars</u> and the amount of any tax credit issued under this section shall not exceed <u>two hundred thousand dollars</u> per childcare provider per tax year.

Oversight notes that the cumulative amount of tax credits authorized pursuant to this section shall not exceed twenty million dollars for each calendar year. Additionally, this section allows for additional 15% ($ 3 million add-on) in tax credits to be issued specifically to childcare facilities located in childcare deserts in Missouri. Therefore, Oversight will note the overall potential impact under the Section 135.1350 could potentially reach <u>Up to $23 million</u> annually beginning in <u>FY 2025</u>.

Oversight notes all childcare providers claiming the tax credit must submit an application for the tax credit for preliminary approval to DESE.

Oversight notes this Section states that DESE may promulgate rules and adopt statements of policy, procedures, forms and guidelines to implement and administer the provisions of this section.

Oversight notes the DESE states it will need 1 Program Coordinator ($68,808 annually), 1 Administrative Support Assistant, and 2 Program Specialists in order to full implement and comply with the required provisions under this Section. **Oversight** does not have any information to the contrary. Therefore, Oversight will note the DESE projected FTE costs in the fiscal note beginning FY 2025.

<u>DESE – ITSD Cost</u>

Officials from the **Department of Elementary and Secondary Education (DESE)** note:

DESE is a consolidated agency under OA-ITSD. It is assumed that every new IT project/system will be bid out because all ITSD resources are at full capacity. This section will require DESE to administer the new Child Care Providers Tax Credit. DESE assumes the administration of this new credit would require the development and programming of a new system to track the tax credit applications, approvals and monitoring data. DESE estimates a cost of **$500,000** for the development and initial programming with ongoing annual costs of **$50,000**.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a DESE ITSD impact in FY 2024 at $500,000 and $50,000 annually thereafter in the fiscal note.

Oversight notes this Section allows for taxpayers, on or after January 1 2024, to request DESE to issue preliminary findings for the potential tax credit redemption authorization prior to tax credit being given. Therefore, **Oversight** will note the onset of FTE and ITSD cost impact beginning in FY 2024.

<u>Section 135.1610 - Tax Credit for Urban Farms (with added Small-Scale Specialty Crop Farm)</u>

In response to the similar proposal **Office of Administration – Budget & Planning Division (B&P)** stated this proposed legislation, for all tax years beginning on or after January 1, 2023, creates a tax credit for taxpayers who establish an urban farm within a classified food desert within the state. If an urban farm is established within a qualifying area, the qualifying taxpayer would be able to claim a tax credit against their state tax liability up to 50% of the eligible expenses for establishing the urban farm. No urban farm can claim a tax credit in excess of $25,000. The tax credits may be carried forward to the next three (3) succeeding tax years.

This proposed legislation could reduce General Revenue (GR) and Total State Revenue (TSR) up to ($200,000) annually and could impact the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** state this proposal would expand the urban farm tax credit program to include small-scale specialty crop farms in the list of eligible farms. This proposal also changes the existing cap on the program from $200,000 to $400,000. The increase in the cap will be an additional loss of $200,000 of general revenue.

HB 3 adopted in 2022 created this tax credit program, so the Department does not have any information on the usage of the program.

Oversight notes the General Assembly passed HB 3 (in Special Extraordinary Session 2022) and approved maximum cap of $200,000.

Oversight notes this proposal adds specialty small-scale specialty crop farms in a food desert, as defined by United States Census Bureau, who predominately grow fruits and vegetables, tree nuts, dried fruits, and horticulture and nursery crops including but not limited to floriculture.

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

Oversight notes the proposal notes the total amount of tax credits that may be authorized for all taxpayers for eligible expenses incurred on any given urban arm or small-scale specialty crop farm shall not exceed twenty-five thousand dollars.

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

Oversight notes the proposal indicates that the Urban Farms shall include community-run gardens and shall not exceed five acres in size. Therefore, if each applicant applied for the maximum allotted benefit within fiscal period there could be at minimum 112 ($2,800,000/$25,000) qualifying annually.

Oversight notes that according to the U.S. Census of Agriculture - Missouri (2019), data regarding Special Crops, there were 3,654 existing farms involved in cultivation of such a harvest in Missouri. The breakdown is shown below:

- Vegetables – 1449
- Orchards – 1359
- Berries – 846

Total – 3,654

Therefore, **Oversight** assumes DOR can absorb the responsibilities associated with the new tax credit with existing resources. Should the number of redemptions or the number of errors generated prove to be significant, DOR may seek additional FTE through the appropriation process.

In response to the similar proposal, HB 3 – 2022, officials from the **Missouri Department of Agriculture – Missouri Agricultural & Small Business Development Authority (MASBDA)** stated the MASBDA does not currently receive funds from General Revenue or Federal sources to administer any programs. All revenues are from fees that pay for MASBDA's administrative costs.

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

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

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

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

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

Oversight notes that MASBDA assumed, in response to the HB 3- 2022 that the current (5) employees of MASBDA will be sufficient to run this program and no additional equipment will need to be purchased. MASBDA's cost allocation is based on percentage of time spent on each program per fiscal year by employee. Their assumption is that the Urban Farms Tax Credit program will add approximately 8% more program activity for Fiscal Year 2022. Fiscal Year 2023 estimated salary total is $16,466 per Fiscal Note worksheet. Other administrative costs such as office supplies, postage, printing, etc…. are estimated approximately at $1,500 for this new program.

Section 135.1620 Grocery Store Tax Credit

Officials from the **Office of Administration – Budget & Planning (B&P)** assume this proposal creates tax credits for taxpayers who establish a new location within a classified food desert within the state. Based on data published in 2019 by the United States Department of

Agriculture, there are 453 census tracts within Missouri that are classified as low-income and have a population that is located at least one-half mile from a full-service grocery store in urban areas or ten miles in rural areas. If these businesses were to locate in one of these tracts, the qualifying taxpayer would be able to claim tax credits against their state tax liability up to 50% of their eligible costs after the initial expenses have exceeded $1,000,000 for stores established in charter counties, counties of first classification, or a city not within a county; or $500,000 for stores located in any other county. No more than $22M in tax credits that can be authorized in any given calendar year. This proposal also allows any tax credits that have been issued to be transferred, sold, or assigned.

"New location" is for real property acquired after 1/1/2024; therefore, general and total state revenues may be reduced as early as FY25.

This provision could lower general revenues by up to ($22,000,000) beginning in FY25. This provision could impact total state revenue and the calculation under Article X, Section 18(e). Due to the carryforward provision in any given year, the amount redeemed may exceed the estimate shown after the first full fiscal year.

Officials from the **Department of Revenue (DOR)** assume the proposal would create a new tax credit for tax years beginning on or after January 1, 2024, for the construction or development of real property for the purpose of establishing a full-service grocery store in a food desert. The tax credit would be in the amount of 50% of the eligible expenses that are in excess of initial eligible expenses. A taxpayer becomes eligible for the tax credit only after initially expending $1,000,000 (in a charter county, county of the first classification, or city not within a county) or expending $500,000 (in any other county). The tax credit would be 50% of the expenses over these minimum limits.

The tax credit has a $22 million cap. With each person not eligible to claim more than $2.5 million per year. The tax credit can be carried forward for three tax years and is transferable, but is not refundable.

The full amount of the tax credits issued, plus a reasonable rate of return on the value of the credits, is subject to "'clawback" if the taxpayer fails to complete construction of the full-service grocery store within five years of project commencement or fails to operate that store at the same location for ten consecutive years. DED is given regulatory authority regarding this credit, and the credit is subject to a sunset clause.

This proposed legislation could potentially decrease Total State Revenue, specific to General Revenue by an estimated $25 million per year. DOR notes this tax credit begins January 1, 2024, and therefore, the first tax returns will be filed starting in January 2025.

Fiscal Year	Decrease to Total State Revenue - General Revenue
FY 2024	$0
FY 2025	($22,000,000)
FY 2026	($22,000,000)

This would be a new income tax credit that would need to be added to the MO-TC form, their website and to the individual income tax computer system. These changes are estimated to cost $7,193.

Due to the limited number of taxpayers each year that may qualify for this credit DOR assumes it can absorb the additional work from the redemptions of this credit using existing FTE. However, should the number of redemptions received equal the following limits, DOR would ask for additional FTE during the appropriation process. DOR needs FTE to process tax credits if the following number of items are received.

- 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and license.
- 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

Oversight notes DOR is responsible for the redemption of tax credits against a taxpayer's state tax liability as well as reallocating tax credits as a result of any sale, transfer, or assignment of tax credits. Furthermore, DOR is responsible for generating correspondence should tax returns fail to provide the necessary documentation to warrant tax credit redemption(s) and appropriately process the correspondence they receive in response.

Oversight notes the tax credit program proposed has an annual cap of $25 million. Furthermore, taxpayers who qualify for the tax credit created may claim a tax credit up to $2.5 million per tax year. Therefore, Oversight assumes the minimum number of taxpayers that could qualify and claim this tax credit each year (and utilize the entire cap) could be as few as ten (10). Thus, Oversight assumes DOR can absorb the responsibilities associated with the new tax credit program with existing resources. Should DOR experience the number of redemptions, transfers, and/or correspondence that warrant additional FTE, DOR may seek additional FTE through the appropriation process.

In response to the previous version of the proposal, officials from the **Department of Economic Development (DED)** assumed Section 135.1620 allows for a taxpayer to claim a tax credit equal to 50% of the taxpayer's eligible expenses for establishing a full-service grocery store in a food desert. The taxpayer cannot claim more than $2.5M/tax year but the credit may be carried over for three years until full credit has been claimed. Program is capped at $25M per year.

DED will need to hire 2.0 FTE to review applications, determine qualifications, and calculate eligible amounts, review final qualifying expenses, complete compliance and to administer the program.

Oversight notes this proposed legislation creates a tax credit for individuals, partnerships, corporations or various charitable organizations who establish a full-service grocery store within a food desert.

This proposed legislation defines "food desert" as a census tract that has a poverty rate of at least twenty percent (20%) or a median family income of less than eighty percent (80%) of the statewide average and where at least five hundred (500) people or thirty-three percent (33%) of the population are located at least one-half mile away from a full-service grocery store in urbanized areas or at least ten miles away in rural areas.

Based on data published by the United States Department of Agriculture (USDA) in 2019, there were approximately 390 census tracts in Missouri in 2010 that were classified as low-income and low-access (one-half mile from a full-service grocery store in urban areas or ten miles from a full-service grocery store in rural areas). Oversight will show the number of low-income/low-access tracts per county below (counties with no low-income/low-access are not included in the chart):

County	LILATracts_halfAnd10
Adair County Total	3
Andrew County Total	0
Atchison County Total	0
Audrain County Total	3
Barry County Total	0
Barton County Total	1
Bates County Total	1
Benton County Total	2
Bollinger County Total	0
Boone County Total	8
Buchanan	9

County Total	
Butler County Total	7
Caldwell County Total	1
Callaway County Total	0
Camden County Total	1
Cape Girardeau County Total	4
Carroll County Total	1
Carter County Total	1
Cass County Total	5
Cedar County Total	2
Chariton County Total	0
Christian County Total	1
Clark County Total	0
Clay County Total	12
Clinton County Total	1
Cole County Total	4
Cooper County Total	0
Crawford County Total	1
Dade County Total	1
Dallas County Total	2
Daviess County Total	0
DeKalb	0

County Total	
Dent County Total	3
Douglas County Total	3
Dunklin County Total	4
Franklin County Total	2
Gasconade County Total	0
Gentry County Total	0
Greene County Total	27
Grundy County Total	1
Harrison County Total	2
Henry County Total	4
Hickory County Total	0
Holt County Total	0
Howard County Total	1
Howell County Total	2
Iron County Total	2
Jackson County Total	83
Jasper County Total	6
Jefferson County Total	5
Johnson County Total	2
Knox County Total	1
Laclede County Total	2

Lafayette County Total	0
Lawrence County Total	1
Lewis County Total	0
Lincoln County Total	0
Linn County Total	1
Livingston County Total	3
McDonald County Total	0
Macon County Total	2
Madison County Total	2
Maries County Total	0
Marion County Total	4
Mercer County Total	0
Miller County Total	1
Mississippi County Total	2
Moniteau County Total	1
Monroe County Total	1
Montgomery County Total	1
Morgan County Total	0
New Madrid County Total	2
Newton County Total	2
Nodaway County Total	2
Oregon	2

County Total	
Osage County Total	0
Ozark County Total	2
Pemiscot County Total	3
Perry County Total	1
Pettis County Total	5
Phelps County Total	1
Pike County Total	2
Platte County Total	1
Pulaski County Total	1
Putnam County Total	0
Ralls County Total	0
Randolph County Total	1
Ray County Total	0
Reynolds County Total	0
Ripley County Total	1
St. Charles County Total	4
St. Clair County Total	0
Ste. Genevieve County Total	1
St. Francois County Total	0
St. Louis County Total	39
Saline County Total	3

Schuyler County Total	2
Scotland County Total	0
Scott County Total	5
Shannon County Total	1
Shelby County Total	0
Stoddard County Total	1
Stone County Total	0
Sullivan County Total	2
Taney County Total	2
Texas County Total	0
Vernon County Total	3
Warren County Total	0
Washington County Total	2
Wayne County Total	2
Webster County Total	1
Worth County Total	0
Wright County Total	2
St. Louis City Total	54
Grand Total	**390**

Oversight notes the DED assumes the need for 2 FTE to properly initiate and develop processes to comply with the rules in this proposal.

Oversight notes that the proposal allows minimum of 10 businesses to receive this tax credit (25 million cap where each business obtain the max of 2.5 million per each, as specified in Section 135.1620 3. (2)); however, the number could be substantially greater (up to 390 in the areas of need as shown above) for such grocery stores in Missouri.

Oversight will reflect a range from 0 FTE (no full-service grocery store is established within a food desert) to 1 additional FTE for DED (Senior Economic Development Specialist at 74,664 annually) in the fiscal note.

Oversight notes, in order to qualify for the tax credit created, initial expenses must be incurred equal to $1 million if the full-service grocery store is established in a charter county, a county of the first classification, or a city not within a county or $500,000 if the full-service grocery store is established in any other county.

The tax credit authorized under this proposed legislation may not exceed the taxpayer's state tax liability and is, therefore, not refundable. However, any amount of tax credit that exceeds the taxpayer's state tax liability in the year in which the "contribution" was made may be carried forward to the next three (3) succeeding tax years.

Oversight assumes a "contribution" to be the expenses incurred in establishing a full-service grocery store. The tax credits created under this proposed legislation may be transferred, sold, or assigned. The tax credit program created would sunset on December 31, 2030.

Oversight notes this proposed legislation creates a clawback provisions for taxpayers that are issued credits authorized under this section but fail to complete construction of a full-service grocery store within five years of the commencement of the project or fails to operate a full-service grocery store at the same new location for at least ten consecutive years. Oversight is unable to determine whether or not this clawback provision will have an impact on state revenues and will not show an impact for this portion of this proposed legislation.

Oversight notes the proposed legislation states a new location is a full-service grocery store located on a tract of real property within a food desert that is acquired or leased on or after January 1, 2024. Thus, the first tax year in which taxpayers could claim the tax credit created is Tax Year 2024; Tax Year 2024 tax returns will not be filed until after January 1, 2025 (Fiscal Year 2025).

Therefore, Oversight will report a <u>reduction</u> to GR equal to "$0 up to $22,000,000" beginning in Fiscal Year 2025. A reduction to GR equal to $0 would occur if no full-service grocery store is established within a food desert in the particular tax year and a reduction to GR equal to $22,000,000 would occur if the annual cap is met.

Officials from **Missouri Department of Agriculture (MDA)** 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 MDA.

Section(s) 32.028, 53.085, 137.150, 137.165, 137.180, 137.220, 137.245, 137.335, 137.375, 137.415, 137.500, 137.750, 138.200, 138.220, 138.260, 138.290, 138.330, 138.433, and 138.440 - County Assessors

Section 137.180 Electronic Notification of Assessment and Liability

Oversight notes this provision allows the assessor to provide an electronic notification of an assessment and tax liability information at the owner's request.

Oversight assumes this provision could result in savings of mail expenses for county assessors, however, some counties may have software and programming costs to administer changes from this provision, therefore, Oversight will show a potential unknown savings and a potential unknown cost to counties beginning in FY 2024.

In response to a previous version (HCS for HB 134), officials from the **St Genevieve County Assessor's Office** note that requiring an estimated tax bill for real estate value increases would be an unfunded mandate. The county notes their CAMA system does not have the capability of creating such a document. The current software calculates value only and would require extensive programming if such a requirement is placed on the Assessor.

In response to a previous version (HCS for HB 134), officials from the **State Tax Commission (STC)** assume no fiscal impact from the proposal. STC stated the State Ombudsman position (repealed in <§138.435>) has never been appropriated or filled so there is no impact.

In response to a previous version (HCS for HB 134), officials from the **Office of Administration - Budget and Planning,** the **Department of Revenue,** and the **Office of Administration** each assume the proposal 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.

In response to a previous version (HCS for HB 134), officials from the **Jackson County Commissioner** and the **Lincoln County Assessor** each assume the proposal 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.

Oversight received a limited number of responses from county assessors related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

<u>Section 137.110 & 137.115 – Property & Motor Vehicle Tax Assessment</u>

Officials from the **Department of Revenue (DOR)** note this provision changes how the assessment rate will be determined for motor vehicles. Property tax assessments are handled by county assessors and the State Tax Commission and per this proposal would be responsible for the creation of the manufacturer's suggested retail value database. This provision does not impact the Department and DOR defers to the State Tax Commission and the counties for their estimated fiscal impact.

Officials from the **State Tax Commission (STC)** assume this has an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. The bill would require additional FTE for the State Tax Commission to receive the Manufacturer Suggested Retail Price (MSRP) from a vendor and then configure that data to fit the multiple assessment programs used in the state. The cost of the data as well as the cost of licensing for each county in the state has been estimated to be less than $200,000.

The bill allows for all currently assessed vehicles to use a previously assessed value in the depreciation schedule, but the MSRP would have to be obtained for each new vehicle and used vehicles purchased from outside of the state by Vehicle Identification Number. The current system uses average trade in value listed in the October issue of the National Automobile Dealers Association guide and that value will be less than the starting value of MSRP in most cases which could cause an increase in assessments.

The use of a depreciation schedule would require that the vehicle values decrease each year regardless of the true market values which could cause a decrease in the assessments generated. The depreciation schedule stopping after 10 years would cause a reduction due to approximately 50% of vehicles being removed from assessment and that would lead to approximately a 35% reduction of the total assessment for motor vehicles. The impact varies by county as the percentage of real and personal property in each county depends on several factors. The range of personal property assessed value compared to the total assessed value goes from 15.8% to 46.5% with the average being 29.5% in 2022, so the higher percentages would be impacted at greater amounts.

The bill also includes farm machinery which would follow the same pattern as the motor vehicles. Farm machinery and equipment accounts for small percentage of the total personal property but it would have a greater impact on rural counties. The bill also requires all of the software used in the counties to meet minimum standards which could require a cost to some counties for upgrades.

Oversight notes that there would be costs to political subdivisions to administer the proposed changes.

The **County Employees' Retirement Fund (CERF)** notes this section would likely result in reductions in contribution revenue to CERF of an unknown amount annually. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. Data is not available to quantify how changes to motor vehicle assessments would impact contribution revenue but CERF assumes there would be a negative impact.

Officials from the **Office of Administration - Budget and Planning (B&P)** noted For tax year 2023, this proposal would county assessors to use a national publication other than the currently required NADA guide when determining the market value for motor vehicles. The STC shall determine which publication all assessors will use and the assessors may then use the values published in any of the three previous October issues.

For tax years beginning with 2024, each county assessor must use the MSRP and then depreciate the motor vehicle value following the proposed 10-year depreciation schedule. B&P notes that the definition of motor vehicle includes all property required to be licenses and registered plus farm tractors and machinery which are capable of moving on the roads at low speeds. For used vehicles, county assessors are to take the 2023 market value and apply the appropriate depreciation rate(s) going forward.

Using sales data published by the U.S. Bureau of Transportation Statistics, B&P was able to determine the average price for new vehicles from 1990 – 2021. B&P then used published articles to estimate the average sales price for new vehicles in 2022 and 2023. Based on research, B&P was able to obtain a depreciation schedule similar to the one historically shown in the NADA publications. In addition, DOR provided data to B&P with the number of motor vehicles registered in Missouri by model year. Table 1 shows the comparison between the estimated current depreciation schedules used in NADA versus the proposed schedule for model years 2003 - 2023. B&P notes that the amounts shown are the percentage of market value remaining after depreciation.

Table 1: Proxy and Proposed Depreciation Schedule

Model Year	Current Remaining Value	Proposed Remaining Value	Difference	Model Year	Current Remaining Value	Proposed Remaining Value	Difference
2023	85.0%	85.0%	0.0%	2012	26.1%	0.1%	(26.0%)
2022	75.0%	75.0%	0.0%	2011	23.5%	0.1%	(23.4%)
2021	67.5%	67.5%	0.0%	2010	21.2%	0.1%	(21.1%)
2020	61.7%	54.7%	(7.0%)	2009	19.1%	0.1%	(19.0%)
2019	54.7%	49.7%	(5.0%)	2008	17.2%	0.1%	(17.1%)
2018	49.2%	44.2%	(5.0%)	2007	15.4%	0.1%	(15.3%)
2017	44.3%	39.9%	(4.4%)	2006	13.9%	0.1%	(13.8%)
2016	39.9%	24.8%	(15.1%)	2005	12.5%	0.1%	(12.4%)
2015	35.9%	16.8%	(19.1%)	2004	11.2%	0.1%	(11.1%)

2014	32.3%	12.8%	(19.5%)	2003	10.0%	0.1%	(9.9%)
2013	29.0%	10.0%	(19.0%)				

**2002 and older estimates calculated, but not shown.*

B&P then took the original sales data and applied the current depreciation schedule and the proposed schedule to determine the difference in market values. B&P notes that motor vehicles are then assessed at 33.33% of their market value, while farm machinery is assessed at 12% of market value. Table 2 shows the estimated average current and proposed assessed values for model years 2003 – 2023.

Table 2: Estimated Current and Proposed Average Assessed Value

Model Year	Est. Current Assessment	Est. Proposed Assessment	Difference	Model Year	Est. Current Assessment	Est. Proposed Assessment	Difference
2023	$14,213	$14,213	$0	2012	$3,028	$12	($3,016)
2022	$11,909	$11,909	$0	2011	$2,789	$12	($2,777)
2021	$10,218	$10,218	$0	2010	$2,500	$12	($2,488)
2020	$8,065	$7,150	($915)	2009	$1,669	$9	($1,660)
2019	$6,922	$6,290	($632)	2008	$1,516	$9	($1,507)
2018	$6,130	$5,507	($623)	2007	$1,382	$9	($1,373)
2017	$5,482	$4,937	($545)	2006	$1,243	$9	($1,234)
2016	$4,901	$3,046	($1,855)	2005	$1,032	$8	($1,024)
2015	$4,353	$2,037	($2,316)	2004	$898	$8	($890)
2014	$3,818	$1,513	($2,305)	2003	$762	$8	($754)
2013	$3,416	$1,178	($2,238)				

**2002 and older estimates calculated, but not shown.*

Using data published by STC, B&P estimates that the statewide average personal property tax rate is 6.8%. B&P notes that the Blind Pension Trust Fund levies a statewide property tax of $0.03 per $100 value. Table 3 shows the estimated state and local revenue impact by model year.

Table 3: Estimated Revenue Impact by Model Year

Model Year	# Registered MVs	Est. Blind Pension Loss	Est. Local Revenue Loss	Model Year	# Registered MVs	Est. Blind Pension Loss	Est. Local Revenue Loss
2023	93,124	$0	$0	2011	233,800	($194,054)	($43,718,262)
2022	250,577	$0	$0	2010	204,757	($153,568)	($34,300,893)
2021	281,533	$0	$0	2009	170,742	($85,371)	($19,083,833)
2020	287,551	($77,639)	($17,716,017)	2008	241,668	($108,751)	($24,522,052)
2019	331,860	($63,053)	($14,120,643)	2007	244,129	($100,093)	($22,569,726)

2018	338,301	($64,277)	($14,191,727)
2017	366,085	($58,574)	($13,435,320)
2016	348,732	($195,290)	($43,556,627)
2015	348,451	($240,431)	($54,340,933)
2014	318,691	($219,897)	($49,464,030)
2013	297,730	($199,479)	($44,864,934)
2012	273,170	($245,853)	($55,475,364)
2006	234,404	($86,729)	($19,476,628)
2005	221,323	($68,610)	($15,260,221)
2004	214,644	($57,954)	($12,861,468)
2003	179,193	($41,214)	($9,097,629)
2002 and older	1,403,602	($238,612)	($54,529,938)
Total Estimated Impact		**($2,499,449)**	**($562,586,245)**

Therefore, B&P estimates that this proposal could reduce revenues to the Blind Pension Trust Fund by up to $2,499,449 and local revenues by up to $562,586,245. B&P notes that this provision would affect tax year 2024 assessments, which are not collected until FY25.

<u>B&P notes the following about the above estimates:</u>

- Sales date reflects actual sales and not MSRP. B&P notes that MSRP is typically higher (sometimes significantly) than the original actual sales price paid. Therefore, it is possible that newer vehicles could be assigned a higher market value (and hence assessed value and property tax liability) than they would under current law. This would result in a lower revenue loss than the amount shown above.
- This proposal would set all older vehicles (model year 2023 and prior) to their tax year 2023-estimated market value. B&P notes that tax year 2023 assessments are not yet complete. Therefore, in order to provide estimates, B&P applied the depreciation schedule to each model year's average original sales price. B&P notes that 2023 determined market values could vary significantly from the proxy value that B&P has estimated. This could result in a larger or smaller revenue loss than the amounts shown above.
- The historical depreciation schedule is based on pre-COVID depreciation patterns. B&P is unable to determine how quickly motor vehicle depreciation will return to pre-COVID levels. Therefore, actual revenue loss could be different from the amount shown above.
- These estimates are based on averages. These estimates do not include farm tractors or machinery. B&P does not have depreciation data on farm tractors or machinery. The composition of vehicle types, model years, etc. in any given location could result in significantly different revenue impacts than the estimates shown above.

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum or are at a fixed rate. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law), rather it would result in an actual loss of revenue.

Based on information provided by the Office of the State Auditor, Oversight notes, in 2020, there were over 2,500 tax entities with 4,000 different tax rates. Of those entities, 2,980 tax rate ceilings were below the entities' statutory or voter approved maximum tax rate and 1,098 tax rate ceilings were at the entities' statutory or voter approved maximum rate. (These numbers do not include entities, which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

Officials from the **Lincoln County Assessor** assume this will be a significant assessed value loss and property tax loss in using a 10 year depreciation schedule and with almost zero value for the floor. Lincoln County has over 60% of its vehicles that are over 10 years old. This could potentially lose $100,000's of tax revenue to taxing districts. The worry is that the tax burden will shift to the real property owners to make up any lost revenues.

In response to a similar proposal, SB 493 (2023), officials from the **Ste Genevieve County Assessor** estimate the revenue loss if vehicles 20+ yrs. will be assessed at a $300 market value / $100 assessed value at $38,704.60 for total revenue lost for the county and $657.98 loss in revenue to the assessment fund.

In response to a similar proposal, SB 493 (2023), officials from the **Adair County SB40 Board** note the county board currently has approximately $104M in Personal Property Assessed Valuation taxed at .1456 for an estimated Personal Property Tax revenue of $150,000. The local assessor estimated 61% of all vehicles are over 10 years old. It's difficult to calculate what the impact will be with a depreciation schedule of 20 years. The most important statement to understand is that ANY loss in property tax revenues WILL result in a reduction of essential services to people with intellectual and developmental disabilities in Adair County. Types of services that could be significantly reduced include sheltered employment, supported employment, transition services and other collaborative programs with the public schools, educational courses such as citizenship, relationships, healthcare self-advocacy, etc. Also, the agency's contribution of 20% share to leverage another 20% from state and 60% from federal Medicaid waiver dollars ('Partnership for Hope funds') would be reduced.

In response to a similar proposal, SB 493 (2023), officials from the **St Louis City SB40 Board** note per data from their county assessor, they assume the following fiscal impacts:

		Before Legislation	**Taxes**
Vehicles	**2013-2022**	518,399,258	$42,851,401
	2012 & Older	85,768,109	$7,089,678
		604,167,367	**$49,941,079**
		After Legislation	**Taxes**
		213,195,500	$17,622,953
Difference from changes to vehicles		390,971,867	$32,318,126

Total 2022 PP Value at 33.33%		1,259,655,321	
Vehicles		604,167,367	
All other Personal Property	**@ 33.33%**	655,487,954	$54,183,290

Market Value	1,966,463,861	
@ 31%	609,603,797	$50,390,459
AV decrease (non-vehicles)	**45,884,157**	**$3,792,830**

Loss in taxes from change to 31% assessment rate and applying vehicle depreciation schedule	$32,318,126
Loss in taxes from change to 31% assessment on personal property other than vehicles	$3,792,830
Loss from Legislation to all taxing jurisdictions	$36,110,956
City Portion (loss)	$7,226,909
Developmentally Disabled (loss)	$598,493
Loss to Collector of Revenue Fund	$541,664
Loss to Assessment Fund	$225,693

Officials from **Howell County** note Section 137.115(10) of this bill will have a major adverse impact on local government revenues. In Howell County, the personal property this targets is 67% of the total personal property assessed value and generated $3,410,920 of local funding in 2022. Statewide it is 21% of total assessed value generating $1,987,103,270 of local funding. This proposal does not offer any method of replacement as required by law.

A 9 year depreciation schedule is too rapid for vehicles, the most appropriate schedule is 15 years and it will still reduce taxes annually but not create as large a shift in the tax burden to real property.

Adding farm machinery to this is problematic as there is no centralized list of who owns farm machinery and the assessment of farm machinery is voluntary reporting under current statutes. This will add another $300,000 in lost revenue.

Total estimated local revenue loss in Howell County $4,183,400

Total estimated local revenue loss statewide $3,000,000,000 or more.

Officials from **Andrew County** note the depreciation table in SB 8 is used on motor vehicles and farm machinery over 10 years old or older. The number of motor vehicles in the county 10 years old or older stands at 16,292, while the number of farm machinery 10 years or older in the county is 1,522.

Officials from **Barton County** note they have more than 8,000 motor vehicles that are 10 years or older and only 3,323 motor vehicles newer than 10 years old. The county projects it would lose $563,437 in tax revenue. For farm machinery, the county projects it would lose $311,291 in tax revenue, as the county has more than 4,500 pieces of farm machinery 10 years old or older.

Officials from **Boone County** note Boone County has about 81,000 motor vehicles that ace 10 years old or older, which makes up 72% of the county's motor vehicles. If the deprecation schedule in SB 8 was implemented the assessed value of motor vehicles would decrease from $605 million to $225.4 million.

By applying the average Boone County levy of $6.5000, the loss of revenue due to change in depreciation would be $24,680,000. Boone County billed approximately $55,000,000 in personal property tax revenue in 2022. Boone County would see a 45% decrease in personal property tax revenue due to SB 8.

The county also says 82% of the farm machinery is 10 years old or older. Applying the proposed depreciation table in SB 8 the total assessed value of (farm machinery) would decrease from $3.060, 694 to $545,577. Again, by applying the average Boone County levy of $6.5000 loss of revenue due to change in depreciation would be $163,500,

Officials from **Buchannan County** note Buchannan County has 19,677 motor vehicles registered that are more than 20 years old and 47,114 that are 10 years old or older. The amount of tax revenue the county is expected to lose if SB 8's depreciation schedule is implemented would be $2.92 million. The county expects it would lose more than $71,000 on pieces of farm machinery that are 10 years old or older.

The revenue loss on motor vehicles 10 years old or older to the St. Joseph School District would be more than $1.5 million, while the county's 12 fire district could lose $59,000 in personal property tax revenue.

Officials from **Butler County** note Butler County officials say 69% of the total vehicles for the county are 10 years old or older with a total value of 103,894,020. At current assessed rate of 33.33% the tax dollars are $1,539,832 vs 31% $1,432,187. Difference of $107,645, if all vehicles over 10 years old go to $1 assessed the tax dollars would drop to $1,730,524. A difference of $1,430,619 just in 10+ year old vehicles (doesn't include farm equipment).

Officials from **Calloway County** note county officials claim that there are 36,712 motor vehicles that are 10 years old or older in the county. The new depreciation schedule in SB 8 would result in a revenue loss of more than $1.6 million on those vehicles if SB 8 was implemented.

Officials from **Chariton County** note changing the depreciation table to only assess vehicles for 10 years would have a very negative effect on assessed valuation. Currently 69% of the vehicles in Chariton County are older than 10 years and they have an assessed valuation of $6,645,660. Assuming a $7.00 levy this portion would result in a $465,196.00 loss of revenue to taxing entities,

Second, changing the depreciation table to only assess farm machinery for 10 years would have a greater affect than vehicles. Currently 90% of the farm machinery in Chariton County is older than 10 years and has an assessed valuation of $8,627,140. Assuming a $7.00 levy this portion would result in a $603,890 loss of revenue to taxing entities.

Lastly, the accelerated depreciation table to get the vehicles depreciated by the time that they are 10 years old could be the costliest of all. This figure is impossible to produce, but Chariton County officials are confident that it would be a least another $1,000,000.00 loss of revenue to the taxing entities.

Chariton County officials would like to stress that while schools may have the ability to increase levies and pass the expense onto another sub-class. Many of the fire districts, ambulance districts, road districts etc. have a statutory limit to their tax rate, which many are already charging. They have no way to recoup the loss of revenue. The legislature is limiting them on both sides of the equation

Officials from **Clinton County** note Clinton County has 15,357 motor vehicles that are 10 years old or older and 1,516 pieces of farm machinery that are 10 years old or older. Under the new depreciation schedule in SB 8, the county would expect to lose $1.34 million on motor vehicles and nearly $96,000 on farm machinery.

Officials from **Cole County** note Cole County has 49,146 motor vehicles that are 10 years old or older. Under the new depreciation schedule in SB 8, the county would expect to lose $2.2 million in personal property tax on those vehicles

Officials from **Dallas County** note their County has nearly 12,100 motor vehicles that are 20 years old or older and 21,750 motor vehicles that are 10 years old or older, which makes up for 74% of the motor vehicles in Dallas County.

Dallas County says 75% of the farm machinery in the county is over 10 years old. This will cause a $1,457,991 decrease in assessed value which is about a $70,000 loss in tax revenue.

Officials from **Franklin County** note the county has nearly 25,000 motor vehicles that are 20 years or older, and more than 58,500 motor vehicles that are 10 years or older. If SB 8 is implemented, Franklin County projects its assessed valuation on motor vehicles to decrease by $70.6 million.

Franklin County also has more than 4,900 pieces of farm machinery that is 10 years or older and projects the assessed valuation on those items will decrease by $1.1 million.

Officials from **Greene County** note the county has 168,311 motor vehicles that are 10 years old and older and applying the new depreciation scheduled in SB 8 could cause a revenue loss of nearly $16 million. The county has 2,991 items registered as farm machinery and would expect a loss of more than $97,000 in tax revenue if 8B 8 is implemented.

Officials from **Harrison County** note the county had an assessed valuation of more than $8.86 million on vehicles that were 10 years old or older in 2022. If SB § is implemented the projected loss in assessed valuation would be $8.85. The estimated loss in assessed valuation for farm machinery in the county would be more than $2.8 million.

Officials from **Holt County** note Holt County has nearly 6,200 motor vehicles in the county that are 10 years old or older and 3,201 that are 20 years old and older. The fiscal impact on the county if the new depreciation schedule in SB 8 is implemented would be a revenue loss of more than $291,000, the revenue impact on farm machinery 10 years old or older would be a loss of more than $133,000,

Officials from **Lincoln County** note the county estimates it has 44,000 vehicles in the county that are 10 years old or older and 23,000 vehicles that are 20 years old or older. If the depreciation schedule change in SB 8 on motor vehicles and farm machinery was implemented, it could take the normal assessment value of more than $50 million on those motor vehicles/farm machinery 10 years old or older in the county and drop it to an assessed valuation of more than $46,000.

Officials from **Miller County** note the bill would basically zero out 34,921 items (all motorized vehicles and farm machinery older than 10 years.

Officials from **Newton County** note the county has 55,516 motor vehicles that are 10 years old or older and 26,442 motor vehicles that fall into the category of 20 years old or older. If the depreciation schedule in SB 8 was implemented the county projects a tax revenue loss of nearly $3 million.

Newton County has 1,665 pieces of farm machinery in its county but is unable to identify how many of those pieces are 10 years old or older at this time.

Officials from **Nodaway County** note according to county officials, there are more than 17,251 motor vehicles that are 10 years old and older, which would account for more than $935,000 loss in tax revenue generated from those vehicles.

Officials from **Oregon County** note Oregon County has 9,719 motor vehicles/farm machinery that are 10 years old or older in the county and that the tax revenue generated from the personal property on those items will be significantly reduced.

Officials from **Pettis County** note the county projects a loss of $1.5 million in tax revenue the depreciation table in SB 8 is used on motor vehicles and farm machinery over 10 years old or older. The county also projection a loss of more than $134,000 on farm machinery that is 10 years old or older is the depreciation schedule in SB 8 is implemented.

Officials from **Phelps County** note the amount of tax revenue lost by the taxing entities in the county if the new depreciation schedule was implemented on motor vehicles and farm machinery 10 years old or older would be more than $612,000. The county has 22,445 motor vehicles that are 10 years old or older and 746 pieces of farm machinery that is 10 years old or older.

Officials from **Ralls County** note the county has 13,207 vehicles that are 10 years old or older and, if the new depreciation scheduled in SB 8 was implemented, county officials project a $12.56 million loss in assessed value.

Officials from **Randolph County** note the county has more than 8,000 motor vehicles that are 10 years old or older and would stand to lose $772,000 if the new depreciation table was implemented.

Officials from **Scotland County** note 64% of the vehicles assessed in Scotland County are 10 years old or older

Officials from **Scott County** note the county has more than 45,000 vehicles with more than 29,000 of them being 10 years old and older. Scott County projects a loss of more than $2.3 million from vehicles that are 10 years old or older. The county also has 1,624 items dedicated as farm machinery with more than 1,300 being 10 years old or older. The estimated loss on tax revenue from farm machinery if SB 8 was implemented would be nearly $450,000.

Officials from **Shelby County** note this will have a huge impact on the assessed valuation of Shelby County.

There will be an estimated assessed valuation loss of $23,710,683 by using this new 10 year depreciation schedule on vehicles and farm equipment. That is 54% of the county's total personal property valuation in Shelby County and would be an estimated loss in tax revenue in excess of $1,707,169 to taxing entities. There is no clear answer as to how these revenue losses will be replaced.

Officials from **St Clair County** assume SB 8 would negative affect the county's budget, as well as other taxing entities in the county. As a rural county, St. Clair County does not take in much sales tax revenue to offset any loss of tax revenue on personal property tax.

At this time, the county cannot determine the number of vehicles in the county that are 10 years old or older but does project that 75% of the farm equipment would be over 10 years of age. This new depreciation schedule in SB 8 would impact tax revenue generated from farm machinery is already assessed at a lower percentage of 12%.

Officials from **Sullivan County** note a loss of $315,000 in tax revenue on 6,173 motor vehicles 10 years old or older due to the new depreciation schedule in SB 8. Farm machinery 10 years old or older is estimated to generate $152,000 less in tax revenue because of the depreciation schedule in SB 8.

Officials from **Washington County** note the number of motor vehicles in the county 10 years old or older stands at 21,749.

Officials from **Andrew County** state they have 64% of vehicles 11 years and older. This will shift the short fall to the real-estate. Then the county will need to increase the values higher and higher and they are having problems keeping up with the market as it is. And to make it worse they are adding farm machinery to the 10 year table. Andrew County is running at 89% on farm machinery that is over 10 years old. The County has items that will last 30-50 years and more.

Section 135.2560 SUCCESS Tax Credit

Officials from the **Department of Revenue (DOR)** and the **Office of Administration – Budget & Planning (B&P)** note:

Beginning tax year 2024, this proposal would grant a tax credit for qualifying dependent care expenses. A tax credit of $1,800 shall be granted for expenses incurred for children ages 0-1 and a tax credit of $1,200 shall be granted for expenses incurred for children ages 2-5. B&P notes that this tax credit is non-refundable, cannot be carried forward or back, and is not transferrable.

In order to qualify for this deduction, a taxpayer must qualify for the federal dependent care deduction. In addition, taxpayers must have a Missouri adjusted gross income (MAGI) of $75,000 ($150,000 married filing combined) or less. Furthermore, an eligible taxpayer may only claim expenses for up to two children per year.

Based on IRS data there were 95,930 Missouri resident income tax returns that claimed the child and dependent credit in tax year 2020. Based on tax return data, B&P notes that on average, single and married filing combined returns claim one child dependent, while head of household returns claim an average of two dependents. Therefore, B&P estimates that 81,160 children could qualify under this proposal.

Using the 2020 U.S. Census population counts, B&P estimates that of the 81,160 children 26,424 are ages 0-1 and 54,736 are ages 2-5. Table 1 shows the estimated number of children by filing status and age.

Table 1: Estimated Qualifying Children by Filing Status

Filing Status	Children 0-1	Children 2-5	Total
Single	687	1,420	2,107
Head of Household	8,093	16,763	24,856
Married Filing Joint	17,644	36,553	54,197
Total	26,424	54,736	**81,160**

Using actual income tax liability data, B&P estimates that this proposal could reduce TSR and GR by $90,770,317 annually, beginning FY25. Table 2 shows the estimated impact by filing status.

Table 2: Estimated Tax Credits by Filing Status

Filing Status	Est. Credits
Single	$1,510,037
Head of Household	$18,046,508
Married Filing Joint	$71,213,772
Total Credits	**$90,770,317**

Oversight notes the proposal allows tax credits for two groups of filing with limits given as follow:

a) $1,800 for children under 1 to under 2 years of age
b) $1,200 for children 2 to under 6 year of age

Oversight used Department of Health and Senior Services data in order to calculate the probable participation as follow:

Children Age	**2018**	**2019**	**2020**
Under 1 to 2 y/o	221,817	217,996	217,071
2 y/o only	74,757	73,808	74,162
under 1 but under 2 y/o	**147,060**	**144,188**	**142,909**
2 to 6 y/o	375,745	375,031	376,627
6 y/o	75,023	75,161	76,052
2 but under 6 y/o	**300,722**	**299,870**	**300,575**
Total children under 1 to under 2 and 2 to under 6 y/o	**447,782**	**444,058**	**443,484**
under 1 but under 2 y/o	33%	32%	32%
2 but under 6 y/o	67%	68%	68%
children apportionment per family	186,576	185,024	184,785
2.4 children per family in this period			

w/ Labor participation 63.1% in 2020	117,729	116,750	116,599
Labor Participation 2020			
under 1 but under 2 y/o	**38,665**	**37,909**	**37,573**
2 but under 6 y/o	**79,065**	**78,841**	**79,026**
under 1 but under 2 y/o	$ 69,596,145.00	$ 68,236,971.00	$ 67,631,684.25
2 but under 6 y/o	$ 94,877,791.00	$ 94,608,985.00	$ 94,831,412.50
Total tax credits for both groups	$ 164,473,936	$ 162,845,956	$ 162,463,097
Total Average for the 2018-2020 period	**$ 163,260,996**		

Oversight notes the total tax credit expenditure of $163,260,996 would be applicable if all parents file tax return and have liability with minimum of $1,200 or $1,800 dollar because the tax credit, as per Section 135.2560.3 and .4, is not refundable and not transferable.

Oversight notes that according to the IRS statistics there were 3,009,120 tax filings and 2,105,890 filings have the type of tax liability that would be applicable to the proposal.

Oversight notes that 69.9 percent (2,105,890/3,009,890) of filers in 2020 would be potentially eligible for the tax credit.

Oversight estimates the total tax credit that could be potentially awarded in 2020 would have been $114,119,436 ($163,260,996 x 69.9 percent), thus Oversight assumes, since the DOR provided estimate is based on Missouri taxpayer data, the DOR & B&P projected impact has a greater level of accuracy. Therefore, **Oversight** will note the DOR & B&P estimate in the fiscal note beginning in FY 2025.

Oversight notes the DOR assumes the need for ten (10) Associate Customer Service Representatives (at $31,200 annually) based on the estimate of the 130,000 returns annually. Therefore, Oversight will note the estimated cost of FTE (for 6 months) in the fiscal note beginning FY 2025.

Section 143.011, 143.071, 143.125 – Individual Tax Rate, Corporate Income Tax Reduction, and Social Security Benefit Tax Exemption

Section 143.011 Individual Income Tax Rate Reduction

Officials from the **Department of Revenue (DOR)** note the current individual income tax rate for tax year 2023 is 4.95% per SB 3 (2022) and is projected to be 4.8% for tax years 2024 & 2025. Per SB 3, the individual income tax rate is then scheduled to drop over a period of years to 4.5% based on certain state revenue growth. The Department is unable to determine when these scheduled drops in the rate will actually occur, but for fiscal note purposes only, DOR will assume they will drop over the next consecutive years.

This provision changes the rate for tax year 2024 to 4.5% and then allows the rest of the SB 3 rate reductions to continue for tax year 2024 and beyond. Therefore, the current and proposed rates are:

Current and Proposed Income Tax Rates

Tax Year	Current (assumed) Rate	Proposed Rate
2024	4.8%	4.50%
2025	4.8%	4.50%
2026	4.7%	4.35%
2027	4.6%	4.25%
2028	4.5%	4.15%
2029+	4.5%	4.05%

The Department used its internal Income Tax Model that contains confidential taxpayer data to estimate the fiscal impact. The model calculates the calendar/tax year impact, then converts the data to fiscal year using a 42% in the first year and 58% in the second year split for conversion. The loss to General Revenue is projected as follows:

By Tax Year

Tax Year	Amount
2024	($343,871,165)
2025	($342,453,209)
2026	($404,858,833)
2027	($406,254,255)
2028	($407,377,145)
2029	($522,057,242)

By Fiscal Year

Fiscal Year	Loss to GR
2024	($143,830,348)

2025	($343,275,623)
2026	($368,663,571)
2027	($405,444,910)
2028	($406,725,869)
2029	($455,542,786)
2030	($522,057,242)

This provision will require modification to the MO-1040 form and to the MO-1040P form. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would reduce the top income tax rate to 4.5% starting tax year 2024. B&P notes that this proposal retains the income tax reductions that are scheduled to occur under current law.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in

FY23, FY25, FY26, and FY27 will reach the SB 3 (2022) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced in tax years 2024 (0.15%), 2026 (0.1%), 2027 (0.1%), and 2028 (0.1%) under SB 3 (2022). Table 1 shows the current versus proposed individual income tax.

Table 1: Current Top Tax Rate vs Proposed Rate

Tax Year	Current	Proposed
2023	4.95%	N/A
2024	4.80%	4.50%
2025	4.80%	4.50%
2026	4.70%	4.35%
2027	4.60%	4.25%
2028	4.50%	4.15%
2029	4.50%	4.05%

**Assumes SB 3 (2022) reductions are triggered for tax years: 2026, 2027, 2028 and 2029.*

Using tax year 2020 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 3 (2022), B&P estimates that this section may reduce tax collections by $344.9 million for calendar year 2024. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $523.6 million annually. Table 2 shows the assumed top tax rates and estimate impact by calendar year.

Table 2: Impact by Tax Year

Tax Year	GR Impact
2024	($344,891,233)
2025	($343,473,426)
2026	($400,574,060)
2027	($399,107,738)
2028	($408,594,464)
2029	($523,616,279)

However, because this proposal would take effect January 1, 2024 individuals will adjust their withholdings and declarations during FY24. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision will reduce TSR and GR by $144.9 million in FY24. Once SB 3 (2022) has been fully implemented in FY29, and annually thereafter, this proposal may reduce TSR and GR by $523.6 million. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Impact by Fiscal Year

Fiscal Year	GR Impact
2024	($144,854,318)
2025	($344,295,754)
2026	($367,455,692)
2027	($399,958,205)
2028	($403,092,163)
2029	($456,903,626)
2030	($523,616,279)

Section 143.071 Corporate Income Tax Rate Reduction

Officials from the **Department of Revenue (DOR)** note the current corporate tax rate is 4% a year. The FY 2022 net collections were $711.1 million. Starting January 1, 2024, this proposal will reduce the corporate tax rate to 2% for tax year 2024. Since this proposal is effective January 1, 2024 it is assumed only 6 months of collections will be impacted in FY 2024.

Then starting in tax year 2026, this proposal provides that another 1% reduction can occur if the amount of revenue received in FY 2025- 2026 exceeds the FY 2024-2025 collections by $50 million. If it does, the 1% rate reduction will occur starting the following tax year. Therefore, the earliest this reduction could occur is tax year 2027.

Additionally in Section 143.071.6, this proposal establishes a procedure by which the corporate tax rate could be reduced to zero. It says that if the FY 2028 net general revenue collections are greater than $250 million over the FY 2027 net general revenue collections then the corporate rate will be reduced to zero. At this time, the Department is unable to predict if reducing the corporate rate to 1% would increase revenue by the $250 million for the trigger.

This provision then allows a final reduction to 0% if it meets the $250 million trigger. This will result in a loss to general revenue.

Corporate Rate Reduction	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	($177,765,669)	($355,531,338)	(355,531,338)	($444,414,173)	($533,297,007)	($711,062,676)

This provision in Section 143.071.8(1) states that upon the corporate tax rate being eliminated, corporations would no longer be allowed to claim tax credits. Many of the state tax credits are allowed to be sold, transferred and assigned and it is assumed corporations would continue that practice. Additionally, some companies may choose to no longer participate in tax credit programs, freeing up credits for other organizations to claim.

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. However, section 143.071.8(2) states this proposal will not cause a reduction or elimination of the financial institutions tax under Chapter 148. Therefore this provision will not have a fiscal impact.

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. This proposal will eventually be a 100% reduction in the corporate tax so the financial institutions tax would also have a 100% decrease. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2022, DOR collected $53,870,066 in tax. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The tax rates are expected to be:

Tax Year	Corporate Rate	Financial Institutions Rate
2023 current	4.0%	4.48%
2024	2.0%	2.24%
2025	2.0%	2.24%
2026	2.0%	12.24%
2027	1%%	1.12%
2028	0%	0%
2029	0%	0%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2020 tax year (the most recent complete tax year data) to calculate the fiscal impact.

State and Local Impact from Corporate Rate Reduction

	FY24	FY25	FY26
State Impact			
Corporate Tax Rate Reduction	($177,765,669)	($355,531,338)	($355,531,338)
Financial Institutions Tax Rate Reduction (2%)	$0	($538,701)	($538,701)
Total GR Loss	($177,765,669)	($356,070,039)	($356,070,039)
Local Impact	FY24	FY25	FY26
Financial Institutions Tax Rate Reduction (98%)	$0	($26,396,332)	($26,396,332)

State and Local Impact from Corporate Rate Reduction (cont.)

	FY27	FY28	FY29
State Impact			
Corporate Tax Rate Reduction	($444,414,173)	($622,179,842)	($711,062,676)
Financial Institutions Tax Rate Reduction (2%)	($538,701)	($808,051)	($1,077,401)
Total GR Loss	($444,952,874)	($622,987,893)	($712,140,077)
Local Impact	FY27	FY28	FY29
Financial Institutions Tax Rate Reduction (98%)	($26,396,332)	($39,594,499)	($52,792,665)

This provision will result in changes needing to be made to computer programs and forms. These changes are estimated at $7,193.

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.071.4 will reduce the corporate income tax 2%, starting with tax year 2024.

Section 143.071.5 would reduce the corporate income tax rate by an additional 1%, when net corporate income tax collections exceed the amount of net corporate income tax collections in FY25. B&P notes that because the rate reduction could not start until the calendar year after the trigger was met, tax year 2027 (FY26 vs FY25 corporate revenues) is the first possible year for the reduced rate. For the purpose of this fiscal note, B&P will assume the reduction is triggered for tax year 2027.

Section 143.071.6 would allow an additional 1% reduction, taking the corporate tax rate to 0%, beginning as early as the year after a reduction is triggered under subsection 5. In order for the additional rate reduction to occur, net GR in the immediately preceding fiscal year must exceed the net GR in the fiscal year in which the tax reduction under subsection 5 is triggered, by at least $250 million. For the purpose of this fiscal note, B&P will assume that the additional rate reduction occurs as early as tax year 2028.

Table 4 shows the proposed corporate tax rates.

Table 4: Proposed Corporate Tax Rate

Tax Year	Current	Proposed
2023	4.00%	N/A
2024	4.00%	2.00%
2025	4.00%	2.00%
2026	4.00%	2.00%
2027	4.00%	1.00%
2028	4.00%	0.00%

*Assume Section 143.071.5 triggered for tax year 2027.
Assumes Section 143.071.6 triggered for tax year 2028.

B&P notes that under Section 148.720, RSMo the financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo.) shall be reduced by a proportional amount to any reduction in the corporate income tax. However, **Section**

143.071.8(2) states that the proposed tax rate reductions and elimination under Section 143.071 shall not impact the financial institutions tax.

In FY22, net corporate tax collections were $711,062,676 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by $355.5 million beginning with tax year 2024. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by $711.0 million annually. Table 5 shows the estimated impact by tax year.

Table 5: Estimated Impact by Tax Year

Tax Year	GR Impact
2024	($355,531,338)
2025	($355,531,338)
2026	($355,531,338)
2027	($533,297,007)
2028	($711,062,676)

* Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 triggered for tax year 2028.

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY24. Based on historic remittance patterns, B&P notes that corporate income tax collections are split approximately 50/50 between fiscal years. Table 6 shows the estimate impact on general revenue by fiscal year.

Table 6: Corporate Income Tax Reduction by Fiscal Year

Fiscal Year	GR Impact
FY24	($177,765,669)
FY25	($355,531,338)
FY26	($355,531,338)
FY27	($444,414,173)
FY28	($622,179,842)
FY29	($711,062,676)

* Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 triggered for tax year 2028.

Therefore, B&P estimates that this proposal could reduce TSR and GR by $177.8 million in FY24. Once fully implemented, this proposal could reduce TSR and GR by $711.0 million annually.

B&P notes that **Section 143.071.8(1)** would prevent the use of corporate tax income tax credits once the corporate income tax has been eliminated. B&P notes that the average amount of tax credits taken against corporate income tax was $92,343,664 from FY20 – FY22. However, B&P also notes that corporations could still sell or transfer tax credits. B&P further assumes that this would not impact withholding retention tax credits as they are not taken against corporate income tax, but are instead a retention of employee's individual income tax.

In addition, the use of net collections to estimate the potential impact from this proposal already includes the potential that corporate tax credits would no longer be redeemed. Therefore, removing the $92.3 million in corporate tax credits from the estimated impact would double count the potential revenue gain.

Section 143.125 Social Security Benefit Tax Exemption

Officials from the **Department of Revenue (DOR)** note this provision is changing the taxability of social security payments. Some social security benefits are taxable depending on the amount of income a person has at the federal level, while other amounts are not. Generally, at the federal level if a taxpayer's income is under $25,000 and they file as an individual or $35,000 if they file a combined return, the social security benefits are not taxable. For any income over those amounts then social security benefits are taxable and the taxable portion is calculated into the taxpayer's federal adjusted gross income (FAGI).

Under Missouri law, if social security benefits are included in a taxpayer's FAGI, and the taxpayer's MAGI is over $85,000 for an individual or $100,000 for those that file combined, their social security is taxable in Missouri. If a taxpayer has a MAGI of less than $85,000 for an individual or $100,000 for those filing combined, then they are allowed to deduction up to the social security maximum from their Missouri taxable income.

The maximum social security benefits a person receives is based on when they start to take the social security benefits and how much they paid into the system through the years. A person can take early social security benefits at 62 receiving a lesser amount of benefits. Social security benefits are considered full benefits starting at age 67, based on the year of a person's birth. The maximum social security benefits are given when a person does not take social security until they reach 70. The maximum social security benefit for 2023 is $43,524. It should be noted that social security annually adjusts the benefit numbers.

This provision starting January 1, 2024, will remove the MAGI limitation determining the taxable portion of social security. If a taxpayer included any portion of their social security benefits into their FAGI they will be allowed a deduction from their Missouri return up to the $43,524 limit of what they claimed in the FAGI.

While currently SB 3 adopted in 2022 set the individual income tax rate at 4.95% in tax year 2023 with the rate scheduled to continue to reduce over a period of several year, this bill is changing those rates. For fiscal note purposes, DOR will show the loss at each of this year's individual income tax rates for the implementation period. This will result in a loss to general revenue. DOR estimates the loss to general revenue:

Estimated Loss of Social Security Benefits					
Retirement Income	4.50%	4.35%	4.25%	4.15%	4.05%
Social Security	($144,686,314)	($139,863,436)	($136,648,185)	($133,432,934)	($130,217,682)

Therefore, it could result in a loss to general revenue.

Table 2: Estimated Loss by Fiscal Year of Social Security Benefits

	Tax Year (Fiscal Year)			
Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.50%	($144,686,314)	($144,686,314)	($144,686,314)	($144,686,314)
4.35%	($139,863,436)	($139,863,436)	($139,863,436)	($139,863,436)
4.25%		($136,648,185)	($136,648,185)	($136,648,185)
4.15%			($133,432,934)	($133,432,934)
4.05%				($130,217,682)

This provision will require modification to the MO-1040, MO-A, and the MO-1040P forms. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

B&P This section would eliminate the income limits for the individual income tax exemption for social security payments beginning with tax year 2024. Currently taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than $100,000. All other taxpayers may exempt 100% of social security income if their MAGI is equal to or less than $85,000.

This proposal would allow all taxpayers, regardless of income, to subtract up to the maximum social security benefit. To prevent double counting the potential revenue impact, B&P will reflect the potential impact under the proposed income tax brackets found in Section 143.011.

Based on data published by the IRS, B&P estimates that this section may exempt $689,197,344 in social security payments for taxpayers filing single, $172,665,756 for taxpayers filing head of household, and $2,353,388,312 for married filing joint taxpayers; for a total of $3,215,251,412 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from this proposal and SB 3 (2022).

B&P estimates that this section could reduce TSR and GR by $144,686,314 (top tax rate 4.5%) or by $139,863,436 (top tax rate 4.35%) in FY25. Once this proposal and SB 3 (2022) have fully implemented, this section could reduce TSR and GR by $130,217,682 annually.

Table 7: Social Security Subtraction by Fiscal Year

	Tax Year (Fiscal Year)			
Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.50%	($144,686,314)	($144,686,314)	($144,686,314)	($144,686,314)
4.35%	($139,863,436)	($139,863,436)	($139,863,436)	($139,863,436)
4.25%		($136,648,185)	($136,648,185)	($136,648,185)
4.15%			($133,432,934)	($133,432,934)
4.05%				($130,217,682)

DOR notes this proposal will impact general revenue, from the income tax rate changes, the corporate tax rate changes, and the increased social security exemption. This is estimated to result in a loss.

Impact to State & Local Funds			
	FY 2024	FY 2025	FY 2026
State Funds			
General Revenue	($529,203,544)	($1,000,274,652)	($997,311,039)

	FY 2027	FY 2028	FY 2029
State Funds			
General Revenue	($1,085,319,333)	($1,171,895,932)	($1,172,329,200)

Oversight will note the one-time cost, estimated at **$21,579** associated with the updates of DOR's income tax system for all sections within the proposal, in the fiscal note beginning FY 2024.

B&P estimates that this proposal could TSR and GR by $533,813,650 in FY24. Once the individual and corporate income tax changes have fully implemented, this proposal may reduce TSR and GR by $1,181,372,377. Table 8 shows the estimated impact by provision and fund.

Table 8: Summary Impact

State Funds	FY 2024	FY 2025	FY 2026
General Revenue			
Individual Income Tax*	($216,184,545)	($513,904,998)	($514,160,410)
Corporate Income Tax**	($177,765,669)	($355,531,338)	($355,531,338)
Social Security Subtraction*	($139,863,436)	($139,863,436)	($136,648,185)
Total GR Impact	**($533,813,650)**	**($1,009,299,772)**	**($1,006,339,933)**
Total State Revenue Impact	**($533,813,650)**	**($1,009,299,772)**	**($1,006,339,933)**

*Assumes SB 3 (2022) reductions are triggered for tax years: 2024, 2026, 2027, and 2028.

**Assume Section 143.071.5 triggered for tax year 2027.
Assumes Section 143.071.6 triggered for tax year 2028.

Table 9: Summary Impact

State Funds	FY 2027	FY 2028	FY 2029
General Revenue			
Individual Income Tax*	($516,510,294)	($517,423,171)	($517,857,688)
Corporate Income Tax**	($444,414,173)	($622,179,842)	($711,062,676)
Social Security Subtraction*	($133,432,934)	($130,217,682)	($130,217,682)
Total GR Impact	**($1,094,357,400)**	**($1,269,820,694)**	**($1,359,138,046)**
Total State Revenue Impact	**($1,094,357,400)**	**($1,269,820,694)**	**($1,359,138,046)**

*Assumes SB 3 (2022) reductions are triggered for tax years: 2024, 2026, 2027, and 2028.
**Assume Section 143.071.5 triggered for tax year 2027.
Assumes Section 143.071.6 triggered for tax year 2028.

Officials from the **Department of Commerce and Insurance** 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 agency.

Oversight is unsure when the two triggers for the corporate income tax reduction would occur. For simplicity, **Oversight** will show them as fully implemented in an unknown fiscal year.

Section 144.030 Diaper and Feminine Hygiene Product Sales Tax Exemption

Officials from the **Department of Revenue (DOR)** Section 144.030 outlines all the products that are exempt from sales tax. In Section 144.030.2(18) the sales of all durable medical equipment as defined on January 1, 1980 by the Medicare program is exempt. This current wording allows the state to have rolling compliance with the Medicare program however, it is limited to only as the Medicare program existed in 1980. Due to medical advances, new products have been brought on the market that are considered durable medical goods at the federal level but not at the state level. As of December 2022, the Department is aware of two such devices; one device used to treat glioblastoma and mesothelioma and a second device is an embolization device used to prevent brain aneurysms.

This proposal would remove the limitation that the device have been covered as of January 1, 1980. This proposal may expand the sales tax exemption to new devices in the future and result in forgone revenue in the future. The Department is not able to estimate the impact from future devices being sales tax exempt. The Department will estimate the impact from the two devices they know about.

Brain Cancer Devices
This proposal would allow the sales of all class III medical devices that use electric fields for the purposes of the treatment of cancer to be exempt from all state and local sales and use taxes. This exemption would begin August 28, 2023. Class III medical devices are those devices that have a high risk to the patient and/or user. These devices usually sustain or support life, are implanted, or present potential unreasonable risk of illness or injury. They represent 10% of medical devices regulated by the FDA. These devices are used for treating glioblastoma and mesothelioma.

The Department is aware that one company makes two devices, one for glioblastoma and one that treats mesothelioma. These devices cost approximately $21,000 a month each or $252,000 annually. The manufacturer estimates that approximately 7.2% of all patients with these conditions use their product. According to the CDC approximately 466 individuals have brain and other nervous system cancers and 55 individuals have mesothelioma in Missouri.

Since glioblastoma accounts for about 17% of all brain cancers, DOR will assume that 79 Missourians have glioblastoma and 55 have mesothelioma.

Applying the 7.2% percentage to the number of Missouri residents with these conditions they estimate that 6 Missourians are using it for glioblastoma and 4 are using it for mesothelioma and will qualify for the sales tax exemption annually.

At a cost of $252,000 per year per person, they note that this would result in taxable sales of $2,520,000. This proposal removes both the state sales tax (4.225%) and the local sales tax (4.07% weighted average local tax rate). The current state tax rate is distributed as:

General Revenue is	3%	
School District Trust Fund is	1%	(Section 144.701)
Conservation Commission Fund is	.125%	(Article IV, Section 43(a))
Parks, Soil & Water Funds	.1%	(Article IV, Section 47(a))

This would result in a loss to the state of $106,470 in total state revenue.

		10/12 Year	Full Year
General Revenue	3%	($63,000)	($75,600)
School District Trust	1%	($21,000)	($25,200)
Conservation Commission	0.125%	($2,625)	($3,150)
Park, Soil & Water	0.10%	($2,100)	($2,520)
Total State Revenue		($88,725)	($106,470)
Local	4.07%	($85,470)	($102,564)

Embolization Devices
The Department is aware there is a device that is used to treat brain aneurysms. It is an embolization device that costs about $1,000.

Approximately 300,000 people in the U.S., and 570 in Missouri have a ruptured brain aneurysm each year. Therefore up to $570,000 ($570 patients * $1,000 device) could be exempt from state and local taxes annually.

The Department estimates that this provision may reduce total state revenue by $24,083 per year.

		10/12 Year	Full Year
General Revenue	3.00%	($14,250)	($17,100)
School District Trust	1.00%	($4,750)	($5,700)
Conservation Commission	0.125%	($594)	($713)
Park, Soil & Water	0.10%	($475)	($570)
Total State Revenue		($20,069)	($24,083)

Local	4.07%	($19,333)	($23,199)

Wheelchair accessories

This proposal would add wheelchair accessories to the list of devices that will be considered tax exempt. Wheelchairs and some accessories are already tax exempt while other accessories are not. The Department notes that when most accessories are purchased with the wheelchair, such as a seatbelt or restraints those accessories are tax exempt. However, sometimes when a taxpayer buys those accessories later those accessories may be subject to sales tax. This proposal will make it clear that all the accessories are considered tax exempt regardless of when purchased. Due to the limited sales tax the impact of this provision is unknown but it is anticipated to be minimal.

These provisions would require a change to the sales and use tax forms, to their website and to their tax computer system. The estimated costs of these changes is $14,386.

Beginning August 28, 2023, the tax levied and imposed under Chapter 144 (Section 144.030.2(47)) on all retail sales of kid's diapers and adult diapers as well as feminine hygiene products shall be exempt from taxation. This exemption extends to the local sales tax rate as well as the state sales tax rate. The current state sales tax rate of is 4.225%. DOR notes they use a 4.07% weighted average local tax rate. The current state tax rate is distributed as:

General Revenue is	3%	
School District Trust Fund is	1%	(Section 144.701)
Conservation Commission Fund is	.125%	(Article IV, Section 43(a))
Parks, Soil & Water Funds	.1%	(Article IV, Section 47(a))

<u>Kid Diapers</u>
The Department notes that the average child wears diapers for three years before becoming fully toilet trained. DOR found the price of diapers vary from $0.16 per diaper for generics to $0.60 for name brand. Prices of diapers also depend on the size of the diaper. Estimates by various children's organizations indicate that an infant in the first year of life goes through 2,500 diapers. The next two years as toddlers they go through 1,500 diapers annually.

Wearing Diaper	How Many	Low Price per Diaper	High Price per Diaper	Total Cost Low	Total Cost High
First Year (Size 1)	2,500	0.16	0.31	400	775
Second Year (Size 3)	1,500	0.18	0.38	270	570
Third Year (Size 5)	1,500	0.29	0.60	435	900

Based on the Department of Health and Senior Services, the average number of resident births from 2018-2020 was 71,554. Given that 3 years' worth of children are wearing diapers in any one year (1 set of infants and 2 sets of toddlers) DOR estimates the following:

Births Annually	71,554
# of kids in Diapers Annually	214,662
# of Diapers Annually	
infant	178,885,000
toddler (2yrs)	214,662,000
total (kids * diapers)	393,547,000

Since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

State Funds	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	($1,976,679)	($4,015,968)	($2,372,015)	($4,819,162)
School Districts	($658,893)	($1,338,656)	($790,672)	($1,606,387)
Conservation	($80,714)	($163,985)	($96,857)	($196,782)
Park, Soil & Water	($65,889)	($133,866)	($79,067)	($160,639)
Local Funds	($2,681,695)	($5,448,330)	($3,218,034)	($6,537,996)

<u>Adult Diapers</u>
Approximately one third of adults age 65 and older have moderate to severe urinary incontinence and 6 percent had moderate to severe bowl incontinence. According the United State Census Bureau 2020 population report, 1,033,384 individuals residing in Missouri were 65 or over. The Department notes that it is estimated that people with minor to moderate incontinence wear approximately 4 diapers per day while those with those with full urinary or fecal incontinence wear 6 diapers per day. The Department estimates that approximately 341,017 individuals aged 65 and over would utilize the four adult urinary incontinence diapers while 62,003 would wear 6 adult diapers daily.

The average cost for urinary incontinence diapers is $1.33 per diaper.

Number of people	# of Diapers	Days per year	Total Diapers per person	Price per diaper	Total Sales
279,014	4	365	1460	1.33	541,788,764
62,003	6	365	2190	1.33	180,596,255
					722,385,018

Since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

State Funds	FY 2024 (10 months)	FY 2025+
General Revenue	($18,059,625)	($21,671,551)
School Districts	($6,019,875)	($7,223,850)
Conservation	($752,484)	($902,981)
Park, Soil & Water	($601,988)	($722,385)
Local Funds	($24,500,892)	($29,401,070)

<u>Feminine Hygiene Products</u>
Information from numerous sources indicates that a women menstruates 500 times in her lifetime, usually between the ages of 13-51. The average length of a period is 3-7 days. Sources indicate that a woman uses the following:

	Number per cycle	Number per year	Number in Box	Boxes per year
Tampons	20	260	36	7.22
Pads/Panty Liners	5	65	36	1.81

Note a woman has 13 cycles a year (28 day cycle)/352 days a year.

The price per tampons and pads vary. DOR used a low and high price when determining the fiscal impact.

	Price Low	Price High	Total Cost Low	Total Cost High
Tampons	$7.00	$10.00	$50.56	$72.22
Pads/Panty Liners	$7.00	$10.00	$12.64	$18.06
			$63.19	$90.28

Using information from the US Census Bureau (2020 ACS 5 year estimates), DOR calculated the number of women having a period in Missouri (those between 13 and 51) as 1,543,060.

Since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

	FY 2024 (10 months)		FY 2025 +	
	Low	High	Low	High
General Revenue	($2,437,820)	($3,482,601)	($2,925,384)	($4,179,121)
School	($812,607)	($1,160,867)	($975,128)	($1,393,040)
Conservation	($101,576)	($145,108)	($121,891)	($174,130)
Park, Soil & Water	($81,261)	($116,087)	($97,513)	($139,304)
	$0	$0	$0	$0
Locals	($3,307,310)	($4,724,728)	($3,968,772)	($5,669,674)

<u>Summary</u>

DOR notes this proposal would require one time computer programming changes and form changes. This is estimated to cost $7,193.

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes the DOR could absorb the form and programming costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

This will reduce state and local revenues by the following:

State Funds	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	($22,474,125)	($25,558,194)	($26,968,950)	($30,669,833)
School Districts	($7,491,375)	($8,519,398)	($8,989,650)	($10,223,278)
Conservation	($934,775)	($1,061,578)	($1,121,730)	($1,273,894)
Park, Soil & Water	($749,138)	($851,940)	($898,965)	($1,022,328)
Local Funds	($30,489,896)	($34,673,950)	($36,587,876)	($41,608,740)

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt all sales of diapers from sales tax beginning August 28, 2023.

<u>Feminine Hygiene Products</u>

Based on information from multiple sites, B&P estimates that women purchase an average of 6.8 to 7.2 boxes of tampons (average price $7 to $15) and 1.7 to 1.8 boxes (average price $6 to $15) of pads and liners per year (using the average cycle length of 28 to 30 days). B&P was also able to determine that the average age for menstruation is 12-51, and based on data provided by the United State Census 2020 population estimates (the most recent complete year available), there are approximately 1,552,606 woman between those ages residing in Missouri.

Therefore, B&P estimates total sales of $89,202,965 to $210,826,336 may be impacted by this proposal. B&P estimates that this provision could reduce TSR by $3,768,825 to $8,907,413 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by $3,630,561 to $8,580,632 annually.

Diaper (Child) Sales Tax Exemption
Based on research, B&P found that the average amount spent on diapers was $1,000 during the first year and then $500 to $900 per year until toilet trained. Based on information from the University of Michigan Hospital, the average age until children are toilet trained is 2.5 years. Based on information provided by the United State Census 2020 population estimates (the most recent complete year available), there were approximately 217,943 children living in Missouri ages 0-2 years old, with 71,649 being less than one year old.

Therefore, B&P estimates total sales of $144,796,000 [(71,649 x $1,000) + (146,294 children x $500)] up to $194,535,960 [(71,649 x $1,000) + (146,294 children x $900)] may be impacted by this proposal. B&P estimates that this provision could reduce TSR by $6,117,631 to $8,219,144 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by $5,893,197 to $7,917,614 annually.

Diaper (Adult) Sales Tax Exemption
According to research completed by the CDC, approximately 25% of adults age 65 and up had moderate to severe urinary incontinence and 8% had moderate to severe bowel incontinence. B&P notes that according the United State Census 2020 population (the most recent complete year available) estimates there were approximately 1,089,714 individuals residing in Missouri age 65 and over.

Based on these numbers, B&P estimates that approximately 272,429 (1,089,714 x 25%) individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 87,177 (1,089,714 x 8%) individuals residing in Missouri age 65 and over would utilize adult bowel incontinence diapers.

Based on information from a budgeting website, the average cost for urinary incontinence diapers is $100 to $240 per month, for a yearly cost of $1,200 to $2,880. Further information from the budgeting website lists the average monthly bowel incontinence diapers is $70 to $210 per month, for a yearly cost of $840 to $2,520.

B&P estimates that total annual sales for urinary incontinence adult diapers would be approximately $326,914,200 (272,429 people x $1,200 annual cost) up to $784,594,080 (272,429 people x $2,880 annual cost).

B&P further estimates that the total annual sales for bowel incontinence adult diapers would be $73,228,781 (87,177 people x $840 annual cost) up to $219,686,342 (87,177 people x $2,520 annual cost).

Therefore, B&P estimates total sales of $400,142,981 ($326,914,200 + $73,228,781) up to $1,004,280,422 ($784,594,080 + $219,686,342) may be impacted by this proposal. B&P estimates that this provision could reduce TSR by $16,906,041 to $42,430,848 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by $16,285,819 to $40,874,213 annually.

Summary
B&P estimates that this proposal may reduce TSR by $22,327,081 to $49,631,171 during FY24. Once fully implemented in FY25, this proposal may reduce TSR by $26,792,497 to $59,557,405 annually. In addition, this proposal could reduce local sales taxes by $25,809,577 to $57,372,459 annually. Table 1 shows the estimated impact by provision and fund.

Table 1: Total Estimated Loss by Provision and Fund

State Fund	FY24		FY25+	
General Revenue				
Feminine Hygiene	(2,230,074)	(5,270,658)	(2,676,089)	(6,324,790)
Diapers – Child	(3,619,900)	(4,863,399)	(4,343,880)	(5,836,079)
Diapers – Adult	(10,003,575)	(25,107,011)	(12,004,289)	(30,128,413)
Total GR Loss	**(15,853,549)**	**(35,241,068)**	**(19,024,258)**	**(42,289,282)**
Education				
Feminine Hygiene	(743,358)	(1,756,886)	(892,030)	(2,108,263)
Diapers – Child	(1,206,633)	(1,621,133)	(1,447,960)	(1,945,360)
Diapers – Adult	(3,334,525)	(8,369,004)	(4,001,430)	(10,042,804)
Total Education Loss	(5,284,516)	(11,747,023)	(6,341,419)	(14,096,427)
Conservation				
Feminine Hygiene	(92,920)	(219,611)	(111,504)	(263,533)
Diapers – Child	(150,829)	(202,642)	(180,995)	(243,170)
Diapers – Adult	(416,816)	(1,046,125)	(500,179)	(1,255,351)
Total Conservation Loss	(660,565)	(1,468,378)	(792,677)	(1,762,053)
DNR				

Feminine Hygiene	(74,336)	(175,689)	(89,203)	(210,826)
Diapers – Child	(120,663)	(162,113)	(144,796)	(194,536)
Diapers – Adult	(333,452)	(836,900)	(400,143)	(1,004,280)
Total DNR Loss	(528,452)	(1,174,702)	(634,142)	(1,409,643)
Total TSR Loss	**(22,327,081)**	**(49,631,171)**	**(26,792,497)**	**(59,557,405)**
Local Funds				
Feminine Hygiene	(3,025,467)	(7,150,527)	(3,630,561)	(8,580,632)
Diapers – Child	(4,910,998)	(6,598,011)	(5,893,197)	(7,917,614)
Diapers – Adult	(13,571,516)	(34,061,844)	(16,285,819)	(40,874,213)
Total Local Loss	**(21,507,981)**	**(47,810,382)**	**(25,809,577)**	**(57,372,459)**

Oversight notes both DOR & B&P assume this proposal will have a negative fiscal impact to both state and local funds. Therefore, Oversight will show B&P's and DOR's lowest and highest projected fiscal estimates to show the minimum low and maximum impact of this proposal.

Officials from the **City of Kansas City** and the **City of Springfield** each assume this proposal would have a negative fiscal impact on their respective cities in an indeterminate amount.

Oversight notes the above local political subdivisions stated this proposal would have a negative fiscal impact on their respective city/county of an indeterminate amount. Therefore, Oversight will note B&P and DOR's estimates for all local political subdivisions on the fiscal note.

Officials from the **Missouri Department of Conservation** assume this proposal would have an unknown fiscal impact. 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. The Department defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax of the Missouri Constitution, thus MDC=s sales taxes are constitutional mandates. Oversight notes the proposed sales tax exemption would decrease the amount of sales tax revenue distributed to the Conservation Sales Tax Fund. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for MDC's funds.

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

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. Oversight notes the proposed sales tax exemption would decrease the amount of sales tax revenue distributed to the Park, Soil, and Water Sales Tax Fund. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for DNR's funds.

Officials from the **Department of Health and Senior Services** and the **Department of Social Services** each assume the proposal 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.

Section 144.030(47) Boat Dock Sales Tax Exemption

In response to the similar proposal, SB 513 -2023, officials from the **Department of Revenue (DOR)** note Sales tax is collected on all items that are tangible personal property unless expressly delineated in statutes to be exempt. There has been a growing confusion among taxpayers as to when and if they owe sales tax on boat docks. In Section 339.503 boat docks are considered real property and therefore are subject to property tax not sales tax. However, in Sections 137.016 & 137.090 boat docks are referred to as tangible personal property which is subject to sales tax. Additionally, some county assessors are assessing boat docks as real property and collecting property tax on them.

From FY 2019-FY 2022 the Department has conducted audits of businesses that own or lease boat docks. They have found that at least $144,000 in unpaid boat dock sales tax went unreported. Mostly due to the confusion they believed it was subject to real property tax rather than sales tax.

There is no single source for the number of boat docks in Missouri. The Department is unable to determine the number of boat docks in the state or to determine the number that are not currently paying sales tax. This bill will eliminate the confusion and make the docks exempt which will result in a loss to the sales tax funds of an unknown amount exceeding $100,000.

DOR notes this proposal would require one time computer programming changes and form changes. This is estimated to cost $14,386. This will reduce state and local revenues by the following:

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 costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

In response to the similar proposal, SB 513 -2023, officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt boat docks from state and local sales taxes beginning August 28, 2023. B&P notes that this would also exempt the leasing of boat docks from sales tax. Based on information provided by DOR, B&P estimates that this proposal could reduce TSR by an amount that may exceed $100,000 per year. This proposal will also reduce local sales tax revenues by an unknown amount.

In response to the similar proposal, SB 513 -2023, officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

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. The proposed sales tax exemption of boat docks could reduce the amount of sales tax revenue distributed to the Park, Soil, and Water Sales Tax Funds. Therefore, Oversight will reflect an unknown negative fiscal impact to the fund beginning in FY 2024. Based on information from the Department of Revenue, Oversight <u>does not</u> expect the fiscal impact to reach the ($250,000) threshold.

Officials from the **Missouri Department of Conservation** assume this proposal would have an unknown fiscal impact. 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. The Department defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax of the Missouri Constitution, thus MDC=s sales taxes are constitutional mandates. The proposed sales tax exemption of boat docks could reduce the amount of sales tax revenue distributed to the Conservation Sales Tax Fund. Therefore, Oversight will reflect an unknown negative fiscal impact to the fund beginning in FY 2024. Based on information from the Department of Revenue, Oversight <u>does not</u> expect the fiscal impact to reach the ($250,000) threshold.

In response to the similar proposal, SB 513 -2023, officials from the **City of Kansas City** and the **City of Springfield** each assume this legislation could have a negative fiscal impact on their respective cities of an indeterminate amount.

Oversight notes the above local political subdivisions stated this proposal would have a negative fiscal impact on their respective cities of an indeterminate amount. The proposed sales tax exemption of boat docks could reduce the amount of sales tax revenue distributed to locals. Therefore, Oversight will reflect an unknown negative fiscal impact to all local political subdivisions beginning in FY 2024.

In response to the similar proposal, SB 513 -2023, officials from the **City of O'Fallon** 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 City.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the MOLIS database is available upon request.

Rule Promulgation

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

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

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	FY 2027
GENERAL REVENUE FUND				
Revenue Reduction – Section 32.115 – Neighborhood Assistance Program (change in credit from 50% to 70%) p. 6	Up to ($3,488,334)	Up to ($3,488,334)	Up to ($3,488,334)	Up to ($3,488,334)
Revenue Reduction – Property Tax Credit – Sections 135.010, 135.025,				

& 135.030 (p.20, 22)	More or Less than ($82,969,234)	More or Less than ($90,298,521)	More or Less than ($97,969,420)	More or Less than ($105,909,551)
Revenue Reduction - §135.098 federal excise tax 100% income tax credit* (p. 26-27)	$0	Up to ($13,394,061)	Up to ($13,394,061)	Up to ($13,394,061)
Revenue Reduction - §144.064.2 Sales tax exemption of firearms and ammunition p. (24 - 29)	($7,002,500 to $54,315,000)	($8,403,000 to $65,178,000)	($8,403,000 to $65,178,000)	($8,403,000 to $65,178,000)
Revenue Reduction - §144.064.3 Sales tax retention* p. (29 – 30	Up to ($1,735,156 to $4,157,229)	$0 or up to ($4,844,145)	$0 or up to ($4,844,145)	$0 or up to ($4,844,145)
Costs – DOR – Section 144.064 p. (13)				
Personnel Service	($26,000)	($31,824)	($32,460)	($33,109)
Fringe Benefits	($22,473)	($27,195)	($27,427)	($27,976)
Expense & Equipment	($31,660)	($570)	($582)	($594)
Total Costs – DOR	($80,133)	($59,589)	($60,469)	($61,678)
FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
Revenue Reduction – Section 135.327 – Increase in Adoption Tax Credit				

Participation p. 38	$0	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction – Section 135.460 – Youth Opportunities Tax Credit (change in credit from 50% to 70%) p. 40	Up to ($1,550,587)	Up to ($1,550,587)	Up to ($1,550,587)	Up to ($1,550,587)
Revenue Reduction - Section 135.647 3 Food Pantry Tax Credit (p.42)	Up to ($1,000,000)	Up to ($1,000,000)	Up to ($1,000,000)	Up to ($1,000,000)
Cost – Section 135.1310 "Child Care Contribution Tax Credit Act" (p.45)	Up to ($23,000,000)	Up to ($23,000,000)	Up to ($23,000,000)	Up to ($23,000,000)
Cost – Section 135.1325 "Employer Provided Child Care Assistance Tax Credit Act" (p.49)	Up to ($23,000,000)	Up to ($23,000,000)	Up to ($23,000,000)	Up to ($23,000,000)
Costs – DED Section(s) 135.1310 & 135.1325 (p.48)	Up to…	Up to…	Up to…	Up to…
Personnel Service	($311,100)	($380,786)	($388,402)	($396,170)
Fringe Benefits	($181,324)	($220,382)	($223,221)	($227,685)
Expense & Equipment	($71,496)	($22,272)	($22,717)	($23,171)
Total Costs – DED	($563,920)	($623,440)	($634,340)	($647,027)
FTE Change	5 FTE	5 FTE	5 FTE	5 FTE

Cost – Section 135.1350 "Child Care Providers Tax Credit Act." (p.49)	$0	Up to ($23,000,000)	Up to ($23,000,000)	Up to ($23,000,000)
Costs – DESE Section(s) 135.1350 (p.49)	Up to…	Up to…	Up to…	Up to…
Personnel Service	($226,032)	($230,553)	($235,164)	($239,867)
Fringe Benefits	($146,903)	($148,594)	($150,319)	($153,325)
Expense & Equipment	($61,568)	($44,167)	($45,050)	($45,951)
Total Costs – DESE	($434,503)	($423,313)	($430,533)	($439,144)
FTE Change	4 FTE	4 FTE	4 FTE	4 FTE
Cost – DESE – ITSD New Database and ongoing maintenance (p.50)	Up to ($500,000)	Up to ($50,000)	Up to ($50,000)	Up to ($50,000)
Costs – DOR – Section(s)135.1325 - (1 FTE) & 135.2560 - (10 FTE)		Up to…	Up to…	Up to…
Personnel Service	($26,000)	($350,064)	($357,065)	($364,206)
Fringe Benefits	$0	($299,149)	($301,703)	($307,737)
Expense & Equipment	($43,158)	($169,727)	($6,398)	($6,526)
Total Costs -	($69,158)	($818,940)	($665,166)	($678,469)
FTE Change – DOR (p.50)	1 FTE	11 FTE	11 FTE	11 FTE

Loss – Section 135.1610 increase tax credits from $200k to $400k	Up to ($200,000)	Up to ($200,000)	Up to ($200,000)	Up to ($200,000)
Revenue Reduction – Section 135.1620 – Tax credit for the establishment of a grocery store in a food desert (p. 60)	$0	$0 Up to ($22,000,000)	$0 Up to ($22,000,000)	$0 Up to ($22,000,000)
Costs – DED – Section 135.1620 1 FTE	$0	$0 Up to	$0 Up to	$0 Up to
Personnel Service	$0	($76,158)	($77,681)	($79,235)
Fringe Benefits	$0	($44,077)	($44,646)	($45,539)
Expense & Equipment	$0	($13,883)	($4,262)	($4,347)
Total Costs -	$0	($134,118)	($126,589)	($129,121)
FTE Change – DED (p.59)	0 FTE	0 Up to 1 FTE	0 Up to 1 FTE	0 Up to 1 FTE
Costs – State Tax Commission – §137.115 - Software/programming and additional FTE costs p. (62)	(Unknown, less than $200,000)	(Unknown, less than $200,000)	(Unknown, less than $200,000)	(Unknown, less than $200,000)
Reduction in Revenue – Section 135.2560 "SUCCESS Tax Credit" (p.75)	$0	Up to ($90,770,317)	Up to ($90,770,317)	Up to ($90,770,317)
Costs – §143.125 - DOR – sales tax	($21,579)	$0	$0	$0

computer updates p. (87)				
Revenue Reduction - §143.011 - Individual Income Tax Rate Reduction p. (78)	($143,830,348)	($343,275,623)	($368,663,571)	($405,444,910)
Revenue Reduction - §143.071 - Corporate Income Tax Rate Reduction + 2 % Financial Institution Tax Rate Reduction p. (80)	($177,765,669)	($356,070,039)	($356,070,039)	($444,952,874)
Revenue Reduction - §143.125 Social Security Benefit Tax Exemption p. (85)	($0)	($144,686,314)	($139,863,436)	($133,432,934)
Revenue Reduction - §144.030 Exemption on child diapers (p.91 & 95)	($1,976,679 to $4,863,399)	($2,372,015 to $5,836,079)	($2,372,015 to $5,836,079)	($2,372,015 to $5,836,079)
Revenue Reduction - §144.030 Exemption on adult diapers (p.91 & 95)	($10,003,575 to $25,107,011)	($12,004,289 to $30,128,413)	($12,004,289 to $30,128,413)	($12,004,289 to $30,128,413)
Revenue Reduction -	($2,230,074 to $5,270,658)	($2,676,089 to $6,324,790)	($2,676,089 to $6,324,790)	($2,676,089 to $6,324,790)

§144.030 Exemption on feminine hygiene products (p.91 & 95)				
Revenue Reduction - §144.030 – Boat Dock Sales Tax Exemption (p.97)	(Unknown, could exceed $100,000)	(Unknown, could exceed $100,000)	(Unknown, could exceed $100,000)	(Unknown, could exceed $100,000)
Revenue Reduction - §144.030 Brain cancer device sales tax exemption p. (89)	($63,000)	($75,600)	($75,600)	($75,600)
Revenue Reduction - §144.030 Embolization device sales tax exemption p. (89)	($14,250)	($17,100)	($17,100)	($17,100)
Revenue Reduction - §144.813 Rolling conformity for Medicare exemptions p. (90)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - §144.813 Wheelchair accessories sales tax exemption p. (90)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON THE				

GENERAL REVENUE FUND	**Up to ($552,564,012)**	**Up to ($1,250,347,323)**	**Up to ($1,278,440,989)**	**Up to ($1,405,653,134)**
BLIND PENSION FUND				
Revenue Loss - §137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method p. (67)	$0	Up to ($2,449,449)	Up to ($2,449,449)	Up to ($2,449,449)
Revenue Change - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method p. (67)	$0	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**Up to ($2,449,449)**	**Up to ($2,449,449)**	**Up to ($2,449,449)**
SCHOOL DISTRICT TRUST FUND				
Revenue Reduction - §144.064.2 sales tax exemption of	($2,334,167 to $18,105,000)	($2,801,000 to $21,726,000)	($2,801,000 to $21,726,000)	($2,801,000 to $21,726,000)

firearms and ammunition p. (29)				
Revenue Reduction - §144.064.3 sales tax retention* p. (29-30)	Up to ($578,385 to $1,385,743)	$0 or up to ($1,614,715)	$0 or up to ($1,614,715)	$0 or up to ($1,614,715)
Revenue Reduction - §144.030 Exemption on child diapers (p.91 & 95)	($658,893 to $1,621,133)	($790,672 to $1,945,360)	($790,672 to $1,945,360)	($790,672 to $1,945,360)
Revenue Reduction - §144.030 Exemption on adult diapers (p.91 & 95)	($3,334,525 to $8,369,004)	($4,001,430 to $10,042,804)	($4,001,430 to $10,042,804)	($4,001,430 to $10,042,804)
Revenue Reduction - §144.030 Exemption on feminine hygiene products (p.91 & 95)	($743,358 to $1,756,886)	($892,030 to $2,108,263)	($892,030 to $2,108,263)	($892,030 to $2,108,263)
Revenue Reduction - §144.030 – Boat Dock Sales Tax Exemption (p.97)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - §144.030 Brain cancer device sales tax exemption p. (89)	($21,000)	($25,200)	($25,200)	($25,200)

Revenue Reduction - §144.030 Embolization device sales tax exemption p. (89)	($4,750)	($5,700)	($5,700)	($5,700)
Revenue Reduction - §144.813 Rolling conformity for Medicare exemptions p. (90)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - §144.813 Wheelchair accessories sales tax exemption p. (90)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**Up to ($31,260,516)**	**Up to ($29,533,501)**	**Up to ($29,533,501)**	**Up to ($29,533,501)**
CONSERVATION TRUST FUND				
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (29)	($291,771 to $2,263,125)	($350,125 to $2,715,750)	($350,125 to $2,715,750)	($350,125 to $2,715,750)
Revenue Reduction -	Up to ($72,298 to $173,218)	$0 or up to ($201,839)	$0 or up to ($201,839)	$0 or up to ($201,839)

§144.064.3 sales tax retention* p. (29-30)				
Revenue Reduction - §144.030 Exemption on child diapers (p.91 & 95)	($80,714 to $202,642)	($96,857 to $243,170)	($96,857 to $243,170)	($96,857 to $243,170)
Revenue Reduction - §144.030 Exemption on adult diapers (p.91 & 95)	($416,816 to $1,046,125)	($500,179 to $1,255,351)	($500,179 to $1,255,351)	($500,179 to $1,255,351)
Revenue Reduction - §144.030 Exemption on feminine hygiene products (p.91 & 95)	($92,920 to $219,611)	($111,504 to $263,533)	($111,504 to $263,533)	($111,504 to $263,533)
Revenue Reduction - §144.030 – Boat Dock Sales Tax Exemption (p.97)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - §144.030 Brain cancer device sales tax exemption p. (89)	($2,625)	($3,150)	($3,150)	($3,150)
Revenue Reduction - §144.030 Embolization	($594)	($713)	($713)	($713)

device sales tax exemption p. (89)				
Revenue Reduction - §144.813 Rolling conformity for Medicare exemptions p. (90)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - §144.813 Wheelchair accessories sales tax exemption p. (90)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON CONSERVATION TRUST FUND	Up to ($3,907,940)	Up to ($4,683,506)	Up to ($4,683,506)	Up to ($4,683,506)
PARK, SOIL, & WATER FUND				
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (29)	($233,417 to $1,810,500)	($280,100 to $2,172,600)	($280,100 to $2,172,600)	($280,100 to $2,172,600)
Revenue Reduction - §144.064.3 sales tax retention* p. (29-30)	Up to ($57,839 to $138,575)	$0 or up to ($161,471)	$0 or up to ($161,471)	$0 or up to ($161,471)

Revenue Reduction - §144.030 Exemption on child diapers (p.91 & 95)	($65,889 to $162,113)	($96,857 to $196,782)	($96,857 to $196,782)	($96,857 to $196,782)
Revenue Reduction - §144.030 Exemption on adult diapers (p.91 & 95)	($333,452 to $836,900)	($400,143 to $1,004,280)	($400,143 to $1,004,280)	($400,143 to $1,004,280)
Revenue Reduction - §144.030 Exemption on feminine hygiene products (p.91 & 95)	($74,336 to $175,689)	($89,203 to $210,826)	($89,203 to $210,826)	($89,203 to $210,826)
Revenue Reduction - §144.030 – Boat Dock Sales Tax Exemption (p.97)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - §144.030 Brain cancer device sales tax exemption p. (89)	($2,100)	($2,520)	($2,520)	($2,520)
Revenue Reduction - §144.030 Embolization device sales tax exemption p. (89)	($475)	($570)	($570)	($570)
Revenue Reduction -	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)

§144.813 Rolling conformity for Medicare exemptions p. (90)				
Revenue Reduction - §144.813 Wheelchair accessories sales tax exemption p. (90)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PARK, SOIL, & WATER FUND	**Up to ($3,126,352)**	**Up to ($3,749,049)**	**Up to ($3,749,049)**	**Up to ($3,749,049)**

***Oversight** notes the funds impacted by §135.098 and §144.064.3 (excise tax used as a tax credit or a sales tax reduction) will change depending on whether the income tax credit or sales tax retention is utilized. An income tax credit will only impact state General Revenue, while the sales tax retention will impact all state and local funds receiving sales taxes.

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS				
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (29)	($9,500,058 to $73,687,350)	($11,400,070 to $88,424,820)	($11,400,070 to $88,424,820)	($11,400,070 to $88,424,820)
Costs – Counties – §137.115 - to administer the changes in assessment from this proposal p. (62)	$0	(Unknown)	(Unknown)	(Unknown)
Revenue Loss - §137.115.9 – motor	$0	Up to ($562,586,245)	Up to ($562,586,245)	Up to ($562,586,245)

vehicles - reduction in property taxes from change in personal property assessed valuation method p. (65)				
Revenue Change - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method p. (67)	$0	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - §144.064.3 sales tax retention* p. (29)	Up to ($2,354,028 to $5,639,973)	$0 or up to ($6,571,890)	$0 or up to ($6,571,890)	$0 or up to ($6,571,890)
Savings - §137.180 – Mailing expenses no longer needed due to electronic notification of assessment/liability (p 61)	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
Costs - §137.180 - Counties – Software and programming costs (p.61)	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
Revenue Reduction - §143.071 – Financial Institutions Tax Rate Reduction	$0	($26,396,332)	($26,396,332)	($26,396,332)
Revenue Loss - §144.030 Diaper & Feminine Hygiene Product Sales Tax Exemption (p.91 & 95)	($21,507,981 to $47,810,382)	($25,809,577 to $57,372,459)	($25,809,577 to $57,372,459)	($25,809,577 to $57,372,459)

Revenue Reduction - §144.030 – Boat Dock Sales Tax Exemption (p.97)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction - §144.030 Brain cancer device sales tax exemption p. (89)	($85,470)	($102,564)	($102,564)	($102,564)
Revenue Reduction - §144.030 Embolization device sales tax exemption p. (89)	($19,333)	($23,199)	($23,199)	($23,199)
Revenue Reduction - §144.813 Rolling conformity for Medicare exemptions p. (90)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - §144.813 Wheelchair accessories sales tax exemption p. (90)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**Up to ($127,242,508)**	**Up to ($741,477,509)**	**Up to ($741,477,509)**	**Up to ($741,477,509)**

***Oversight** notes section 135.098.5 states a taxpayer shall not claim a tax credit pursuant to this section if the taxpayer has retained sales tax pursuant to section 144.064 for the same federal firearms excise tax paid. Oversight is unable to determine how many businesses will claim the income tax credit or the sales tax retention. Oversight will reflect the maximum potential impact under both scenarios as a $0 or up to the maximum impact estimated by DOR and B&P for each provision.

FISCAL IMPACT – Small Business

Some small business will be able to experience direct fiscal impact as a result of this proposal.

FISCAL DESCRIPTION

This proposal modifies provisions related to taxation.

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
Office of Administration – Budget & Planning
Department of Economic Development
Department of Revenue
Department of Elementary and Secondary Education
Missouri Department of Conservation
Department of Natural Resources
Office of the Secretary of State
Missouri Department of Agriculture
Joint Committee on Administrative Rules
County Employees Retirement Fund (CERF)
Andrew County
Barton County
Boone County
Buchannan County
Butler County
Calloway County
Chariton County
Clinton County
Cole County
Dallas County
Franklin County
Greene County
Harrison County
Holt County
Howell County
Lincoln County
Miller County
Newton County
Nodaway County
Oregon County
Pettis County
Phelps County
Ralls County
Randolph County
Scotland County
Scott County
Shelby County
St Clair County

Sullivan County
Washington County
St Charles Community College

Julie Morff
Director
May 2, 2023

Ross Strope
Assistant Director
May 2, 2023